

Annual Securities Report

(“Yukashoken-Hokokusho”)

Fiscal Year Ended December 31, 2019

Rakuten, Inc. and its Consolidated Subsidiaries



This document has been extracted and translated from the Japanese original report (Yukashoken-Hokokusho) issued on March 27, 2020 for reference purposes only. In the event of any discrepancy between this translated document and Japanese original, the original shall prevail.

Table of Contents

Cover

Part I Information on the Company	1
I. Overview of the Company	1
1. Key Financial Data and Trends	1
2. Corporate History	4
3. Description of Business	6
4. Information on Subsidiaries and Associates	9
5. Employees	11
II. Business Overview	12
1. Management Policy, Management Environment and Challenges	12
2. Business Risk and Other Risk Factors	14
3. Management Analysis of Consolidated Business Results, Financial Position and Cash Flows	31
4. Material Business Agreements, etc.	41
5. Research and Development Activities	41
III. Equipment and Facilities	43
1. Status of Capital Expenditures, etc.	43
2. Situation of Major Equipment	43
3. Plans for Introduction, Disposals, etc. of Facilities	44
IV. Information on the Company Submitting Financial Reports	45
1. Information on the Company's Shares	45
2. Status of Acquisition of Treasury Shares, etc.	88
3. Basic Policy on Dividends	88
4. Corporate Governance	89
V. Financial Information	111
1. Consolidated Financial Statements	112
(1) Consolidated Financial Statements	112
1) Consolidated Statements of Financial Position	112
2) Consolidated Statements of Income	113
3) Consolidated Statements of Comprehensive Income	115
4) Consolidated Statements of Changes in Equity	116
5) Consolidated Statements of Cash Flows	119
Notes to the Consolidated Financial Statements	120
1. General Information	120
2. Accounting Policies	122
3. Significant Accounting Estimates and Judgments	137
4. Segment Information	139
5. Cash and Cash Equivalents	142
6. Accounts Receivable — Trade	143
7. Financial Assets for Securities Business	144
8. Loans for Credit Card Business	144
9. Investment Securities for Banking Business	145
10. Loans for Banking Business	146
11. Investment Securities for Insurance Business	147
12. Derivative Assets and Derivative Liabilities	148
13. Investment Securities	151

14. Other Financial Assets	152
15. Allowance for Doubtful Accounts	153
16. Investments in Associates and Joint Ventures	154
17. Property, Plant and Equipment	157
18. Intangible Assets	159
19. Deposits for Banking Business	162
20. Financial Liabilities for Securities Business	163
21. Bonds and Borrowings	164
22. Other Financial Liabilities	169
23. Provisions	169
24. Insurance Business Policy Reserves	170
25. Employee benefits	176
26. Income Tax Expense	178
27. Common Stock, Capital Surplus, Retained Earnings and Treasury Stock	182
28. Revenue	183
29. Operating Expenses	192
30. Other Income and Other Expenses	193
31. Financial Income and Financial Expenses	193
32. Earnings per Share	194
33. Assets Pledged as Collateral and Assets Received as Collateral	195
34. Hedge Accounting	196
35. Contingent Liabilities and Commitments	199
36. Share-based Payments	200
37. Dividends	218
38. Classification of Financial Instruments	220
39. Gains and Losses on Financial Instruments	224
40. Fair Value of Financial Instruments	228
41. Offsetting of Financial Assets and Financial Liabilities	236
42. Lease Accounting	243
43. Financial Risk Management	244
44. Capital Management	259
45. Related Parties	260
46. Business Combinations	261
47. Major Subsidiaries	264
48. Structured Entities	265
49. Subsequent Events	266
50. Classification of Current and Non-current	267
(2) Others	269
Independent Auditor's Report	270

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[Accounting Period] The 23rd Fiscal Year (from January 1, 2019 to December 31,
2019)

[Company Name] Rakuten Kabushiki-Kaisha

[Company Name in English] Rakuten, Inc.

[Position and Name of Representative] Hiroshi Mikitani, Chairman, President and Representative
Director

[Location of Head Office] 1-14-1 Tamagawa, Setagaya-ku, Tokyo

[Phone No.] +81-50-5581-6910 (main)

[Contact for Communications] Kenji Hirose, CFO, Executive Vice President

[Nearest Contact] 1-14-1 Tamagawa, Setagaya-ku, Tokyo

[Phone No.] +81-50-5581-6910 (main)

[Contact for Communications] Kenji Hirose, CFO, Executive Vice President

[Place Where Available
for Public Inspection] Tokyo Stock Exchange, Inc.
(2-1 Nihombashi Kabutocho, Chuo-ku, Tokyo)

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		19th	20th	21st	22nd	23rd
Year end		Dec. 2015	Dec. 2016	Dec. 2017	Dec. 2018	Dec. 2019
Revenue		713,555	781,916	944,474	1,101,480	1,263,932
Income (loss) before income tax		94,076	74,458	138,082	165,423	(44,558)
Net income (loss)		45,885	38,435	110,488	141,889	(33,068)
Comprehensive income		52,725	20,106	100,981	124,452	(42,818)
Equity attributable to owners of the Company		666,111	682,391	683,181	774,473	735,672
Total assets		4,269,953	4,604,672	6,184,299	7,345,002	9,165,697
Equity attributable to owners of the Company per share	Yen	467.65	478.40	507.32	572.83	542.43
Basic net income / earnings (losses) per share	Yen	33.50	26.96	80.03	105.43	(23.55)
Diluted net income / earnings (losses) per share	Yen	33.25	26.74	79.28	104.38	(23.55)
Equity attributable to owners of the Company ratio	(%)	15.6	14.8	11.0	10.5	8.0
Net income to equity attributable to owners of the Company ratio	(%)	8.4	5.7	16.2	19.5	(4.2)
Price earnings ratio	(Times)	41.9	42.5	12.9	7.0	—
Cash flows from operating activities		78,245	30,700	162,056	145,615	318,320
Cash flows from investing activities		(224,078)	(26,841)	(203,718)	(67,569)	(286,290)
Cash flows from financing activities		221,831	45,200	194,458	208,418	458,340
Cash and cash equivalents at end of the year		501,029	548,269	700,881	990,242	1,478,557
Employees	(Persons)	12,981	14,134	14,845	17,214	20,053

(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, as a net loss is reported for the fiscal year 2019.

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, 2015 and 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		19th JGAAP	20th JGAAP	21st JGAAP	22nd JGAAP	23rd JGAAP
Year end		Dec. 2015	Dec. 2016	Dec. 2017	Dec. 2018	Dec. 2019
Net sales		268,214	305,437	359,693	431,904	541,755
Ordinary profit		77,346	61,789	49,603	18,142	19,406
Net profit (loss)		(13,553)	38,839	61,643	93,150	15,792
Common stock		203,587	204,562	205,924	205,924	205,924
Total number of shares issued	(Shares)	1,430,373,900	1,432,422,600	1,434,573,900	1,434,573,900	1,434,573,900
Net assets		567,796	607,152	568,702	665,977	507,501
Total assets		1,050,534	1,135,909	1,338,839	1,799,645	2,017,118
Net assets per share	Yen	393.60	417.61	410.77	480.53	358.18
Dividend per share	Yen	4.50	4.50	4.50	4.50	4.50
(Interim dividend per share)	Yen	(—)	(—)	(—)	(—)	(—)
Basic earnings (losses) per share	Yen	(9.86)	27.24	44.60	69.02	11.66
Diluted earnings per share	Yen	—	27.02	44.19	68.33	11.46
Equity ratio	(%)	53.4	52.4	41.3	36.1	24.1
Return on equity	(%)	(2.8)	6.7	10.7	15.5	2.8
Price earnings ratio	(Times)	—	42.1	23.2	10.7	80.2
Dividend payout ratio	(%)	—	16.5	10.1	6.5	38.6
Number of employees	(Persons)	5,138	5,549	5,831	6,528	7,288
Total shareholder return	(%)	209.0	140.8	156.5	48.5	56.9
(Comparison index: TOPIX total return index)	(%)	[191.4]	[231.3]	[234.0]	[127.3]	[136.4]
Highest share price	(Yen)	2,395	1,462	1,408	1,045	1,313
Lowest share price	(Yen)	1,348	943	1,011	700	710

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

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

3 Diluted earnings per share is not stated for the 19th fiscal year, as a net loss per share was reported in the fiscal year.

4 Price earnings ratio and dividend payout ratio are not stated for the 19th fiscal year, as a net loss per share is reported in the fiscal year.

5 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.

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

7 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 Buy.com Inc. (currently RAKUTEN COMMERCE LLC), an e-commerce site operator in the U.S., 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.

Period		Overview
2013	Nov	Tohoku Rakuten Golden Eagles win their first Nippon Series championship.
	Dec	Rakuten, Inc. changes its stock marketing listing to the First Section of the Tokyo Stock Exchange.
2014	Mar	Rakuten, Inc. 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	Kenko.com, Inc. and Soukai Drug Co., Ltd. merge to become Rakuten Direct, Inc.
	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.
	Apr	Rakuten Mobile Network, Inc. (currently Rakuten Mobile, Inc.) receives approval from the Minister for Internal Affairs and Communications for its plan to set up specified base stations (1.7 GHz band allocation).
2019	Apr	Rakuten Mobile, Inc. receives approval from the Minister for Internal Affairs and Communications for its plan to set up specified base stations (3.7 GHz band and 28 GHz band allocation).
	Aug	“Rakuten Wallet” launches crypto asset (virtual currency) spot transaction service.
	Oct	“Rakuten Mobile” launches service as a mobile carrier business.

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 running various EC (e-commerce) sites including internet shopping mall “Rakuten Ichiba”, online cash-back sites, travel booking sites, portal sites and digital content sites, along with 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 prepaid money.

The “Mobile” segment engages in businesses for the provision of communication and messaging services.

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.
E-book distribution services for libraries and others	OverDrive Holdings, Inc.
e-book services	Rakuten Kobo Inc.
Performance marketing services	RAKUTEN MARKETING LLC

FinTech

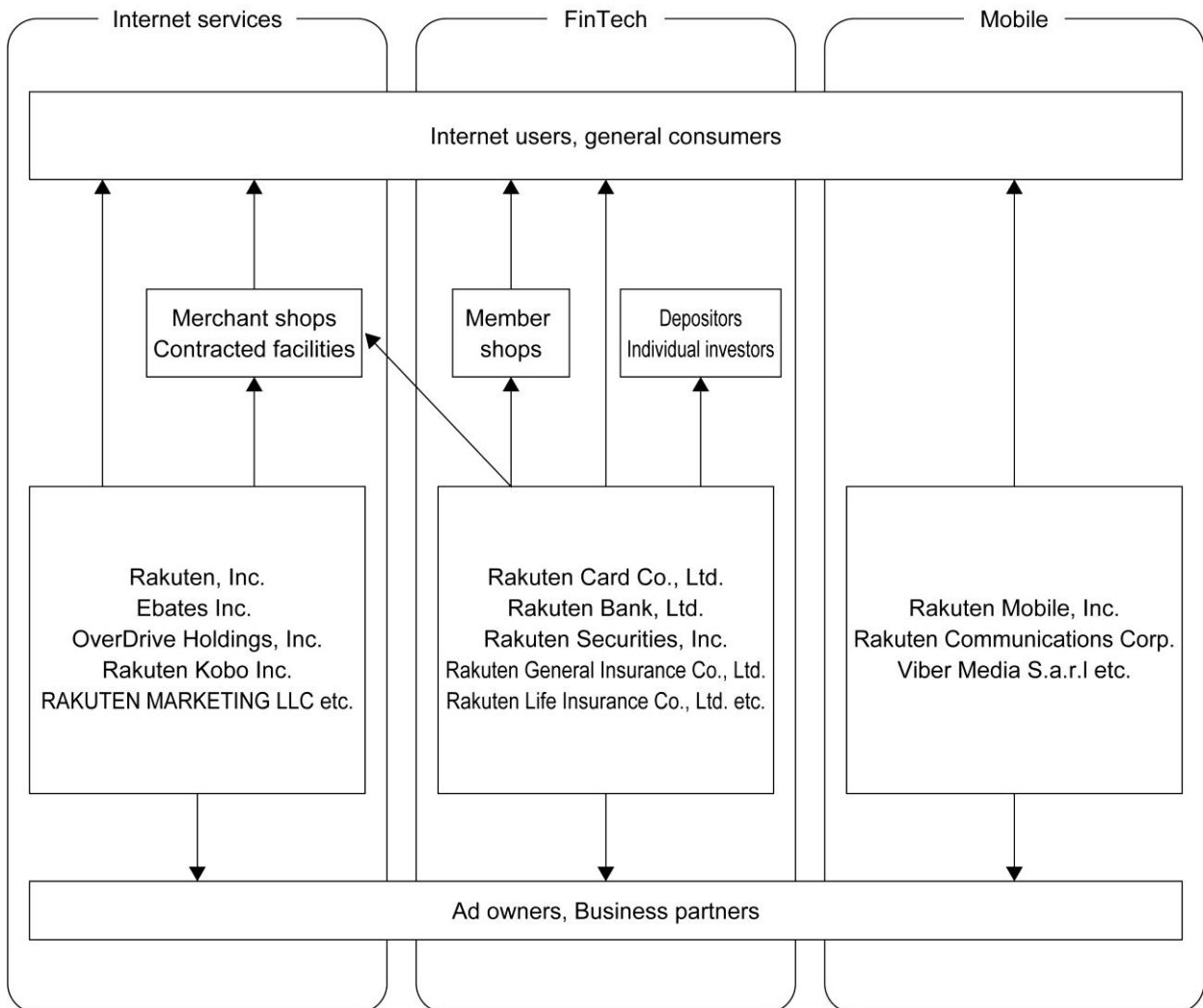
Significant services provided	Main entities involved in such services
Issuance of credit card, Rakuten Card and provision of related services	Rakuten Card Co., Ltd.
Internet banking service	Rakuten Bank, Ltd.
Online securities trading service	Rakuten Securities, Inc.
General insurance business	Rakuten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

[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)		
OverDrive Holdings, Inc.	U.S.	1 U.S. dollar	Internet Services	100.0 (100.0)		Note 5
Rakuten Kobo Inc.	Canada	901 million Canadian dollars	Internet Services	100.0 (100.0)		Note 6
RAKUTEN MARKETING LLC	U.S.	1 U.S. dollar	Internet Services	100.0 (100.0)	Involving interlocking directorates	
Rakuten Card Co., Ltd.	Setagaya-ku, Tokyo	19,324 million yen	FinTech	100.0	Involving interlocking directorates	Notes 6, 7, 8, 9, 10
Rakuten Bank, Ltd.	Setagaya-ku, Tokyo	25,954 million yen	FinTech	100.0 (100.0)	Involving interlocking directorates	Note 6
Rakuten Securities, Inc.	Setagaya-ku, Tokyo	7,496 million yen	FinTech	100.0 (100.0)	Involving interlocking directorates	
Rakuten General Insurance Co., Ltd.	Chiyoda-ku, Tokyo	5,153 million yen	FinTech	100.0 (100.0)	Involving interlocking directorates	Note 11
Rakuten Life Insurance Co., Ltd.	Setagaya-ku, Tokyo	7,500 million yen	FinTech	100.0 (100.0)	Involving interlocking directorates	Note 11
Rakuten Mobile, Inc.	Setagaya-ku, Tokyo	100 million yen	Mobile	100.0	Involving provision of loans Involving interlocking directorates	
Rakuten Communications Corp.	Setagaya-ku, Tokyo	2,026 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						
Lyft, Inc.	U.S.	3,000 U.S. dollars	Internet Services	6.1	Involving interlocking directorates	

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

2 There are 148 consolidated subsidiaries other than those stated above.

3 There are 42 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 During the fiscal year ending December 31, 2020, the Group plans to sell all its shares in OverDrive Holdings, Inc. to Aragorn Parent Corporation.

6 This company is a specified subsidiary.

7 This company files an Annual Securities Report.

8 This company files an Securities Registration Statement.

9 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.

- 10 Rakuten Card Co., Ltd. relocated its head office to Minato-ku, Tokyo as of March 16, 2020.
- 11 Rakuten General Insurance Co., Ltd. and Rakuten Life Insurance Co., Ltd. relocated their head office to Shinjuku-ku, Tokyo as of February 1, 2020.

5. Employees

(1) Consolidated Companies

As of December 31, 2019	
Name of business segments	Number of employees
Internet Services	10,695
FinTech	4,808
Mobile	1,485
Company-wide (common)	3,065
Total	20,053

(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, 2019			
Number of employees	Average age	Average length of service	Average annual salary (Yen)
7,288	34.4	4.6	7,556,749

Name of business segments	Number of employees
Internet Services	5,159
FinTech	120
Mobile	2
Company-wide (common)	2,007
Total	7,288

(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

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) 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, 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. As part of this, on October 1, 2019, a point redemption system for cashless payments was introduced in light of the consumption tax hike. Given this, Rakuten Group is working to introduce its payment service in broader locations, promote comprehensive cashless payments including QR/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, 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 (4G), and received certification in April 2019 for its plan to install specified base stations for rolling out our fifth-generation mobile communication system (5G). In accordance with these plans, we constructed the world’s first end-to-end fully virtualized cloud-native network. Going forward, we will further expand our network to all areas of 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 development of IoT, the society/world that everything will be connected to the Internet. 5G is expected to contribute to solving various 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.

Furthermore, we will enhance our portfolio of new businesses including C2C (consumer-to-consumer), sharing economy services, advertising and investment, while continuing to focus efforts on utilization of AI such as deep learning, in an unceasing pursuit of innovation which is not bound by the status quo.

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,” 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.

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 has retained the responsibility for management decision-making and supervision, while Executive Officers have been made responsible for the executive functions.

The Company's Board of Directors, which includes Outside Directors and Outside Audit & Supervisory Board Members, are highly independent experts in a variety of fields and supervise the execution of duties from an objective perspective, enhancing the effectiveness of corporate governance by engaging in frank and multilateral discussions on management. Additionally, we have been holding extensive meetings, consisting primarily of Outside Directors and Audit & Supervisory Board Members, where we discuss Rakuten Group management strategy along with other matters, separately from the Board of Directors. These meetings allow for discussions with a medium- to long-term perspective that is not dominated by near-term challenges or a Board of Directors focused agenda.

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 considered to be 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 these risks, the policy of the Group Companies is to take steps to prevent occurrences or to take appropriate action as a contingency. This policy notwithstanding, 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 the filing date of this Securities Report to the Financial Services Agency of the Japanese government. They are subject to uncertainty and could differ from actual results.

1 Risks Relating to Business Environment

(1) Growth Potential of the Internet Industry

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

Given the worldwide growth in Internet users, the expansion of business-to-consumer e-commerce and other factors, we anticipate continuing growth trends in both gross transaction value and the number of unique buyers* on the Group Companies' services. However, the Group Companies' financial performance and financial position could be affected if the growth of the Internet sector as a whole and the e-commerce market decelerates due to external factors, such as regulatory systems that limit Internet use, growing awareness of privacy and information security issues, especially in relation to personal information, or due to economic trends, excessive competition or other factors, and as a result, gross transaction value of the Group Companies' services fails to expand as expected.

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

(2) Competition

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

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

(3) Technological Changes in the Industry

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

2 Risks Relating to International Business Expansion

Global expansion is one of the Group Companies' key strategies, and we are dynamically extending our existing business model into other countries. For example, we are extending our

various services including E-commerce services 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.

However, 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 in specific countries, regions or that are globally active, will intensify and that changes in the regulations of foreign governments and international organizations will occur without prior notification. The business activities and financial performance of the Group Companies could be affected if these risks are not handled properly.

In its international expansion, when setting up services, the Group Companies are likely to incur costs including costs for setting up corporations in other countries, recruitment costs, system development costs, and for existing services, costs to continually adapt to changes in regulatory systems or making 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. The necessary time to recover investments or the impossibility of recovery could have adverse effects on the financial performance and financial position of the Group Companies.

3 Risks Relating to Business Expansion and Development

(1) Promoting Expansion and Integration 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 consumers and others. In addition, 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 points 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. Changes to brand names, logos and member IDs could lead to loss of loyalty among existing members or cause them to withdraw from member organizations. If the above measures fail to produce the anticipated benefits, the financial performance and financial position of the Group Companies could be affected. Moreover, measures of each service brand will affect the entire Group 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 the entire Group. Such incidents include issues during the service development, fraud committed by officers and employees, or other such circumstances.

(2) M&A

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

When acquiring a company, the Group Companies seek to avoid various risks as much as

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

It is also possible that the integration of information systems and standardization of internal control systems of an acquired company cannot be carried out successfully, or that executives, employees and customers of an acquired company will be lost after the acquisition. In addition, such M&A activities could increase risk that adversely affect the financial position etc. of all Group Companies.

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

(3) 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. 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.

Group Companies may not be able to achieve results as initially expected, depending on the pace of expansion and growth in the scale 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. Such cases may possibly affect the Group Companies' financial performance and financial position.

(4) Goodwill

The Group Companies have adopted the International Financial Reporting Standards (IFRS) for preparing the Consolidated Financial Statements, commencing the three months ended March 31, 2013. IFRS does not require the amortization of goodwill, which differs from JGAAP. On the other hand, the financial performance and financial position of the Group Companies could be adversely affected by an impairment of goodwill, if factors identified as indications of impairment exists such as the deterioration of financial performance and the recoverable amount of an investment becomes less than the carrying amount of goodwill.

4 Business Risks

(1) Marketplace Service

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

(2) Direct Selling Service

The Group Companies have service categories that involve the direct selling of goods and services to general consumers, such as Rakuten 24, Rakuten Mobile, Soukai Drug and Kenko.com, Rakuten Books, Rakuten Kobo 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 reputational damage leading to a decline in sales. The financial performance and financial position of the Group Companies could be affected in such situations. In addition, although Group Companies control the purchasing and inventory of products in accordance with forecast demand, 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.

(3) Advertising Business

Net sales in digital advertising related business account for a certain percentage of overall Group sales. However, since the advertising market may be particularly susceptible to the impact of economic trends, budget allocation by advertisers may be affected if the economy weakens. In addition, the digital advertising field is highly competitive due to the emergence of diverse advertising methods made possible through advances in technology allowing for numerous new entrants into the field.

Awareness of privacy protection is growing worldwide, and privacy laws and regulations are being actively reviewed on a global scale. Significant changes could occur in technical systems such as platforms for advertising distribution in response to these trends, and as a result, changes could be made in methods of delivering advertisement that were conventionally possible.

As for the business environment, while the Group Companies are taking various measures in order to respond to this competition and change in the environment, including the development of technology in the digital advertising field, the Group Companies' services could lose their competitiveness and financial performance and financial position could be affected if these measures are not sufficient.

(4) Digital Contents Services and Filmmaking Business

The e-book, video streaming services and music streaming services which provide digital contents often require a conversion of service format to those provided by the Group Companies when contents materials are being procured. This is in addition to licensing fees for films as well as the possible requirement of an advance payment of a minimum insurance amount to the licensors. Such prior expenses may temporarily impact the financial performance and financial position of the Group Companies. Furthermore, if the revenue from the contents services falls below the costs of supply, the financial performance and financial condition of the Group Companies could be adversely affected. In the filmmaking business, although the Group strives to produce impressive films, the box-office performance of theatrical movies fluctuates depending on each film, and therefore it may not be possible to secure a sufficient audience and secondary usage fees. In this case, the financial performance and financial position of the Group Companies may be affected.

(5) Logistics Services

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 user and client satisfaction.

The Group Companies utilize renting to expand distribution centers and make capital investments for equipment inside warehouses based on orders anticipated in the future. However in addition to that, such expenditure 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 financial performance and financial position of the Group Companies could be adversely affected. Furthermore, the Group Companies may incur a loss due to a disposal or amortization of said business assets in the case of transfer or discontinuation of such facilities.

The Group Companies engaged in logistics services make use of motor vehicles. The Group Companies strive for safety measures that places top priority on the respect for human life. However, if a serious traffic accident occurs, society's trust in the Group Companies may diminish and financial results could be adversely affected. In addition, a business operator who causes a serious traffic accident may have its vehicle usage suspended as an administrative penalty.

Moreover, if a business office is subject to a suspension of business or license revocation through the “traffic violation point system,” and business operations are interrupted or discontinued, the financial results of the Group Companies could be adversely affected.

(6) Financial Businesses

1) Regulatory Requirements

The Company, Rakuten Card Co., Ltd., Rakuten Bank, Ltd., Rakuten Securities, Inc., Rakuten Life Insurance Co., Ltd., Rakuten General Insurance Co., Ltd., Rakuten Payment, Inc. and other subsidiaries offer finance-related services. The activities of these companies are subject to the provisions of the Act Regulating the Receipt of Contributions, the Receipt of Deposits, and Interest Rates, the Banking Law, the Interest Rate Restriction Law, the Money-Lending Control Law, the Installment Sales Law, the Financial Instruments and Exchange Act, the Act on Sales, etc. of Financial Instruments, the Commodities Futures Trading Law, the Trust Business Law, the Insurance Business Act, the Payment Services Act, the Act on Prevention of Transfer of Criminal Proceeds, the Act on the Protection of Personal Information, the Real Estate Brokerage Act, the Act on Specified Commercial Transactions, the Act against Unjustifiable Premiums and Misleading Representations and other laws and regulations and regulatory requirements relating to financing activities, as well as the guidelines of supervisory agencies, and the rules imposed by autonomous regulatory bodies, such as financial instruments exchanges and industry organizations. If subject to a suspension of business, license revocation or other actions for any reason, if new regulatory requirements, supervisory agency policies, regulations or supervisory guidelines are established, or if there are any changes that would adversely affect their services, the financial performance and financial position of the Group Companies could be seriously affected.

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

Rakuten Wallet, Inc. is engaged in the crypto asset (virtual currency) exchange business, and it has established a management base and business structure. Pursuant to the Payment Services Act, it completed its registration as a virtual currency exchange contractor with the Kanto Local Finance Bureau on March 25, 2019. The financial performance and financial position of the Group may be affected if Rakuten Wallet, Inc. is subject to administrative action from the supervisory authorities in the future, such as cancellation of registration or suspension of business. Because the crypto asset (virtual currency) exchange business involves new concepts, there is a possibility that legal regulations and industry autonomous regulation rules may be revised or newly established. In this case, contraction of the business or added expenses may adversely affect the financial performance and financial position of the Group Companies. Rakuten Wallet, Inc. also conducts identity verification and keeps track of transaction records based on the Act on Prevention of Transfer of Criminal Proceeds. However, if there is an instance where the company fails to comply with this law, the company may be subject to administrative dispositions from supervising authorities, in which case the financial performance and financial position of the Group Companies may be adversely affected.

