CONFIDENTIAL

€1,000,000,000
Rakuten Group, Inc.

(incorporated with limited liability under the laws of Japan)

4.250% Undated Subordinated NC6 Fixed Rate Reset Notes

Rakuten Group, Inc., a joint stock corporation incorporated with limited liability under the laws of Japan, is offering €1,000,000,000 aggregate principal amount of 4.250% Undated Subordinated NC6 Fixed Rate Reset Notes (the "notes").

Beginning on, and including, April 22, 2021 to, but excluding, April 22, 2027, the notes will bear interest at 4.250% per annum, payable annually in arrears on April 22 of each year, beginning on April 22, 2022. Beginning on, and including, April 22, 2027, the notes will bear interest at a rate per annum equal to the 5 Year Swap Rate plus Margin (each such term as defined in "Description of the Notes"), payable annually in arrears on April 22 of each year. Payment of interest is subject to optional deferral at our election. For further details, see "Description of the Notes."

The notes are undated and accordingly have no fixed maturity date. The notes are subject to redemption in whole but not in part, at our option and sole discretion on any interest payment date on or after April 22, 2027 or at any time upon the occurrence of a Tax Deduction Event, a Withholding Tax Event, a Rating Methodology Event, an Accounting Event or a Substantial Repurchase Event (each such term as defined in "Description of the Notes"). In addition, on any date after April 22, 2026 but prior to the First Reset Date, we may redeem the notes in whole, but not in part, at the Make-whole Redemption Amount (each such term as defined in "Description of the Notes"). The notes are not subject to any optional or mandatory redemption or other features triggered by a change of control.

The notes will constitute our irrevocable, direct, unsecured and subordinated obligations. Upon the occurrence of a Subordination Event as described in this offering circular, any amounts payable under the notes will be subordinated in right of payment to all Senior Obligations. Claims in respect of the notes will rank substantially *pari passu* with all Parity Obligations as to priority of liquidation payment and shall rank senior to all Junior Obligations. See "Description of the Notes—Subordination." The notes will be issued only in registered form in denominations of €200,000 and integral multiples of €1,000 in excess thereof.

Payment of the principal of the notes may be accelerated only in the case of a Subordination Event, which can only occur in the event of the liquidation, bankruptcy or other equivalent proceedings of Rakuten Group, Inc. In the case of a Subordination Event, the Trustee may, or if so requested by the holders of not less than 25% in aggregate principal amount of the notes then outstanding, declare the principal of and all interest then accrued on the notes to be forthwith due and payable by us. Payment of any such accelerated amounts will be subject to the conditions described under "Description of the Notes—Subordination." The foregoing notwithstanding, in the event of a Claim Rights Termination Event, (which will occur in the event of reorganization, rehabilitation or other equivalent proceedings of Rakuten Group, Inc.), the holders of the notes will be deemed to have irrevocably waived their right to claim or receive, and will not have any rights against us, the Trustee or the Paying Agent with respect to, payment of principal, any interest, Arrears of Interest or Additional Amounts, except for any payments of any interest, Arrears of Interest or Additional Amounts that have become due and payable prior to the occurrence of the Claim Rights Termination Event. See "Description of the Notes—Termination of Rights for Claims upon Certain Events."

The notes will be represented by one or more global notes deposited upon issuance with and registered in the name of a nominee of a common depositary of Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream"). Beneficial interests in the notes will be shown on, and transfers thereof will be effected only through, records maintained by the depositaries and their participants).

Approval in-principle has been received for the listing of the notes on the Official List of the Singapore Exchange Securities Trading Limited, or the Singapore Exchange. The Singapore Exchange assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this offering circular. Approval in-principle from, admission to the Official List of, and the listing and quotation of any notes on, the Singapore Exchange are not to be taken as an indication of the merits of us, our subsidiaries and associated companies (if any) or the notes.

Investing in the notes involves risks that are described in the "Risk Factors" section beginning on page 18 of this offering circular.

Price per note: 100.000% plus accrued interest, if any, from April 22, 2021.

The notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any other jurisdiction. Unless they are registered, the notes may be offered only in transactions that are exempt from registration under the Securities Act, or the securities laws of any other jurisdiction. Accordingly, we are offering the notes in the United States only to qualified institutional buyers ("QIBs") and outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act ("Regulation S"). For further details about eligible offerees and resale restrictions, see "Plan of Distribution" and "Transfer Restrictions."

It is expected that the notes will be deposited and registered in the nominee of a common depositary for Euroclear and Clearstream on or about April 22, 2021 for the accounts of their respective account holders.

Concurrently with the offering of the notes, we are planning to offer $1,750,000,000 aggregate principal amount of undated subordinated fixed rate reset notes in a number of series (collectively, the "USD notes"). No USD notes are being offered hereby. The offering of the USD notes is expected to close on the same day as the offering of the notes, but the closing of the offering of the notes is not conditional upon the closing of the offering of the USD notes. See "Summary—The Offering—Concurrent USD Notes Offering."

Joint Bookrunners and Joint Lead Managers

Goldman Sachs International — *Structuring Agent*

Morgan Stanley

Daiwa Capital Markets Europe **BofA Securities** **Mizuho Securities** **SMBC NIKKO** **Citigroup**

Offering Circular dated April 15, 2021.

IMPORTANT INFORMATION ABOUT THIS OFFERING CIRCULAR

No person has been authorized in connection with the offering to give any information or to make any representation not contained in this offering circular and, if given or made, such information or representation must not be relied upon as having been authorized by us, any initial purchaser or any affiliate of the initial purchasers. No action has been, or will be, taken to permit a public offering of the notes in any jurisdiction where action would be required for that purpose. Accordingly, the notes offered hereby may not be offered or sold, directly or indirectly, and this offering circular may not be distributed in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. Neither delivery of this offering circular nor any sale made hereunder shall under any circumstances imply that the information herein is correct as of any date subsequent to the date hereof.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF US AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE NOTES COVERED BY THIS OFFERING CIRCULAR HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY OTHER SECURITIES COMMISSION OR OTHER REGULATORY AUTHORITY, NOR HAVE THE FOREGOING AUTHORITIES APPROVED THIS OFFERING CIRCULAR OR CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE UNDER THE LAWS OF THE UNITED STATES.

This offering circular is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire notes. Distribution of this offering circular to any person other than the offeree and those persons, if any, retained to advise such offeree with respect thereto is unauthorized, and any disclosure of its contents without our prior written consent is prohibited. Each person receiving this offering circular acknowledges that (i) such person has not relied on any initial purchaser, any U.S. selling agent of the initial purchasers or any person affiliated with the initial purchasers in connection with its investigation of the accuracy of such information or its investment decision and (ii) no person has been authorized to give any information or to make any representation concerning us or the notes offered by this offering circular other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorized by us, any initial purchaser or any U.S. selling agent of the initial purchasers.

The notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended), or the FIEA, and are subject to the Act on Special Measures Concerning Taxation of Japan (Act No. 26 of 1957, as amended), or the Special Taxation Measures Act. The notes may not be offered or sold in Japan or to, or for the benefit of, any person resident in Japan, or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a person resident in Japan, for Japanese securities law purposes (including any corporation or other entity organized under the laws of Japan) except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and governmental guidelines of Japan. In addition, the notes are not, as part of the initial distribution by the initial purchasers at any time, to be directly or indirectly offered or sold to, or for the benefit of, any person other than a Gross Recipient or to others for re-offering or resale, directly or indirectly, to, or for the benefit of, any person other than a Gross Recipient, except as specifically permitted under the Special Taxation Measures Act. A Gross Recipient for this purpose is (i) a beneficial owner that is, for Japanese tax purposes, neither an individual resident of Japan or a Japanese corporation, nor an individual non-resident of Japan or a non-Japanese corporation that in either case is a person having a special relationship with the issuer of the notes as described in Article 6, Paragraph (4) of the Special Taxation Measures Act, or a specially-related person of the issuer, (ii) a Japanese financial institution or a Japanese financial instruments business operator, designated in Article 3-2-2, Paragraph (29) of the Cabinet Order (Cabinet Order No. 43 of 1957, as amended), or the Cabinet Order, relating to the Special Taxation Measures Act that will hold notes for its own proprietary account or (iii) an individual resident of Japan or a Japanese corporation whose receipt of interest on the notes will be made through a payment handling agent in Japan as defined in Article 2-2, Paragraph (2) of the Cabinet Order. **BY SUBSCRIBING FOR THE NOTES, AN INVESTOR WILL BE DEEMED TO HAVE REPRESENTED THAT IT IS A GROSS RECIPIENT**.

Interest payments on the notes generally will be subject to Japanese withholding tax unless it is established that the notes are held by or for the account of a beneficial owner that is (i) for Japanese tax purposes, neither an individual resident of Japan or a Japanese corporation, nor an individual non-resident of Japan or a non-Japanese corporation that in either case is a specially-related person of the issuer, or (ii) a Japanese financial institution or a Japanese financial instruments business operator, designated in Article 3-2-2, Paragraph (29) of the Cabinet Order which complies with the requirement for tax exemption under Article 6, Paragraph (9) of the Special Taxation Measures Act or (iii) a public corporation, a financial institution or a financial instruments business operator, etc. described in Article 3-3, Paragraph (6) of the Special Taxation Measures Act which complies with the requirement for tax exemption under that paragraph.

Interest payments on the notes to an individual resident of Japan, to a Japanese corporation not described in the preceding paragraph, or to an individual non-resident of Japan or a non-Japanese corporation that in either case is a specially-related person of the issuer will be subject to Japanese income tax.

The notes have not been and will not be registered under the Securities Act, or with any securities authority of any State of the United States, and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws. The notes are being (i) offered by the initial purchasers to non-U.S. persons in offshore transactions outside the United States and Japan in reliance on Regulation S under the Securities Act, and (ii) placed inside the United States through the initial purchasers or U.S. selling agents of the initial purchasers to QIBs in reliance on Rule 144A. Prospective purchasers are hereby notified that sellers of the notes may be relying on the exemption from the registration provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of the notes and the distribution of this offering circular, see “Transfer Restrictions” and “Plan of Distribution.”

The initial purchasers are acting exclusively for us and no one else in connection with the offering. They will not regard any other person (whether or not a recipient of this offering circular) as their client in relation to the offering and will not be responsible to anyone other than us for providing the protections afforded to their clients nor for giving advice in relation to the offering or any transaction or arrangement referred to herein.

NOTICES

Prohibition of Sales to EEA Retail Investors

The notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the “EEA.”) For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II;”) or (ii) a customer within the meaning of Directive 2016/97/EU (as amended, the “Insurance Distribution Directive,”) where that customer would not qualify as a professional client as defined in point (10) of

Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation," for offering or selling the notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MiFID II Product Governance/Professional Investors and ECPs Only Target Market

Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the notes has led to the conclusion that: (i) the target market for the notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the notes, or a distributor, should take into consideration the manufacturer's target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the notes (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

Prohibition of Sales to United Kingdom Retail Investors

The notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined by point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "EUWA"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, the "FSMA") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "UK PRIIPs Regulation"), for offering or selling the notes or otherwise making them available to retail investors in the United Kingdom has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the United Kingdom may be unlawful under the UK PRIIPs Regulation.

UK MiFIR Product Governance / Professional Investors and ECPs Only Target Market

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the notes has led to the conclusion that: (i) the target market for the notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("COBS"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA ("UK MiFIR"); and (ii) all channels for distribution of the notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the notes (a "distributor") should take into consideration the manufacturers' target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "UK MiFIR Product Governance Rules") is responsible for undertaking its own target market assessment in respect of the notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

Notice Concerning the United Kingdom

There are restrictions on the offer and sale of the notes in the United Kingdom. All applicable provisions of the FSMA with respect to anything done by any person in relation to the notes in, from or otherwise involving, the United Kingdom must be complied with. See “Plan of Distribution.” This offering circular is for distribution in the United Kingdom only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, or the Financial Promotion Order, or (ii) are persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations etc.”) of the Financial Promotion Order (all such persons together being referred to as “relevant persons”). This offering circular is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this offering circular relates is available only to relevant persons and will be engaged in only with relevant persons.

Singapore Selling Restrictions

This offering circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. This offering circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore) (the “SFA”)) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Any reference to the SFA is a reference to the Securities and Futures Act, Chapter 289 of Singapore and a reference to any term as defined in the SFA or any provision in the SFA is a reference to that term or provision as modified or amended from time to time including by such of its subsidiary legislation as may be applicable at the relevant time.

Notice Concerning Singapore—Section 309B(1)(c) Notification

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "SFA") and the Securities and Futures (Capital Markets Products) Regulations 2018 (the "CMP Regulations 2018"), we have determined, and hereby notify all relevant persons (as defined in Section 309A(1) of the SFA) that the notes are prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

FORWARD-LOOKING STATEMENTS

This offering circular contains "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the U.S. Securities Exchange Act, as amended, or the Exchange Act. These statements appear in a number of places in this offering circular and include statements regarding the intent, belief or current expectations of our management with respect to our business, results of operations and financial condition. In many cases, but not all, we use such words as "aim," "anticipate," "believe," "estimate," "expect," "forecast," "intend," "may," "outlook," "plan," "potential," "predict," "probability," "project," "risk," "seek," "should," "target," "will," "would" and similar expressions in relation to us or our management to identify forward-looking statements. You can also identify forward-looking statements by discussions of strategy, plans or intentions. These statements reflect our current views with respect to future events and are subject to risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results may vary materially from those we currently anticipate.

Potential risks and uncertainties include, without limitation, those identified and discussed in "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere in this offering circular. Given these risks and uncertainties, prospective investors are cautioned not to place undue reliance on forward-looking statements. All forward-looking statements in this offering circular are made as of the date of this offering circular, based on information available to us as of that date. We do not undertake to update or revise any of our forward-looking statements to reflect future events or circumstances, except in the limited circumstances required by applicable law or stock exchange rule.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this offering circular, "we," "us," "our," the "Company" and the "Rakuten group" refer to Rakuten Group, Inc. and its consolidated subsidiaries, or, as the context requires, Rakuten Group, Inc. on a non-consolidated basis. At the general meeting of shareholders held on March 30, 2021, the shareholders approved a resolution to change our name from "Rakuten, Inc." to "Rakuten Group, Inc." effective as of April 1, 2021. Within the audited consolidated financial statements as of and for the year ended December 31, 2020 and as of and for the year ended December 31, 2019 (including comparative information thereto) included elsewhere in this offering circular, our previous name, Rakuten, Inc., is used. Our fiscal year end is December 31 of each year. Certain of the entities in the FinTech segment (Rakuten Bank, Ltd., or *Rakuten Bank*; Rakuten Life Insurance Co., Ltd., or *Rakuten Life Insurance*; and Rakuten General Insurance Co., Ltd., or *Rakuten General Insurance*) have a March 31 year end for statutory purposes but are included as subsidiaries within our consolidated financial statements (using financial information as of and for the year ended December 31).

The financial data in this offering circular is presented in Japanese yen and U.S. dollars. In this offering circular, references to "U.S. dollars," "dollars" and "$" refer to the lawful currency of the United States and those to "yen" and "¥" refer to the lawful currency of Japan.

In this offering circular, amounts presented in millions or billions of yen or thousands or millions of dollars have been rounded to the nearest unit or tenth of a unit. All percentages have been rounded to the nearest percent or one-tenth of one percent, as the case may be. All other figures have been rounded to the nearest unit or one-tenth of a unit, as the case may be. Due to rounding and truncation, the total amounts presented in tables may not be equal to the sum of the individual figures shown.

Our audited consolidated financial statements as of and for the year ended December 31, 2020 and as of and for the year ended December 31, 2019 (including comparative information thereto) included elsewhere in this offering circular have been prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board.

Unless otherwise indicated, all financial information included in this offering circular is presented in accordance with IFRS, which differs from accounting principles generally accepted in Japan, or Japanese GAAP, and from accounting principles generally accepted in the United States, or U.S. GAAP.

Changes in Reporting Segments

On April 1, 2019, we implemented a corporate reorganization in order to clarify accountability, improve management efficiencies and optimize allocation of resources, pursuant to which our group companies were reorganized in accordance with our three new reporting segments: Internet Services, FinTech and Mobile. See “Business—Our Business Operations—Group Reorganization.” In connection with the reorganization, effective from the three-month period ended March 31, 2019, we added the “Mobile” segment to our two existing reporting segments, to which we transferred our mobile virtual network operator, or MVNO, and communication and messaging services from the Internet Services segment. We refer to these changes to our segment reporting as “the 2019 segment restatements.” Additionally, from the three-month period ended December 31, 2020, in order to enhance collaboration and synergy between digital contents services and mobile services, certain businesses and subsidiaries have been transferred among our segments, including the transfer of Rakuten Kobo Inc. from the Internet Services segment to the Mobile segment. We refer to these changes as the “2020 segment reorganization.” Unless otherwise stated in this offering circular, segment information for the years ended December 31, 2018, 2019 and 2020 is presented on the basis of the 2019 segment restatements and the 2020 segment reorganization. The description of our business and operations in “Business” is based on the 2019 segment restatements, as further modified by the 2020 segment reorganization. This presentation, which matches the presentation in our audited consolidated financial statements as of and for the year ended December 31, 2020 (including comparative information thereto), differs from the presentation in our audited consolidated financial statements as of and for the year ended December 31, 2019 (including comparative information thereto), which were issued before the respective changes in reporting segments took place, as our consolidated financial statements prepared in accordance with IFRS restate only comparative information which is presented together with the year in which the change takes place.

STABILIZATION

IN CONNECTION WITH THE ISSUE AND OFFERING OF THE NOTES, GOLDMAN SACHS INTERNATIONAL (THE “STABILIZATION MANAGER”) (OR PERSONS ACTING ON BEHALF OF THE STABILIZATION MANAGER) MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A

VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT LEVELS HIGHER THAN THOSE WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILIZATION ACTION MAY NOT NECESSARILY OCCUR. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. SUCH STABILIZATION ACTION OR OVER-ALLOTMENT SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

INDUSTRY AND MARKET DATA

We make statements in this offering circular about the Japanese and global Internet services industries and our competitive position therein. In addition, we include statistics relating to industry and general economic trends. We have made these statements on the basis of statistics and other information from third-party sources, such as governmental agencies, research institutes and industry or general publications that we believe are reliable. Although we have no reason to believe any of this information is inaccurate in any material respect, we have not independently verified and cannot assure the accuracy of the data provided by or derived from third-party sources.

SUMMARY

This summary highlights selected information contained elsewhere in this offering circular. You should read this summary together with the more detailed information, including "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and our financial statements and related notes appearing elsewhere in this offering circular.