2) Business Environment

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

Rakuten Card Co., Ltd. deals mainly with individual customers and procures operating funds primarily through the securitization of receivables and loans from financial institutions. The financial performance of the Group Companies could be affected if deteriorating economic conditions cause a downturn in consumer spending and demand for credit, if rising unemployment leads to an increase in personal bankruptcies or the number of heavily-indebted creditors, if there are any changes in the credit policies of financial institutions due to changes in the state of financial markets or if the credit situation of the Group Companies deteriorates. If serious problems arise, affecting the Group Companies' ability to maintain and operate credit control systems used to reduce the risk of uncollectable receivables, or its ability to recruit personnel with loan collection expertise, business operations and financial performance may be affected.

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

Rakuten Securities, Inc. implements various types of transactions for individual investors, including spot transactions, margin transactions, foreign exchange margin, investment trust sales, bond, futures, options, foreign futures, and commodities futures transactions. Due to its main source of revenue being brokerage commissions, the company is affected by conditions in financial markets including securities markets. As financial markets are affected by economic conditions, such as global trends, political developments, regulatory changes, investor sentiment and other factors, the financial performance and financial condition of the Group Companies may be affected under certain circumstances, in cases where financial markets stagnate, with a decline in margin balances, and money lent to clients for margin transactions becoming unrecoverable due to sudden share price fluctuations or other factors.

Rakuten Life Insurance Co., Ltd. mainly sells traditional protection-type life insurance products for individuals. Its main source of revenue are insurance premiums paid by policyholders. The financial performance and financial condition of the Group may be affected under certain circumstances, such as if the rate of insured events increases (for example, the death rate or the hospitalization rate exceeding forecasts used for the setting of insurance prices), the value of investment assets decreasing due to changes in the investment environment etc., or the number

of in-force contracts dramatically decreasing due to lower numbers of new contracts and an increase in cancellations, where the policy reserve for future payment of insurance claims and benefits required by the law would become underfunded due to changes in the assumed conditions, thereby increasing the provision required for the reserve.

Rakuten General Insurance Co., Ltd. sells general insurance products, mainly automobile insurance and fire insurance, which cover various risks. Its main source of revenue comes from insurance premiums paid by policyholders and earnings from asset management. The financial performance and financial condition of the Group Companies may be affected under certain circumstances, such as if the number of in-force contracts dramatically decreases due to lower numbers of new contracts and an increase in cancellations, or if the value of investment assets, such as foreign and domestic securities in which the Group Companies invest in order to obtain stable investment earnings, decreases due to changes in the investment environment and other factors. In addition, while the Group Companies utilize reinsurance and holds a catastrophe reserve, etc., to prepare for the payment of large insurance claims that result from natural disasters, etc., the financial performance and financial condition of the Group Companies may be affected if the frequency or scale of insurance claim payments exceeds forecasts.

Rakuten Payment, Inc. provides app payment (QR code payment) and credit card payment using small terminals for small and medium-sized member shops, and interchange fees from these shops constitute its main source of revenue. Intensified competition may result in lower rates or temporary reductions of interchange fee from member shops, and the financial performance and financial position of the Group Companies may be affected. If significant amounts of marketing costs are devoted to usage promotion as a result of intensified competition, the financial performance and financial position of the Group Companies may be affected.

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. The financial performance and financial position of the Group Companies may be affected if there is a significant drop in transaction demand. Similarly, if new rules and guidelines are announced for crypto assets (virtual currencies) transactions in IFRS, or when tax treatment need to be changed due to tax reform, etc., the financial performance and financial position of the Group Companies may be affected.

3) Liquidity

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

4) Management of Customer Assets

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) in cold wallets, and it manages private keys using multi-signatures with exceptions to some currencies. In addition, Rakuten Wallet, Inc. utilizes two-

step authentication, and the setup of two-step authentication is mandatory at the time of login, withdrawal, and delivery. However, if these risk management measures do not function effectively and the leakage of customer assets occur, the financial performance and financial position of the Group Companies may be affected.

5) Efficacy of Risk Management

In recent years, financial markets have seen rapid, large-scale changes and volatility. Rapid and large-scale changes in the economic environment have been occurring frequently. Rakuten Card Co., Ltd., Rakuten Bank, Ltd., Rakuten Securities, Inc., Rakuten Life Insurance Co., Ltd., Rakuten General Insurance Co., Ltd., Rakuten Payment, Inc. and Rakuten Wallet, Inc. have organized risk management policies and procedures against such risks, which have been put into operation. However, the financial performance and financial condition of the Group Companies may be adversely affected if a part of the risk management policies and procedures are not necessarily able to precisely predict the various future risks in financial markets and are not able to function effectively.

(7) Mobile Network Operator (MNO) Service

1) Regulatory systems, etc.

The provision of the Mobile Network Operator (MNO) service by Rakuten Mobile, Inc. may be affected directly or indirectly by the revision or abolition of laws and regulations or newly established policies, etc., relating to the telecommunications business. The provision of services by Rakuten Mobile, Inc. may be restricted by such a revision or abolition of laws and regulations or newly established policies, etc. 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 financial performance and financial condition of the Group Companies could be adversely affected through the decline of Rakuten Mobile, Inc.'s credibility and restrictions on the business expansion of the Group Companies.

2) Competition with Other Business Operators, Market and Business Environment

There are major competitors in this business market, and price competition with Mobile Virtual Network Operators (MVNO) is emerging. Rival companies have solid customer bases, and if they make even greater use of that advantage to expand their services, it may be difficult for Rakuten Mobile, Inc. to acquire new customers and maintain customers, with Rakuten Mobile, Inc. and the Group Companies possibly 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, Rakuten Mobile, Inc. and the Group Companies may not be able to generate revenues as planned due to competition with other business operators and rapid changes in the market and business environment.

3) Equipment

In preparation for the launch and expansion of Mobile Network Operator (MNO) service by Rakuten Mobile, Inc., it is necessary to carry 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 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 anticipated, Rakuten Mobile, Inc. may not be able to launch services as planned and additional expenses may arise. In addition, financial performance and financial position of the Group Companies could be adversely affected in the event of telecommunications failure or other unforeseeable circumstances significantly exceeding the forecasts of Rakuten Mobile, Inc., or if the partnerships with other businesses necessary for provision of services takes longer than expected, resulting in a delay in the launch of provision of services to customers or restrictions on the services provided.

(8) Third-Party Outsourcing and Alliances

1) Outsourcing and Alliances with Financial Institutions, etc.

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

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

Rakuten Payment, Inc. has partnered with many companies for the various services it provides. The business and financial performance of the Group Companies could be seriously affected if its relationships with these companies deteriorate.

In addition, for the financial services the Group Companies operate, they have business alliances with local financial companies in order to carry out overseas business activities. Rakuten Bank, Ltd. is cooperating with IBF Financial Holdings Co., Ltd. (formerly Waterland Financial Holdings Co., Ltd.) in Taiwan in preparation for the start of banking operations. Rakuten Securities, Inc. has established a joint corporation with Kenanga Investment Bank Berhad in Malaysia in order to conduct securities business. The business and financial performance of the Group Companies may be seriously affected if the relationships with these business partners are deteriorated, or if these operations are disrupted.

2) Alliances with Travel-Related Businesses

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

3) Interconnection Agreements with Telecommunications Providers

To ensure the efficient provision of telecommunications services, Rakuten 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. The business operations, financial performance and financial position of the Group Companies could be affected if changes to this situation, such as the abolition or relaxation of this requirement, result in increased usage charges for this company, or if the conditions are amended in ways disadvantageous to this company.

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

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

5) Supply of Goods and Services, Content and Technology

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

6) Delivery of Goods

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

5 Compliance Risk

(1) Possibility of Imposition of Regulatory Restrictions

Since the Group Companies conduct activities in diversified business domains in multiple countries and regions, the scope of the laws and regulations as well as regulatory systems related to these business activities is extensive. In addition to the items listed under “Section 4 (6) 1) Regulatory Requirements” and “Section 4 (7) 1) Regulatory Requirements,” the Group Companies are subject to laws and regulations as well as regulatory and other systems in Japan and overseas regarding personal information and privacy protection, consumer protection, fair competition, prohibition of corruption, the natural environment, labor environment, crime prevention,

appropriate disclosure and payment of taxes, human rights, export and import, investment and foreign exchange, as well as laws covering various industries, including the telecommunications business, the transportation industry and funds transfer services. Recently, the governments of Japan and other countries are considering to introduce regulations to clarify the terms and conditions for transactions with so-called digital platformers.

If the Group Companies' business activities become subject to new restrictions due to the establishment and amendment of laws and regulations, the cancellation of approvals and permits by regulatory agencies, or the formulation of new guidelines and voluntary rules, or for other reasons, there could be an impact on the Group Companies' financial performance and financial position.

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); initiatives promoting Group-wide 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 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 operations, financial performance and financial condition of the Group Companies could be affected.

(2) Possibility of Litigation

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

If the Group Companies' rights are infringed or damaged in some way by third parties, 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. Depending on the nature of such litigation and other actions and the amounts sought, such situations could impact on the business activities, performance and financial performance of the Group Companies.

6 Risks Pertaining to Intangible Assets

(1) Intellectual Property

The Group Companies endeavor to protect their technologies, brands and content used by the Group Companies to acquire intellectual property rights such as patents, trademarks, copyrights and domain names, and to receive licenses granted to them. However, the business activities, performance and financial position of the Group Companies could be affected if they are unable to protect their technologies, brands and content used by the Group Companies without being able to acquire intellectual property, or if substantial costs are incurred in order to acquire licenses to the intellectual property.

Costs or losses could also be incurred if it becomes necessary to defend against or settle claims of intellectual property infringements in relation to technology, brand, content and other items used by the Group Companies. Such situations could also result in the restriction of the Group Companies' ability to provide services or use related technologies, brands, content, etc. The business activities, performance and financial position of the Group Companies could be affected in such cases.

7 Market Risks

(1) Interest Rate Fluctuations

Funds procured from banks, etc. necessary for the business activities of the Company and its subsidiaries, namely Rakuten Card Co., Ltd., Rakuten Bank, Ltd. and Rakuten Securities, Inc., may be exposed to the effects of interest rate fluctuations. Certain financial group subsidiaries use the funds for investment in securities, lending and other purposes. For this reason, the financial performance and financial position of the Group Companies could be affected by movements in market interest rates.

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

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

(3) Exchange Rate Risk

Foreign-currency denominated investments and the transactions in foreign currencies are executed by the Group Companies for the purpose of hedging exchange rate risk, while observing economic trends. However, it is difficult to completely eliminate the impact of foreign exchange when 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 financial performance and financial position of the Group Companies could be affected by movements in foreign exchange rates.

8 Risks Relating to Financing

Loan contracts and commitment lines that the Group Companies have concluded are in some cases subject to covenants clauses, and any deterioration in the financial performance, financial position or credit rating of the Group Companies could result in demands for full repayment of existing debt, increases in interest rates or commission rates, 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 financial

markets become unstable or if the Group Companies' credit status deteriorates and the credit rating given to the Group Companies by credit rating agencies is lowered. Such situations could have a limiting effect on the development of the Group Companies' services, and could affect the financial performance and financial position of the Group Companies.

9 Risks Relating to Deferred Tax Assets

The Company and some of its consolidated subsidiaries currently recognize future tax benefits as deferred tax assets, in accordance with IFRS. The computation of deferred tax assets is based on various projections and assumptions, including estimates of future taxable income. It is possible that actual results will differ from these projections and assumptions. If the Company or its 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.

10 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 be discovered, such as when the internal controls of the Group Companies fail to function properly or internal fraud cannot be prevented, the public reputation of the Group Companies could be damaged, and the financial performance and financial position of the Group Companies could be affected.

11 Human Resources Risk

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

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

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

The Group Companies acquire personal information that can be used to identify users, including names, addresses, telephone numbers and credit card numbers in various services they provide. The CISO (Chief Information Security Officer) conducts thorough risk management at a Group-wide level, including Information Security Management System (ISMS) certification, and the Group Companies take all possible care to protect privacy and personal information of users through proper information management. However, the possibility of information leaks or abuse or other accidents due to activities including illegal access cannot be completely eliminated, and if such incidents occur, it could result in legal disputes or actions by domestic and overseas regulatory

agencies. Such situations could impact on the financial performance and financial position of the Group Companies.

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

If the service is suspended or the performance is deteriorated as a result of these, the possibility of loss of income opportunities, a decline in confidence in the Group Companies' systems leading to withdrawal of customers and business partners, compensation claims, or actions by regulatory agencies could be expected. This may adversely impact the business, financial performance, and financial position of the Group Companies.

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

13 Risks Pertaining to Natural Disasters

Natural disasters such as earthquakes, typhoons, tsunamis, fires, power outages, the spread of infectious diseases (pandemics), international conflict and other contingencies could have a serious impact on the service operations and the financial performance of the Group Companies.

In the event that such a disaster strikes, the economic activities of society as a whole may stagnate, reducing the need for services provided by the Group Companies. If such a disaster strikes the main business premises of the Group Companies, it may be difficult to continue the business activities of the Group Companies, and restriction or suspension of service operations could become unavoidable. In that case, the reliability and brand image of the Group Companies may be damaged, in addition to the direct damage done to the business. This may impact the business, financial performance, and financial position of the Group Companies.

The Group Companies have formulated emergency response measures in preparation of such disaster, including the business continuity plans (BCP). However, the continuity of service operations may be difficult or jeopardized if the scale of the disaster exceeds our assumptions.

14 Climate Change Risk

Climate change affects the business of the Group Companies through the risk of changes in climate patterns and occurrence of extreme weather. Rakuten General Insurance Co., Ltd. recorded an operating loss from the payment of insurance claims, due to the impact of large typhoons that have hit Japan in recent years. In addition, shipping and delivery delays in logistics services related to Rakuten Ichiba may occur due to the effects of typhoons.

15 Administrative Operation Risk

The Group Companies, in their conduct of business, implements numerous measures to increase the accuracy and efficiency of work operations including implementation of double-checking systems that enforce redundant checks of operation details by utilization of information systems and by employees other than those parties responsible for the operation. However, there are certain operations for which specialized information systems have not been introduced and which

are entrusted to manual handling, and errors in administrative procedure may occur due to misrecognition by company officers and employees, incorrectly performed operations and other factors. Depending on the nature of the work operation, it is possible that errors in administrative procedures will hinder reliable provision of service or lead to business losses or to the outflow of information such as personal information and may affect the operations, financial performance and financial position of the Group Companies.

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

16 Reputation Risk

There are various kinds of publicity and information about the Group Companies that are spread through various forms of media. Although such publicity and information include those not based on correct information and others based on speculation, they could possibly affect the understanding and perception or actions of users of the Company's services and its investors, regardless of accuracy of such publicity and information or involvement of the Group Companies. Depending on the contents, the scale and other details of such publicity and information, the Group Companies' business activities, financial performance and share price may be 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, 2019 (Non-GAAP basis)

The world economy during the fiscal year ended December 31, 2019 has been recovering gradually overall, although attention must still be paid to the forecast, including trends in trade issues, the situation affecting the Middle East, and the impact of fluctuations in financial and capital markets. The Japanese economy also enjoyed a gradual recovery due to increase in capital investment by enterprises and personal consumption, continuing improvement in the wage and employment environment.

According to the White Paper on Information and Communications in Japan (Note) published by the Ministry of Internal Affairs and Communications, 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 foresees “Society 5.0,” a concept of society positioned as the next stage of evolution after the current information society, which is realized with revolutionary technology such as IoT and Artificial Intelligence (AI).

Under such an environment, Rakuten Group is developing businesses that bring together membership, data, and branding, along with the development and operation of services that proactively leverage AI. In communications services, preparations are underway including base stations set up for the full launch of the fourth-generation mobile communication system (4G) services in April 2020, as well as verification tests for the launch of the fifth-generation mobile communication system (5G) in June 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, further opening up the Rakuten Ecosystem, and reinforcement of the logistics network. As for overseas internet services, Rakuten Group integrated various services into the Rakuten brand, and conducted proactive sales promotion activities to raise the profile of the brand and expand business overseas. In the investment business, Rakuten Group recorded ¥75,120 million in valuation gains on share investments related to the ride-sharing

business, etc. during the fiscal year ended December 31, 2019.

In the FinTech segment, growth in shopping transaction volume and revolving balances due to expansion of the membership base of “Rakuten Card” contributed to an increase in revenue and income. In addition, in banking services, revenue and income continued to expand due to an increase in interest income from growing loan balances and improvements in administrative efficiency, despite the backdrop of a negative interest rate policy. In securities services, revenue and income decreased due to reduced commissions under the backdrop of a sluggish domestic stock market.

In the Mobile segment, preparations, including the installment of base stations, were made to enable Rakuten to launch its mobile business in April 2020 and provide the world’s first end-to-end fully virtualized cloud-native network. The “Free Supporter Program” was launched in October 2019 and is open to approximately 5,000 subscribers, offering voice and data communications free of charge. As a result, Rakuten Group has been incurring depreciation expenses of fixed assets and line usage fees in roaming areas of competitors, since the fourth quarter of this fiscal year. In the “Free Supporter Program,” Rakuten Group recruited additional subscribers up to 20,000 in January 2020 and is working to improve the quality and stability of its network. In addition, “Rakuten Mobile,” which provides Mobile Virtual Network Operator (MVNO) services, and “Rakuten Viber,” which provides messaging and VoIP services, substantially increased revenue due to growth in membership.

As a result, Rakuten Group achieved a revenue of ¥1,263,932 million, up 14.7% year-on-year, for the fiscal year ended December 31, 2019. Non-GAAP operating income was ¥95,129 million, down 41.0% year-on-year.

(Note) “2019 White Paper on Information and Communications in Japan” by the Ministry of Internal Affairs and Communications

(Non-GAAP basis)

(Millions of Yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2019	Amount Change YoY	% Change YoY
Revenue	1,101,480	1,263,932	162,452	14.7%
Non-GAAP operating income	161,130	95,129	(66,001)	(41.0)%

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

For the fiscal year ended December 31, 2019, amortization of intangible assets of ¥8,764 million and share based compensation expenses of ¥10,137 million were excluded from Non-GAAP operating income. In the United States, nonrecurring items including an impairment loss on property, plant and equipment, etc., of ¥3,483 million were recorded. In addition, nonrecurring items of ¥28,110 million were recorded for the previous fiscal year mainly due to the transfer of all shares of O-net, Inc.

(Millions of Yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2019	Amount Change YoY
Non-GAAP operating income	161,130	95,129	(66,001)
Amortization of intangible assets (PPA)	(10,982)	(8,764)	2,218
Share-based compensation expenses	(7,833)	(10,137)	(2,304)
One-off items (losses)	28,110	(3,483)	(31,593)
IFRS operating income	170,425	72,745	(97,680)

3) Business Results for the Fiscal Year Ended December 31, 2019 (IFRS basis)

Rakuten Group recorded revenue of ¥1,263,932 million, up 14.7% year-on-year, operating income of ¥72,745 million, down by 57.3% year-on-year, and net loss attributable to owners of the Company of ¥31,888 million, compared to a net income of ¥142,282 million in the previous fiscal year.

(IFRS basis)

(Millions of Yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2019	Amount Change YoY	% Change YoY
Revenue	1,101,480	1,263,932	162,452	14.7%
IFRS operating income	170,425	72,745	(97,680)	(57.3)%
Net income (loss) attributable to owners of the Company	142,282	(31,888)	(174,170)	—%

4) Segment Information

In the Meeting of the Board of Directors held on March 28, 2019, the Company decided to change its internal reporting management structure in conjunction with the reorganization of the Group Companies through company splits on April 1, 2019. The “Mobile” segment was added to the current reportable segments of “Internet Services” and “FinTech” to form three reportable segments starting in the three months ended March 31, 2019. The “Mobile” segment comprises businesses engaged in communication and messaging services. Business results for each segment are as follows. In terms of the IFRS management approach, segment profit or loss is presented on a Non-GAAP operating income basis.

From the three months ended June 30, 2019, the segment structure of functional subsidiaries, etc. engaged in research and development has been changed, and the method of allocating shared costs in the headquarter administrative departments has been changed and applied retrospectively. In accordance with this change, during the fiscal year ended December 31, 2018, segment revenue in the Internet Services segment decreased by ¥7,045 million and segment profit decreased by ¥2,121 million, segment revenue in the FinTech segment decreased by ¥1,114 million and segment profit decreased by ¥10,515 million, and segment profit in the Mobile segment decreased by ¥1,004 million, compared to before the retrospective application. This change has no impact on consolidated revenue, Non-GAAP operating income, or operating income.

(Internet Services)

In the Internet Services segment for the fiscal year ended December 31, 2019, 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. 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.

In overseas internet services, Rakuten Group integrated various services into the Rakuten brand, and conducted proactive sales promotion activities to raise the profile of the brand and expanded business overseas.

In the investment business, Rakuten Group recorded ¥75,120 million in valuation gains on share investments related to the ride-sharing business, etc.

As a result, revenue for the Internet Services segment rose to ¥792,512 million, a 17.1% year-on-year increase, while segment profit stood at ¥90,738 million, a 15.8% year-on-year decrease.

(Millions of Yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2019	Amount Change YoY	% Change YoY
Segment Revenue	676,677	792,512	115,835	17.1%
Segment Profit	107,707	90,738	(16,969)	(15.8)%

(FinTech)

In credit card services,, growth in shopping transaction volume and revolving balances due to expansion of the membership base of "Rakuten Card" contributed to an increase in revenue and income. In addition, in banking services, revenue and income continued to expand due to an increase in interest income, etc. from growing loan balances and improvements in administrative efficiency, despite the backdrop of a negative interest rate policy.

In insurance services, a gain on sales of securities was recorded from managing financial instruments, and a rebound from large payments of insurance claims related to disasters including the heavy rains in western Japan in the fiscal year ended December 31, 2018 contributed to an increase in revenue and income in the fiscal year ended December 31, 2019.

In securities services, revenue and income declined due to reduced commissions under the backdrop of a sluggish domestic stock market.

As a result, the FinTech segment recorded ¥486,372 million in revenue, a 14.6% year-on-year increase, while segment profit stood at ¥69,306 million, a 2.1% year-on-year increase.

(Millions of Yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2019	Amount Change YoY	% Change YoY
Segment Revenue	424,488	486,372	61,884	14.6%
Segment Profit	67,903	69,306	1,403	2.1%

(Mobile)

In the Mobile segment for the fiscal year ended December 31, 2019, preparations, including the installment of base stations, were made to enable Rakuten to launch its mobile business in April 2020 and provide the world's first end-to-end fully virtualized cloud-native network. The "Free Supporter Program" was launched in October 2019, and is open to approximately 5,000 subscribers, offering voice and data communications free of charge. As a result, Rakuten Group has been incurring depreciation expenses of fixed assets and line usage fees in roaming areas of competitors, since the fourth quarter of this fiscal year. In the "Free Supporter Program," Rakuten Group recruited additional subscribers of up to 20,000 in January 2020 and is working to improve the quality and stability of its network.

Furthermore, in "Rakuten Mobile" providing Mobile Virtual Network Operator (MVNO) services, and "Rakuten Viber" providing messaging and VoIP services, revenues increased substantially due to growth in membership.

As a result, revenue for the Mobile segment rose to ¥119,808 million, a 33.3% year-on-year increase, while segment loss stood at ¥60,051 million, compared to a loss of ¥13,672 million in the previous fiscal year.

(Millions of Yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2019	Amount Change YoY	% Change YoY
Segment Revenue	89,863	119,808	29,945	33.3%
Segment Profit (Loss)	(13,672)	(60,051)	(46,379)	—%

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	792,512	17.1
FinTech	486,372	14.6
Mobile	119,808	33.3
Intercompany transactions, etc.	(134,760)	—
Total	1,263,932	14.7

(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, 2019.

1) Analysis of Business Results

(Revenue)

The Group Companies, for the fiscal year ended December 31, 2019, achieved revenue of ¥1,263,932 million, an increase of ¥162,452 million (14.7%) from ¥1,101,480 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, an increase in commission income owing to expansion of the Rakuten Card membership base, increased interest income on loans due to growth in loan balances of banking services and increased transaction volume in the cashless payment business in the FinTech segment, and the expansion of the member bases of the “Rakuten Mobile” providing mobile virtual network operator (MVNO) service and “Rakuten Viber” providing the messaging and VoIP service in the Mobile segment.

(Operating expenses)

Operating expenses for the fiscal year ended December 31, 2019 amounted to ¥1,266,902 million, an increase of ¥239,149 million (23.3%) from ¥1,027,753 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, 2019 amounted to ¥86,901 million, a decrease of ¥33,733 million (28.0%) from ¥120,634 million for the previous fiscal year. This was due to a decrease in gain on sale of consolidated subsidiaries recorded in the previous fiscal year and less amount of amortization of negative goodwill.

(Other expenses)

Other expenses for the fiscal year ended December 31, 2019 amounted to ¥11,186 million, a decrease of ¥12,750 million (53.3%) from ¥23,936 million for the previous fiscal year. This was mainly due to a decrease in losses associated with liquidation of subsidiaries and foreign exchange loss recorded in the previous fiscal year.

(Operating income)

Operating Income for the fiscal year ended December 31, 2019 amounted to ¥72,745 million, a decrease of ¥97,680 million (57.3%) from ¥170,425 million for the previous fiscal year. This was due to an increase in operating expenses, due to the recording of expenses associated with sales activities and logistics bases facilities and their reinforcement, 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 income (losses) of investments in associates and joint ventures)

Share of losses of investments in associates and joint ventures amounted to ¥111,918 million, an increase of ¥110,094 million from the previous fiscal year. This was mainly due to the recording of an impairment loss of ¥102,873 million on Lyft, Inc. in share of losses of investments in associates and joint ventures.

(Income before income tax)

Loss before income tax for the fiscal year ended December 31, 2019 amounted to ¥44,558 million, compared to an income before income tax of ¥165,423 million for the previous fiscal year. This was due to a decrease in income as a result of factors explained in operating income, in addition to an increase in share of losses of investments in associates and joint ventures, which exceeded the operating income recorded.

(Income tax expense)

Income tax expense for the fiscal year ended December 31, 2019 amounted to negative ¥11,490 million, compared to an income tax expense of ¥23,534 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, 2019 amounted to ¥33,068 million, a decrease of ¥174,957 million from a net income of ¥141,889 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, 2019 amounted to ¥31,888 million, a decrease of ¥174,170 million from a net income of ¥142,282 million for the previous fiscal year.