Overview

We are a leading e-commerce company in Japan in terms of Gross Merchandise Sales, or GMS, for e-commerce product sales in 2020, according to FUJI KEIZAI CO., LTD. Under the concept of "single brand, single membership," we seek to integrate our core businesses as part of our "Rakuten Ecosystem" business model through which Rakuten members can access a wide variety of our services with a single Rakuten ID and participate in a single loyalty program. See "Business—Our Business Operations—Membership and Incentive Programs."

We operate *Rakuten Ichiba*, one of Japan's two largest e-commerce platforms based on product sales in 2020, according to FUJI KEIZAI CO., LTD., and *Rakuten Travel*, one of Japan's two leading online travel agencies in terms of Gross Transaction Value, or GTV, according to the Japan Tourism Agency, or the JTA. We are expanding overseas to establish several e-commerce platforms using a similar B2B2C marketplace model. We also offer e-books, e-book readers and online video-streaming and music-streaming services. We provide online financial services, including credit card, online banking, online securities, life insurance, general insurance, electronic payments and cryptocurrency trading services. We launched the world's first end-to-end, fully virtualized, cloud-native mobile network in April 2020 and began offering high-speed 5G service in September 2020. As part of our marketing strategy to bring our Internet-based services to a wider segment of the Japanese population, we also operate a professional baseball team in Japan, the Tohoku Rakuten Golden Eagles, a professional soccer team in Japan, Vissel Kobe, and we have partnerships with FC Barcelona, one of the world's most esteemed soccer clubs, and the Golden State Warriors, a leading team in the National Basketball Association, in order to boost our brand recognition around the globe. Global GTV for the Rakuten group, including transactions in our domestic and overseas e-commerce, *Rakuten Travel*, *Rakuten Card* and *Rakuten Edy* businesses, reached ¥22.3 trillion for the year ended December 31, 2020.

We divide our operations into three segments:

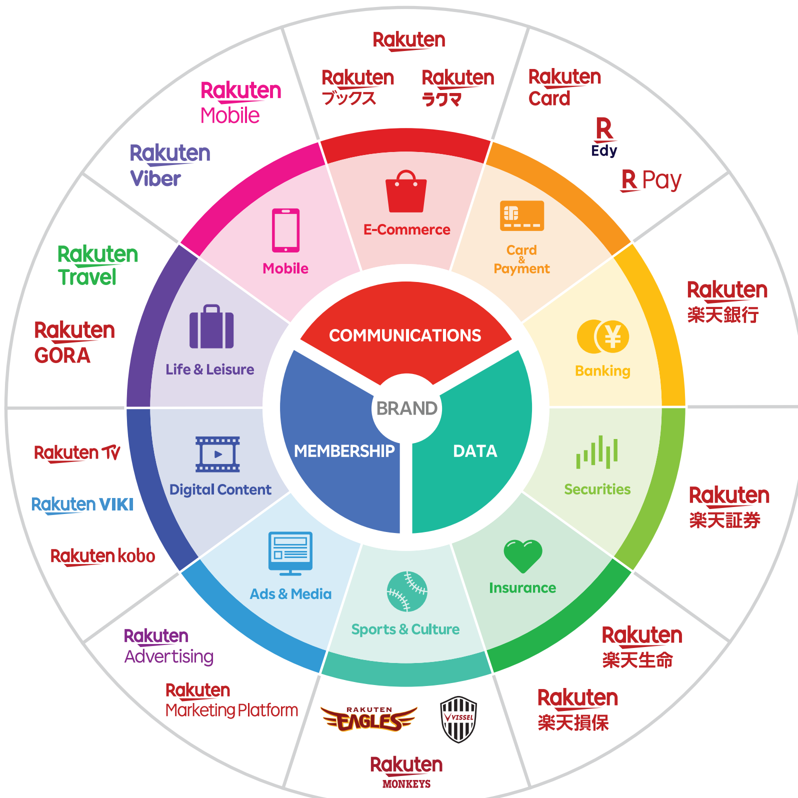
- *Internet Services*: includes businesses running various e-commerce sites such as our primary online shopping platform, *Rakuten Ichiba*, online cash back sites and online travel booking sites, along with businesses for sales of advertising on these sites and our businesses related to professional sports teams;
- *FinTech*: includes businesses engaged in providing services over the Internet such as credit cards, online banking, online securities, life insurance, general insurance, electronic payments and cryptocurrency trading; and
- *Mobile*: includes businesses engaged in communication and messaging services, such as our MNO business (and also includes our MVNO business, which is no longer accepting new service activations) and our mobile messaging and VoIP businesses. Our Mobile segment also includes our digital contents businesses such as our e-book business and video and music streaming services.

Our consolidated revenue was ¥1,101,480 million, ¥1,263,932 million and ¥1,455,538 million for the years ended December 31, 2018, 2019 and 2020, respectively.

Our Strengths

Our unique Rakuten Ecosystem provides our loyal membership base with access to a wide range of interconnected services

The Rakuten Ecosystem provides our users with one-stop access to a wide range of interconnected services, including e-commerce services, online financial services, digital contents and communication services, through an integrated platform. Furthermore, *Rakuten Mobile* commenced commercial operations for its MNO network in April 2020 and launched its 5G service in September 2020, creating an additional gateway for introducing new users to the Rakuten Ecosystem. The following diagram illustrates the Rakuten Ecosystem, which encourages users joining through a particular service to take advantage of our other services and to benefit from their interconnected functionality:



The distinctive Rakuten Ecosystem allows users to experience our services through a unified Rakuten ID and benefit from the Rakuten Super Points rewards program

Within the Rakuten Ecosystem, our user base in Japan, totaling over 100 million members, can access many of our services using a single Rakuten ID and benefit from frequent use of our services through our Rakuten Super Points rewards program. The Rakuten Ecosystem is distinctive in terms of the breadth of services that it offers, and the attractiveness of the Rakuten Super Points rewards program we provide to our members promotes user engagement and loyalty. By encouraging our users to discover our other services, we are able to increase adoption and cross-use between our various businesses across our Internet Services, FinTech and Mobile segments. The ability to use Rakuten Super Points across many of our services also enables us to use innovative marketing methods to cross-promote other Rakuten services to our users.

Many of our services have strong positions in their respective markets, which promotes further cross-use of our services

We are one of Japan's most recognizable brands. Many of our services hold leading positions across multiple industries in Japan, making it easy and natural for users to try our other services. The following is a selection of our market-leading businesses:

- For domestic e-commerce, our *Rakuten Ichiba* business is one of the two leading e-commerce businesses in Japan, with a market share of approximately 25.2% based on e-commerce product sales in 2020 according to FUJI KEIZAI CO., LTD.
- For credit cards, *Rakuten Card* had the highest GTV among credit card issuers in Japan based on the value of purchase transactions in the domestic market for 2017, as estimated by Yano Research Institute, Ltd.
- For online securities businesses, *Rakuten Securities* had the highest number of new account openings among online-only brokerage firms in Japan during 2020 based on public disclosure materials.
- For online banking, *Rakuten Bank* had the highest number of accounts as of December 2020 for online banks without physical branches in Japan based on public disclosure materials.
- For online travel booking, *Rakuten Travel* is one of the two leading players in the Japanese market based on booked GTV as of December 2020 based on public disclosure materials.
- For electronic payments, *Rakuten Payment* was rated highest in overall satisfaction according to MDD Research Institute's January 2021 smartphone payment (QR code) satisfaction survey.

Because Rakuten Super Points, our primary group-wide reward program, can be earned and redeemed through most of the services offered in the Rakuten Ecosystem, including *Rakuten Ichiba* and *Rakuten Card*, our users have a strong incentive to use our other services. As of December 31, 2020, our cross-use ratio reached 73.0%. Our cross-use ratio is defined as the ratio of the number of Rakuten members in Japan who have utilized two or more Rakuten services eligible to earn Rakuten Super Points during the past twelve months to the number of all members that utilized any such service during the last month of that period.

We have accumulated rich and diverse user data through our services

The wide-ranging services provided in the Rakuten Ecosystem allow us to collect e-commerce data as well as financial and communications-related data in compliance with applicable laws and regulations, enabling us to analyze and respond effectively to the needs of our users. Because this data is tied to a unified Rakuten ID across our services, we are able to conduct comprehensive data analysis which can be used as a foundation for innovative marketing strategies. As consumers continue to demand personalized solutions to their diverse needs, we expect that further developments in the usage of big data and artificial intelligence will enable us to better tailor our services to individual consumers, making our ecosystem even more attractive.

With a leading position in Japan's e-commerce market, Rakuten Ichiba is well-positioned to capture further growth

The total GMS of our domestic e-commerce businesses was ¥4.5 trillion for the year ended December 31, 2020. Japan's e-commerce industry grew at a 12.1% CAGR from the year ended December 31, 2015 to the year ended December 31, 2020**,** according to FUJI KEIZAI CO., LTD., and sales from *Rakuten Ichiba* constitute a significant portion of our GMS. During the ongoing COVID-19 pandemic, interest in e-commerce in Japan has increased due to changes in consumer behavior resulting from “stay-at-home” policies and health concerns, leading to significantly accelerated growth, with total GMS for our domestic e-commerce businesses growing 19.9% in the year ended December 31, 2020 compared to the previous year and surpassing ¥4 trillion for the first time. However, Japan’s e-commerce penetration rate of 6.8% is still relatively low compared to the United States (11.0%) and China (36.6%) (according to a report issued by the Ministry of Economy, Trade and Industry of Japan, or METI, in 2019), and we believe Japan’s e-commerce industry will continue to grow.

Our FinTech businesses have maintained stable revenue and profit growth

Our FinTech segment consists of a diverse portfolio of financial services with stable revenue and profit growth. Revenue for our FinTech segment grew from ¥296,066 million for the year ended December 31, 2016 to ¥576,195 million for the year ended December 31, 2020, representing a CAGR of 18.1%, and segment profit increased from ¥65,587 million for the year ended December 31, 2016 to ¥81,291 million for the year ended December 31, 2020. *Rakuten Card* was the most popular credit card in Japan with GTV of ¥11.6 trillion for the year ended December 31, 2020 (with a year-over-year growth rate in shopping GTV for the year ended December 31, 2020 that was 28% higher than the credit card industry’s average rate according to METI). Over the years ended December 31, 2016 to December 31, 2020, we have successfully controlled credit costs for *Rakuten Card*, consistently maintaining a ratio of expenses related to doubtful accounts of roughly 2%, and the complementary nature of our FinTech businesses has allowed *Rakuten Card* assets held through *Rakuten Bank* to serve as funding sources through securitization, further contributing to increased profitability for the Rakuten group. As of January 2021, *Rakuten Bank* became the first online-only bank in Japan to reach 10 million accounts. This was an increase from approximately 5.35 million accounts as of March 31, 2016 and represents an increasingly accelerated pace of user acquisition. *Rakuten Securities* had the highest number of new account openings among Japan’s online-only banks for three years in a row based on public disclosure materials, with approximately 600,000, 700,000 and 1,300,000 new account openings for the 2018, 2019 and 2020 calendar years, respectively (compared to approximately 400,000, 400,000 and 800,000 new account openings for SBI Securities Co., Ltd. for the 2018, 2019 and 2020 calendar years, respectively).

Our management team has achieved growth while prudently managing risk

Our management team, in particular our founder and CEO, Chairman and President and Representative Director, Mr. Hiroshi Mikitani, has significant experience in the Internet services, finance and technology sectors. We believe the continued commitment of Mr. Mikitani to the growth of Rakuten as one of Japan’s truly global companies has been essential to our success. Our team has an established track record of transformation and growth-generation, as illustrated by our expansion from a domestic e-commerce platform based on our B2B2C online marketplace *Rakuten Ichiba* to our current position offering e-commerce, financial, digital contents, communication and numerous other services globally, with GTV exceeding ¥22 trillion for the year ended December 31, 2020.

Our Strategies

Strengthen our leading market position by increasing the membership value of the Rakuten Ecosystem

Our vision is to become a global company with Japanese roots, and we will continue to focus our efforts on increasing the aggregate lifetime value of our users, which we call the “membership value” of the Rakuten Ecosystem. We aim to more than double membership value over the mid-to-long term. We believe that the key elements to increasing the membership value of the Rakuten Ecosystem are a combination of increases in the number of users, the cross-use ratio of our users and the lifetime value per user. We aim to achieve continued growth by satisfying the needs of our users, business partners and local communities. In the domestic e-commerce market, our goal is to be “beyond No.1” by strengthening our leading market position through efforts to promote specific genres of goods (such as clothing and related fashion accessories) while also improving customer satisfaction through the development of a centralized logistics network with a unified shipping infrastructure.

More specifically, we will focus on the following strategies:

Leverage our cutting-edge MNO network to bring new users into the Rakuten Ecosystem and increase cross-use by existing users

In April 2020, *Rakuten Mobile* commenced commercial operations for its MNO network, which is the world’s first end-to-end, fully virtualized, cloud-native mobile network, and we began offering a high-speed 5G service in September 2020. Due to the fully virtualized nature of our network, we believe that we are able to operate with approximately 30% lower operating expenses (due mainly to reduced field maintenance, operations center, rent and electricity expenses) and approximately 40% lower ongoing capital investments (due mainly to reduced hardware and deployment costs) compared to traditional MNO networks. These advantages enable us to offer wireless services to our customers at a lower cost and significantly below historical pricing levels for MNO services in Japan.

Until April 7, 2021, for the first three million customers for our UN-LIMIT service, we offered an introductory campaign that waived the monthly fee for the first year of service. In part due to the success of this campaign, we were able to increase the number of applications for new subscribers from an accumulated total of approximately 1 million as of the end of June 2020 to over 3 million as of March 9, 2021 and over 3.9 million as of April 8, 2021. To continue to appeal to new mobile subscribers (including subscribers that are new to the Rakuten Ecosystem as well as existing users of our other services), we launched our latest service plan, Rakuten UN-LIMIT VI, on April 1, 2021, which features an innovative tiered pricing structure with lower priced data plans than our competitors, and on April 8, 2021, we announced a new campaign that waives the first three months of UN-LIMIT VI fees for new for *Rakuten Mobile* subscribers. Going forward, we believe our significant price advantage will enable us to acquire additional new subscribers that will subsequently cross-use additional services within the Rakuten Ecosystem and also increase the transaction value of existing users of our other services. For example, we recently introduced a campaign that provided *Rakuten Mobile* subscribers with additional Rakuten Super Points when making purchases on *Rakuten Ichiba*, and we have found that users of *Rakuten Mobile* tend to increase their spending on *Rakuten Ichiba*. Our data shows that users who made a purchase on *Rakuten Ichiba* between December 2019 and May 2020 and then joined *Rakuten Mobile* increased their subsequent *Rakuten Ichiba* spending by 44% on average during the period from June 2020 to December 2020 (as compared to a 13% increase in *Rakuten Ichiba* spending by users that did not join *Rakuten Mobile*). Additionally, our data as of September 2020 shows that 15% of *Rakuten Mobile* applicants are new Rakuten users, 35% of which have subsequently used a different Rakuten service (which includes new users using multiple services, including 25%, 10% and 5% of such new users that have subsequently used *Rakuten Ichiba*, *Rakuten Card* and *Rakuten Bank*, respectively).

We also plan to continue to make significant capital investments to accelerate the expansion of coverage for our MNO network, and we currently expect that our 4G network will cover approximately 96% of the Japanese population by summer 2021 (as compared to the initial target of March 31, 2026 that we previously submitted to Japan’s regulatory authorities). In order to improve quality with a higher density of base stations and to respond to the expected increase in users, we plan to construct a total of approximately 44,000 4G outdoor base stations (as compared to the initially planned 27,397 base stations). We expect the total capital investments for coverage infrastructure to consist of approximately ¥200 billion for 5G-related infrastructure expenses and approximately ¥600 billion for 4G-related infrastructure expenses as well as investments to improve the density of base station coverage for our 4G network that we expect to result in additional expenses of approximately 30-40% of such 4G-related infrastructure expenses. Our total cumulative capital investments in the Mobile segment since the year ended December 31, 2018 have been approximately ¥532 billion, which includes ¥126 billion of right-of-use assets, funded with the corresponding lease liabilities and accounted for in accordance with IFRS 16. We plan to fund the capital investments through a combination of self-funding by *Rakuten Mobile* from asset financings, including lease financings and securitization of receivables, and capital injections to *Rakuten Mobile* from Rakuten Group, Inc., which includes the proceeds of our ¥182 billion domestic subordinated bond issuance in 2018 and our ¥120 billion domestic subordinated bond issuance in 2020, the proceeds from the third-party allotments completed on March 29 and March 31, 2021 and a portion of the proceeds of this offering and the concurrent offering of the USD notes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments—Capital Raised Through Third-Party Allotments of Shares" and "Use of Proceeds."

In addition, we plan to expand the international reach of our Mobile business through the Rakuten Communications Platform. Through this business, we target customers such as telecom companies, government organizations and other enterprise customers around the world with the objective of deploying fully virtualized cloud-native network services using the experience and expertise that we have acquired through the development of *Rakuten Mobile's* MNO network in Japan.

Increase our cross-use ratio through the Super Point Up program

Our primary strategy is to encourage our members to use multiple services in the Rakuten Ecosystem, which is facilitated by a single Rakuten ID and our Rakuten Super Points rewards program that offers benefits and rewards across our services. As part of this strategy, we offer the Super Point Up program, which allows users to increase the number of points they earn when using multiple Rakuten services. By offering this reward multiplier, we seek to increase our cross-use ratio and further strengthen user engagement and loyalty across our services.

Our "One Delivery" vision for e-commerce in Japan

In July 2018, we introduced our "One Delivery" vision for a nation-wide, end-to-end logistics service for merchants on the *Rakuten Ichiba* marketplace in Japan, covering product storage to final delivery to ensure a smooth process for our customers from the moment an order is placed on the online marketplace up until delivery of the product. To realize our One Delivery vision, we will continue to focus on strengthening and expanding *Rakuten Super Logistics*, our comprehensive logistics service for merchants on the *Rakuten Ichiba* marketplace, as well as further expanding the delivery coverage area of *Rakuten EXPRESS*, our door-to-door delivery service. We plan to open an additional fulfillment center in Kanagawa prefecture in September 2021. As of December 2020, 63.5% of the Japanese population lived within the delivery coverage area of *Rakuten EXPRESS*. In addition to continuing to improve our internal logistics capability, we are collaborating with external partners to build a comprehensive logistics network that will allow centralized management of shipping related to *Rakuten Ichiba*. For example, on March 12, 2021, we entered into a business alliance agreement with Japan Post Holdings Co., Ltd., or Japan Post, and its subsidiary, Japan Post Co., Ltd., or Japan Post Co., to collaborate across multiple fields with initiatives that may include the creation of shared logistics centers and delivery and pick-up systems, data sharing, joint commercialization of a digital transformation platform for logistics (including the establishment of a new company) and initiatives to expand usage of Rakuten fulfillment centers and Japan Post's "Yu-Pack" parcels, and on March 29, 2021, we completed a sale of shares to Japan Post representing 8.32% of our shares (based on the number of outstanding shares as of December 31, 2020). See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments—Capital Raised Through Third-Party Allotments of Shares." Through these efforts, we aim to offer efficient and nation-wide logistics services to our merchants to further grow our domestic e-commerce business.