2) Analysis of Financial Position

(Assets)

Total assets as of December 31, 2019 amounted to ¥9,165,697 million, an increase of ¥1,820,695 million from ¥7,345,002 million at the end of the previous fiscal year. The primary factors were an increase of ¥488,315 million in cash and cash equivalents, an increase of ¥364,186 million in loans for credit card business, and an increase of ¥285,089 million in property, plant, and equipment due to the recognition of right-of-use assets following the adoption of IFRS 16 “Leases”, and as a result of new lease agreements during the year.

(Liabilities)

Total liabilities as of December 31, 2019 amounted to ¥8,428,497 million, an increase of ¥1,859,702 million from ¥6,568,795 million at the end of the previous fiscal year. The primary factors were an increase of ¥805,634 million in deposits for banking business mainly due to an increase in savings accounts at Rakuten Bank, Ltd., an increase of ¥492,953 million in bonds and borrowings, and an increase of ¥375,909 million in other financial liabilities due to the adoption of IFRS 16 “Leases”, which increased in lease obligations due to the conclusion of new lease agreements.

(Equity)

Equity as of December 31, 2019 was ¥737,200 million, a decrease of ¥39,007 million from ¥776,207 million at the end of the previous fiscal year. The primary factors were a decrease of ¥10,965 million in retained earnings resulting from the recognition of ¥31,888 million of net loss attributable to owners of the Company for the fiscal year ended December 31, 2019.

3) Cash Flows

Cash and cash equivalents as of December 31, 2019 was ¥1,478,557 million, an increase of ¥488,315 million from the end of the previous fiscal year. Cash flow conditions and their major factors for the fiscal year ended December 31, 2019 are as follows.

(Net cash flows from operating activities)

Net cash flows from operating activities for the fiscal year ended December 31, 2019 resulted in a cash inflow of ¥318,320 million (compared with a cash inflow of ¥145,615 million for the previous fiscal year). Primary factors included a cash outflow of ¥364,138 million due to an increase of loans for credit card business, a cash outflow of ¥186,289 million due to an increase in financial assets in the securities business, offset by a cash inflow of ¥805,850 million due to an increase in deposits for the bank business.

(Net cash flows from investing activities)

Net cash flows from investing activities for the fiscal year ended December 31, 2019 resulted in a cash outflow of ¥286,290 million (compared with a cash outflow of ¥67,569 million for the previous fiscal year). Primary factors included a cash outflow of ¥108,065 million due to purchase of property, plant and equipment, a cash outflow of ¥99,173 million due to acquisition of intangible assets, a net cash outflow of ¥67,187 million due to purchase and sales, etc. of investment securities in the banking business (a cash outflow of ¥383,885 million due to purchase of investment securities and a cash inflow of ¥316,698 million due to sales and redemption of investment securities).

(Net cash flows from financing activities)

Net cash flows from financing activities for the fiscal year ended December 31, 2019 resulted in a cash inflow of ¥458,340 million (compared with a cash inflow of ¥208,418 million for the previous fiscal year). Primary factors included a cash outflow of ¥324,166 million due to repayment of long-term debt, offset by a cash inflow of ¥490,805 million due to long-term debt, a cash inflow of ¥215,516 million due to the issuance of bonds, and a cash inflow of ¥107,701 million due to an increase in short-term borrowings.

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 as 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 entire Group Companies, and to ensure sufficient liquidity in order to maintain the financial soundness of subsidiaries engaged in the finance business. 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 ¥1,727,096 million in bonds and borrowings, an increase of ¥492,953 million from the previous fiscal year. Of these, short-term borrowings increased ¥127,838 million year on year, to become ¥403,255 million, comprising short-term borrowings (mainly borrowings from banks) of ¥218,755 million and commercial papers of ¥184,500 million.

The Company's long- and short-term credit ratings as of December 31, 2019 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 (4G) in April 2018, and for a plan to set up specified base stations for the introduction of a fifth-generation mobile communication system (5G) in April 2019. Following approval of these plans, Rakuten Group has moved ahead

with preparations according to the plans, and launched services as a Mobile Network Operator (MNO) in October 2019, providing the “Free Supporter Program,” which offers voice and data communication services free of charge to approximately 5,000 subscribers. Going forward, the fourth-generation mobile communication system (4G) service is scheduled for full-scale launch in April 2020, and the fifth-generation mobile communication system (5G) is scheduled for launch in June 2020. Capital investment in the approved mobile network business is expected to amount to a maximum of ¥800,000 million by 2026. Plans for procurement of funds include investment from the Company to Rakuten Mobile, Inc., and leasing and fluidized finance in Rakuten Mobile, Inc. The Company has allocated ¥182,000 million to the said investment, procuring these funds with unsecured subordinated bonds with deferred interest clause and early redemption clause (with subordination agreement) issued in December 2018.

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) Information Regarding Differences in Main Items Related to Overview of Status of Business Results, etc.

Difference between the main items of the Consolidated Financial Statements prepared in accordance with IFRS, and the comparable items of the Consolidated Financial Statements prepared in accordance with JGAAP is as follows.

For the year ended December 31, 2019

1) Revenue

Future financial costs, due to the points granted under the point programs to encourage repeated access and shopping by customers, are recorded as a provision for point card certificates as part of operating expenses in accordance with JGAAP, whereas in accordance with IFRS, such costs associated with the points are considered paid to customers and accordingly, based on IFRS 15 “Revenue from contracts with customers” are deducted from revenue at the time they are granted. Due to this difference, revenue in accordance with IFRS is approximately ¥91,652 million less than that in accordance with JGAAP.

For sales of books by the Group Companies, revenue is recorded and the associated cost of sales is presented on a gross basis in accordance with JGAAP. Since in accordance with IFRS such transactions are deemed to be conducted by the Group Companies as an agent of third parties and subject to accounting treatment in accordance with IFRS 15, revenue is presented on a net basis. Due to this difference such revenues are, in accordance with IFRS approximately ¥66,322 million less than those in accordance with JGAAP.

2) Operating income

Goodwill is amortized on a regular basis over a certain period of time in accordance with JGAAP, while in accordance with IFRS, goodwill is not subject to amortization but instead an impairment test is required. Due to this difference, operating income in accordance with IFRS is approximately ¥20,314 million more than that in accordance with JGAAP.

Under JGAAP, the Allowance for doubtful receivables is calculated based on reasonable assumptions such as historical default ratio in the past, while in IFRS calculation, expected credit loss model is applied. Due to this difference, operating income in accordance with IFRS is

approximately ¥1,276 million less than that of JGAAP.

4. Material Business Agreements, etc.

The Company has concluded a stock purchase agreement on December 25, 2019 between its wholly-owned direct subsidiary Rakuten USA, Inc. and Aragorn Parent Corporation, in order to transfer all indirectly held shares in OverDrive Holdings, Inc. (hereinafter “OverDrive Holdings” and, together with its subsidiaries, “OverDrive”), which is wholly-owned by Rakuten USA, Inc., to Aragorn Parent Corporation.

The transfer of shares is planned during the fiscal year ending December 31, 2020. This transfer will lead to OverDrive no longer being a consolidated subsidiary.

(1) Purpose of share transfer: To optimize the allocation of Rakuten Group resources

(2) Name of the party to receive transferred shares: Aragorn Parent Corporation

(3) Date of share transfer: Fiscal year ending December 31, 2020 (planned)

(4) Company name and business of the subsidiary, and relationship with the Company

Company name: OverDrive Holdings, Inc.

Business: Distribution of digital eBooks, audiobooks and magazines for library and schools

Relationship between the Company: There is no highly significant operational relationship.

(5) Number of shares to be transferred, transfer price, gain (loss) on transfer, and number of shares held after transfer

Number of shares to be transferred: 100 shares (holding ratio: 100.00%)

Transfer price: Not disclosed

Gain (loss) on transfer: Approximately ¥40,000 million (planned)

Ownership ratio after transfer: 0%

(6) Name of reporting segment that includes the business to be transferred:

Internet Services

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 Bangalore, India adding to our Facilities in Japan, to expand our research system. Additionally, in May 2018, the Rakuten Institute of Technology Gene Laboratory was established as part of the Rakuten Institute of Technology, with the aim of resolving issues such as reducing medical costs and further raising health awareness. Meanwhile, we explore research themes focused on four areas, namely AI/deep learning, user interaction and AR/VR, large-scale distribution processing, and the fifth-generation mobile communication system (5G), IoT, robotics and drone technologies that combine the above areas, based on our corporate vision on the future direction of Internet development, with the details given below. Since the Group Companies' research and development activities cover Internet-related basic technologies, which cannot be classified into specific segments, the activities are not listed by segment. The total expense of research and development in the current fiscal year was ¥9,094 million.

1) AI/Deep Learning

In the area of AI/deep learning, we develop advanced technologies to automatically analyze the abundant amount of text data and multi-media data that the Group Companies possess, as well as technologies that will optimize various services based thereon. The aim is to create a diverse

platform for searches, recommendations, advertising and language processing that can be horizontally expanded to each business.

2) User Interaction and AR/VR

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

3) Large-scale Distribution Processing

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

4) The Fifth-Generation Mobile Communication System (5G), IoT, Robotics and Drone Technologies

We are engaged in the research and development of the fifth-generation mobile communication system (5G), an IoT technology platform, robotics and drone technology that combine the above three research areas of technologies.

III. Equipment and Facilities

1. Status of Capital Expenditures, etc.

Capital expenditure in the current fiscal year was ¥362,601 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 under the application of IFRS 16 “Leases.”

2. Situation of Major Equipment

(1) Company filing Financial Reports

As of December 31, 2019

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	4,258	1,420	27,679	43,641	76,998	6,206
RFC Ichikawa I, II, III (Ichikawa-shi, Chiba) and 7 other location	Internet Services	Warehouse facilities	2,929	80	34,280	34	37,323	70

(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, 2019

Name of companies	Location	Name of segments	Details of major facilities	Book value (Millions of Yen)						Number of employees (Persons)
				Mach- inery facilities	Buildings and accompa- nying facilities	Furniture, fixtures and equipment	Right-of- use assets	Software	Total	
Rakuten Mobile, Inc.	(Setagaya- ku, Tokyo)	Mobile	Facilities involved with all operations	—	48	145	759	24,489	25,441	965
Rakuten Mobile, Inc.	Base station network center in Japan	Mobile	Base stations, network equipment, etc.	49,573	1,885	3,760	52,670	1,303	109,191	—

(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, 2019

Name of companies	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	Land (m ²)	Total	
Rakuten USA, Inc.	(U.S.)	—	Facilities involved with all operations	17,398	925	1,785	3,881 (19,287)	23,989	560

(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, 2019

Name of companies	Location	Name of segments	Details of major facilities	Expected investment amount (Note)		Method of procuring funds	Start date	Expected Completion date
				Total amount	Inspection amount			
Rakuten Mobile, Inc.	(Setagaya-ku, Tokyo)	Mobile	Base stations, network equipment, etc. regarding "4G" and "5G"	800.0 billion yen	138.1 billion yen	Private fund, loans, issuance of bonds, etc.	April 2018	March 2029

(Notes) 1 The total expected investment amount is based on the initial plan submitted to the Ministry of Internal Affairs and Communications.

2 The inspection amount includes construction in progress and outsourcing expenses that are considered assets.

(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, 2019)	As of the submission date (shares) (March 27, 2020)	Stock exchange on which the Company is listed	Description
Common stock	1,434,573,900	1,434,573,900	Tokyo Stock Exchange (First Section)	One unit of stock constitutes 100 common stocks.
Total	1,434,573,900	1,434,573,900	—	—

(Note) 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, 2020 and such submission date.

(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, 2019). 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 29, 2020), 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.

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

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

3 Conditions for exercise of Share Options

1) Those who received the allotment of 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) *	1,624 [1,612] (Note 1)	450 [442] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 162,400 [161,200] (Note 1)	Common stock 45,000 [44,200] (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

- 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.
- 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.
- Share Options shall not be offered for pledge or disposed of in any other way.
- 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)	6,594 [6,486] (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 659,400 [648,600] (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: ¥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) *	1,497 [1,497] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 149,700 [149,700] (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) *	6,136 [6,052] (Note 1)	120 [120] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 613,600 [605,200] (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) *	4,149 [4,076] (Note 1)	1,583 [1,574] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 414,900 [407,600] (Note 1)	Common stock 158,300 [157,400] (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) *	1,622 [1,622] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 162,200 [162,200] (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) *	1,740 [1,730] (Note 1)	5,980 [5,870] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 174,000 [173,000] (Note 1)	Common stock 598,000 [587,000] (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) *	1,815 [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 181,500 [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) *	5,665 [5,656] (Note 1)	5,021 [4,906] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 566,500 [565,600] (Note 1)	Common stock 502,100 [490,600] (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) *	3,931 [3,931] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 393,100 [393,100] (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)	693 [693] (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 69,300 [69,300] (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) *	9,760 [9,549] (Note 1)	1 [1] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 976,000 [954,900] (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)	4,354 [4,295] (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 435,400 [429,500] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	A. From 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) *	16,170 [15,500] (Note 1)	12 [10] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 1,617,000 [1,550,000] (Note 1)	Common stock 1,200 [1,000] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	A. From 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) *	6,160 [6,129] (Note 1)	60 [60] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 616,000 [612,900] (Note 1)	Common stock 6,000 [6,000] (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, 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) *	6,063 [6,061] (Note 1)	21,849 [21,684] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 606,300 [606,100] (Note 1)	Common stock 2,184,900 [2,168,400] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	A. From 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)	5,038 [4,963] (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 503,800 [496,300] (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)	21,686 [20,401] (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 2,168,600 [2,040,100] (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, 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) *	2,172 [2,169] (Note 1)	162 [162] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 217,200 [216,900] (Note 1)	Common stock 16,200 [16,200] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	A. From 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) *	13,454 [13,454] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 1,345,400 [1,345,400] (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) *	10,490 [10,485] (Note 1)	9 [9] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 1,049,000 [1,048,500] (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 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) *	27,536 [27,471] (Note 1)	9,917 [9,805] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 2,753,600 [2,747,100] (Note 1)	Common stock 991,700 [980,500] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	A. From 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) *	475 [474] (Note 1)	17 [17] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 47,500 [47,400] (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) *	27,328 [26,087] (Note 1)	3,266 [3,263] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 2,732,800 [2,608,700] (Note 1)	Common stock 326,600 [326,300] (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)	14,153 [14,153] (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 1,415,300 [1,415,300] (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) *	30,964 [30,928] (Note 1)	65,141 [65,090] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 3,096,400 [3,092,800] (Note 1)	Common stock 6,514,100 [6,509,000] (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, 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) *	7,792 [7,718] (Note 1)	51,294 [49,906] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares) *	Common stock 779,200 [771,800] (Note 1)	Common stock 5,129,400 [4,990,600] (Note 1)
Cash payment upon exercise of Share Options*	¥1 per share option	¥1 per share option
Exercise period of Share Options*	A. From 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)*	4,200 [4,200] (Note 1)	1,570 [1,570] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares)*	Common stock 420,000 [420,000] (Note 1)	Common stock 157,000 [157,000] (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, 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)*	46,521 [46,521] (Note 1)	12,179 [12,179] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares)*	Common stock 4,652,100 [4,652,100] (Note 1)	Common stock 1,217,900 [1,217,900] (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, 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)*	21,336 [21,336] (Note 1)	39,881 [39,881] (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares)*	Common stock 2,133,600 [2,133,600] (Note 1)	Common stock 3,988,100 [3,988,100] (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, 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 (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares)	Common stock 3,575,600 (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 B. 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 (Note 1)	10,554 (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares)	Common stock 362,000 (Note 1)	Common stock 1,055,400 (Note 1)
Cash payment upon exercise of Share Options	¥1 per share option	¥1 per share option
Exercise period of Share Options	A. From 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 23rd General Shareholders' Meeting (March 27, 2020)

Date of resolution at General Shareholders' Meeting (Date of resolution at Meeting of the Board of Directors)	March 27, 2020	March 27, 2020
Classification and number of persons received (persons)	Directors of the Company	Directors of the Company who serve concurrently as Executive Officers of the Company
Number of Share Options (share options)	Up to 10,000 per fiscal year (Note 1)	Up to 10,000 per fiscal year (Note 1)
Class, details and number of shares to be issued upon exercise of Share Options (shares)	Common stock of up to 1,000,000 per fiscal year (Note 1)	Common stock of up to 1,000,000 per fiscal year (Note 1)
Cash payment upon exercise of Share Options	¥1 per share option	¥1 per share option
Exercise period of Share Options	The exercise period will be from the date on which one year has passed from the issuance of the Share Options to the date on which 10 years have passed from the date of issuance	The exercise period will be from the date on which Share Options are issued until the date on which 40 years have passed from the date of issuance
Issue price for shares issued through exercise of Share Options and the amount to be included in capital	-	-
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	-	-

(Notes) 1, 5-6, 8 Same as Notes 1, 5-6, 8 of the Share Options of 20), 21) Resolution at 18th General Shareholders' Meeting held on March 27, 2015.

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, 2015 to June 30, 2015 (Note 1)	1,777,100	1,330,380,500	816	112,418	816	79,955
June 30, 2015 (Note 2)	99,606,500	1,429,987,000	90,987	203,405	90,986	170,941
From July 1, 2015 to December 31, 2015 (Note 1)	386,900	1,430,373,900	182	203,587	182	171,124
From January 1, 2016 to December 31, 2016 (Note 1)	2,048,700	1,432,422,600	974	204,562	974	172,099
From January 1, 2017 to November 30, 2017 (Note 1)	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 Due to an increase in public offerings with consideration in Japan as well as an increase in public offering in the overseas markets (however, in the United States, only for sales to qualified institutional investors under Rule 144A of the U.S. Securities Act 1933). The issue price for these offerings was ¥1,905.5, the subscription price was ¥1,826.92, and the amount to be included in capital was ¥913.46.

(5) Status of Shareholders

As of December 31, 2019

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	57	69	963	743	1,827	252,361	256,021	—
Number of shares held (Unit)	1,170	2,139,464	198,642	2,511,829	3,788,175	30,638	5,674,360	14,344,278	146,100
Percentage of shares held (%)	0.01	14.92	1.38	17.51	26.41	0.21	39.56	100.00	—

(Note) 78,318,938 shares of treasury shares are included as 783,189 units in the item of “Individuals and others” and as 38 shares in the “Status of shares below unit.”

(6) Major Shareholders

As of December 31, 2019

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	16.69
Hiroshi Mikitani	Minato-ku, Tokyo	176,346,300	13.00
Haruko Mikitani	Shibuya-ku, Tokyo	132,625,000	9.78
The Master Trust Bank of Japan, Ltd. (Trust account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	61,102,900	4.51
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11 Harumi, Chuo-ku, Tokyo	46,108,000	3.40
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)	31,879,381	2.35
JP MORGAN CHASE BANK 380055 (Standing proxy: Settlement & Clearing Services Division, Mizuho Bank, Ltd.)	270 PARK AVENUE, NEW YORK, NY 10017, UNITED STATES OF AMERICA (SHINAGAWA INTERCITY Tower A, 2-15-1 Konan, Minato-ku, Tokyo)	24,968,856	1.84
Japan Trustee Services Bank, Ltd. (Trust Account 7)	1-8-11 Harumi, Chuo-ku, Tokyo	20,053,100	1.48
Japan Trustee Services Bank, Ltd. (Trust Account 5)	1-8-11 Harumi, Chuo-ku, Tokyo	18,066,200	1.33
Culture Convenience Club Co., Ltd.	12-2 Okahigashicho, Hirakata-shi, Osaka	17,162,000	1.27
Total	—	754,730,737	55.65

(Note) In addition to the above, the Company holds 78,318,938 shares of its treasury shares.

(7) Status of Voting Rights

1) Issued shares

As of December 31, 2019				
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	78,318,900	—	—
Shares with full voting rights (others)	Common stock	1,356,108,900	13,561,089	—
Shares below unit	Common stock	146,100	—	—
Total number of shares issued		1,434,573,900	—	—
Total voting rights held by all shareholders	—		13,561,089	—

(Note) 38 shares of treasury shares are included in "Shares below unit."

2) Treasury Shares, etc.

As of December 31, 2019					
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	78,318,900	—	78,318,900	5.46
Total	—	78,318,900	—	78,318,900	5.46

2. Status of Acquisition of Treasury Shares, etc.

Class of shares, etc. Common stocks

(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

Not applicable.

(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	—	—	—	—
Acquired treasury shares that was cancelled	—	—	—	—
Acquired Treasury shares transferred due to merger, share exchange or company split	—	—	—	—
Others (Disposal of treasury shares associated with execution of share options)	4,236,600	4,995	602,400	710
Number of treasury shares held (Note)	78,318,938	—	77,716,538	—

(Note) The number of shares of treasury shares held during the current period does not include the number of acquired shares during the period from March 1, 2020 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 dividend of ¥4.5 per share (¥4.5 per share for the previous fiscal year) from retained earnings at the Meeting of the Board of Directors held on February 13, 2020.

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 13, 2020 Resolution at the Meeting of the Board of Directors	6,103	4.50

(Reference) Trends in dividend per share

Fiscal period	19th	20th	21st	22nd	23rd
Year-end	December 2015	December 2016	December 2017	December 2018	December 2019
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

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 has retained the responsibility for management decision-making and supervision, while Executive Officers have been made responsible for the executive functions.

The Company's Board of Directors, led by the Outside Directors who are highly independent experts of a variety of fields, supervises the execution of duties from an objective perspective and engages in frank and multilateral discussions on management. Furthermore, the Company has

been holding the long meetings on Group management strategy, etc., separately from the meetings of the Board of Directors, and participants discuss matters from a medium- to long-term perspective, rather than confining themselves to short-term issues or items discussed at the meetings of the Board of Directors, in order to enhance 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 seven Directors, including four Outside Directors. Resolutions to appoint Directors must be approved by a majority of voting rights at an Annual General Shareholders' Meeting attended by shareholders holding at least one-third of voting rights.

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 seven Directors, namely Mr. Hiroshi Mikitani (Representative Director, Chairman, President & CEO), Mr. Masayuki Hosaka (Representative Director & Vice Chairman), Mr. Charles B. Baxter (Director), Mr. Ken Kutaragi (Outside Director), Ms. Sarah J.M. Whitley (Outside Director), Mr. Takashi Mitachi (Outside Director), and Mr. Jun Murai (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.

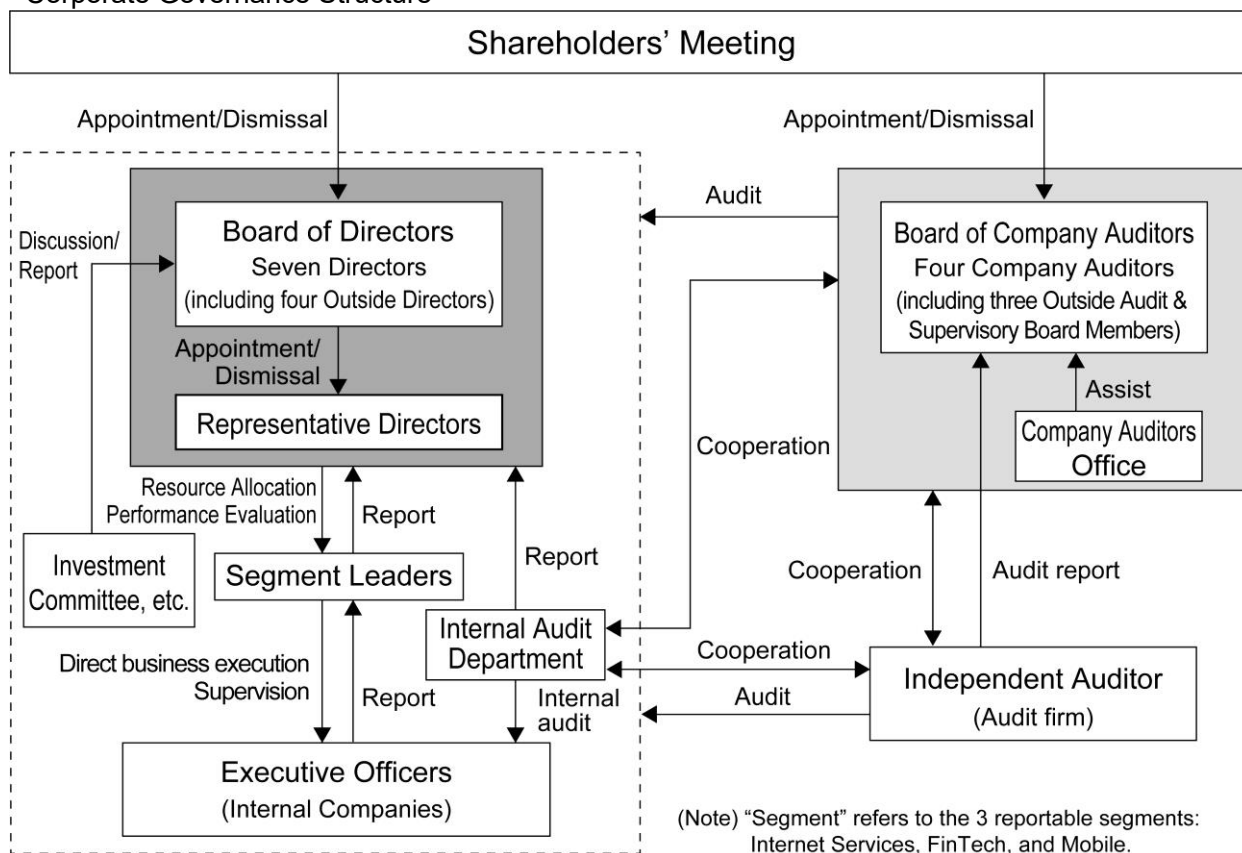
A two-member Audit & Supervisory Board Members' Office assists the Audit & Supervisory Board Members in the performance of their duties. In addition to its regular meetings, the Audit & Supervisory Board holds special meetings as required.

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 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 handle requests from Audit & Supervisory Board Members for employees' assistance and 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

10 male, 1 female (Percentage of female: 9.1%)

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 2020 to March 2021	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)		
			March 2015	Director of Lyft, Inc. (current position)		
			August 2016	Chairman & Director of Aspyrian Therapeutics, Inc. (currently Rakuten Medical, Inc.)		
			September 2017	Outside Director of Genesis Healthcare Co. (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)		

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 2020 to March 2021	117
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 2020 to March 2021	—
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	Joined Sony Corporation Director of Sony Computer Entertainment Inc. (currently Sony Interactive Entertainment Inc.) President and Representative Director of Sony Computer Entertainment Inc. Director of Sony Corporation Director, Executive Vice President & COO of Sony Corporation Representative Director, Chairman & Group CEO of Sony Computer Entertainment Inc. (currently Sony Interactive Entertainment Inc.) Honorary Chairman of Sony Computer Entertainment Inc. Senior technology advisor of Sony Corporation 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)	March 2020 to March 2021	10

Title and position	Name	Date of birth	Career summary		Term	Number of shares of the Company held (Thousands of shares)
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 2020 to March 2021	—
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	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 the Graduate School of Management, Kyoto University (current position) 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.) (current position) Outside Director of Unicharm Corporation (current position) 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) General Secretary of Ronald McDonald House Charities Japan (current position)	March 2020 to March 2021	—

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, 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 (current position) May 2005 Vice-President of Keio Gijuku Educational Corporation October 2009 Dean 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)		March 2020 to March 2021	6
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	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 (current position) Chairman of the Japan Society of Sports Industry (current position) Outside Audit & Supervisory Board Member of Isetan Mitsukoshi Holdings Ltd. (current position)	March 2019 to March 2023	36

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	March 2020 to March 2024	70
				Joined Nishimura & Partners (currently Nishimura & Asahi)		
			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						176,591

(Notes) 1 Four Directors, Ken Kutaragi, Sarah J.M. Whitley, Takashi Mitachi and Jun Murai 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 seven-member Board of Directors currently includes four Outside Directors, and three of four Audit & Supervisory Board Members are Outside Audit & Supervisory Board Members.

Director Takashi Mitachi is Adjunct Professor of Graduate School of Management of Kyoto University, and the Company makes donations, etc. to this university. The ratio of the amount of these donations, etc. in fiscal 2019 was less than 1% of the combined total amount of the cost of sales and selling, general and administrative expenses of the Company for the year. Mr. Mitachi is also General Secretary of Ronald McDonald House Charities Japan, and the Company makes donations to this organization. The ratio of the amount of these donations in fiscal 2019 was less than 1% of the combined total amount of the cost of sales and selling, general and administrative expenses of the Company for the year.

Director Jun Murai is Professor of the Faculty of Environment and Information Studies of Keio University, which shares a role in operating an international standardization body to which Company pays membership fees. The ratio of the amount of fees in fiscal 2019 is less than 1% of the combined total amount of cost of sales and selling, general and administrative expenses at the Company for the year. He is also Outside Director of BroadBand Tower, Inc. and Outside Director of LAC Co., Ltd., each of which has a business relationship including provision of services with the Company. The ratio of the amount of transactions between each of BroadBand Tower, Inc. and LAC Co., Ltd. and the Company in fiscal 2019 was less than 1% of the combined total amount of the cost of sales and selling, general and administrative expenses of the Company for the year.

Audit & Supervisory Board Member Takeo Hirata is Professor of Waseda University Graduate School of Sport Sciences and Dean of Waseda University Research Institute for Strategy of Natural Resources, to which the Company pays research expenses. The ratio of the amount of expenses in fiscal 2019 is less than 1% of the combined total amount of cost of sales and selling, general and administrative expenses at the Company for the year. He is also Chairman of the Japan Society of Sports Industry, to which the Company pays membership fees. The ratio of the amount of fees in fiscal 2019 is less than 1% of the combined total amount of cost of sales and selling, general and administrative expenses at the Company for the year.

Outside Audit & Supervisory Board Member Katsuyuki Yamaguchi is Managing Partner of Nishimura & Asahi NY LLP, 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 the Company in fiscal 2019 is less than 1% of the combined total amount of cost of sales and selling, general and administrative expenses at the Company for the year.

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 and Jun Murai 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 four 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. And Mr. Jun Murai has a distinguished background as an academic expert in Internet technology. 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. Masahide Hiramoto has extensive knowledge and experience mainly in the fields of finance and business management. Mr. Takeo Hirata brings wide-ranging expert knowledge and experience relating primarily to sport and education. 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) Internal Audits, Audit & Supervisory Board Member Organization, Personnel and Procedures

Internal audits are conducted by the 31-member (excluding 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. The Internal Audit Department also 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. In addition, a Three-Party Audit Meeting is held as needed, and exchange of opinions among the three parties are conducted. Furthermore, 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.

Information about 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).”

2) 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) 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

(c) Numbers of Assistants

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

34 certified public accountants and 45 others

(d) 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.

3) Audit Fees, etc.

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

Item	2018		2019	
	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	134	2	167	21
Consolidated subsidiaries	276	97	335	76
Total	410	99	502	97

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 for issuance of corporate bonds in the previous fiscal year and the current fiscal year.

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

Item	2018		2019	
	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	-	-	-	-
Consolidated subsidiaries	195	1	185	14
Total	195	1	185	14

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, 2018

Not applicable.

Fiscal year ended December 31, 2019

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)	507	141	319	47	3
Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members)	—	—	—	—	—
Outside Directors and Audit & Supervisory Board Members	146	136	10	—	9

(Notes) 1 The abovementioned number of persons paid and the amount paid include one Outside Director who retired at the conclusion of the 22nd Annual General Shareholders' Meeting held on March 28, 2019.

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
Hiroshi Mikitani (Representative Director, Chairman, President & CEO)	196	The filing company	15	181	—
Masayuki Hosaka (Vice Chairman and Representative Director)	286	The filing company	108	131	47

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	9	398
Shares other than unlisted shares	2	411

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

	Number of share names	Total acquisition price for the increase in the number of shares (Millions of Yen)	Reasons for the increase in the number of shares
Unlisted shares	1	148	To enhance business relationship
Shares other than unlisted shares	—	—	—

(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	766

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

Share name	Current fiscal year	Previous fiscal year	Purpose of holding, quantitative effect of holding and reasons for the increase in the number of shares	Ownership of the Company's shares
	Number of shares (shares) Amount recorded in balance sheet (Millions of Yen)	Number of shares (shares) Amount recorded in balance sheet (Millions of Yen)		
Brangista Inc.	479,200 380	1,392,400 1,040	(Purpose of holding) To enhance business relationship	No
Alpen Co., Ltd.	18,000 31	18,000 30	(Purpose of holding) To enhance business relationship	No

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	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	—	1,449	1,475

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

Share name	Number of shares (shares)	Amount recorded in balance sheet (Millions of Yen)
Autonomous Control Systems Laboratory Ltd.	529,000	1,687

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.
- (3) Differences in the main items relating to the overview of operating results, etc. are stated in “II Business Overview 3. Management Analysis of Consolidated Business Results, Financial Position, and Cash Flows.”

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

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

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

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

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

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

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

(Millions of Yen)

	Note	December 31, 2018	December 31, 2019
Assets			
Cash and cash equivalents	5	¥990,242	¥1,478,557
Accounts receivable — trade	6, 15	181,026	222,485
Financial assets for securities business	7, 15	1,789,832	1,976,009
Loans for credit card business	8, 15	1,464,030	1,828,216
Investment securities for banking business	9, 15	205,641	272,711
Loans for banking business	10, 15	891,925	1,049,993
Investment securities for insurance business	11, 15	277,057	287,200
Derivative assets	12	27,388	28,050
Investment securities	13	384,788	163,259
Other financial assets	14, 15	275,800	390,234
Investments in associates and joint ventures	16	12,788	177,199
Property, plant and equipment	2, 17	91,335	376,424
Intangible assets	18	553,815	609,450
Deferred tax assets	26	50,049	80,153
Other assets		149,286	225,757
Total assets		7,345,002	9,165,697
Liabilities			
Accounts payable — trade		255,353	329,483
Deposits for banking business	19	2,355,114	3,160,748
Financial liabilities for securities business	20	1,753,216	1,860,645
Derivative liabilities	12	9,213	10,172
Bonds and borrowings	21	1,234,143	1,727,096
Other financial liabilities	22	444,531	820,440
Income taxes payable		13,243	12,952
Provisions	23	90,516	109,845
Insurance business policy reserves	24	334,536	318,090
Employee retirement benefit liabilities	25	5,164	11,374
Deferred tax liabilities	26	13,059	2,049
Other liabilities		60,707	65,603
Total liabilities		6,568,795	8,428,497
Equity			
Equity attributable to owners of the Company			
Common stock	27	205,924	205,924
Capital surplus	27	218,856	224,379
Retained earnings	2, 27	424,568	413,603
Treasury stock	27	(97,300)	(92,305)
Other components of equity		22,425	(15,929)
Total equity attributable to owners of the Company		774,473	735,672
Non-controlling interests		1,734	1,528
Total equity		776,207	737,200
Total liabilities and equity		7,345,002	9,165,697

2) Consolidated Statements of Income

(Millions of Yen)

	Note	Year ended December 31, 2018	Year ended December 31, 2019
Continuing operations			
Revenue	28	¥1,101,480	¥1,263,932
Operating expenses	29	1,027,753	1,266,902
Other income	30	120,634	86,901
Other expenses	30	23,936	11,186
Operating income		170,425	72,745
Financial income	31	954	3,642
Financial expenses	31	4,132	9,027
Share of losses of associates and joint ventures, net	16	1,824	111,918
Income (Loss) before income tax		165,423	(44,558)
Income tax expense	26	23,534	(11,490)
Net income (loss)		141,889	(33,068)
Net income (loss) attributable to:			
Owners of the Company		142,282	(31,888)
Non-controlling interests		(393)	(1,180)
Net income (loss)		141,889	(33,068)

(Yen)

Earnings (Losses) per share attributable to owners of the Company:			
Basic	32	¥105.43	¥(23.55)
Diluted	32	104.38	(23.55)

3) Consolidated Statements of Comprehensive Income

(Millions of Yen)

	Note	Year ended December 31, 2018	Year ended December 31, 2019
Net income (loss)		¥141,889	¥(33,068)
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	(4,347)	16,505
Income tax effect of gains or losses on equity instruments measured at fair value through other comprehensive income	26	1,156	(4,061)
Remeasurement of insurance business policy reserves based on current market interest rates	24	(1,059)	(4,582)
Income tax effect of remeasurement of insurance business policy reserves based on current market interest rates	24,26	296	1,283
Remeasurement of defined benefit plans	25	(65)	(1,257)
Income tax effect of remeasurement of defined benefit plans	25,26	18	376
Other comprehensive income of investments in associates and joint ventures	16	(4)	25
Total items that will not be reclassified to net income		(4,005)	8,289
Items that will be reclassified to net income:			
Foreign currency translation adjustments		(21,553)	(11,211)
Foreign currency translation adjustments reclassified from other comprehensive income to net income		7,476	154
Corporate income tax on foreign currency translation adjustments		—	1,166
Gains on debt instruments measured at fair value through other comprehensive income	39	1,459	1,560
Allowances for doubtful debts on debt instruments measured at fair value through other comprehensive income	39	87	(123)
Losses on debt instruments measured at fair value through other comprehensive income reclassified from other comprehensive income to net income	39	(789)	(1,420)
Income tax effect of gains or losses on debt instruments measured at fair value through other comprehensive income	26,39	(229)	7
Losses on cash flow hedges recognized in other comprehensive income	34	(425)	(1,652)
Income tax effect of gains on cash flow hedges recognized in other	26, 34	10	431

(Millions of Yen)

	Note	Year ended December 31, 2018	Year ended December 31, 2019
comprehensive income			
Gains on cash flow hedges reclassified from other comprehensive income to net income	34	550	649
Income tax effect of gains or losses on cash flow hedges reclassified from other comprehensive income to net income	26, 34	19	(136)
Other comprehensive income of investments in associates and joint ventures	16	43	(7,464)
Reclassified from other comprehensive income to net income for the investments in associates and joint ventures		(80)	—
Total items that will be reclassified to net income		(13,432)	(18,039)
Other comprehensive income, net of tax		(17,437)	(9,750)
Comprehensive income (loss)		124,452	(42,818)
Comprehensive income (loss) attributable to:			
Owners of the Company		124,838	(41,643)
Non-controlling interests		(386)	(1,175)
Comprehensive income (loss)		124,452	(42,818)

4) Consolidated Statements of Changes in Equity

(Millions of Yen)

(thousands 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, 2018		¥205,924	¥217,185	¥320,397	¥(103,616)	¥15,586	¥31,866	¥(664)	¥(3,497)	¥—	¥43,291	¥683,181	¥227	¥683,408
Cumulative effects of change in accounting policy		—	—	(35,421)	—	—	315	—	—	—	315	(35,106)	—	(35,106)
Adjusted balance reflecting change in accounting policy		205,924	217,185	284,976	(103,616)	15,586	32,181	(664)	(3,497)	—	43,606	648,075	227	648,302
Comprehensive income														
Net income		—	—	142,282	—	—	—	—	—	—	—	142,282	(393)	141,889
Other comprehensive income, net of tax		—	—	—	—	(14,124)	(2,663)	153	(763)	(47)	(17,444)	(17,444)	7	(17,437)
Total comprehensive income		—	—	142,282	—	(14,124)	(2,663)	153	(763)	(47)	(17,444)	124,838	(386)	124,452
Transactions with owners														
Contributions by and distributions to owners														
Cash dividends paid	27, 37	—	—	(6,060)	—	—	—	—	—	—	—	(6,060)	—	(6,060)
Reclassified from other components of equity to retained earnings	38	—	—	3,737	—	—	(3,737)	—	—	—	(3,737)	—	—	—
Disposal of treasury stock	27	—	(6,103)	—	6,316	—	—	—	—	—	—	213	—	213
Issuance of share acquisition rights		—	7,776	—	—	—	—	—	—	—	—	7,776	—	7,776
Forfeiture of share acquisition rights		—	(72)	72	—	—	—	—	—	—	—	—	—	—
Others		—	—	(439)	—	—	—	—	—	—	—	(439)	—	(439)
Total contributions by and distributions to owners		—	1,601	(2,690)	6,316	—	(3,737)	—	—	—	(3,737)	1,490	—	1,490
Changes in ownership interests in subsidiaries														
Issuance of common stock		—	—	—	—	—	—	—	—	—	—	—	319	319
Acquisitions and disposals of non-controlling interests		—	70	—	—	—	—	—	—	—	—	70	—	70
Others		—	—	—	—	—	—	—	—	—	—	—	1,574	1,574
Total changes in ownership interests in subsidiaries		—	70	—	—	—	—	—	—	—	—	70	1,893	1,963
Total transactions with owners		—	1,671	(2,690)	6,316	—	(3,737)	—	—	—	(3,737)	1,560	1,893	3,453
As of December 31, 2018		¥205,924	¥218,856	¥424,568	¥(97,300)	¥1,462	¥25,781	¥(511)	¥(4,260)	¥(47)	¥22,425	¥774,473	¥1,734	¥776,207

Other components of equity														
Note	Common stock	Capital surplus	Retained earnings	Treasury stock	Foreign currency translation adjustments	Financial instruments measured at fair value through other comprehensive income	Cash flow hedges	Remeasur- ement of insurance business policy reserves based on current market interest rates	Remeasur- ement of retirement benefit plans	Total other components of equity	Total equity attributable to owners of the Company	Non-controlling interests	Total 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 effects of change in accounting policy	2	—	—	(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 income		—	—	(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	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	22,761	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	23,010	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

5) Consolidated Statements of Cash Flows

(Millions of Yen)

	Note	Year ended December 31, 2018	Year ended December 31, 2019
Cash flows from operating activities			
Income (Loss) before income tax		¥165,423	¥(44,558)
Depreciation and amortization		72,429	106,370
Impairment loss	17, 18	4,168	4,641
Other income (loss)		(101,050)	55,297
Increase in operating receivables		(36,059)	(47,356)
Increase in loans for credit card business		(281,335)	(364,138)
Increase in deposits for banking business		409,403	805,850
Decrease (increase) in call loans for banking business		25,000	(15,000)
Increase in loans for banking business		(149,964)	(158,068)
Increase in operating payables		22,988	73,658
Decrease (increase) in financial assets for securities business		99,080	(186,289)
Increase (decrease) in financial liabilities for securities business		(36,938)	107,535
Others		(7,323)	12,290
Income tax paid		(40,207)	(31,912)
Net cash flows from operating activities		145,615	318,320
Cash flows from investing activities			
Increase in time deposits		(9,943)	(9,708)
Decrease in time deposits		8,863	10,929
Purchase of property, plant and equipment		(23,442)	(108,065)
Acquisition of intangible assets		(64,140)	(99,173)
Payments for acquisition of subsidiaries, net		(11,944)	(12,332)
Proceeds from acquisition of subsidiaries, net	46	10,826	—
Proceeds from sale of subsidiaries resulting as a loss of controls		26,234	—
Acquisition of investments in associates and joint ventures		(1,159)	(9,273)
Purchase of investment securities for banking business		(270,099)	(383,885)
Proceeds from sales and redemption of investment securities for banking business		267,557	316,698
Purchase of investment securities for insurance business		(111,154)	(150,338)
Proceeds from sales and redemption of investment securities for insurance business		121,901	161,501
Purchase of investment securities		(30,432)	(26,057)
Proceeds from sales and redemption of investment securities		18,547	53,740

(Millions of Yen)

	Note	Year ended December 31, 2018	Year ended December 31, 2019
Other payments		(9,222)	(42,077)
Other proceeds		10,038	11,750
Net cash flows used in investing activities		(67,569)	(286,290)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	21	(51,297)	107,701
Net increase in commercial papers	21	80,000	18,500
Proceeds from long-term debt	21	290,976	490,805
Repayment of long-term debt	21	(271,356)	(324,166)
Proceeds from issuance of bonds	21	169,394	215,516
Redemption of bonds	21	(150)	(20,000)
Repayment of lease liabilities	42	(852)	(17,577)
Cash dividends paid		(6,056)	(6,113)
Others		(2,241)	(6,326)
Net cash flows from financing activities		208,418	458,340
Effect of change in exchange rates on cash and cash equivalents		2,897	(2,055)
Net increase in cash and cash equivalents		289,361	488,315
Cash and cash equivalents at the beginning of the year	5	700,881	990,242
Cash and cash equivalents at the end of the year	5	990,242	1,478,557

[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 two main activities of Internet Services and FinTech, the Company and its subsidiaries (hereinafter referred to as the “Group Companies”) had been organized into two reportable segments: “Internet Services” and “FinTech.”

In the Meeting of the Board of Directors held on March 28, 2019, the Company decided to change its reportable segments in conjunction with the reorganization of group companies through company splits on April 1, 2019. The “Mobile” segment was added to the current reporting segments of “Internet Services” and “FinTech” to form three reporting segments starting from the first quarter ended March 31, 2019.

Segment information for the previous fiscal year and the current fiscal year was prepared based on the classification after the aforementioned change.

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 adequate allocation of management resources and evaluation of business results.

The “Internet Services” segment comprises businesses running various E-commerce (electronic commerce) sites including an Internet shopping mall Rakuten Ichiba, online cashback sites, travel booking sites, portal sites and digital contents sites, 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.

(2) Basis of Presentation

The Group Companies’ Consolidated Financial Statements are prepared with the International Financial Reporting Standards (hereinafter referred to as “IFRS”) set out 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 Group is qualified 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 27, 2020.

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

Rakuten Group’s investment in Lyft, Inc. (hereafter “Lyft”) stock, which was originally accounted for as a financial instrument measured at fair value through profit or loss, is accounted for using the equity method from the second quarter ended June 30, 2019. Although Rakuten Group’s stockholding and voting rights in Lyft’s share is below 20%, due to the facts that the Company holds shares in Lyft as well as active involvement in the Board of Directors through its appointed director (also a director of Rakuten Group) etc., Rakuten Group is capable of exerting significant influence on Lyft. Further, due to the 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. Moreover, necessary adjustments are made where Lyft has material transactions or any occurrence of major events that fall within the stated reporting period difference.

Furthermore, the equity method is applied to the investment in AltioStar Networks, Inc. (hereafter “AltioStar”) which was acquired in the second quarter ended June 30, 2019. AltioStar is not treated as a subsidiary because the composition of the board members is agreed between stockholders of AltioStar, and the Group companies do not have control on the key decision-making body despite the Group company’s stockholding and voting rights exceeding 50%. The Group determined that it exerts significant impact on AltioStar by holding shares, actively involving in the Board of Directors through appointed its directors, and through material transactions with the company.

In addition, the Group company’s investment in Rakuten Medical, Inc. is accounted for using the equity method because of an additional acquisition of its shares during the third quarter ended September 30, 2019.

(4) Functional Currency and Presentation Currency

Items included in the financial statements of each consolidated subsidiary and associate are measured using the currency of the primary jurisdiction in which they conduct their business operations (“functional currencies”). The Consolidated Financial Statements are presented in Japanese yen, the functional currency of the Company and the presentation currency of the Group. 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, 2019, 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

With the exception of the items described in [Changes in 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 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 equity method of accounting, the investment of the Group Companies in associates and joint ventures are initially recorded at cost, and subsequently increased (or decreased) to reflect both the Group Companies’ share of the post-acquisition net income and other movements included directly in equity of the associates and joint ventures.

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

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

Investments in some affiliate companies have been based on fair value through net income 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 the 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 consideration transferred, fair value of non-controlling interest, and fair value of any pre-existing interest in the acquiree at the acquisition date over the net identifiable assets acquired and liabilities assumed. 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 fair value of the net assets of the subsidiary acquired, the difference is recognized in the Consolidated Statements of Income as a bargain purchase transaction.

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

Goodwill relating to acquisitions prior to the date of transition to IFRSs is reported in accordance with the previous generally accepted accounting principles (“GAAP”).

(3) Foreign Currencies

1) Foreign Currency Transactions

Foreign currency transactions are translated into the functional currencies of individual foreign subsidiaries using the spot exchange rate at the date of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currencies using the spot exchange rate at the end of each reporting period. Non-monetary assets and liabilities 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 based on 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 based on 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 based on fair value, and gains and losses arising from changes in fair value are recognized in other comprehensive income and presented as “Gains (losses) on equity instruments based on 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

As for 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 the possible defaults during the 12 months after the end of the fiscal year (estimated credit loss for the 12 months), 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 the historical loan losses, future collectible amount and published default rate.

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 of 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 is expired, 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 is expired, 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

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 with useful lives that 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 approximate pattern in which the future economic benefits of intangible assets are expected to be consumed by the Group Companies.

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

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

The amortization methods, useful lives and residual values are reviewed at the end of each reporting period, and revised if necessary.

(8) Lease Transactions (as Lessee)

The Group Companies adopted IFRS 16 from the current fiscal year. However, based on the transitional rules, the Group Companies elected not to restate the comparative information. Accordingly, comparative information is stated in accordance with IAS 17. The accounting policies for the year ended December 31, 2019 are as follows.

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 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 for 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", and the accounting policies are based on Japanese accounting standards for insurance companies applied since before.

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 other discount rate are recognized in Other comprehensive income.

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

(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 for the terms of the options granted. The Group Companies regularly review the assumptions and revise estimates of the number of options that are expected to vest, as necessary.

(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 grants 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 that is periodically amortized over the useful life of the related assets. Government grants recognized in net income are deducted from 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

Net defined benefit liability (asset) is 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.

(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 accounting policies]

The Group Companies adopted the following standard from the beginning of current fiscal year.

IFRS		Description of the revision
IFRS 16	Leases	Revisions related to lease accounting

Lease transactions (lessee)

The Group Companies adopted IFRS 16 on a retrospective approach, and the cumulative effect of adoption is recognized as an adjustment to the opening balance of retained earnings for the fiscal year in accordance with the transitional rules.

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized in the Consolidated Statements of Financial Position at the date of initial application is 0.6%.

The difference between the total amount of minimum lease payments based on the non-cancellable operating lease agreements, as disclosed on December 31, 2018 calculated in accordance with IAS 17, and the lease liabilities recognized at the time of the adoption of IFRS 16 amounted to ¥51,542 million, which largely reflects the impact of the revision of lease terms assessed at the time of adopting IFRS 16.

Accordingly, compared with the application of the previously adopted accounting standards, right-of-use assets included mainly in property, plant and equipment increased by ¥86,833 million as at the beginning of the year, and lease liabilities included in other financial liabilities increased by ¥91,420 million, while retained earnings decreased by ¥2,087 million.

[Changes in Presentation]

(Consolidated Statements of Changes in Equity)

Issuance of share acquisition rights and forfeiture of share acquisition rights, which were included in Others of contributions by and distributions to owners in the previous fiscal year, have been disclosed separately from the current fiscal year to enhance the transparency of disclosures. In order to reflect these changes in presentation methods, the Consolidated Financial Statements for the previous fiscal year have been reclassified.

As a result, in the Consolidated Statements of Changes in Equity for the previous fiscal year, capital surplus of ¥7,704 million, which had been presented in Others of contributions by and distributions to owners, has been reclassified as issuance of share acquisition rights of ¥7,776 million and forfeiture of share acquisition rights of ¥(72) million.

(Consolidated Statements of Cash Flows)

Increase in restricted deposits and decrease in restricted deposits, which had been presented separately in cash flows from investing activities in the previous fiscal year, have been included in Others starting from the current fiscal year due to its decreased materiality.

Repayment of lease liabilities, which was included in Others of cash flows from financing activities in the previous fiscal year, has been presented separately from the current fiscal year due to its increased materiality.

In order to reflect these changes in presentation methods, 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, increase in restricted deposits, decrease in restricted deposits, other payments and other proceeds of ¥(7) million, ¥8 million, ¥(9,215) million and ¥10,030 million, which had previously been presented respectively under cash flows from investing activities, have been reclassified as other payments and other proceeds of ¥(9,222) million and ¥10,038 million, respectively. In addition, ¥(3,093) million of Others within cash flows from financing activities has been reclassified as repayment of lease liabilities of ¥(852) million and Others of ¥(2,241) 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 experience assumptions, suppositions, 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) 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 preconditions involved therein vary, make a significant difference to the amount of impairment loss of the debt instruments based on fair value through amortized cost and 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.

(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.

4. Segment Information

(1) General Information

As a global innovation company engaged in the two main activities of Internet Services and FinTech, the Group Companies had been organized into two reportable segments: "Internet Services" and "FinTech."

In the Meeting of the Board of Directors held on March 28, 2019, the Company decided to change its reportable segments in conjunction with the reorganization of group companies through company splits on April 1, 2019. The "Mobile" segment was added to the current reportable segments of "Internet Services" and "FinTech" to form three reportable segments starting from the first quarter ended March 31, 2019.

Segment information for the previous fiscal year and the current fiscal year was prepared based on the classification after the aforementioned change.

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

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

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

The "Mobile" segment comprises businesses engaged in communication and messaging services.

(2) Measurement of Segment Profit and Loss

The operating segment information is prepared in accordance with IFRS, and operating segment revenue and net income are those before intercompany eliminations without consideration of consolidation adjustments, except for certain consolidated subsidiaries. The internal measures management uses in making decisions are Non-GAAP operating income. Non-GAAP operating income is operating income determined in accordance with IFRS after adjustment for nonrecurring items and other adjustment items as prescribed by the Group Companies.

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 or similar applied; 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.