Continue to strengthen and expand the businesses in our FinTech portfolio

We intend to leverage the interconnected nature of the Rakuten Ecosystem to continue to expand the revenue base for our various FinTech businesses. For example, *Rakuten Life Insurance* and *Rakuten General Insurance* have partnered with *Rakuten Bank* to provide credit insurance and fire insurance, and *Rakuten Payment* has introduced a program to allow Japanese customers using Android mobile devices to recharge their "Suica" electronic commuter cards using Rakuten Points. Over the year ended December 31, 2020, one in four new members in the Rakuten Ecosystem joined through a payment service offered by *Rakuten Payment*. In this way, our FinTech businesses operate as a gateway to introduce new members to our other various convenient services.

Pursue a disciplined financial strategy for managing capital and liquidity to support growth investments

As we continue to actively pursue new business opportunities and further expansion in our existing businesses, we consistently seek to balance this growth with a disciplined financial strategy. This strategy includes carefully managing adequate levels of equity and liquidity and diversifying our funding sources. We have also formed a Business Portfolio Committee tasked with the responsibility of improving our business portfolio based not only on each business' results and profitability but also based on contributions to the larger Rakuten Ecosystem.

In the short term, our policy is to manage our current debt balance through multiple measures, including equity financings, monetization of our businesses and investment portfolios and hybrid financings. Our most recent equity financing was completed on March 29 and March 31, 2021, consisting of multiple third-party allotments for aggregate proceeds of ¥242.3 billion. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments—Capital Raised Through Third-Party Allotments of Shares." With respect to monetizing our business portfolio, we sold our equity stakes in Pinterest, Inc. and Careem Network FZ LLC in 2019 and 2020, respectively, and in the year ended December 31, 2020 we entered into a collar financing transaction with respect to our equity interest in Lyft, Inc. We also optimized and refocused our business portfolio by exiting the online marketplace business in Brazil in 2019 and the United States and Germany in 2020, and we sold *Rakuten O-net*, our marriage planning and counseling service, and OverDrive Holdings, Inc., a digital contents distributor, in 2018 and 2020, respectively. With regards to our hybrid financings, we recently issued ¥120 billion of hybrid bonds in a domestic issuance in November 2020.

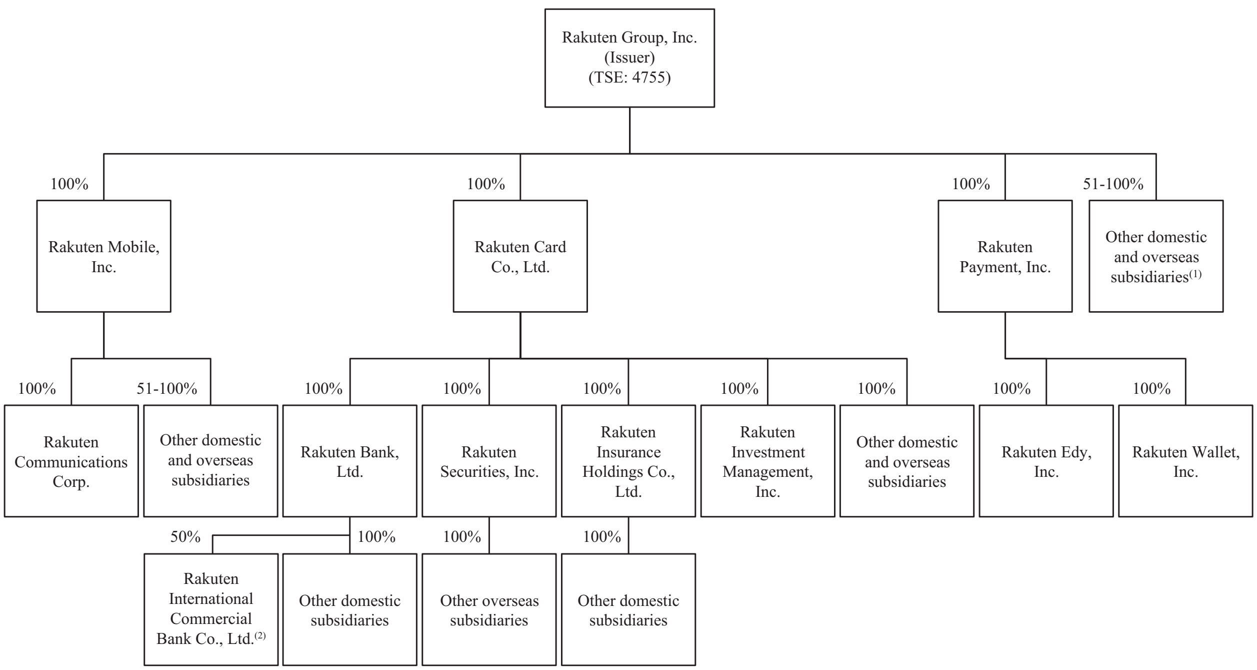
In the mid-term, we intend to pursue an optimal debt balance and improve our leverage by expanding our Adjusted EBITDA. We also intend to maintain a minimum cash balance and liquidity through our diversified minority investment assets which had a fair value of approximately $1.1 billion as of December 31, 2020 (calculated based on the fair value of the relevant assets on our balance sheet, the stock price of listed shares as of December 31, 2020 and valuation of unlisted shares based on recent transactions by third parties or comparable companies' valuations, and excluding our holdings in Lyft, Inc. and Rakuten Medical, Inc.). With respect to *Rakuten Mobile*, we seek to expand the subscriber base for our new MNO network through upfront capital investments, which we expect will lead to an expansion in cash flows and a transition to profitability in the mid-term.

Company Information

Our head office is located at 1-14-1 Tamagawa, Setagaya-ku, Tokyo 158-0094, Japan, and our telephone number is +81-50-5581-6910. Our corporate website is *https://global.rakuten.com/corp/*. The information on our website does not constitute a part of this offering circular.

Organizational Structure as of December 31, 2020

The following is a simplified summary of our corporate structure as of December 31, 2020 with our corporate name as of April 1, 2021. At the general meeting of shareholders held on March 30, 2021, the shareholders approved a resolution to change our name from "Rakuten, Inc." to "Rakuten Group, Inc." effective as of April 1, 2021. The chart does not include all of our subsidiaries and affiliates.



Notes:

(1) Other domestic and overseas subsidiaries include Ebates Inc. (operating under the *Rakuten Rewards* brand), Rakuten Kobo Inc. and Viber Media S.a.r.l., among others.

(2) Rakuten Card Co., Ltd. owns 1% of Rakuten International Commercial Bank Co., Ltd.

Summary Risk Factors

Investing in the notes involves a number of risks, and prospective investors are urged to carefully consider the matters discussed under "Risk Factors" prior to making an investment in the notes. Such risks include, but are not limited to:

- our ability to maintain and enhance our Rakuten Ecosystem;

- the duration and severity of the COVID-19 pandemic;
- uncertainty as to the expansion or development of the Internet services industry;
- intensifying competition in both the domestic and international markets;
- our ability to innovate or adapt to changes in technology or customer needs;
- our ability to expand into new business areas;
- our ability to realize the anticipated benefits from our acquisitions and uncertainty as to whether we may be required to recognize impairment losses;
- our ability to acquire businesses in the future that enhance our existing operations;
- our ability to realize adequate opportunities or returns from our investments, alliances and collaborations;
- our ability to maintain and enhance the value of our brand in a cost-effective manner;
- a downturn in the global or domestic economy or unfavorable economic conditions;
- our ability to further expand our operations overseas while also increasing our market share and profitability in Japan in response to demographic trends in Japan;
- risks generally associated with overseas business operations;
- fluctuations in currency exchange rates in a manner that has a negative impact on our results of operations;
- the interruption or failure of our information technology and communications systems;
- the leakage, loss or theft of the personal information of our users;
- the loss of senior and other key management;
- vulnerability due to the use of third-party service providers for key technologies and information services;
- our ability to maintain or protect our intellectual property rights;
- intellectual property infringements or other legal proceedings;
- a reduction in our deferred tax assets resulting in our recognition of additional income tax expenses;
- our ability to attract, retain and train enough skilled personnel;
- natural or man-made disasters;
- legal proceedings or litigation brought against us or our affiliates;
- excess inventory and defects in goods that we sell directly to customers;
- regulatory risks, particularly in relation to our financial services businesses;
- our ability to comply with financial covenants applicable to our borrowings or ability to raise additional funds on acceptable terms;
- our ability to attract and retain merchants and maintain and expand the user base for our e-commerce services;
- fraudulent activities on our websites and disputes relating to the use of our websites and services;

- the ability of our merchants to provide competitive, high-quality products and services;
- adverse changes to relationships with travel and accommodation providers in our online travel business;
- our ability to provide efficient distribution services to our merchants;
- our ability to successfully operate our professional sports business and realize synergies between it and our other businesses;
- credit risk, interest rate risk and liquidity risk in our FinTech businesses;
- downturns in the Japanese securities markets;
- foreign exchange risk in our banking business and securities business;
- uncertainty as to whether our risk management policies and procedures will adequately protect us from unidentified or unanticipated risks;
- potential further losses, delays or cost increases as we continue to invest in our MNO network;
- the risk that our MNO business may lose customers to our competitors
- adverse changes in the regulatory frameworks affecting our MNO business;
- risks associated with the performance of our MNO network;
- our dependence on various suppliers for equipment and services for our MNO business;
- our ability to monetize and grow the user base of our mobile messaging and VoIP communications business;
- the risk that our Rakuten Communications Platform may not expand and develop as expected;
- the risk of power price fluctuations for our retail electricity supply business; and
- risks associated with our digital contents businesses.