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

From the second quarter ended June 30, 2019, the segment structure of functional subsidiaries etc. engaged in research and development has been changed, and the method of allocating shared costs incurred by the headquarters administration departments has been changed and applied retrospectively. With this change, Internet Services segment revenue decreased by ¥7,045 million compared to the revenue before retrospective application of new methodology, segment profit decreased by ¥2,121 million, and depreciation and amortization decreased by ¥17,907 million, FinTech segment revenue decreased by ¥1,114 million, segment profit decreased by ¥10,515 million, and depreciation and amortization increased by ¥3 million, and Mobile segment profit decreased by ¥1,004 million. There is no impact on consolidated revenue, Non-GAAP operating income, and operating income.

For the year ended December 31, 2018 (January 1 to December 31, 2018)

	(Millions of Yen)			
	Internet Services	FinTech	Mobile	Total
Segment Revenue	¥676,677	¥424,488	¥89,863	¥1,191,028
Segment Profit	107,707	67,903	(13,672)	161,938
Other items				
Depreciation and amortization	18,181	30,752	6,047	54,980

For the year ended December 31, 2019 (January 1 to December 31, 2019)

	(Millions of Yen)			
	Internet Services	FinTech	Mobile	Total
Segment Revenue	¥792,512	¥486,372	¥119,808	¥1,398,692
Segment Profit	90,738	69,306	(60,051)	99,993
Other items				
Depreciation and amortization	27,139	38,018	13,216	78,373

The reconciliation of segment revenue to consolidated revenue is as follows:

	(Millions of Yen)	
	Year ended December 31, 2018	Year ended December 31, 2019
Segment Revenue	¥1,191,028	¥1,398,692
Intercompany transactions, etc.	(89,548)	(134,760)
Consolidated revenue	1,101,480	1,263,932

The reconciliation of segment profit or loss to income (loss) before income tax is as follows:

	(Millions of Yen)	
	Year ended December 31, 2018	Year ended December 31, 2019
Segment Profit	¥161,938	¥99,993
Intercompany transactions, etc.	(808)	(4,864)
Non-GAAP operating income	161,130	95,129
Amortization of intangible assets	(10,982)	(8,764)
Stock-based compensation expense	(7,833)	(10,137)
One-off items (losses)	28,110	(3,483)
Operating income	170,425	72,745
Financial income and expenses	(3,178)	(5,385)
Share of loss of associates and joint ventures	(1,824)	(111,918)
Income (Loss) before income tax	165,423	(44,558)

(4) 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, 2018	¥233,012	¥146,219	¥69,444	¥51,174	¥601,631	¥1,101,480
Year ended December 31, 2019	270,674	168,085	72,045	80,462	672,666	1,263,932

(5) Geographic Information
For the year ended December 31, 2018

	(Millions of Yen)					
	Japan	Americas	Europe	Asia	Others	Total
Revenue from external customers	¥877,578	167,810	28,812	26,496	784	1,101,480
Property, plant and equipment and intangible assets	299,731	232,484	103,112	9,622	201	645,150

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

(6) Major Customers

For the year ended December 31, 2018

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, 2019

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, 2018	December 31, 2019
Cash and deposits	¥990,242	¥1,478,557
Cash and cash equivalents	990,242	1,478,557

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, 2018	December 31, 2019
Accounts receivable — trade measured at amortized cost		
Notes and accounts receivable — trade	¥188,102	¥230,388
Gross amount of accounts receivable — trade measured at amortized cost	188,102	230,388
Allowance for doubtful accounts	(7,462)	(8,024)
Net amount of accounts receivable — trade measured at amortized cost	180,640	222,364
Accounts receivable — trade measured at FVTPL	386	121
Total accounts receivable — trade	181,026	222,485

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, 2018	December 31, 2019
Financial assets measured at amortized cost		
Cash segregated as deposits	¥994,878	¥1,241,980
Accounts receivable relating to investment securities transactions	362,755	236,130
Margin transactions assets	344,016	406,325
Short-term guarantee deposits	70,688	76,092
Others	18,242	16,636
Gross amount of financial assets measured at amortized cost	1,790,579	1,977,163
Allowance for doubtful accounts	(1,604)	(2,102)
Net amount of financial assets measured at amortized cost	1,788,975	1,975,061
Financial assets measured at FVTPL	857	948
Total financial assets for securities business	1,789,832	1,976,009

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, 2018	December 31, 2019
Gross amount of loans for credit card business	¥1,540,176	¥1,910,840
Allowance for doubtful accounts	(76,146)	(82,624)
Net amount of loans for credit card business	1,464,030	1,828,216

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, 2018	December 31, 2019
Financial assets measured at amortized cost		
Foreign bonds	¥12,848	¥13,304
Others	1,032	673
Gross amount of financial assets measured at amortized cost	13,880	13,977
Allowance for doubtful accounts	(173)	(99)
Net amount of financial assets measured at amortized cost	13,707	13,878
Financial assets measured at FVTPL		
Trust beneficiary rights	1,214	1,137
Foreign bonds	243	220
Total financial assets measured at FVTPL	1,457	1,357
Debt instruments measured at FVTOCI		
Trust beneficiary rights	71,380	105,649
Domestic bonds	119,097	151,827
Total debt instruments measured at FVTOCI (Note)	190,477	257,476
Equity instruments measured at FVTOCI	0	0
Total investment securities for banking business	205,641	272,711

(Note) Loss allowance on debt instruments measured at fair value through comprehensive income amounted to ¥101 million for the year ended December 31, 2018 and ¥40 million for the year ended December 31, 2019, 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, 2018	December 31, 2019
Gross amount of loans for banking business	¥906,314	¥1,062,947
Allowance for doubtful accounts	(14,389)	(12,954)
Net amount of loans for banking business	891,925	1,049,993

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, 2018	December 31, 2019
Financial assets measured at amortized cost		
Domestic bonds	¥6,978	¥—
Total financial assets measured at amortized cost	6,978	—
Financial assets measured at FVTPL		
Domestic bonds	2,582	2,699
Beneficiary investment trust securities		
Unlisted	509	513
Others	2,447	2,216
Total financial assets measured at FVTPL	5,538	5,428
Debt instruments measured at FVTOCI		
Trust beneficiary rights	5,098	4,839
Domestic bonds	59,653	44,680
Foreign bonds	105,939	25,598
Total debt instruments measured at FVTOCI (Note)	170,690	75,117
Equity instruments measured at FVTOCI		
Domestic bonds	6,506	5,803
Stock		
Listed	53,969	48,034
Unlisted	4,644	5,037
Beneficiary investment trust securities		
Listed	27,691	146,779
Others	1,041	1,002
Total equity instruments measured at FVTOCI	93,851	206,655
Total investment securities for insurance business	277,057	287,200

(Note) Loss allowance on debt instruments measured at fair value through comprehensive income amounted to ¥33 million for the year ended December 31, 2018 and ¥6 million for the year ended December 31, 2019, 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, 2018					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	¥—	¥424	Floating interest rate 0.431% Fixed interest rate 1.637%
Over-the-Counter Forward contracts	—	—	—	—	—	
Option contracts	—	—	—	—	—	
Cash flow hedges						
Exchange rate risk						
Foreign exchange forward contracts	2,711	6,911	9,622	78	149	1 U.S. dollar=¥99.51 1 U.S. dollar=1.31 Canadian dollars 1 Euro= 1.52 Canadian dollars
Currency swap contracts	—	12,480	12,480	127	—	1 U.S. dollar= ¥113.45
Interest rate risk						
Interest rate swap contracts	6,765	84,127	90,892	—	711	Floating interest rate 0.565% Fixed interest rate 1.028%
Total	9,476	116,018	125,494	205	1,284	

(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	

Derivatives Not Qualifying for Hedge Accounting

(Millions of Yen)

	December 31, 2018			December 31, 2019		
	Notional principal amount	Fair value		Notional principal amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign currency contracts						
Foreign exchange forward contracts	¥54,558	¥913	¥893	¥95,676	¥2,621	¥314
Foreign exchange margin contracts	2,945,617	24,989	5,877	2,510,664	21,504	3,830
Currency option contracts	110	0	0	139	0	0
Total of foreign currency contracts	3,000,285	25,902	6,770	2,606,479	24,125	4,144
Interest rate contracts						
Interest rate swap contracts	159,694	1,281	1,159	138,936	735	637
Others						
Foward contracts	—	—	—	761	—	0
Option contracts	—	—	—	1,403	2,085	—
Others	—	—	—	29	9	—
Total of others	—	—	—	2,193	2,094	0
Total	3,159,979	27,183	7,929	2,747,608	26,954	4,781

13. Investment Securities

The breakdown of investment securities is as follows.

	(Millions of Yen)	
	December 31, 2018	December 31, 2019
Financial assets measured at amortized cost		
Trust beneficiary rights	¥1,300	¥1,400
Domestic bonds	5,212	5,209
Others	1,305	1,804
Total financial assets measured at amortized cost	7,817	8,413
Financial assets measured at FVTPL		
Stock		
Listed	3,973	1,702
Unlisted	323,921	143,218
Security investment trust beneficiary securities		
Unlisted	3,355	4,249
Total financial assets measured at FVTPL	331,249	149,169
Equity instruments measured at FVTOCI		
Stock		
Listed	6,609	3,480
Unlisted	39,109	2,191
Others	4	6
Total equity instruments measured at FVTOCI	45,722	5,677
Total investment securities	384,788	163,259

14. Other Financial Assets

The breakdown of other financial assets is as follows.

	(Millions of Yen)	
	December 31, 2018	December 31, 2019
Financial assets measured at amortized cost		
Accounts receivable — other	¥99,619	¥113,324
Call loans for banking business	—	15,000
Security deposits	17,400	98,225
Others	96,476	101,942
Gross amount of financial assets measured at amortized cost	213,495	328,491
Allowance for doubtful accounts	(573)	(860)
Net amount of financial assets measured at amortized cost	212,922	327,631
Financial assets measured at FVTPL	5,455	7,616
Financial assets measured at FVTOCI	—	—
Insurance business policy reserves (for reinsured portion)	57,423	54,987
Total other financial assets	275,800	390,234

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, 2018

(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, 2018	¥2,841	¥1,556	¥35,017	¥48	¥2,671	—	¥117	¥42,250
Cumulative effects of change in accounting policy	9	—	39,295	43	11,414	—	—	50,761
Increase for the period (provision)	2,383	101	34,343	232	2,109	33	461	39,662
Increase for the period (others)	2,686	—	1,670	—	—	—	45	4,401
Decrease for the period (intended use)	(457)	(53)	(34,179)	—	(1,805)	—	(50)	(36,544)
Decrease for the period (reversal)	—	—	—	—	—	—	—	—
Decreases for the period (others)	—	—	—	(49)	—	—	—	(49)
December 31, 2018	7,462	1,604	76,146	274	14,389	33	573	100,481

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, 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.

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) Summarised consolidated financial information, etc. on significant associates

The Group Companies hold 10.55% of the total shares and 6.14% of the voting rights of Lyft, Inc. (hereafter "Lyft").

General information

Lyft is engaged in the development, marketing and operation of automobile transportation apps. Lyft is listed on the U.S. stock market.

Summarised financial information

Summarised 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. However, 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, 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, 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 condensed 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 an objective evidence that the investment in Lyft, accounted for using the equity method, is impaired due to a significant decline in the market price of its shares, and the recoverable amount was computed by referring 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.

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.

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, 2018	December 31, 2019
Total carrying amount	¥11,728	¥47,754

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, 2018	Year ended December 31, 2019
Net loss	¥(1,556)	¥(1,409)
Other comprehensive income (loss)	(41)	(242)
Comprehensive income (loss)	(1,597)	(1,651)

(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, 2018	December 31, 2019
Total carrying amount	¥1,060	¥1,234

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, 2018	Year ended December 31, 2019
Net loss	¥(268)	¥(113)
Comprehensive income (loss)	(268)	(113)

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	Right-of-use assets	Others	Total
January 1, 2018					
Cost	¥52,053	¥51,647	¥—	¥17,879	¥121,579
Accumulated depreciation and accumulated impairment losses	(11,547)	(28,837)	—	(8,024)	(48,408)
Carrying amount	40,506	22,810	—	9,855	73,171
Increases	3,479	14,764	—	12,764	31,007
Acquisition through business combinations	387	380	—	511	1,278
Disposals and sales	(279)	(559)	—	(154)	(992)
Depreciation	(2,955)	(7,744)	—	(569)	(11,268)
Exchange rate differences	(532)	(341)	—	(149)	(1,022)
Other changes	(83)	3	—	(759)	(839)
December 31, 2018					
Cost	54,311	60,151	—	30,573	145,035
Accumulated depreciation and accumulated impairment losses	(13,788)	(30,838)	—	(9,074)	(53,700)
Carrying amount	40,523	29,313	—	21,499	91,335
Cumulative effects of change in accounting policy	(9,753)	(7,272)	104,162	(304)	86,833
Increases	9,315	10,830	106,994	120,120	247,259
Acquisition through business combinations	33	21	63	13	130
Disposals and sales	(411)	(121)	(234)	(27)	(793)
Impairment losses	(33)	(797)	(101)	(29)	(960)
Depreciation	(2,975)	(7,312)	(20,494)	(2,500)	(33,281)
Exchange rate differences	(291)	(74)	(183)	(74)	(622)
Other changes	61	(855)	(8,212)	(4,471)	(13,477)
December 31, 2019					
Cost	48,197	56,859	210,507	145,129	460,692
Accumulated depreciation and accumulated impairment losses	(11,728)	(33,126)	(28,512)	(10,902)	(84,268)
Carrying amount	36,469	23,733	181,995	134,227	376,424

Others mainly include telecommunications facilities and construction in progress.

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, 2018

Not applicable.

For the year ended December 31, 2019

In the Internet Services segment and the Mobile segment, impairment losses have been reported on property, plant and equipment of ¥930 million and ¥30 million, respectively.

(3) Property, Plant and Equipment Pledged as Collateral

As of December 31, 2018

Not applicable.

As of December 31, 2019

Tools, furniture and fixtures of ¥260 million and other property, plant and equipment of ¥11,750 million have been pledged as collateral for borrowings.

(4) Finance Leases (as Lessee)

Carrying amounts of leased assets under finance lease arrangements are as follows.

	(Millions of Yen)
	December 31, 2018
Buildings	¥10,152
Machinery and equipment	6,442
Tools, furniture and fixtures	677
Others	58
Total	17,329

Included in the above is a baseball stadium facility, which was donated to Miyagi Prefecture based on a franchise contract, and which is recognized as a finance lease as the Group Companies have the right of use in relation to the stadium facility. The related carrying amount as of December 31, 2018 was ¥10,130 million. There are no lease obligations associated with this lease arrangement.

The carrying amount of lease obligations based on finance lease contracts as of December 31, 2018 was ¥6,456 million.

(5) Operating Leases (as Lessee)

The Group Companies hold certain land and buildings under cancellable or non-cancellable operating leases. While certain lease contracts include the option to extend the lease, there are no contractual restrictions such as restrictions on sub-lease contracts, escalation clauses or other restrictions on the lease.

Future minimum lease payments based on non-cancellable operating lease contracts are as follows.

	December 31, 2018
One year or less	¥9,747
Over one year to five years	18,719
Over five years	11,412
Total	39,878

Details of right-of-use assets are stated in Note 42. Lease Accounting.

18. Intangible Assets

(1) Schedule of Changes in Intangible Assets

	(Millions of Yen)			
	Goodwill	Software	Others	Total
January 1, 2018				
Cost	¥437,582	¥234,357	¥126,498	¥798,437
Accumulated amortization and accumulated impairment losses	(80,714)	(140,205)	(50,656)	(271,575)
Carrying amount	356,868	94,152	75,842	526,862
Increases	—	49,816	19,693	69,509
Acquisition through business combinations	8,194	4,123	15,256	27,573
Disposals and sales	(4,210)	(1,299)	(56)	(5,565)
Impairment losses	—	(1,059)	(3,090)	(4,149)
Amortization	—	(29,639)	(19,994)	(49,633)
Exchange rate differences	(8,474)	(460)	(1,937)	(10,871)
Other changes	1,277	(94)	(1,094)	89
December 31, 2018				
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

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, 2018 and 2019 were ¥9,466 million and ¥9,094 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, 2018		December 31, 2019	
		Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives
Internet Services	Internet Services segment	¥299,513	¥26	¥278,082	¥118
	Rakuten Bank, Ltd.	32,886	—	32,886	—
FinTech	Others	21,256	—	21,475	—
	Total	54,142	—	54,361	—
Mobile	Mobile segment	—	—	22,958	491
	Total	353,655	26	355,401	609

For the year ended December 31, 2018

In the Internet Services segment, an impairment loss of ¥3,090 million relating to intangible assets with indefinite useful lives was recorded.

For the year ended December 31, 2019

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, 2019, 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 CGU. Also the pre-tax discount rate used in the assessment of value in use is calculated for each CGU or group of CGU.

The growth rates used in predicting cash flows for periods beyond those covered by the business plans of each CGU reflect the status of the country and the industry to which the CGU belongs and do not exceed the average long-term growth rate of the industry in which the CGU is active. Pre-tax discount rates used in calculating terminal value reflect the inherent risks of the relevant businesses of each CGU or group of CGU. Discount rates are determined based on comparable companies of each CGU or group of CGU, incorporating market interest rates, the size of the subsidiary comprising the CGU, and other factors.

Additionally, the business plan, which forms the basis for the measurement of the recoverable amount in the impairment tests of goodwill and intangible assets with indefinite useful lives, is compared with past performance and consideration is made as to whether the business plan is a reasonable basis for predicting future cash flows.

Significant assumptions used in the calculation of the recoverable amount as of December 31, 2018 and 2019 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, 2018		December 31, 2019	
		Growth rate	Discount rate	Growth rate	Discount rate
Internet Services	Internet Services segment	1.3%	7.9%	1.3%	6.5%
FinTech	Rakuten Bank, Ltd.	1.3%	10.4%	1.4%	7.8%
	Others	1.3%	9.9%-14.9%	1.4%	5.4%-16.3%
Mobile	Mobile segment	—	—	1.3%	14.4%

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, 2018

In the Internet Services segment, an impairment loss of ¥1,059 million relating to intangible assets (except for goodwill and intangible assets with indefinite useful lives) was recorded.

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.

(4) Intangible Assets Pledged as Collateral

For the year ended December 31, 2018

Not applicable.

For the year ended December 31, 2019

Software of ¥6,931 million has been pledged as collateral for borrowings.

19. Deposits for Banking Business

The breakdown of deposits for banking business is as follows.

	(Millions of Yen)	
	December 31, 2018	December 31, 2019
Financial liabilities measured at amortized cost		
Demand deposits	¥1,619,989	¥2,565,702
Time deposits	734,641	595,046
Total financial liabilities measured at amortized cost	2,354,630	3,160,748
Financial liabilities measured at FVTPL		
Time deposits	484	—
Total Financial liabilities measured at FVTPL	484	—
Total deposits for banking business	2,355,114	3,160,748

20. Financial Liabilities for Securities Business

The breakdown of Financial Liabilities for Securities Business

(Millions of Yen)

	December 31, 2018	December 31, 2019
Accounts payable relating to securities transactions	¥360,865	¥235,638
Margin transactions liabilities	67,424	149,300
Deposits received	765,010	953,951
Borrowings secured by securities	246,463	179,008
Guarantee deposits received	313,268	342,621
Others	186	127
Total financial liabilities for securities business	1,753,216	1,860,645

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, 2018	December 31, 2019
Rakuten, Inc.	Rakuten, Inc. The 3rd unsecured bond Currency: JPY Maturity: three years	0.07%	19,985	—
Rakuten, Inc.	Rakuten, Inc. The 4th unsecured bond Currency: JPY Maturity: five years	0.13%	9,972	9,983
Rakuten, Inc.	Rakuten, Inc. The 5th unsecured bond Currency: JPY Maturity: seven years	0.25%	9,962	9,971
Rakuten, Inc.	Rakuten, Inc. The 6th unsecured bond Currency: JPY Maturity: three years	0.09%	39,919	39,973
Rakuten, Inc.	Rakuten, Inc. The 7th unsecured bond Currency: JPY Maturity: five years	0.22%	29,902	29,930
Rakuten, Inc.	Rakuten, Inc. The 8th unsecured bond Currency: JPY Maturity: seven years	0.32%	19,924	19,938
Rakuten, Inc.	Rakuten, Inc. The 9th unsecured bond Currency: JPY Maturity: ten years	0.42%	9,950	9,956
Rakuten, Inc.	Rakuten, Inc. The 10th unsecured bond Currency: JPY Maturity: three years	0.08%	—	9,963
Rakuten, Inc.	Rakuten, Inc. The 11th unsecured bond Currency: JPY Maturity: five years	0.25%	—	9,855
Rakuten, Inc.	Rakuten, Inc. The 12th unsecured bond Currency: JPY Maturity: seven years	0.35%	—	19,912
Rakuten, Inc.	Rakuten, Inc. The 13th unsecured bond Currency: JPY Maturity: ten years	0.45%	—	19,899
Rakuten, Inc.	Rakuten, Inc. The 14th unsecured bond Currency: JPY Maturity: fifteen years	0.90%	—	19,885

Name	Type	Interest rate	December 31, 2018	December 31, 2019
Rakuten, Inc.	Rakuten, Inc. The 1st subordinated bond Currency: JPY Maturity: 35 years	2.35%	138,816	139,057
Rakuten, Inc.	Rakuten, Inc. The 2nd subordinated bond Currency: JPY Maturity: 37 years	2.61%	17,734	22,771
Rakuten, Inc.	Rakuten, Inc. The 3rd subordinated bond Currency: JPY Maturity: 40 years	3.00%	12,869	12,882
Rakuten, Inc.	Rakuten, Inc. The November 2024 maturity USD-denominated unsecured bond Currency: USD Maturity: five years	3.546%	—	85,784
Rakuten Card Co., Ltd.	The 1st unsecured bond Currency: JPY Maturity: three years	0.14%	—	19,918
Rakuten Card Co., Ltd.	The 2nd unsecured bond Currency: JPY Maturity: five years	0.30%	—	19,808
Rakuten Card Co., Ltd.	The 3rd unsecured bond Currency: JPY Maturity: seven years	0.42%	—	9,952
	Total bonds	—	309,033	509,437

All bonds are measured at amortized cost.

The nominal interest rates applied for each bond in the year ended December 31, 2018 or 2019 are stated in the "Interest rate" column, and they differ from the effective interest rates.

During the year ended December 31, 2019, the Company issued the 10th unsecured bond of ¥10,000 million (interest rate: 0.08%, redemption: June 24, 2022), the 11th unsecured bond of ¥10,000 million (interest rate: 0.25%, redemption: June 25, 2024), the 12th unsecured bond of ¥20,000 million (interest rate: 0.35%, redemption: June 25, 2026), the 13th unsecured bond of ¥20,000 million (interest rate: 0.45%, redemption: June 25, 2029), the 14th unsecured bond of ¥20,000 million (interest rate: 0.90%, redemption: June 23, 2034) and a USD-denominated unsecured bond of USD 800 million (interest rate: 3.546%, redemption: November 27, 2024). Rakuten Card Co., Ltd. issued the 1st unsecured bond of ¥20,000 million (interest rate: 0.14%, redemption: December 12, 2022), the 2nd unsecured bond of ¥20,000 million (interest rate: 0.30%, redemption: December 12, 2024) and the 3rd unsecured bond of ¥10,000 million (interest rate: 0.42%, redemption: December 11, 2026).

During the year ended December 31, 2019, the Company's 3rd unsecured bond of ¥20,000 million (interest rate: 0.07%, redemption: June 25, 2019) was redeemed.

The schedule of borrowings is as follows.

(Millions of Yen)		
	December 31, 2018	December 31, 2019
Short-term debt	¥109,417	¥218,755
Long-term debt		
Floating-rate debt	429,336	522,068
Fixed-rate debt	220,357	292,336
Commercial paper	166,000	184,500
Total borrowings	925,110	1,217,659

All borrowings are measured at amortized cost.

The schedule of the maturity and interest rate of borrowings is as follows.

	December 31, 2018		December 31, 2019	
	Maturity	Interest rate	Maturity	Interest rate
Short-term debt	—	0.004%- 1.2%	—	0.002%- 1.18%
Long-term debt				
Floating-rate debt	1 year to 10 years	0.39409%- 4.885%	3 years to 10 years	0.39227%- 4.88554%
Fixed-rate debt	3 years to 25 years	0%- 4%	3 years to 25 years	0%- 4%
Commercial paper	—	0.003%- 0.15%	—	0.007%- 0.125%

Maturities of short-term debt and commercial paper are less than one year, and thus the description is omitted.

The nominal interest rates applied for each borrowing are stated in the “Interest rate” column, and they differ from the effective interest rates. In addition, floating-rate debt includes the underlying hedged items of cash flow hedges where floating rate debt is swapped for fixed rate debt, and the interest rates stated in the “Interest rate” column incorporate the effect of the cash flow hedges.

Reconciliation of changes in liabilities relating to cash flows arising from financing activities
For the year ended December 31, 2018

(Millions of Yen)

	Liabilities		
	Borrowings	Bonds	Lease liabilities
January 1, 2018	¥876,168	¥139,613	¥1,775
Changes in cash flows from financing and repayments			
Net increase (decrease) in short-term borrowings	(51,297)	—	—
Increase (decrease) in commercial papers	80,000	—	—
Proceeds from long-term debt	292,000	—	—
Repayment of long-term debt	(271,356)	—	—
Proceeds from issuance of bonds	—	171,000	—
Redemption of bonds	—	(150)	—
Repayment of lease liabilities	—	—	(852)
Payment of transaction costs relating to borrowings, etc.	(1,024)	(1,606)	—
Total changes from financing cash flows	48,323	169,244	(852)
Non-fund transactions			
Changes as a result of gaining or losing control of a subsidiary or another business	(1,293)	—	16
Impact of changes in foreign currency exchange rates	(548)	—	(7)
Changes due to increases in leased assets	—	—	5,558
Interest expenses	1,782	176	—
Other changes	678	—	(34)
December 31, 2018	925,110	309,033	6,456

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 debt	494,121	—	—
Repayment of long-term debt	(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 effects of change in accounting policy	—	—	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

22. Other Financial Liabilities

The breakdown of other financial liabilities is as follows.

(Millions of Yen)

	December 31, 2018	December 31, 2019
Financial liabilities measured at amortized cost		
Other payables	¥231,477	¥350,782
Accrued expenses	38,300	35,239
Deposits received	123,738	112,016
Margin deposits received	9,059	10,221
Guarantee deposits received	1,044	115,965
Lease liabilities	6,456	180,512
Others	19,887	12,853
Total financial liabilities measured at amortized cost	429,961	817,588
Financial liabilities measured at fair value through net income		
Securities borrowed	12,613	789
Other	1,957	2,063
Total financial liabilities measured at fair value through net income	14,570	2,852
Total other financial liabilities	444,531	820,440

23. Provisions

(1) Schedule of Changes in Provisions

(Millions of Yen)

	Provision for customer points	Others	Total
January 1, 2018	¥70,399	¥5,705	¥76,104
Increases during the period (provisions made)	85,324	1,527	86,851
Increases during the period (others)	97	60	157
Decreases during the period (provisions used)	(70,974)	(701)	(71,675)
Decreases during the period (others)	(604)	(317)	(921)
December 31, 2018	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

(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, 2018	December 31, 2019
Reserve for outstanding claims	¥27,799	¥26,897
Liability reserves	306,737	291,193
Total policy reserves for insurance business	334,536	318,090

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, 2018	Year ended December 31, 2019
Balance at the beginning of the year	¥22,050	¥334,536
Life insurance business		
Insurance premium (net) (Note 1)	17,474	18,361
Insurance claims and other payments	(9,400)	(9,474)
Market interest rate changes	847	3,920
Other changes (Note 2)	(8,372)	(8,193)
General insurance business, etc.		
Newly consolidated subsidiaries during the current fiscal year	325,361	—
Insurance revenue, etc.	53,830	58,416
Elapsed policy period of insurance	(37,211)	(50,326)
Insured events	37,080	39,834
Insurance claims and other payments	(67,582)	(70,442)
Market interest rate changes	319	1,203
Other changes (Note 2)	140	255
Balance at the end of the year	334,536	318,090

(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	¥27,214	¥2,715	¥419	¥1,116	¥22,964
General insurance business					
Before risk mitigation through reinsurance	290,876	63,359	89,979	54,788	82,750
After risk mitigation through reinsurance	235,906	50,117	85,419	47,742	52,628

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, 2018	December 31, 2019
Reserve for outstanding claims	¥11,005	¥9,429
Liability reserves	46,418	45,558
Total policy reserves for insurance business	57,423	54,987

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, 2018	Year ended December 31, 2019
Balance at the beginning of the year	¥—	¥57,423
General insurance business, etc.		
Newly consolidated subsidiaries during the current fiscal year	49,542	—
Insurance revenue, etc.	11,540	15,315
Elapsed policy period of insurance	(7,444)	(16,751)
Insured events	12,495	17,480
Insurance claims and other payments	(8,816)	(19,070)
Market interest rate changes	106	590
Other changes	—	—
Balance at the end of the year	57,423	54,987

(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, 2018	December 31, 2019
Reinsurance commission	¥907	¥815
Net reinsurance premium	(11,537)	(15,302)
Deferred reinsurance commission	412	470

(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, 2018	Year ended December 31, 2019
Balance at the beginning of the year	¥—	¥412
General insurance business		
Recognized during the current fiscal year	1,532	1,744
Amortized	(1,120)	(1,686)
Balance at the end of the year	412	470

(4) Changes in deferred acquisition cost for insurance business

(Millions of Yen)

	Year ended December 31, 2018	Year ended December 31, 2019
Balance at the beginning of the year	¥2,717	¥8,035
Life insurance business		
Recognized during the current fiscal year	1,600	846
Amortized	(191)	(251)
General insurance business, etc.		
Recognized during the current fiscal year	7,883	7,519
Amortized	(3,974)	(6,485)
Balance at the end of the year	8,035	9,664

(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, 2018	December 31, 2019
Insurance risk impact amount	¥8,190	¥5,823
Third-sector insurance risk impact amount	979	975
Product crediting rate risk impact amount	732	675
Minimum guarantee risk impact amount	—	—
Investment risk impact amount	14,644	13,725
Business risk impact amount	522	429

(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				
	2015	2016	2017	2018	2019
Cumulative paid insurance and reserve for outstanding claims					
At the end of the year of contract	¥1,431	¥1,293	¥1,091	¥905	¥794
After one year	5,193	4,850	4,304	3,516	—
After two years	6,793	6,317	5,549	—	—
After three years	6,835	6,334	—	—	—
After four years	6,795	—	—	—	—
Final loss estimation	6,795	6,334	5,549	3,516	794
Cumulative paid insurance	5,959	5,175	3,388	1,264	112
Reserve for outstanding claims	836	1,159	2,161	2,252	682

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 ¥15,234 million as of December 31, 2018. Similarly, the total market risk is measured at ¥15,106 million as of December 31, 2019. 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 were as follows.

	(Millions of Yen)	
	December 31, 2018	December 31, 2019
Present value of defined benefit obligations	¥5,453	¥11,643
Fair value of plan assets	289	269
Net amount of employee retirement benefit liabilities recognized in Consolidated Statements of Financial Position	5,164	11,374

(2) Changes in present value of defined benefit obligations

Details of the changes in present value of defined benefit obligations were as follows.

	(Millions of Yen)	
	December 31, 2018	December 31, 2019
Present value of defined benefit obligations (at beginning of period)	¥389	¥5,453
Service cost	1,332	5,303
Interest cost	14	28
Remeasurement of defined benefit obligations		
Actuarial gains and losses arising from changes in demographic assumptions	(19)	5
Actuarial gains and losses arising from changes in financial assumptions	21	246
Other revisions	63	1,006
Benefit paid	(199)	(337)
Effect of business combination and disposal	3,852	(58)
Others	0	(3)
Present value of defined benefit obligations (at end of period) (Note)	5,453	11,643

(Note) The weighted average duration of the defined benefit obligation for the fiscal years ended December 31, 2018 and 2019 was 10.7 years and 11.3 years, respectively.

(3) Actuarial assumptions

Significant actuarial assumptions (weighted averages) are as follows.

	December 31, 2018	December 31, 2019
Discount rate	0.57%	0.38%

(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, 2018	December 31, 2019
Discount rate	In the case of 0.5% increase	¥(220)	¥(580)
	In the case of 0.5% decrease	238	631

26. Income Tax Expense

The deferred tax assets and liabilities include the following:

	(Millions of Yen)	
	December 31, 2018	December 31, 2019
Deferred tax assets		
Tax losses carried forward	¥38,168	¥44,895
Allowance for doubtful accounts	22,731	22,406
Provision for customer points	25,649	31,152
Others	29,495	44,966
Total	116,043	143,419
Deferred tax liabilities		
Intangible assets	(28,105)	(16,738)
Assets arising from contract costs	(19,823)	(21,739)
Gains and losses of financial assets measured at FVTPL	(12,222)	(4,207)
Others	(18,903)	(22,631)
Total	(79,053)	(65,315)
Net amount of deferred tax assets		
Deferred tax assets	50,049	80,153
Deferred tax liabilities	(13,059)	(2,049)
Net	36,990	78,104

In the year ended December 31, 2019, the deferred tax assets recognized for tax losses carried forward were primarily those recognized by the consolidated subsidiaries of the Group. With regard to such tax losses carried forward, deferred tax assets were 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, 2018

(Millions of Yen)

	January 1, 2018	Cumulative effects of change in accounting policy	Recognized in net income	Recognized in other comprehensive income	Changes in scope of consolidation	Others	December 31, 2018
Tax losses carried forward	¥25,065	¥—	¥13,995	¥(892)	¥—	¥—	¥38,168
Allowance for doubtful accounts	6,610	15,556	565	—	—	—	22,731
Provision for customer points	21,719	—	3,930	—	—	—	25,649
Intangible assets	(24,163)	—	(534)	475	(3,883)	—	(28,105)
Assets arising from contract costs	(15,914)	—	(3,909)	—	—	—	(19,823)
Gains and losses of financial assets measured at FVTPL	(11,001)	—	(1,602)	381	—	—	(12,222)
Others	3,615	(105)	6,441	1,675	(1,297)	263	10,592
Total	5,931	15,451	18,886	1,639	(5,180)	263	36,990

For the year ended December 31, 2019

(Millions of Yen)

	January 1, 2019	Cumulative effects of change in accounting policy	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)
Gains and losses of financial assets measured at FVTPL	(12,222)	—	7,675	340	—	—	(4,207)
Others	10,592	686	8,850	1,472	(162)	897	22,335
Total	36,990	686	38,252	1,441	(162)	897	78,104

The breakdown (tax basis) of deductible temporary differences, tax losses carried forward and tax credits carried forward for which no deferred tax asset is recognized in the Consolidated Statements of Financial Position is as follows:

	(Millions of Yen)	
	December 31, 2018	December 31, 2019
Deductible temporary differences	¥2,252	¥3,020
Unused tax losses carried forward	55,577	44,343
Tax credits carried forward	5	—
Total	57,834	47,363

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, 2018	December 31, 2019
One year or less	¥3	¥213
Over one year to five years	2,744	1,426
Over five years	52,830	42,704
Total	55,577	44,343

In addition to the above the total amount of deductible temporary differences relating to investments in subsidiaries, associates and joint arrangements that do not recognize deferred tax assets (income basis) was ¥291,882 million, as of December 31, 2019 (¥174,083 million as of December 31, 2018).

Additionally, the total amount of taxable temporary differences relating to investments in subsidiaries that do not recognize deferred tax liabilities (income basis) was ¥378,586 million, as of December 31, 2019 (¥272,777 million as of December 31, 2018). 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, 2018	Year ended December 31, 2019
Current tax expense		
Income tax expense for net income	¥42,420	¥26,762
Subtotal	42,420	26,762
Deferred tax expense (Note 2)		
Generation and reversal of temporary difference	(5,520)	(28,438)
Changes in unused tax losses carried forward	(13,995)	(7,368)
Impact of changes in tax rates, etc. due to tax reform	629	(2,446)
Subtotal	(18,886)	(38,252)
Total income tax expense	23,534	(11,490)

(Notes) 1 The Company is mainly subject to income taxes, inhabitant tax and business tax treated as deductible expenses, and the statutory tax rates calculated based on these taxes were 30.9% and 30.6% for the previous fiscal year and the current fiscal year, respectively.

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 ¥(16,202) million and ¥(17,079) 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, 2018	Year ended December 31, 2019
Statutory tax rate in Japan	30.9	30.6
(Reconciliations)		
Permanent non-deductible items	1.2	(4.2)
Permanent non-taxable items	(3.6)	6.7
Impact of changes in tax rates, etc. due to tax reform	0.4	5.5
Effect due to recoverability of deferred tax assets	(0.5)	39.8
Differences due to statutory tax rate of subsidiaries (Note)	(2.2)	17.1
Gain on bargain purchase	(1.7)	—
Effect of temporary differences associated with investments in subsidiaries	(10.6)	7.1
Share of income (loss) of associates and joint ventures	0.3	(76.9)
Others	0.0	0.1
Effective tax rate on income tax expense	14.2	25.8

(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, 2018	3,941,800	1,434,574
Changes during the period: Increase due to issuance of common stock	—	—
December 31, 2018	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

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, 2018	Year ended December 31, 2019
January 1	87,913	82,556
Acquisition	—	—
Disposal	5,357	4,237
December 31	82,556	78,319

28. Revenue

(1) The breakdown of Revenue

1) Revenue Arising from Contracts with Customers and Other Sources

	(Millions of Yen)	
	Year ended December 31, 2018	Year ended December 31, 2019
Revenue arising from contracts with customers	¥856,668	¥991,815
Revenue arising from other sources	244,812	272,117
Total	1,101,480	1,263,932

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, 2018

		(Millions of Yen)			
		Segment			
		Internet Services	FinTech	Mobile	Total
Main service lines	Rakuten Ichiba and Rakuten Travel	¥233,012	¥—	¥—	¥233,012
	Rakuten Rewards (former Ebates)	84,455	—	—	84,455
	Soukai Drug and Kenko.com	66,192	—	—	66,192
	Rakuten Books	40,046	—	—	40,046
	OverDrive	27,083	—	—	27,083
	Rakuten Card	—	146,219	—	146,219
	Rakuten Bank	—	69,444	—	69,444
	Rakuten Securities	—	53,328	—	53,328
	Rakuten General Insurance	—	35,397	—	35,397
	Rakuten Life Insurance	—	30,200	—	30,200
	Rakuten Mobile	—	—	51,174	51,174
	Others	194,678	32,810	37,442	264,930
	Total	645,466	367,398	88,616	1,101,480
Revenue arising from contracts with customers		645,400	122,655	88,613	856,668
Revenue arising from other sources		66	244,743	3	244,812

(Note) Amounts are after eliminations of intercompany transactions.

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 Rewards (former Ebates)	96,499	—	—	96,499
	Soukai Drug and Kenko.com	73,976	—	—	73,976
	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	238,313	38,017	31,159	307,489
	Total	753,877	398,434	111,621	1,263,932
	Revenue arising from contracts with customers	753,732	126,462	111,621	991,815
	Revenue arising from other sources	145	271,972	—	272,117

(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, 2018, Rakuten Card, Rakuten Bank and Rakuten Securities recorded revenue of ¥101,059 million, ¥52,020 million and ¥22,521 million, respectively, in accordance with IFRS 9. Rakuten General Insurance and Rakuten Life Insurance recorded revenue of ¥28,560 million and ¥29,881 million, respectively, 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.

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 Mobile, Rakuten Rewards (former Ebates), Rakuten Books, Soukai Drug, 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 (former Ebates) 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, 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, 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.

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 three business days in principle after the satisfaction of the performance obligations, while commissions from margin transactions and future transactions are received approximately within the period from six months to one year during which open contracts are settled. The Group Companies record 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 Co., Ltd. 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 mobile telecommunications carriers. 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, 2018

	(Millions of Yen)	
	January 1, 2018	December 31, 2018
Receivables arising from contracts with customers (Note 1)		
Notes and accounts receivable — trade	¥128,057	¥181,026
Accounts receivable based on installment contracts, etc. (Note 2)	1,055,340	1,327,181
Other financial assets	55,409	122,271
Total	1,238,806	1,630,478
Contract liabilities	19,066	19,193

(Notes) 1. The amount of Impairment loss recognized from “Receivables arising from contracts with customers” are Accounts receivable ¥ 2,449 million and “Loans for credit card business” ¥ 2,694 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 current fiscal year, ¥18,179 million was included in the balance of contract liabilities as of January 1, 2018. 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.

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 of ¥2,870 million and “Loans for credit card business” of ¥11,677 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, ¥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 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, 2018	December 31, 2019
Assets recognized from costs to obtain a contract	¥51,287	¥60,219
Assets recognized from costs to fulfill a contract	8,224	10,624
Total	59,511	70,843

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, 2018 and 2019, amortization associated with the assets arising from contract costs of the Group Companies was ¥11,910 million and ¥14,251 million, respectively.

29. Operating Expenses

The breakdown of operating expenses is as follows:

	(Millions of Yen)	
	Year ended December 31, 2018	Year ended December 31, 2019
Advertising and promotion expenditures	¥193,279	¥230,842
Employee benefits expenses	176,373	206,144
Depreciation and amortization	72,429	106,370
Communication and maintenance expenses	27,361	30,667
Consignment and subcontract expenses	58,377	76,367
Allowance for doubtful accounts charged to expenses	40,048	44,555
Cost of sales of merchandise and services rendered	270,004	383,892
Interest expense for finance business	6,701	7,831
Commission fee expense for finance business	10,897	12,564
Insurance claims and other payments, and provision of insurance business policy reserves	35,261	30,431
Others	137,023	137,239
Total	1,027,753	1,266,902

Employee expenses (employee benefits expenses) are as follows:

1) Schedule of Employee Expenses

	(Millions of Yen)	
	Year ended December 31, 2018	Year ended December 31, 2019
Wages and salaries	¥145,790	¥165,696
Retirement benefits	7,801	12,119
Legal welfare expenses	10,463	11,875
Share option expenses relating to directors and employees (Note)	7,363	9,943
Other salaries	4,956	6,511
Total	176,373	206,144

(Note) Please refer to Note 36 Share-based Payments.

2) Number of Employees

	December 31, 2018	December 31, 2019
Number of employees	17,214	20,053

(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, 2018	Year ended December 31, 2019
Foreign exchange gain	¥—	¥7,277
Gains on sales of subsidiaries (Note 1)	23,574	—
Valuation gains on securities (Note 2)	79,220	75,120
Others	17,840	4,504
Total	120,634	86,901

(Notes) 1 A gain on the sale of O-net, Inc. of ¥23,574 million was recorded for the fiscal year ended December 31, 2018.

2 During the fiscal year ended December 31, 2018, Rakuten Group recorded ¥40,443 million in valuation gains on securities related to investments in the ride-sharing business. In addition, 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, 2018	Year ended December 31, 2019
Foreign exchange loss	¥4,801	¥—
Disposal of property, plant and equipment, and intangible assets	810	2,504
Impairment loss	4,168	4,641
Others	14,157	4,041
Total	23,936	11,186

31. Financial Income and Financial Expenses

(1) The breakdown of Financial Income

	(Millions of Yen)	
	Year ended December 31, 2018	Year ended December 31, 2019
Interest income	¥608	¥717
Dividend income	149	202
Gain (loss) on derivatives	—	1,675
Others	197	1,048
Total	954	3,642

(2) The breakdown of Financial Expenses

(Millions of Yen)

	Year ended December 31, 2018	Year ended December 31, 2019
Interest expense	¥3,870	¥8,745
Commission fee	262	282
Total	4,132	9,027

(Note) For the year ended December 31, 2019, interest expense includes interest expenses associated with lease liabilities of ¥611 million. Other information on leases is disclosed in Note 42. Lease Accounting.

32. Earnings per Share

Basic earnings (losses) per share are calculated by dividing the net income (loss) 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 (losses) 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.

The net income (loss) attributable and the weighted average number of shares used in the calculation of earnings (losses) per share are as follows:

	Year ended December 31, 2018			Year ended December 31, 2019		
	Basic	Adjustments	Diluted	Basic	Adjustments	Diluted
Net income (loss) attributable to owners of the Company (Millions of Yen)	¥142,282	¥—	¥142,282	¥(31,888)	¥(0)	¥(31,888)
Weighted average number of shares (Thousands of shares)	1,349,560	13,535	1,363,095	1,354,167	—	1,354,167
Earnings (losses) per share (Yen)	¥105.43	¥(1.05)	¥104.38	¥(23.55)	¥(0)	¥(23.55)

(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.

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, 2018	December 31, 2019
Cash and cash equivalents	¥168,855	¥168,882
Loans for credit card business (Note)	108,989	122,695
Loans for banking business	89,992	116,683
Investment securities for banking business	18,273	—
Investment securities	5,212	5,209
Total	391,321	413,469

(Note) Loans for credit card business include securitized receivables.

In addition to the above, investment securities for banking business of ¥82,816 million, investment securities for insurance business of ¥14,855 million and other financial assets of ¥8,125 million were pledged as collateral for exchange settlements, derivative trading and other transactions, and for commitment lines as of December 31, 2018. 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.

Furthermore, guarantee deposits for margin transactions and future transactions in the securities business in the amount of ¥70,688 million, guarantee deposits for borrowing of share certificates in margin transactions in the securities business in the amount of ¥25,000 million and guarantee deposits for issuing electronic money in the amount of ¥2,831 million were pledged as of December 31, 2018. 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 collateral as of December 31, 2019.

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, 2018 and 2019 were ¥625,049 million and ¥778,415 million, respectively. Within such collateral, fair values of the collateral actually sold or pledged as of December 31, 2018 and 2019 were ¥323,311 million and ¥348,603 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, 2018

				(Millions of Yen)
Hedged item	Presentation on the Consolidated Statements of Financial Position	Carrying amount	Change in fair value of the hedged item during the year	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	¥12,971	¥(123)	¥348

As of December 31, 2019

				(Millions of Yen)
Hedged item	Presentation on the Consolidated Statements of Financial Position	Carrying amount	Change in fair value of the hedged item during the year	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

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 are expected to continue to the year ending December 31, 2020. 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, 2018

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	¥12,613	¥(453)	¥(453)

In the year ended December 31, 2018, there were no cumulative adjustments of fair value hedge remaining in the Statements of Financial Position related to hedging relationships, for which hedge accounting was terminated.

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.

The fair values of the shares sold short were as follows. The fair values of shares of the options and forwards as hedging instruments are stated in Note 12. Derivative Assets and Derivative Liabilities.

Hedging instrument	Presentation on the Consolidated Statements of Financial Position	(Millions of Yen)	
		As of December 31, 2018	As of December 31, 2019
Short-selling	Other financial liabilities	¥12,613	¥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, 2024.

Schedule of changes in the amounts recognized in other comprehensive income

	(Millions of Yen)	
	Year ended December 31, 2018	Year ended December 31, 2019
January 1	¥(485)	¥(490)
Changes for the period	(880)	(434)
Reclassification to net income (Note)	875	304
Reclassification to initial carrying amount of non-financial assets or non-financial liabilities	—	—
December 31	(490)	(620)

(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, 2018	Year ended December 31, 2019
January 1	¥(179)	¥(21)
Changes for the period	464	(787)
Reclassification to net income	(306)	209
Reclassification to initial carrying amount of non-financial assets or non-financial liabilities	—	—
December 31	(21)	(599)

(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, 2018	December 31, 2019
Unused balance of lending commitment lines	¥3,408,758	¥3,882,138
Financial guarantee contracts	7,248	6,180
Total	3,416,006	3,888,318

(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, 2018	December 31, 2019
Total commitment line borrowings	¥179,823	¥181,705
Amounts borrowed	9,826	10,223
Unused commitment lines	169,997	171,482

(3) Commitments (Contracts)

As of December 31, 2019, commitments related to acquisition of property, plant and equipment and intangible assets were ¥88,734 million.

As of December 31, 2018, commitments related to acquisition of property, plant and equipment and intangible assets were ¥24,532 million.

36. Share-based Payments

Employee expenses relating to share options recognized by the Group Companies during the years ended December 31, 2018 and 2019 were ¥7,363 million and ¥9,943 million, respectively.

The Group Companies have granted equity-settled share options to its executives and employees, its subsidiaries, and associates. Rakuten Kobo Inc. has granted share options with a cash alternative option to executives and employees of Rakuten Kobo Inc. and its subsidiaries. Conditions for vesting of the share options require that those who received share options continue to be employed by the Company, its subsidiaries or associates from the grant date to the vesting date.

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 8th Share Options_01	January 19, 2009	March 27, 2012	559.00	—	From March 28, 2012 to March 26, 2018
The 9th Share Options_01	February 12, 2010	March 27, 2013	701.00	—	From March 28, 2013 to March 26, 2019
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	47,300	From March 30, 2016 to March 28, 2022
The 12th Share Options_01	August 1, 2012	March 29, 2016	0.01	21,900	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	249,600	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

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 17th Share Options_01	March 1, 2013	March 29, 2016	0.01	40,800	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	216,400	From March 29, 2017 to March 27, 2023
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	179,200	From March 29, 2017 to March 27, 2023
The 22nd Share Options_01	March 1, 2014	March 28, 2017	0.01	46,300	From March 29, 2017 to March 27, 2023
The 23rd Share Options_01	March 19, 2014	March 28, 2017	0.01	16,900	From March 29, 2017 to March 27, 2023
The 24th Share Options_01	May 1, 2014	March 28, 2018	0.01	19,000	From March 29, 2018 to March 27, 2024
The 25th Share Options_01	July 1, 2014	March 28, 2018	0.01	265,500	From March 29, 2018 to March 27, 2024
The 26th Share Options_01	September 1, 2014	March 28, 2018	0.01	1,700	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	101,900	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	248,800	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

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
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	89,600	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
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	4,600	From July 1, 2016 to July 1, 2025
The 38th Share Options_02	July 1, 2015	June 30, 2017	0.01	7,100	From July 1, 2017 to July 1, 2025
The 38th Share Options_03	July 1, 2015	June 30, 2018	0.01	9,700	From July 1, 2018 to July 1, 2025
The 38th Share Options_04	July 1, 2015	June 30, 2019	0.01	13,500	From July 1, 2019 to July 1, 2025
The 39th Share Options_01	August 1, 2015	July 31, 2016	0.01	2,100	From August 1, 2016 to August 1, 2025
The 39th Share Options_02	August 1, 2015	July 31, 2017	0.01	19,600	From August 1, 2017 to August 1, 2025
The 39th Share Options_03	August 1, 2015	July 31, 2018	0.01	73,800	From August 1, 2018 to August 1, 2025
The 39th Share Options_04	August 1, 2015	July 31, 2019	0.01	236,000	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

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
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	1,900	From November 1, 2016 to October 31, 2025
The 42nd Share Options_02	November 1, 2015	October 31, 2017	0.01	5,100	From November 1, 2017 to October 31, 2025
The 42nd Share Options_03	November 1, 2015	October 31, 2018	0.01	7,500	From November 1, 2018 to October 31, 2025
The 42nd Share Options_04	November 1, 2015	October 31, 2019	0.01	21,300	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	18,000	From November 1, 2019 to October 31, 2025
The 44th Share Options_01	February 1, 2016	January 31, 2017	0.01	14,800	From February 1, 2017 to January 30, 2026
The 44th Share Options_02	February 1, 2016	January 31, 2018	0.01	79,900	From February 1, 2018 to January 30, 2026
The 44th Share Options_03	February 1, 2016	January 31, 2019	0.01	170,300	From February 1, 2019 to January 30, 2026
The 44th Share Options_04	February 1, 2016	January 31, 2020	0.01	633,100	From February 1, 2020 to January 30, 2026
The 45th Share Options_01	February 1, 2016	March 27, 2019	0.01	600	From March 28, 2019 to March 26, 2025
The 46th Share Options_01	March 1, 2016	February 28, 2017	0.01	23,600	From March 1, 2017 to February 27, 2026
The 46th Share Options_02	March 1, 2016	February 28, 2018	0.01	53,000	From March 1, 2018 to February 27, 2026
The 46th Share Options_03	March 1, 2016	February 28, 2019	0.01	118,100	From March 1, 2019 to February 27, 2026
The 46th Share Options_04	March 1, 2016	February 29, 2020	0.01	216,900	From March 1, 2020 to February 27, 2026