For a discussion of these and other risks you should consider before making an investment in the notes, see "Risk Factors."

THE OFFERING

Certain defined terms used in this section are defined in "Description of the Notes."

Securities Offered	€1,000,000,000 aggregate principal amount of 4.250% Undated Subordinated NC6 Fixed Rate Reset Notes
Offering Price	100.000% plus accrued interest, if any, from April 22, 2021
Use of Proceeds	We intend to use the net proceeds from the sale of the notes, together with the net proceeds from the offering of the USD notes, primarily to fund capital investments for our mobile business, with the remainder to be used for general corporate purposes, including repayment of short-term debt over time as it comes due and potential repurchases of existing subordinated bonds.
No Fixed Maturity; no Change of Control Events	The notes will be perpetual securities in respect of which there is no fixed maturity date. The notes are not subject to any optional or mandatory redemption or other features triggered by a change of control.
Minimum Denomination	The notes will be in denominations of €200,000 and integral multiples of €1,000 in excess thereof.
Interest	The notes will bear interest on their principal amount from (and including) the Issue Date to (but excluding) April 22, 2027 (the "First Reset Date") at a rate of 4.250 percent per annum, payable annually in arrears on April 22 of each year. Thereafter, unless previously redeemed, for each Interest Period the notes will bear interest at a rate per annum equal to the 5 Year Swap Rate plus Margin, payable annually in arrears on April 22 of each year. See "Description of the Notes—Interest Payments."
Status	The notes will be our direct, unsecured and subordinated obligations and will rank *pari passu* and without any preference among themselves.
Subordination	Upon the occurrence of a Subordination Event, our obligations pursuant to the notes will be subordinated in right of payment (except as otherwise provided by mandatory provisions of law) to all Senior Obligations, rank substantially *pari passu* with all Parity Obligations and rank senior to all Junior Obligations. So long as such Subordination Event continues, no such payment will be made with respect to such note unless and until the relevant Subordinate Payment Conditions have been satisfied, and to the extent any Senior Preference Shares are then

outstanding, the holder of any such note will only become entitled to the Subordination Claim Amount. The subordination of the notes is further described in "Description of the Notes—Subordination."

Optional Interest Deferral . . . . We may, at our sole discretion, elect to defer (in whole or in part) any Interest Payment (a "Deferred Interest Payment") which is otherwise scheduled to be paid on an Interest Payment Date by giving a Deferral Notice of such election to the holders, the Trustee, the Calculation Agent and the Paying Agent. Except as described in "Mandatory Settlement," if we elect not to make all or part of any Interest Payment on an Interest Payment Date, then we will not have any obligation to pay such interest on the relevant Interest Payment Date.

Any Deferred Interest Payment will itself bear interest (such further interest together with the Deferred Interest Payment, "Arrears of Interest"), at the relevant Interest Rate applicable from time to time, from (and including) the date on which (but for such deferral) the Deferred Interest Payment would otherwise have been due to be made to (but excluding) the relevant Optional Deferred Interest Settlement Date or Mandatory Settlement Date, in each case such further interest being compounded on each Interest Payment Date.

Non-payment of interest deferred by us will not constitute a default by us under the notes or the Indenture or for any other purpose.

Arrears of Interest may be satisfied at our option, in whole or in part, at any given time (the "Optional Deferred Interest Settlement Date") following delivery of a notice to such effect given by us to the holders, the Trustee, the Calculation Agent and the Paying Agent informing them of our election so to satisfy such Arrears of Interest and specifying the relevant Optional Deferred Interest Settlement Date.

Mandatory Settlement of Arrears of Interest . . . . Notwithstanding the terms of the notes relating to our ability to defer Interest Payments, we will pay any outstanding Arrears of Interest in whole, but not in part, on the first occurring Mandatory Settlement Date following the Interest Payment Date on which any outstanding Deferred Interest Payment was first deferred.

Additional Amounts . . . . All payments of principal and interest on the notes will be made without withholding or deduction for or on account of withholding taxes imposed by Japan, unless such withholding or deduction is required by law. If the payments are subject to Japanese withholding tax, we will pay such additional amounts (subject to certain exceptions) in respect of Japanese taxes as will result in the payment of amounts otherwise receivable absent any deduction or withholding on account of such Japanese taxes. See “Description of the Notes—Taxation and Additional Amounts.”

References to principal or interest in respect of the notes shall be deemed to include any additional amounts which may be payable as set forth in the notes and the Indenture.

Optional Redemption. . . . . We may redeem the notes in whole, but not in part, on the First Reset Date or any Interest Payment Date thereafter at their principal amount together with premium, if any, any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest.

Special Event Redemption. . . . . If a Special Event has occurred and is continuing, then we may redeem the notes in whole, but not in part, at any time at:

(i) (x) 101 percent of their principal amount (in the case of a Tax Deduction Event where such redemption occurs prior to the First Reset Date) or (y) 100 percent of their principal amount (in the case of a Tax Deduction Event where such redemption occurs on or after the First Reset Date or in the case of a Withholding Tax Event where such redemption occurs at any time); or

(ii) in the case of a Rating Methodology Event, an Accounting Event or a Substantial Repurchase Event (x) 101 percent of their principal amount (where such redemption occurs prior to the First Reset Date) or (y) 100 percent of their principal amount (where such redemption occurs on or after the First Reset Date);

in each case with premium, if any, accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest.

Make-whole Redemption . . . . On any date after April 22, 2026 but prior to the First Reset Date, we may redeem the notes in whole, but not in part, at the Make-whole Redemption Amount.

Termination of Rights for Claims upon Certain Events . . . . Upon the occurrence of a Claim Rights Termination Event (reorganization proceedings (*kaisha kousei tetsuzuki*) or rehabilitation proceedings (*minji saisei tetsuzuki*) under Japanese law and analogous proceedings in other jurisdictions, all as more particularly described in “Description of the Notes”), the holders of the notes will be deemed to have irrevocably waived their right to claim or receive, and will not have any rights against us, the Trustee or the Paying Agent with respect to, payment of principal, any interest, Arrears of Interest or Additional Amounts, except for any payments of any interest, Arrears of Interest or Additional Amounts that have become due and payable prior to the occurrence of the Claim Rights Termination Event.

Replacement Intention . . . . We intend (without thereby assuming a legal obligation) at any time that we will redeem or repurchase the notes only to the extent that the aggregate principal amount of the notes to be redeemed or repurchased does not exceed such part of the net proceeds received by us during the 12 months prior to the date of such redemption or repurchase from the sale, disposal or issuance by us to third-party purchasers (other than our subsidiaries or affiliates) of Replacement Securities, unless, on or after the First Reset Date:

(1) both of (i) and (ii) below are true:

   (i) the ICR assigned to us by S&P is Investment Grade and we are satisfied that such ICR would not fall below such level as a result of such redemption or repurchase; and

   (ii) on the last date of any fiscal year or fiscal quarter falling within the 12 months prior to the date of such redemption or repurchase, (a) the amount of our Consolidated Adjusted Net Worth is equal to or greater than the amount of our Consolidated Adjusted Net Worth as of December 31, 2020 plus the aggregate principal amount of our Series 1 JPY Hybrid Bonds, our Series 2 JPY Hybrid Bonds, our Series 4 JPY Hybrid Bonds, the notes and the NC5 USD notes (as defined under "—Concurrent USD Notes Offering"), which is expected to be ¥431 billion, and (b) our Consolidated Adjusted Equity Ratio is greater than or equal to 12%; or

(2) even if (1) is not satisfied, if trading is suspended or halted on the Tokyo Stock Exchange; provided, however, that, if, at the time that such suspension or halt is lifted, if (1) remains unsatisfied, we intend to promptly Issue Replacement Securities in the relevant aggregate principal amount.

See "Description of the Notes—Replacement Intention."

Global Note . . . . The notes will be initially represented by one or more global notes in fully registered form without interest coupons. The global note will be deposited upon issuance with, and registered in the name of a nominee of, a common depositary of Euroclear and Clearstream for the accounts of their respective account holders.