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 47th Share Options_01	March 1, 2016	March 27, 2019	0.01	3,000	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	1,300	From May 1, 2017 to May 1, 2026
The 49th Share Options_02	May 1, 2016	April 30, 2018	0.01	3,400	From May 1, 2018 to May 1, 2026
The 49th Share Options_03	May 1, 2016	April 30, 2019	0.01	3,800	From May 1, 2019 to May 1, 2026
The 49th Share Options_04	May 1, 2016	April 30, 2020	0.01	193,500	From May 1, 2020 to May 1, 2026
The 50th Share Options_01	August 1, 2016	July 31, 2017	0.01	12,600	From August 1, 2017 to July 31, 2026
The 50th Share Options_02	August 1, 2016	July 31, 2018	0.01	105,800	From August 1, 2018 to July 31, 2026
The 50th Share Options_03	August 1, 2016	July 31, 2019	0.01	228,300	From August 1, 2019 to July 31, 2026
The 50th Share Options_04	August 1, 2016	July 31, 2020	0.01	844,100	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	2,900	From November 1, 2017 to October 30, 2026
The 52nd Share Options_02	November 1, 2016	October 31, 2018	0.01	6,400	From November 1, 2018 to October 30, 2026
The 52nd Share Options_03	November 1, 2016	October 31, 2019	0.01	14,400	From November 1, 2019 to October 30, 2026
The 52nd Share Options_04	November 1, 2016	October 31, 2020	0.01	172,700	From November 1, 2020 to October 30, 2026
The 53rd Share Options_01	November 1, 2016	October 31, 2017	0.01	7,000	From November 1, 2017 to October 30, 2026
The 53rd Share Options_02	November 1, 2016	October 31, 2018	0.01	9,800	From November 1, 2018 to October 30, 2026
The 53rd Share Options_03	November 1, 2016	October 31, 2019	0.01	19,900	From November 1, 2019 to October 30, 2026

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 53rd Share Options_04	November 1, 2016	October 31, 2020	0.01	26,000	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	12,400	From February 1, 2018 to February 1, 2027
The 55th Share Options_02	February 1, 2017	January 31, 2019	0.01	106,500	From February 1, 2019 to February 1, 2027
The 55th Share Options_03	February 1, 2017	January 31, 2020	0.01	482,500	From February 1, 2020 to February 1, 2027
The 55th Share Options_04	February 1, 2017	January 31, 2021	0.01	840,300	From February 1, 2021 to February 1, 2027
The 56th Share Options_01	March 1, 2017	February 28, 2018	0.01	4,300	From March 1, 2018 to March 1, 2027
The 56th Share Options_02	March 1, 2017	February 28, 2019	0.01	12,500	From March 1, 2019 to March 1, 2027
The 56th Share Options_03	March 1, 2017	February 29, 2020	0.01	40,500	From March 1, 2020 to March 1, 2027
The 56th Share Options_04	March 1, 2017	February 28, 2021	0.01	53,300	From March 1, 2021 to March 1, 2027
The 57th Share Options_01	March 1, 2017	March 30, 2020	0.01	7,200	From March 31, 2020 to March 29, 2026
The 58th Share Options_01	March 1, 2017	March 30, 2020	0.01	7,200	From March 31, 2020 to March 29, 2026
The 59th Share Options_01	March 1, 2017	February 28, 2018	0.01	68,700	From March 1, 2018 to March 1, 2027
The 59th Share Options_02	March 1, 2017	February 28, 2019	0.01	132,400	From March 1, 2019 to March 1, 2027
The 59th Share Options_03	March 1, 2017	February 29, 2020	0.01	420,400	From March 1, 2020 to March 1, 2027
The 59th Share Options_04	March 1, 2017	February 28, 2021	0.01	500,200	From March 1, 2021 to March 1, 2027
The 60th Share Options_01	May 1, 2017	April 30, 2018	0.01	3,500	From May 1, 2018 to April 30, 2027
The 60th Share Options_02	May 1, 2017	April 30, 2019	0.01	8,100	From May 1, 2019 to April 30, 2027

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 60th Share Options_03	May 1, 2017	April 30, 2020	0.01	226,400	From May 1, 2020 to April 30, 2027
The 60th Share Options_04	May 1, 2017	April 30, 2021	0.01	270,700	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
The 62nd Share Options_01	August 1, 2017	July 31, 2018	0.01	12,600	From August 1, 2018 to July 30, 2027
The 62nd Share Options_02	August 1, 2017	July 31, 2019	0.01	95,600	From August 1, 2019 to July 30, 2027
The 62nd Share Options_03	August 1, 2017	July 31, 2020	0.01	621,700	From August 1, 2020 to July 30, 2027
The 62nd Share Options_04	August 1, 2017	July 31, 2021	0.01	1,004,500	From August 1, 2021 to July 30, 2027
The 63rd Share Options_01	November 1, 2017	October 31, 2018	0.01	12,600	From November 1, 2018 to November 1, 2027
The 63rd Share Options_02	November 1, 2017	October 31, 2019	0.01	31,400	From November 1, 2019 to November 1, 2027
The 63rd Share Options_03	November 1, 2017	October 31, 2020	0.01	223,800	From November 1, 2020 to November 1, 2027
The 63rd Share Options_04	November 1, 2017	October 31, 2021	0.01	280,800	From November 1, 2021 to November 1, 2027
The 64th Share Options_01	November 1, 2017	October 31, 2018	0.01	4,700	From November 1, 2018 to November 1, 2027
The 64th Share Options_02	November 1, 2017	October 31, 2019	0.01	7,700	From November 1, 2019 to November 1, 2027
The 64th Share Options_03	November 1, 2017	October 31, 2020	0.01	16,500	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	1,000	From January 1, 2019 to December 29, 2027
The 65th Share Options_02	January 1, 2018	December 31, 2019	0.01	3,100	From January 1, 2020 to December 29, 2027
The 65th Share Options_03	January 1, 2018	December 31, 2020	0.01	7,300	From January 1, 2021 to December 29, 2027

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 65th Share Options_04	January 1, 2018	December 31, 2021	0.01	22,900	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	26,600	From February 1, 2019 to February 1, 2028
The 67th Share Options_02	February 1, 2018	January 31, 2020	0.01	416,700	From February 1, 2020 to February 1, 2028
The 67th Share Options_03	February 1, 2018	January 31, 2021	0.01	601,800	From February 1, 2021 to February 1, 2028
The 67th Share Options_04	February 1, 2018	January 31, 2022	0.01	1,106,900	From February 1, 2022 to February 1, 2028
The 68th Share Options_01	March 1, 2018	February 28, 2019	0.01	12,500	From March 1, 2019 to March 1, 2028
The 68th Share Options_02	March 1, 2018	February 29, 2020	0.01	48,100	From March 1, 2020 to March 1, 2028
The 68th Share Options_03	March 1, 2018	February 28, 2021	0.01	70,100	From March 1, 2021 to March 1, 2028
The 68th Share Options_04	March 1, 2018	February 28, 2022	0.01	92,200	From March 1, 2022 to March 1, 2028
The 69th Share Options_01	March 1, 2018	March 30, 2021	0.01	8,400	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	149,800	From March 1, 2019 to March 1, 2028
The 71st Share Options_02	March 1, 2018	February 29, 2020	0.01	274,900	From March 1, 2020 to March 1, 2028
The 71st Share Options_03	March 1, 2018	February 28, 2021	0.01	411,400	From March 1, 2021 to March 1, 2028
The 71st Share Options_04	March 1, 2018	February 28, 2022	0.01	484,900	From March 1, 2022 to March 1, 2028
The 72nd Share Options_01	May 1, 2018	April 30, 2019	0.01	82,700	From May 1, 2019 to May 1, 2028
The 72nd	May 1,	April 30,	0.01	520,100	From May 1, 2020 to

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
Share Options_02	2018	2020			May 1, 2028
The 72nd Share Options_03	May 1, 2018	April 30, 2021	0.01	771,800	From May 1, 2021 to May 1, 2028
The 72nd Share Options_04	May 1, 2018	April 30, 2022	0.01	951,500	From May 1, 2022 to May 1, 2028
The 73rd Share Options_01	August 1, 2018	July 31, 2019	0.01	62,400	From August 1, 2019 to August 1, 2028
The 73rd Share Options_02	August 1, 2018	July 31, 2020	0.01	1,310,100	From August 1, 2020 to August 1, 2028
The 73rd Share Options_03	August 1, 2018	July 31, 2021	0.01	1,641,900	From August 1, 2021 to August 1, 2028
The 73rd Share Options_04	August 1, 2018	July 31, 2022	0.01	2,550,700	From August 1, 2022 to August 1, 2028
The 74th Share Options_01	November 1, 2018	October 31, 2019	0.01	21,300	From November 1, 2019 to November 1, 2028
The 74th Share Options_02	November 1, 2018	October 31, 2020	0.01	79,700	From November 1, 2020 to November 1, 2028
The 74th Share Options_03	November 1, 2018	October 31, 2021	0.01	120,700	From November 1, 2021 to November 1, 2028
The 74th Share Options_04	November 1, 2018	October 31, 2022	0.01	146,400	From November 1, 2022 to November 1, 2028
The 75th Share Options_01	November 1, 2018	October 31, 2019	0.01	33,500	From November 1, 2019 to November 1, 2028
The 75th Share Options_02	November 1, 2018	October 31, 2020	0.01	61,400	From November 1, 2020 to November 1, 2028
The 75th Share Options_03	November 1, 2018	October 31, 2021	0.01	92,100	From November 1, 2021 to November 1, 2028
The 75th Share Options_04	November 1, 2018	October 31, 2022	0.01	107,600	From November 1, 2022 to November 1, 2028
The 76th Share Options_01	February 1, 2019	January 31, 2020	0.01	293,700	From February 1, 2020 to February 1, 2029
The 76th Share Options_02	February 1, 2019	January 31, 2021	0.01	945,400	From February 1, 2021 to February 1, 2029

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 76th Share Options_03	February 1, 2019	January 31, 2022	0.01	1,109,800	From February 1, 2022 to February 1, 2029
The 76th Share Options_04	February 1, 2019	January 31, 2023	0.01	2,000,900	From February 1, 2023 to February 1, 2029
The 77th Share Options_01	March 1, 2019	February 29, 2020	0.01	41,700	From March 1, 2020 to March 1, 2029
The 77th Share Options_02	March 1, 2019	February 28, 2021	0.01	69,900	From March 1, 2021 to March 1, 2029
The 77th Share Options_03	March 1, 2019	February 28, 2022	0.01	104,500	From March 1, 2022 to March 1, 2029
The 77th Share Options_04	March 1, 2019	February 28, 2023	0.01	136,200	From March 1, 2023 to March 1, 2029
The 78th Share Options_01	March 1, 2019	February 29, 2020	0.01	22,700	From March 1, 2020 to March 1, 2029
The 78th Share Options_02	March 1, 2019	February 28, 2021	0.01	31,400	From March 1, 2021 to March 1, 2029
The 78th Share Options_03	March 1, 2019	February 28, 2022	0.01	46,800	From March 1, 2022 to March 1, 2029
The 78th Share Options_04	March 1, 2019	February 28, 2023	0.01	56,100	From March 1, 2023 to March 1, 2029
The 79th Share Options_01	May 1, 2019	April 30, 2020	0.01	563,500	From May 1, 2020 to May 1, 2029
The 79th Share Options_02	May 1, 2019	April 30, 2021	0.01	817,300	From May 1, 2021 to May 1, 2029
The 79th Share Options_03	May 1, 2019	April 30, 2022	0.01	1,239,800	From May 1, 2022 to May 1, 2029
The 79th Share Options_04	May 1, 2019	April 30, 2023	0.01	1,499,400	From May 1, 2023 to May 1, 2029
The 80th Share Options_01	May 1, 2019	April 30, 2020	0.01	19,800	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

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
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	1,217,900	From November 1, 2019 to May 1, 2059
The 82nd Share Options_01	August 1, 2019	July 31, 2020	0.01	52,400	From August 1, 2020 to August 1, 2029
The 82nd Share Options_02	August 1, 2019	July 31, 2021	0.01	275,900	From August 1, 2021 to August 1, 2029
The 82nd Share Options_03	August 1, 2019	July 31, 2022	0.01	605,700	From August 1, 2022 to August 1, 2029
The 82nd Share Options_04	August 1, 2019	July 31, 2023	0.01	1,126,400	From August 1, 2023 to August 1, 2029
The 83rd Share Options_01	November 1, 2019	October 31, 2020	0.01	513,600	From November 1, 2020 to November 1, 2029
The 83rd Share Options_02	November 1, 2019	October 31, 2021	0.01	744,900	From November 1, 2021 to November 1, 2029
The 83rd Share Options_03	November 1, 2019	October 31, 2022	0.01	1,119,600	From November 1, 2022 to November 1, 2029
The 83rd Share Options_04	November 1, 2019	October 31, 2023	0.01	1,349,700	From November 1, 2023 to November 1, 2029
The 84th Share Options_01	November 1, 2019	October 31, 2020	0.01	26,400	From November 1, 2020 to November 1, 2029
The 84th Share Options_02	November 1, 2019	October 31, 2021	0.01	35,400	From November 1, 2021 to November 1, 2029
The 84th Share Options_03	November 1, 2019	October 31, 2022	0.01	53,100	From November 1, 2022 to November 1, 2029
The 84th Share Options_04	November 1, 2019	October 31, 2023	0.01	62,100	From November 1, 2023 to November 1, 2029

(Note) The balance of outstanding options has been converted into the number of shares.

The following is a summary of Rakuten Kobo Inc.'s share options.

Name	Grant date	Vesting date	Exercise price (Canadian dollars)	Balance of outstanding options (Note)	Exercise period
Rakuten Kobo Inc. 2012 Share Options 1) A	January 11, 2012	January 10, 2014	\$1.00	—	From January 11, 2014 to January 11, 2018
Rakuten Kobo Inc. 2012 Share Options 1) B	January 11, 2012	January 10, 2015	1.00	—	From January 11, 2015 to January 11, 2018
Rakuten Kobo Inc. 2012 Share Options 1) C	January 11, 2012	January 10, 2016	1.00	—	From January 11, 2016 to January 11, 2018
Rakuten Kobo Inc. 2012 Share Options 2) A	February 27, 2012	February 26, 2014	1.00	—	From February 27, 2014 to February 27, 2018
Rakuten Kobo Inc. 2012 Share Options 2) B	February 27, 2012	February 26, 2015	1.00	—	From February 27, 2015 to February 27, 2018
Rakuten Kobo Inc. 2012 Share Options 2) C	February 27, 2012	February 26, 2016	1.00	—	From February 27, 2016 to February 27, 2018
Rakuten Kobo Inc. 2012 Share Options 3) A	April 9, 2012	April 8, 2014	1.00	—	From April 9, 2014 to April 9, 2018
Rakuten Kobo Inc. 2012 Share Options 3) B	April 9, 2012	April 8, 2015	1.00	—	From April 9, 2015 to April 9, 2018
Rakuten Kobo Inc. 2012 Share Options 3) C	April 9, 2012	April 8, 2016	1.00	—	From April 9, 2016 to April 9, 2018
Rakuten Kobo Inc. 2012 Share Options 4) A	April 23, 2012	April 22, 2014	1.00	—	From April 23, 2014 to April 23, 2018
Rakuten Kobo Inc. 2012 Share Options 4) B	April 23, 2012	April 22, 2015	1.00	—	From April 23, 2015 to April 23, 2018
Rakuten Kobo Inc. 2012 Share Options 4) C	April 23, 2012	April 22, 2016	1.00	—	From April 23, 2016 to April 23, 2018
Rakuten Kobo Inc. 2012 Share Options 5) A	July 9, 2012	July 8, 2014	1.00	—	From July 9, 2014 to July 9, 2018

Name	Grant date	Vesting date	Exercise price (Canadian dollars)	Balance of outstanding options (Note)	Exercise period
Rakuten Kobo Inc. 2012 Share Options 5) B	July 9, 2012	July 8, 2015	1.00	—	From July 9, 2015 to July 9, 2018
Rakuten Kobo Inc. 2012 Share Options 5) C	July 9, 2012	July 8, 2016	1.00	—	From July 9, 2016 to July 9, 2018
Rakuten Kobo Inc. 2012 Share Options 6) A	October 5, 2012	December 30, 2013	1.00	—	From December 31, 2013 to October 5, 2018
Rakuten Kobo Inc. 2012 Share Options 6) B	October 5, 2012	December 30, 2014	1.00	—	From December 31, 2014 to October 5, 2018
Rakuten Kobo Inc. 2013 Share Options	January 11, 2013	January 11, 2013	0.01	—	From January 11, 2013 to January 11, 2018

(Note) The balance of outstanding options has been converted into the number of shares.

The number of options and the weighted average exercise price related to share options granted by the Company are as follows:

	Year ended December 31, 2018		Year ended December 31, 2019	
	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	22,718,100	¥16.34	29,870,900	¥4.09
Granted	16,020,400	0.01	17,698,100	0.01
Forfeited	3,448,400	0.40	4,168,700	0.01
Exercised	5,357,600	39.82	4,236,600	16.18
Expired	61,600	559.00	76,200	701.00
Outstanding balance at the end of the year	29,870,900	4.09	39,087,500	0.01
Exercisable amount at the end of the year	3,141,100	38.82	4,993,900	0.01
Weighted average remaining contract years		8.30 years		8.37 years

(Note) The number of options has been converted into the number of shares.

The number of options and the weighted average exercise price related to share options granted by Rakuten Kobo Inc. are as follows:

	Year ended December 31, 2018		Year ended December 31, 2019	
	Number of options (Note)	Weighted average exercise price (Canadian dollars)	Number of options (Note)	Weighted average exercise price (Canadian dollars)
Balance at the beginning of the year	2,188,916	\$1.00	—	\$—
Granted	—	—	—	—
Forfeited	—	—	—	—
Exercised	2,188,916	\$1.00	—	—
Expired	—	—	—	—
Outstanding balance at the end of the year	—	—	—	—
Exercisable amount at end of the year	—	—	—	—
Weighted average remaining contract 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 ¥828 and ¥1,033 for the years ended December 31, 2018 and 2019, 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, 2018		December 31, 2019	
	Exercise price (Yen)	Number of options (Note)	Exercise price (Yen)	Number of options (Note)
2019	701	173,900	701	—
2022	0.01	449,300	0.01	359,600
2023	0.01	588,900	0.01	458,800
2024	0.01	1,033,400	0.01	729,100
2025	0.01	1,081,200	0.01	450,400
2026	0.01	4,380,300	0.01	2,978,000
2027	0.01	7,349,400	0.01	5,567,600
2028	0.01	14,814,500	0.01	12,249,800
2029	—	—	0.01	15,076,300
2059	—	—	0.01	1,217,900
Balance at end of the period	—	29,870,900	—	39,087,500

(Note) The number of options has been converted into the number of shares.

There are no applicable items to state regarding the expiration dates and the exercise prices of the outstanding options related to share options granted by Rakuten Kobo Inc.

The Company granted equity-settled share options to executives and employees of the company, its subsidiaries, and associates during the year ended December 31, 2019. 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, 2019		
	The Company 2019 76th Share Options_01	The Company 2019 76th Share Options_02	The Company 2019 76th Share Options_03
Weighted average share prices (Yen)	¥802	¥802	¥802
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	35.87	30.45	33.31
Remaining term (Years)	1.00	2.00	3.01
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.19)	(0.18)	(0.17)
Fair value per share (Yen)	¥798	¥793	¥789

	December 31, 2019		
	The Company 2019 76th Share Options_04	The Company 2019 77th Share Options_01	The Company 2019 77th Share Options_02
Weighted average share prices (Yen)	¥802	¥884	¥884
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	33.36	35.89	30.05
Remaining term (Years)	4.01	1.00	2.01
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.17)	(0.17)	(0.15)
Fair value per share (Yen)	¥784	¥880	¥875

	December 31, 2019		
	The Company 2019 77th Share Options_03	The Company 2019 77th Share Options_04	The Company 2019 78th Share Options_01
Weighted average share prices (Yen)	¥884	¥884	¥884
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	31.81	33.04	35.89
Remaining term (Years)	3.01	4.01	1.00
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.16)	(0.16)	(0.17)
Fair value per share (Yen)	¥871	¥866	¥880

	December 31, 2019		
	The Company 2019 78th Share Options_02	The Company 2019 78th Share Options_03	The Company 2019 78th Share Options_04
Weighted average share prices (Yen)	¥884	¥884	¥884
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	30.05	31.81	33.04
Remaining term (Years)	2.01	3.01	4.01
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.15)	(0.16)	(0.16)
Fair value per share (Yen)	¥875	¥871	¥866

	December 31, 2019		
	The Company 2019 79th Share Options_01	The Company 2019 79th Share Options_02	The Company 2019 79th Share Options_03
Weighted average share prices (Yen)	¥1,200	¥1,200	¥1,200
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	37.68	31.72	31.17
Remaining term (Years)	1.00	2.01	3.01
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.17)	(0.15)	(0.16)
Fair value per share (Yen)	¥1,195	¥1,191	¥1,187

	December 31, 2019		
	The Company 2019 79th Share Options_04	The Company 2019 80th Share Options_01	The Company 2019 80th Share Options_02
Weighted average share prices (Yen)	¥1,200	¥1,200	¥1,200
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	33.26	37.68	31.72
Remaining term (Years)	4.01	1.00	2.01
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.17)	(0.17)	(0.15)
Fair value per share (Yen)	¥1,182	¥1,195	¥1,191

	December 31, 2019		
	The Company 2019 80th Share Options_03	The Company 2019 80th Share Options_04	The Company 2019 81st Share Options_01
Weighted average share prices (Yen)	¥1,200	¥1,200	¥1,200
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	31.17	33.26	34.31
Remaining term (Years)	3.01	4.01	5.50
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.16)	(0.17)	(0.17)
Fair value per share (Yen)	¥1,187	¥1,182	¥1,175

	December 31, 2019		
	The Company 2019 82nd Share Options_01	The Company 2019 82nd Share Options_02	The Company 2019 82nd Share Options_03
Weighted average share prices (Yen)	¥1,123	¥1,123	¥1,123
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	37.75	31.83	30.12
Remaining term (Years)	1.01	2.01	3.01
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.18)	(0.19)	(0.20)
Fair value per share (Yen)	¥1,118	¥1,114	¥1,110

	December 31, 2019		
	The Company 2019 82nd Share Options_04	The Company 2019 83rd Share Options_01	The Company 2019 83rd Share Options_02
Weighted average share prices (Yen)	¥1,123	¥1,024	¥1,024
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	33.30	35.52	32.27
Remaining term (Years)	4.01	1.01	2.01
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.22)	(0.24)	(0.27)
Fair value per share (Yen)	¥1,105	¥1,019	¥1,015

	December 31, 2019		
	The Company 2019 83rd Share Options_03	The Company 2019 83rd Share Options_04	The Company 2019 84th Share Options_01
Weighted average share prices (Yen)	¥1,024	¥1,024	¥1,024
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	29.71	32.72	35.52
Remaining term (Years)	3.01	4.01	1.01
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.28)	(0.29)	(0.24)
Fair value per share (Yen)	¥1,011	¥1,006	¥1,019

	December 31, 2019		
	The Company 2019 84th Share Options_02	The Company 2019 84th Share Options_03	The Company 2019 84th Share Options_04
Weighted average share prices (Yen)	¥1,024	¥1,024	¥1,024
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	32.27	29.71	32.72
Remaining term (Years)	2.01	3.01	4.01
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.27)	(0.28)	(0.29)
Fair value per share (Yen)	¥1,015	¥1,011	¥1,006

37.Dividends

	Year ended December 31, 2018		Year ended December 31, 2019	
	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	¥6,060	¥4.5	¥6,084
Dividends paid during the current year	—	—	—	—
Total dividends paid applicable to the year	4.5	6,060	4.5	6,084

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, 2019 are as follows:

Date of resolution	Total dividends (Millions of Yen)	Dividends per share (Yen)
Resolution at the Board of Directors on February 13, 2020	¥6,103	¥4.5

38. Classification of Financial Instruments

The Group Companies' financial instruments are classified as follows:

As of December 31, 2018

(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	¥—	¥—	¥—	¥990,242	¥990,242
Accounts receivable — trade	386	—	—	180,640	181,026
Financial assets for securities business	857	—	—	1,788,975	1,789,832
Loans for credit card business	—	—	—	1,464,030	1,464,030
Investment securities for banking business	1,457	190,477	0	13,707	205,641
Loans for banking business	—	—	—	891,925	891,925
Investment securities for insurance business	5,538	170,690	93,851	6,978	277,057
Derivative assets	27,388	—	—	—	27,388
Investment securities	331,249	—	45,722	7,817	384,788
Other financial assets (Note)	5,455	—	—	212,922	218,377
Total	372,330	361,167	139,573	5,557,236	6,430,306

(Note) Insurance business policy reserves (reinsured portion) of ¥57,423 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	¥—	¥—	¥255,353	¥255,353
Deposits for banking business	—	484	2,354,630	2,355,114
Financial liabilities for securities business	—	—	1,753,216	1,753,216
Derivative liabilities	9,213	—	—	9,213
Bonds and borrowings	—	—	1,234,143	1,234,143
Other financial liabilities (Note)	14,570	—	429,961	444,531
Total	23,783	484	6,027,303	6,051,570

(Note) The securities borrowed balance of ¥12,613 million is included in other financial 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.”

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.”

(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, 2018 mainly comprise shares in Pinterest, Inc., with a fair value of ¥37,334 million. 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.

During the year ended December 31, 2018, shares of investments from which synergistic effects, etc. could no longer be anticipated were sold. The fair value of such investments at the time of sales was ¥15,753 million, and cumulative fair value gains within other comprehensive income at the time of sale were ¥4,274 million. During the year ended December 31, 2019, 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 ¥66,799 million, and cumulative fair value gains within other comprehensive income at the time of sale were ¥29,297 million.

Additionally, during the year ended December 31, 2018, dividend income recognized from shares designated as equity instruments measured at FVTOCI was ¥1,156 million, of which, the amount relating to shares held as of December 31, 2018 was ¥1,009 million. Furthermore, 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.

During the year ended December 31, 2018, the Group Companies reclassified ¥3,737 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, 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.

(2) Financial Liabilities Designated as Measured at FVTPL

The Group Companies classify certain time deposits with certain terms included in “Deposits for banking business” as financial liabilities measured at FVTPL.

Fair values of such deposits of the Group Companies are 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.

(Millions of Yen)						
	December 31, 2018			December 31, 2019		
	Carrying amount (Fair value)	Contractual obligations at maturity	Difference	Carrying amount (Fair value)	Contractual obligations at maturity	Difference
Deposits for banking business	¥484	¥472	¥12	¥—	¥—	¥—
Total	484	472	12	—	—	—

The amount of payment demanded at maturity has been calculated assuming that the liabilities will be repaid on the earliest maturity date on which the repayment can be demanded.

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, 2018

(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	¥12,089	¥3,190	¥1,024	¥(123)	¥16,180
Operating expenses	—	137	—	40,048	40,185
Other income	79,220	—	—	—	79,220
Financial income	215	—	132	—	347
Financial expenses	14	—	—	—	14
Amount recognized in other comprehensive income during the year	(425)	1,459	(4,347)	—	(3,313)
Amount of reclassification adjustment at the time of derecognition	550	(789)	—	—	(239)

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	¥—	¥153	¥—	¥153
Operating expenses	—	12	—	12
Other expenses	1,080	—	—	1,080

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	¥14,629	¥147,360	¥—
Operating expenses	—	—	6,502
Financial income	—	608	—
Financial expenses	—	—	3,871
Total	14,629	147,968	10,373

(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	¥—	¥—	¥—	¥—	¥212
Financial expenses	—	—	—	248	—

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
Financial expenses	—	—	—	—	—
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
Other expenses	—	—	—	—

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.

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, 2018		
	Carrying amount	Fair value	Difference
(Financial assets)			
Financial assets for securities business	¥1,789,832	¥1,789,832	¥—
Loans for credit card business	1,464,030	1,509,376	45,346
Investment securities for banking business	205,641	205,710	69
Loans for banking business	891,925	895,665	3,740
Investment securities for insurance business	277,057	277,136	79
Derivative assets	27,388	27,388	—
Investment securities	384,788	384,957	169
Other financial assets (Note)	218,377	218,377	—
Total	5,259,038	5,308,441	49,403
(Financial liabilities)			
Deposits for banking business	2,355,114	2,355,230	116
Financial liabilities for securities business	1,753,216	1,753,216	—
Derivative liabilities	9,213	9,213	—
Bonds and borrowings	1,234,143	1,255,788	21,645
Total	5,351,686	5,373,447	21,761

(Note) Insurance business policy reserves (reinsured portion) of ¥57,423 million are excluded.

(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.

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, 2018

	(Millions of Yen)			
	Level 1	Level 2	Level 3	Total
Financial assets for securities business	¥—	¥857	¥—	¥857
Investment securities for banking business	101,090	—	90,844	191,934
Investment securities for insurance business	86,189	69,554	114,336	270,079
Investment securities	13,591	—	363,380	376,971
Other financial assets	—	—	5,455	5,455
Deposits for banking business	—	484	—	484
Derivative assets/liabilities	15	18,160	—	18,175

There were no significant transfers between Level 1 and Level 2 during the year ended December 31, 2018.

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
Deposits for banking business	—	—	—	—
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.

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, 2018

	(Millions of Yen)			
	Level 1	Level 2	Level 3	Total
Financial assets for securities business	¥—	¥1,788,905	¥70	¥1,788,975
Loans for credit card business	—	—	1,509,376	1,509,376
Investment securities for banking business	—	—	13,776	13,776
Loans for banking business	—	—	895,665	895,665
Investment securities for insurance business	7,057	—	—	7,057
Investment securities	5,382	1,300	1,304	7,986
Other financial assets	—	4,000	208,922	212,922
Deposits for banking business	—	2,354,746	—	2,354,746
Financial liabilities for securities business	—	1,753,216	—	1,753,216
Bonds and borrowings	—	1,255,788	—	1,255,788

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 for insurance business	—	—	—	—
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

(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, 2018

	(Millions of Yen)				
	Investment securities for banking business	Investment securities for insurance business	Investment securities	Other financial assets	Total
January 1, 2018	¥13,424	¥—	¥247,706	¥4,979	¥266,109
Effect of classification change	61,097	5,015	—	—	66,112
Gains or losses					
Net income (loss)	(106)	(90)	71,889	250	71,943
Other comprehensive income	(5)	(193)	795	—	597
Acquisition	251,654	52,558	18,435	653	323,300
Disposal	—	(52,317)	(5,994)	—	(58,311)
Issuance	—	—	—	—	—
Settlement	—	—	—	—	—
Redemption	(235,254)	(11,703)	(34)	—	(246,991)
Others (Note)	34	1,822	30,457	(427)	31,886
Transfer to Level 3	—	—	—	—	—
Transfer from Level 3	—	—	—	—	—
Increase due to business combination	—	119,244	126	—	119,370
December 31, 2018	90,844	114,336	363,380	5,455	574,015
Total net income on financial instruments held at the end of current fiscal year	(106)	(90)	71,372	250	71,426

(Note) Certain investments which had previously been recognized as “investments in associates and joint ventures”, were reclassified as “investment securities” in the third quarter ended September 30, 2018. As a result, “investment securities” increased by ¥39,753 million.

Gains or losses included in net income during the year ended December 31, 2018 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	14.5% - 16.5%
Method of comparison with similar sectors	Gross merchandise value multiple EBIT multiple	1.91 - 2.31 21 - 30

With regard to unobservable inputs, there is a correlation between the gross merchandise value 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, 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 current 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 investee on the exchange market which enables to quote unadjusted prices in active markets.

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	1.75 - 2.10
	EBIT multiple	21 - 30

With regard to unobservable inputs, there is a correlation between the net sales 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.

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, 2018

(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	¥34,492	¥(7,104)	¥27,388
Financial assets for securities business	Reverse repurchase agreements, investment securities borrowing agreements and similar agreements	344,016	—	344,016
	Accounts receivable, etc. relating to investment securities and other transactions, etc.	695,332	(330,467)	364,865
Other financial assets	Accounts receivable — other, etc.	51,067	(41,038)	10,029

(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	¥27,388	¥(4,553)	¥(18,536)	¥4,299
Reverse repurchase agreements, investment securities borrowing agreements and similar agreements	344,016	(343,842)	—	174
Accounts receivable, etc. relating to investment securities and other transactions, etc.	364,865	(341,770)	—	23,095
Accounts receivable — other, etc.	10,029	—	—	10,029

(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	¥16,317	¥(7,104)	¥9,213
Financial liabilities for securities business	Repurchase agreements, investment securities lending agreements and similar agreements	313,887	—	313,887
	Accounts payable, etc. relating to investment securities and other transactions, etc.	1,422,853	(330,467)	1,092,386
Other financial liabilities	Accounts payable — other, etc.	80,320	(41,038)	39,282

(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	¥9,213	¥(4,553)	¥(3,843)	¥817
Repurchase agreements, investment securities lending agreements and similar agreements	313,887	(311,164)	—	2,723
Accounts payable, etc. relating to investment securities and other transactions, etc.	1,092,386	(456,012)	—	636,374
Accounts payable — other, etc.	39,282	—	—	39,282

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

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. Leases

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
Right-of-use assets	
Offices as the underlying assets	¥74,437
Warehouses as the underlying assets	41,737
Data centers as the underlying assets	9,044
Telecommunications facilities as the underlying assets	39,846
Other underlying assets	16,931
Total right-of-use assets (Note) 1	181,995
Lease liabilities (Note) 2	180,512

(Notes) 1. Offices, warehouses and data centers are mainly buildings and accompanying facilities, while telecommunications facilities are mainly other property, plant and equipment.

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
Depreciation associated with right-of-use assets	
Offices as the underlying assets	¥9,422
Warehouses as the underlying assets	6,067
Data centers as the underlying assets	1,120
Telecommunications facilities as the underlying assets	1,814
Other underlying assets	2,071
Total depreciation associated with right-of-use assets (Note) 1	20,494
Interest expense associated with lease liabilities (Note) 2	611

(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
Total cash outflows associated with leases	¥20,023

(4) Extension options and termination options

Certain lease contracts have an extension option and a termination option, 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)

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 are 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, 2018

(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	
December 31, 2017	¥4,336	¥2,826	¥32,302	¥2,786	¥42,250
Cumulative effects of change in accounting policy	14,169	1,518	35,065	9	50,761
January 1, 2018	18,505	4,344	67,367	2,795	93,011
Increase for the period (provision)	1,108	3,723	32,139	3,031	40,001
Decrease for the period (intended use)	(40)	(192)	(35,910)	(402)	(36,544)
Decrease for the period (reversal)	—	—	—	(339)	(339)
Reclassification for the period	254	(3,652)	3,398	—	—
Other changes for the period	49	(187)	1,759	2,731	4,352
December 31, 2018	19,876	4,036	68,753	7,816	100,481

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, 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 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, 2018

(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)	¥174,500	¥13,602	¥188,102	¥(7,462)	¥180,640
Other financial assets (Note)	113,521	682	114,203	(552)	113,651
Total:	288,021	14,284	302,305	(8,014)	294,291

(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, 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.

Exposure to Credit Risks of Receivables Other Than Operating Receivables, etc.
As of December 31, 2018

(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	¥990,242	¥—	¥—	¥990,242	¥—	¥990,242
Financial assets for securities business	1,788,859	18	1,702	1,790,579	(1,604)	1,788,975
Loans for credit card business	1,469,747	10,300	60,129	1,540,176	(76,146)	1,464,030
Investment securities for banking business	203,326	569	462	204,357	(173)	204,184
Loans for banking business	905,238	409	667	906,314	(14,389)	891,925
Investment securities for insurance business	177,668	—	—	177,668	—	177,668
Investment securities	7,817	—	—	7,817	—	7,817
Other financial assets	99,259	17	16	99,292	(21)	99,271
Total of On-balance sheet items:	5,642,156	11,313	62,976	5,716,445	(92,333)	5,624,112
Off-balance sheet items:						
Commitment lines	—	—	—	—	—	3,408,758
Financial guarantee agreements	—	—	—	—	—	7,248
Total of Off-balance sheet items:						3,416,006
Total	5,642,156	11,313	62,976	5,716,445	(92,333)	9,040,118

(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 ¥45 million in the previous fiscal year 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 previous fiscal year, 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 ¥15,455 million and ¥3,912 million, respectively.

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 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 2019, 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 ¥21,480 million and ¥5,671 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, 2018

	(Millions of Yen)		
	Three months or less	Over three months to one year	Over one year
Accounts receivable — trade	¥19,933	¥1,702	¥11,900
Other financial assets	243	162	520
Total	20,176	1,864	12,420

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

Past due information of those other than operating receivables, etc.

As of December 31, 2018

	(Millions of Yen)		
	30 days or less	Over 30 days to 90 days	Over 90 days
Financial assets for securities business	¥573	¥31	¥1,689
Loans for credit card business	118,573	13,842	37,470
Investment securities for banking business	353	73	227
Loans for banking business	4,571	409	667
Other financial assets	—	—	365
Total	124,070	14,355	40,418

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

(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, 2018

	(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	¥255,353	¥—	¥—	¥—	¥—	¥—
Deposits for banking business	2,282,925	42,866	3,367	2,188	3,192	1,269
Financial liabilities for securities business	1,753,216	—	—	—	—	—
Bonds and borrowings	416,326	129,501	112,483	243,909	31,068	308,560
Other financial liabilities	414,604	9,746	3,571	751	737	2,514
Derivative liabilities	8,208	245	379	289	4	—
Derivatives associated with cover deals of special time deposits	(10)	(13)	—	—	—	—
Off-balance sheet items						
Commitment lines	3,408,758	—	—	—	—	—
Financial guarantee agreements	7,248	—	—	—	—	—

(Note) Financial liabilities payable on demand are classified as “One year or less.” “Deposits for banking business” include ¥1,619,989 million of demand deposits.

“Derivatives associated with cover deals of special time deposits” are related to “Deposits for banking business.”

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	—
Derivatives associated with cover deals of special time deposits	—	—	—	—	—	—
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.

“Derivatives associated with cover deals of special time deposits” are related to “Deposits for banking business.”

(3) Market Risk

1) Outline of Market Risk Associated with Financial Instruments

The Group Companies’ activities are exposed mainly to risks associated with changes in the economic environment and the financial market environment. Risks associated with changes in the financial market environment are specifically, exchange rate risk, interest rate risk and price fluctuation risk.

Financial assets held by the Group Companies exposed to market risks are mainly financial assets for securities business, investment securities for banking business, investment securities for insurance business, and investment securities.

Financial assets for securities business include foreign exchange margin transactions in the securities business. However, the exposure to exchange rate risk is minimal, in principle, as the Group Companies enter into cover deals with counterparties to mitigate market risks associated with these transactions with customers.

Investment securities for banking business mainly include securities in domestic bonds and

foreign bonds, as well as trust beneficiary rights. Such securities are exposed to interest rate risk and exchange rate risk. Exchange rate risks of foreign bonds are hedged by entering into corresponding forward exchange contracts and by managing positions. Furthermore, exposure to price fluctuation risk is minimal, as the Group Companies' subsidiaries engage in the banking business do not hold any listed shares.

Investment securities for insurance business mainly include government bonds, municipal bonds, 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, 2018	December 31, 2019
Bonds and borrowings	¥1,234,143	¥1,727,096
Floating interest rate	456,728	750,510
Fixed interest rate	777,415	976,586

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, 2018, income and equity would be negatively impacted by ¥366 million. Conversely, in the event a decrease of 0.1%, income and equity would be positively impacted by ¥366 million compared to the amounts reported as of December 31, 2018. 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, 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.

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 ¥90,773 million and ¥113,416 million as of December 31, 2018 and 2019, 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 ¥199 million for the year ended December 31, 2018 due to changes in fair value. Conversely, in the event of a 5% fall, it would decrease by ¥199 million. Similarly, 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.

In the event of a 5% rise in share prices, accumulated other comprehensive income (before tax effect) would increase by ¥330 million for the year ended December 31, 2018 due to changes in fair value. Conversely, in the event of a 5% fall, it would decrease by ¥330 million. Similarly, 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.

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, 2018, present value as of December 31, 2018 would decrease by ¥584 million. Conversely, in the case of a decrease of 10 basis points (0.1%), it would increase by ¥584 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, 2019, present value as of December 31, 2019 would decrease by ¥681 million. Conversely, decrease of 10 basis points (0.1%), it would increase by ¥681 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, 2018 and 2019. 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, 2018, total market risk volume was ¥15,234 million. Similarly, as of December 31, 2019, total market risk volume was ¥15,106 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, 2018	December 31, 2019
Total liabilities	¥6,568,795	¥8,428,497
Less: Cash and cash equivalents	990,242	1,478,557
Net liabilities	5,578,553	6,949,940
Total equity	776,207	737,200

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.

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, 2018			Year ended December 31, 2019		
	Associates	Executives	Total	Associates	Executives	Total
Revenue	¥1,690	¥—	¥1,690	¥2,239	¥—	¥2,239
Operating expenses	819	—	819	2,667	—	2,667
Accounts receivable — trade	190	—	190	656	—	656
Investment securities	237	—	237	—	—	—
Other financial assets (Note 1)	3,409	—	3,409	2,419	—	2,419
Investments in associates and joint ventures (Note 2)	686	—	686	982	—	982
Intangible assets	—	—	—	787	—	787
Deposits for banking business	—	186	186	—	607	607
Financial liabilities for securities business	—	—	—	—	29	29
Other financial liabilities	10,044	—	10,044	17,248	—	17,248
Other liabilities	—	—	—	182	—	182
Capital surplus	—	(2)	(2)	—	(4)	(4)
Disposal of treasury stock on exercise of share options	—	278	278	—	66	66

(Notes) 1. An allowance for doubtful accounts of ¥628 million has been recorded against other financial assets at December 31, 2019.

2. “Investments in associates and joint ventures” at December 31, 2018 and 2019 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' Principal Shareholders (Individuals) and their Close Relatives

	(Millions of Yen)	
	Year ended December 31, 2018	Year ended December 31, 2019
Operating expenses (Note 1)	¥15	¥157
Investment securities (Note 2)	11,260	—
Other financial liabilities (Note 3)	—	21

(Notes) 1. Operating expenses for the year ended December 31, 2018 are donations paid to Tokyo Philharmonic Orchestra, which are determined in the same manner as general terms of transactions. Operating expenses for the year ended December 31, 2019 are mainly attorneys' fees and expenses paid to Nishimura & Asahi, which are determined in the same manner as general terms of transactions.

2. Investment securities for the year ended December 31, 2018 is the investment for Rakuten Aspyrian, Inc. (currently Rakuten Medical, Inc.), whose transaction value is determined in the same as general terms of value of transactions.

3. Other financial liabilities for the year ended December 31, 2019 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, 2018	Year ended December 31, 2019
Short-term employee benefits (Note)	¥904	¥709
Share-based payments	531	782
Total	1,435	1,491

(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. Business Combinations

For the year ended December 31, 2018

Business combination with Asahi Fire & Marine Insurance Co., Ltd.

(1) Outline of the business combination is as follows.

1) Name of the acquiree and the description of its business

Name of the acquiree: Asahi Fire & Marine Insurance Co., Ltd.

(Note) Its company name was changed to Rakuten General Insurance Co., Ltd. on July 2, 2018

Description of business: Non-life insurance business

2) Reasons for the business combination:

The Group Companies currently engage in life insurance business. By adding non-life insurance business through the acquisition of Asahi Fire & Marine Insurance Co., Ltd. as a subsidiary, the Company will be able to provide its customers with a broader range of insurance products. By providing our services to the existing policyholders of Asahi Fire & Marine Insurance Co., Ltd., the Company can also acquire new members, further expanding its Ecosystem. In addition, as the

Company is engaged in a wide variety of business operations through the Internet, such as e-commerce and FinTech, the Company expects synergies of providing products and services to its customers with greater security and comfort, by offering non-life insurance services against the risks associated with the products and services provided in such business operations. It was for these reasons that the Company resolved to make Asahi Fire & Marine Insurance Co., Ltd. a subsidiary.

- 3) Date of the business combination: March 30, 2018
- 4) Legal form of the business combination: Acquisition of shares
- 5) Ratio of acquired voting rights: 99.3%
- 6) Rationale for determining that the Company is the acquirer
The Company acquired all shares of the acquiree in exchange for cash consideration.

(2) Compensation for acquisition of the acquiree

(Millions of Yen)

Compensation for acquisition	
Cash	¥44,685
Total compensation for acquisition	44,685

- (3) Costs directly associated with the acquisition were ¥154 million, presented as “Operating expenses.”

(4) Assets acquired and liabilities assumed at the acquisition date are as follows.

(Millions of Yen)

Assets	
Cash and cash equivalents	¥47,545
Investment securities for insurance business	263,063
Intangible assets	17,201
Others	77,824
Total assets	405,633
Liabilities	
Insurance business policy reserve	321,985
Deferred tax liabilities	6,030
Others	22,601
Total liabilities	350,616
Net assets	55,017

In the second quarter ended June 30, 2018, the assets acquired and the liabilities assumed are based on fair values as of the business combination date.

Subsequently, as the business combination accounting was finalized, restatements were made including an increase in intangible assets of ¥13,735 million and an increase in deferred tax

liabilities of ¥3,883 million, relating to the contract value of insurance contracts acquired.
As a result, negative goodwill of ¥9,949 million arose.

(5) Non-controlling interests

Non-controlling interests recognized on the business combination date was ¥383 million, which was measured by multiplying the net assets, calculated on the basis of fair value of the acquiree on the business combination date, by the percentage of non-controlling interests (0.7%) after the business combination, as of the business combination date.

(6) Amount of, and reason for negative goodwill arising from the business combination were as follows

1) Amount of negative goodwill: ¥9,949 million

2) Negative goodwill arises as or calculated as or is the result of the net amount of the assets acquired and liabilities assumed exceeded the costs associated with the acquisition of the shares and the difference was accounted for as gain on bargain purchase and recognized under "other income."

(7) Statement of the impact of the business combination on revenue and net income, had it been conducted at the beginning of the fiscal year, has been omitted, as its impact is minimal.

For the year ended December 31, 2019

There are no significant matters to be noted.

47. Major Subsidiaries

(1) Major Subsidiaries

Major subsidiaries of the Group Companies are as follows:

Name	Location	Capital	December 31, 2018		December 31, 2019		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%	
OverDrive Holdings, Inc.	U.S.	1 U.S. dollar	100%	100%	100%	100%	(Note)
Rakuten Kobo Inc.	Canada	901 million Canadian dollars	100%	100%	100%	100%	
RAKUTEN MARKETING LLC	U.S.	1 U.S. dollar	100%	100%	100%	100%	
FinTech Segment:							
Rakuten Card Co., Ltd.	Tokyo	¥19,324 million	100%	100%	100%	100%	
Rakuten Bank, Ltd.	Tokyo	¥25,954 million	100%	100%	100%	100%	
Rakuten Securities, Inc.	Tokyo	¥7,496 million	100%	100%	100%	100%	
Rakuten General Insurance Co., Ltd.	Tokyo	¥5,153 million	100%	100%	100%	100%	
Rakuten Life Insurance Co., Ltd.	Tokyo	¥7,500 million	100%	100%	100%	100%	
Mobile Segment:							
Rakuten Mobile, Inc.	Tokyo	¥100 million	100%	100%	100%	100%	
Rakuten Communications Corp.	Tokyo	¥2,026 million	100%	100%	100%	100%	
Viber Media S.a.r.l	Luxembourg	20 thousand U.S. dollars	100%	100%	100%	100%	

(Note) In the fiscal year ending December 31, 2020, the Group Company plans to transfer all shares of OverDrive Holdings, Inc. to Aragorn Parent Corporation.

(2) Changes in Ownership

There are no special matters to be noted.

48. 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, 2018	December 31, 2019
Assets		
Loans for credit card business	¥31,028	¥31,726
Investment securities	68,320	100,348
Property, plant and equipment	4,841	19,841
Others	6,145	17,578
Total assets	110,334	169,493
Liabilities		
Bonds and borrowings	17,678	18,458
Others	447	981
Total liabilities	18,125	19,439

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.

Additionally, the Group Companies set up investment trust funds that are provided to meet the needs of investors as part of their investment management business. However, the Group Companies do not hold interests in such investment trust funds. Certain subsidiaries that are not categorized as investment management business provide investment trust services, but the Group Companies do not hold interests in such trusts.

The Group Companies do not provide any 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, 2018	December 31, 2019
Investment securities for banking business	Securitization products set up by third parties		
	Monetary claims for individual customers	¥52,857	¥62,877
	Lease receivables	15,354	28,622
	Others	5,414	15,946
Investment securities for insurance business	Securitization products set up by third parties		
	Monetary claims for individual customers	4,115	4,025
	Real estate	44,567	156,410
	Others	6,950	5,519
Total		129,257	273,399

49. Subsequent Events

Not applicable.

50. Classification of Current and Non-current
As of December 31, 2018

			(Millions of Yen)
	Collection or settlement period		Total
	12 months or less	Over 12 months	
Assets			
Cash and cash equivalents	¥990,242	¥—	¥990,242
Accounts receivable — trade	174,885	6,141	181,026
Financial assets for securities business	1,789,729	103	1,789,832
Loans for credit card business	1,024,610	439,420	1,464,030
Investment securities for banking business	35,258	170,383	205,641
Loans for banking business	16,260	875,665	891,925
Investment securities for insurance business	16,362	260,695	277,057
Derivative assets	27,217	171	27,388
Investment securities	2,600	382,188	384,788
Other financial assets	181,731	94,069	275,800
Investments in associates and joint ventures	—	12,788	12,788
Property, plant and equipment	—	91,335	91,335
Intangible assets	—	553,815	553,815
Deferred tax assets	—	50,049	50,049
Other assets	69,480	79,806	149,286
Total assets	4,328,374	3,016,628	7,345,002
Liabilities			
Accounts payable — trade	255,353	—	255,353
Deposits for banking business	2,302,055	53,059	2,355,114
Financial liabilities for securities business	1,753,216	—	1,753,216
Derivative liabilities	8,366	847	9,213
Bonds and borrowings	413,566	820,577	1,234,143
Other financial liabilities	412,787	31,744	444,531
Income taxes payable	13,243	—	13,243
Provisions	85,235	5,281	90,516
Insurance business policy reserves	—	334,536	334,536
Employee retirement benefit liabilities	—	5,164	5,164
Deferred tax liabilities	—	13,059	13,059
Other liabilities	60,420	287	60,707
Total liabilities	5,304,241	1,264,554	6,568,795

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

(2) [Others]

Quarterly Information for the current fiscal year

(Millions of Yen, unless otherwise stated)

(Cumulative period)	3months ended March 31, 2019	6months ended June 30, 2019	9months ended September 30, 2019	Year ended December 31, 2019
Revenue	¥280,294	¥586,644	¥905,781	¥1,263,932
Income (Loss) before income tax	112,438	110,254	(2,059)	(44,558)
Net income (loss)	104,831	99,903	(14,754)	(33,068)
Basic earnings (losses) per share (Yen)	¥77.63	¥74.10	¥(10.43)	¥(23.55)

(Each quarter)	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter
Basic earnings (losses) per share (Yen)	¥77.63	¥(3.50)	¥(84.41)	¥(13.11)

Independent Auditors' Audit Report and Internal Control Audit Report

March 27, 2020

The Board of Directors
Rakuten, Inc.

Ernst & Young ShinNihon LLC

Designated and Engagement Partner,
Certified Public Accountant: Takeshi Saida (Seal)

Designated and Engagement Partner,
Certified Public Accountant: Isamu Ando (Seal)

Designated and Engagement Partner,
Certified Public Accountant: Kenji Kuroki (Seal)

[Audit of Financial Statements]

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements included in the Financial Information, namely, the consolidated statement of financial position, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes to consolidated financial statements of Rakuten, Inc. and its subsidiaries for the fiscal year from January 1, 2019 to December 31, 2019.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards, pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion from an independent perspective on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rakuten, Inc. and its consolidated subsidiaries as of December 31, 2019, and the consolidated results of their operations and their cash flows for the year then ended in conformity with International Financial Reporting Standards.

[Audit of Internal Control over Financial Reporting]

Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited management's report on internal control over financial reporting of Rakuten, Inc. as of December 31, 2019.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for designing and operating internal control over financial reporting, and for the preparation and fair presentation of the Management's Report in accordance with standards for assessment of internal control over financial reporting generally accepted in Japan.

Internal control over financial reporting may not prevent or detect misstatements.

Auditor's Responsibility

Our responsibility is to express an opinion from an independent perspective on the Management's Report based

on our internal control audit. We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Management's Report is free from material misstatement.

An internal audit involves performing procedures to obtain audit evidence about the result of management's assessment on internal control over financial reporting in the Management Report. The procedures selected depend on the auditor's judgment, including the materiality of effect on the reliability of financial reporting. An internal control audit also includes evaluating the overall presentation of the Management's Report, including disclosure on scope, procedures and conclusions of management's assessment of internal control over financial reporting.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit.

Opinion

In our opinion, the Management's Report referred to above, which presents that the internal control over financial reporting as of December 31, 2019 of Rakuten, Inc. is effective, present fairly, in all material respects, the result of management's assessment on internal control over financial reporting in conformity with standards for assessment of internal control over financial reporting generally accepted in Japan.

Conflicts of Interest

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

*1. The above is a digitization of the text contained in the original copy of the Audit Report, which is in the custody of the Company.

*2. XBRL data is excluded from the scope of the audit.

*3. The English version of the consolidated financial statements consists of an English translation of the audited Japanese consolidated financial statements. The actual text of the English translation of the consolidated financial statements was not covered by our audit. Consequently, for the auditor's report of the English consolidated financial statements, the Japanese original is the official text, and the English version is a translation of that text.

*4. Non-consolidated financial statements and the Management's Report on internal control over financial reporting are included in the original securities report.