	Beneficial interests in the global note will be shown on, and transfers thereof will be effected only through, records maintained by the depositaries and their participants. The sole holder of the notes represented by a global note will be Euroclear, Clearstream or a nominee thereof (or a successor of Euroclear, Clearstream or a nominee thereof), and voting and other consensual rights of holders of the notes will be exercisable by beneficial holders of the notes only indirectly through the rules and procedures of the depositaries from time to time in effect. Beneficial interests in the global notes may not be exchanged for definitive notes except in the limited circumstances described under "Description of the Notes—Book Entry, Delivery and Form—Exchange of Global Notes for Definitive Notes."
Security Numbers.	The security numbers for the notes are: For the notes sold under Regulation S: ISIN: XS2332889778 Common Code: 233288977 CUSIP: J6S87B AY4 For the notes sold under Rule 144A: ISIN: XS2332889851 Common Code: 233288985 CUSIP: 75102W AC2
Governing Law	The Indenture and the notes will be governed by and construed in accordance with the laws of the State of New York.
Rating	It is expected that the notes will be rated BB by S&P Global Ratings Japan Inc., or S&P, BBB by Rating and Investment information, Inc., or R&I, and BBB+ by Japan Credit Rating Agency, Ltd., or JCR. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Our credit rating is currently BBB- with a negative outlook from S&P, A with a negative outlook from JCR and A- with a stable outlook from R&I. On February 18, 2021, S&P placed us on CreditWatch, with negative implications, which was extended on April 9, 2021. On April 12, 2021, S&P stated that its expected BB rating for the notes would be placed on CreditWatch with negative implications and that S&P would lower its rating for the notes to B+ or lower in the event that S&P downgrades our credit rating from BBB- to BB+ or lower. At that time, S&P stated that it believes there is at least a 50%

	chance of downgrading our credit rating from BBB- to BB+ or lower in the three months following April 12, 2021. See "Risk Factors—Risks Relating to Our Business Generally—If we are unable to raise additional funds on acceptable terms in the future, due to a ratings downgrade or otherwise, or fail to comply with financial covenants applicable to our borrowings, our business, financial condition and results of operations could be adversely affected" and "Risk Factors—Risks Relating to the Notes—The ratings of the notes are subjective in nature and could be lowered."
Listing and Trading	Approval in-principle has been received for the listing of the notes on the Official List of the Singapore Exchange. The Singapore Exchange assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this offering circular. Approval in-principle from, admission to the Official List of, and the listing and quotation of any notes on, the Singapore Exchange are not to be taken as an indication of the merits of us, our subsidiaries and associated companies (if any) or the notes. So long as the notes are listed on the Singapore Exchange and the rules of the Singapore Exchange so require, in the event that the global note representing such notes is exchanged for definitive notes in certified form, we will appoint and maintain a paying agent in Singapore, where the notes may be presented or surrendered for payment or redemption. In addition, in the event that the global note is exchanged for definitive notes in certificated form, an announcement of such exchange shall be made by us or on our behalf through the Singapore Exchange and such announcement shall include all material information with respect to the delivery of the definitive notes in certificated form, including details of the paying agent in Singapore. Under the rules of the Singapore Exchange, the notes if traded on the Singapore Exchange, are required to be traded in a minimum board lot size of S$200,000 (or its equivalent in foreign currencies). Accordingly, for so long as the notes are listed on the Singapore Exchange and the rules of the Singapore Exchange so require, the notes if traded on the Singapore Exchange, will be traded in a minimum board lot size of €200,000.
Trustee	Citicorp International Limited
Paying Agent, Calculation Agent, Transfer Agent and Notes Registrar........................	Citibank, N.A., London Branch
Concurrent USD Notes Offering.....	

Concurrently with the offering of the notes, we are planning to offer USD notes in the following series:

$750,000,000 aggregate principal amount of 5.125% Undated Subordinated NC5 Fixed Rate Reset Notes (the "NC5 USD notes"); and

$1,000,000,000 aggregate principal amount of 6.250% Undated Subordinated NC10 Fixed Rate Reset Notes.

No USD notes are being offered hereby. The offering of the USD notes is expected to close on the same day as the offering of the notes, but the closing of the offering of the notes is not conditional upon the closing of the offering of the USD notes.

RISK FACTORS

Prior to making an investment decision, you should carefully consider the following risks, along with the other information in this offering circular. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. Our ability to make payments of principal or interest under the notes or the trading price of the notes could decline due to any of these risks, and you may lose all or part of your investment. This offering circular also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including the risks described below and elsewhere in this offering circular. See "Forward-Looking Statements."

Risks Relating to Our Business Generally

We may not be able to maintain and enhance our Rakuten Ecosystem, which could adversely affect our business and results of operations.

One of our key strategies is to maintain and enhance our Rakuten Ecosystem, our business model that connects our various services through a common user ID, in order to create strong network effects between users, merchants and other participants. In order to integrate our businesses and create incentives for users to be active in our Rakuten Ecosystem, we have unified membership databases and platforms, allowed access to many of our services using a single user ID and implemented our Rakuten Super Point rewards program across many of our services. We reinforce network effects in our Rakuten Ecosystem by cross-promotion of our services and targeted promotions such as opportunities to earn additional Rakuten Super Points by purchasing or using multiple products and services during Rakuten group-wide sales campaigns such as Rakuten Super Sales or for using new services in our Rakuten Ecosystem. The extent to which we are able to maintain and strengthen these network effects depends on a number of factors, including our ability to offer attractive, secure and easy-to-use platforms for all participants, our ability to provide a wide range of high-quality product and service offerings that meet the evolving needs of users, the effectiveness of our promotional activities, the competitiveness of our Rakuten Super Point rewards program and other factors. Due to the cross-promotional and interconnected nature of our services, we are also subject to the risk that laws and regulations on personal data may inhibit our ability to effectively utilize the Rakuten Ecosystem's customer data across our businesses in the future. See "—Our businesses are subject to various laws and regulations."

We also face increasing competition from other platforms that seek to provide a set of comprehensive online services for their users, including platforms operated by large and established Internet and technology companies such as Alphabet Inc., the parent company of Google LLC, Facebook, Inc., Apple Inc. and Amazon.com, Inc. As our competitors enhance their services and platforms, we may face challenges in attracting and retaining users in our Rakuten Ecosystem. In addition, we seek to pursue an open platform strategy for our e-commerce business in Japan by enhancing our core e-commerce business through new initiatives and introducing additional participants into our Rakuten Ecosystem. However, there is no assurance that we will be successful in such efforts. For example, an open strategy could reduce the attractiveness to merchants of becoming registered merchants on our original e-commerce platforms. Moreover, our Rakuten Super Point rewards program faces competition from other points programs, including T-Points, d POINTs and Ponta in Japan, which may have extensive partnerships that enable their members to earn and use points at a wider range of locations and venues.

In addition to our historical business lines, our wholly-owned subsidiary, Rakuten Mobile, Inc., or *Rakuten Mobile*, launched commercial services on its MNO network in April 2020 with a single service plan structure. We expect that *Rakuten Mobile* will serve as a gateway to introduce additional new users to the Rakuten Ecosystem, but there can be no assurance that *Rakuten Mobile* subscribers will cross-use our other services at the rates we expect or at all, and we may be unable to recoup our investments in the Mobile business. We currently expect that *Rakuten Mobile* will become profitable by the end of the year ending December 31, 2023, but there can be no assurance that we will be successful in achieving profitability on our expected timeline. Moreover, we may be unable to effectively introduce and market the other services in the Rakuten Ecosystem to new *Rakuten Mobile* subscribers.

If we fail to maintain and enhance the attractiveness of our Rakuten Ecosystem to existing and new users, it could damage our brand and our competitiveness, reduce cross-business synergies and have a material adverse effect on our business, financial condition and results of operations.

The outbreak and global spread of the COVID-19 pandemic has created new challenges for our business. The duration and severity of the COVID-19 pandemic could result in adverse effects on our business, financial condition and results of operations.

In response to the COVID-19 pandemic, authorities in various countries have implemented numerous measures to try to contain the spread of the disease, such as travel bans and restrictions, quarantines, shelter-in-place orders and lockdowns. In Japan, the central and local governments have imposed a number of such measures, including travel restrictions, requesting residents to refrain from leaving their homes for non-essential activities and requesting certain businesses to close or restrict their operations. On April 7, 2020, the Prime Minister of Japan initially declared a state of emergency covering Tokyo, Chiba, Kanagawa, Saitama, Osaka, Hyogo and Fukuoka prefectures, and further extended the state of emergency to cover all prefectures in Japan on April 16, 2020. Although the Prime Minister of Japan subsequently lifted the state of emergency for all prefectures during May 2020, the central and local governments have continued to impose a number of measures from time to time depending on infection levels, including travel restrictions that continue to prevent nearly all non-Japanese citizens from entering Japan, and virtually all governments worldwide have imposed similar types of travel restrictions for their respective countries. On January 7, 2021, the Prime Minister of Japan declared a second state of emergency covering Tokyo and neighboring prefectures with a more limited scope that focused on reduced business hours for dining and entertainment businesses, which was subsequently expanded to apply to other prefectures with major urban centers. On February 3, 2021, Japan's parliament implemented a law that allows for fines to be levied against businesses that do not follow the state of emergency measures (as well as fines against individuals in certain circumstances, such as refusal of hospitalization). Following a gradual decrease in the numbers of infections, the second state of emergency was lifted on March 21, 2021. Depending on future developments, the Prime Minister of Japan may declare a state of emergency again at any time, and local governments may strengthen their precautionary attitudes, based on certain factors, such as an increase in infection rates, which could lead to a renewed tightening of such measures.

To date, the increase in working-from-home arrangements and the decrease in shopping at brick-and-mortar stores and other outings has resulted in an increase in e-commerce, which has benefitted our *Rakuten Ichiba* business, but there can be no assurance that we will be able to continue to meet the increase in demand for e-commerce. In particular, significant increases in e-commerce demand may require additional fulfillment centers, delivery vehicles and logistics personnel, which may be challenging to provide in the event of a sudden increase in demand. Additionally, the elevated demand for e-commerce may not continue, and we are unable to predict how long the positive impact on demand will last or how significant it will be after the social impact of the COVID-19 pandemic tapers. Moreover, if the global macroeconomic environment or the economic environment in Japan were to deteriorate, whether due to a prolonged pandemic, the emergence of new strains of COVID-19, disappointing efficacy of expected vaccines and medical treatments for COVID-19 or a lack of government economic support, employment, earnings and general economic activity could be negatively affected and could result in a decrease in consumer spending, including e-commerce spending. Additionally, increasing reliance by consumers on e-commerce may prompt consumers to invest additional time in exploring alternative marketplaces or result in increased competition from existing or new competitors in the e-commerce industry. If an increase in e-commerce results in potential new customers or existing customers choosing one of our competitors as their primary e-commerce source, our business, financial condition and results of operations may be adversely affected.

With regard to the supply side of our *Rakuten Ichiba* business, the COVID-19 pandemic has created additional costs and challenges. Our *Rakuten Ichiba* business relies in part on integrated logistics services for merchants provided by *Rakuten Super Logistics* that range from product storage to shipment. We operate fulfillment centers located across Japan to service the growing number of merchants that use *Rakuten Super Logistics*. Although we have implemented measures at our fulfillment centers to prevent the spread of COVID-19, including the distribution of masks to employees, employee temperature checks and additional ventilation, there can be no guarantee that such measures will be adequate to ensure uninterrupted operations. In the event of an outbreak at our facilities, operations within certain areas of our fulfillment centers may need to be temporarily suspended. Any such suspensions in operations would have an adverse impact on our ability to provide timely and efficient fulfillment services for our merchants, which may negatively affect our business, financial condition and results of operations. Additionally, the costs associated with safety efforts during the pandemic have negatively affected our margins, and any additional costs may adversely affect our business, financial condition and results of operations. Such risks also apply to our other businesses as well as our group-wide corporate management functions, the majority of which are still operating with in-person staff at office buildings and may be susceptible to suspensions of operations, delays or decreases in efficiency if an outbreak or general increase in infections were to occur.

In addition, general pandemic-related restrictions, such as social distancing measures and travel-related measures, have negatively affected certain of our other businesses and may continue to have a negative effect. The ongoing COVID-19 pandemic has resulted in a significant decrease in domestic and international travel, which has negatively affected our *Rakuten Travel* business due to a decrease in bookings and frequent cancellations. Although the recent state of emergency that lasted from January 7, 2021 to March 21, 2021 did not expressly prohibit domestic travel, dining and entertainment, businesses were strongly encouraged (and, in certain limited cases, ordered) to limit hours of operation in the evening (for which compliant businesses were eligible to receive limited compensation), contributing to a general societal sentiment of avoiding non-essential activities outside the home. Additionally, the “Go To Travel” campaign, a government-sponsored campaign to encourage domestic travel with discounts and incentive programs, was suspended during the state of emergency and has not been reintroduced. In the event that border closures and other travel restrictions continue to prevent customers from traveling for an extended period or if customer preferences change such that they avoid travel even after the resolution of the pandemic, our business, financial condition and results of operations may be adversely affected. Furthermore, delays and cancellations of live events, including sports events, film releases and concerts and other events with live audiences, and restrictions on the number of in-person spectators at such events have negatively affected revenue of our professional sports business and our Rakuten Ticket business. To the extent that social distancing restrictions, other measures that restrict live events or consumer preferences against live attendance at events persist during and after the resolution of the pandemic, our business, financial condition and results of operations may be adversely affected. Additionally, although our *Rakuten Card* business was not materially affected by the COVID-19 pandemic during the year ended December 31, 2020, we have adjusted our accounting estimate of allowance for doubtful accounts as of December 31, 2020 to reflect increased credit risk and possible incurrence of losses in the event of a deteriorating economic environment due to the pandemic.

If the Internet services industry does not expand and develop as we expect, our business, financial condition and results of operations could be adversely affected.

We operate primarily in the Internet services industry, including e-commerce services, online financial services and digital contents services, both in Japan and overseas. The expansion of the Internet services industry, in terms of users, the business-to-consumer e-commerce market and others, is essential to our growth strategy and our ability to increase the transaction volume of our services, the number of unique buyers, which we define as the total number of buyers who purchase items at least once on our primary e-commerce website *Rakuten Ichiba* during a specified period, and other transactions through our websites both in Japan and in overseas markets. Our business, financial condition and results of operations could be adversely affected if the growth of the Internet services industry as a whole or the e-commerce market, the online financial services market, the digital contents market or any of the other primary markets in which we operate decelerates. In particular, while we believe there is room for further growth in the Internet services industry in Japan based on the relatively low level of e-commerce spending within total retail consumption compared to certain other economies such as China and the United States, the industry may not expand or develop as we expect due to increasing saturation of e-commerce and other online services markets or other factors. If growth of the Japanese Internet services industry slows or ceases and we are unable to expand our overseas businesses to offset the effects of such trend, our results of operations and overall growth prospects could be negatively affected. Similarly, if growth of the Internet services industry outside of Japan slows or ceases, our results of operations and overall growth prospects could be negatively affected. The Internet services industry could be affected by regulations that limit Internet use, growing awareness of information security and privacy issues, especially in relation to personal information, adverse economic trends, increasing competition, development of disruptive or competing technologies, increasing adoption of smartphones or other devices or other factors.

We face intense competition, including from competitors with greater resources than we possess, and such competition may intensify.

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

Internet Services

In our Internet Services segment, we face significant competition from other Internet service providers in our specific business areas, including the following:

- *E-commerce*. We face competition in Japan from other e-commerce platforms such as those provided by Amazon.com, Inc., Z Holdings Corporation and Mercari, Inc., as well as from traditional retailers, some of which have their own online stores. Our competitors may have more effective operations than us, stronger branding, transaction volume and customer bases and considerable financial, marketing, fulfillment, logistics and delivery and other resources, and may be able to charge lower prices for products in their marketplace if, unlike us, the seller pays no or less commission on sales to an intermediary. We also compete to attract merchants to our respective platforms based on factors that are important to merchants such as the amount of commissions that are charged to merchants. For example, Z Holdings Corporation does not charge merchants on its e-commerce platform commissions on sales. We face similar competition for our e-commerce businesses from e-commerce platforms and traditional retailers in overseas markets in which we operate, particularly in mature markets with established e-commerce platforms with large user bases. Competition in the e-commerce market could intensify in the future with respect to prices, product quality and the attractiveness and security of online services, and we may be unable to maintain and enhance our competitive position as a result.

- *Online travel*. The marketplace for online travel marketing and distribution is large and intensely competitive, and our online travel service *Rakuten Travel* faces competition from other online travel and accommodation services operated by RECRUIT LIFESTYLE CO., LTD. and Z Holdings Corporation, and foreign companies offering similar services such as Booking Holdings Inc. and Expedia, Inc. as well as from major Japanese travel agencies, such as JTB Corporation and Kinki Nippon Tourist Corporation, which have an existing network of users cultivated in part through in-person sales activities and relationships with travel and accommodation providers in Japan and may have the ability to offer a variety of travel related packages for transportation, accommodation and sightseeing.
- *Advertising*. General technological advancements in the field of digital advertising have led to the emergence of a variety of new advertising methods which have invited new market entrants. Although we have taken various measures, including investments in technology development, to address these new advertising methods, there is no guarantee that such measures will be sufficient to adequately address demand for these new forms of digital advertising or compete with market entrants. Additionally, major Internet-oriented companies such as Alphabet Inc., the parent company of Google LLC, and Facebook, Inc. already provide integrated advertising platforms for Internet search engines and social media networks, respectively, that are widely used and have considerable market power to engage in aggressive pricing strategies. Although we seek to exploit our interconnected service offerings to develop a global advertising platform, we may not be able to provide compelling outlets for potential advertisers in the face of such established and large-scale competitors.

FinTech

In our FinTech segment, we face significant competition from other online financial services providers in our specific business areas, including the following:

- *Credit cards.* Rakuten Card Co., Ltd., or *Rakuten Card*, faces significant competition in Japan's consumer credit industries from large Japanese consumer finance companies, a number of major Japanese banks, Internet companies that have entered into the consumer finance industry by acquiring existing consumer finance companies, bank-affiliated credit card companies, retailer-affiliated credit card companies and shopping credit companies that issue credit cards, such as Mitsubishi UFJ NICOS Co., Ltd., Sumitomo Mitsui Card Company, Limited, Credit Saison Co., Ltd., and AEON Bank, Ltd. Our consumer credit competitors seek to compete aggressively on the basis of rewards programs, lending terms and perquisites, and the coverage and scale of their network of distribution and marketing channels and member merchant bases. Many of our consumer credit competitors have substantial financial, technical and marketing resources, large and active customer and merchant bases, long operating histories, significant name recognition and established relationships in the finance industry, and may have more extensive physical infrastructure, more effective and reliable credit check systems and more extensive marketing, sales and acquiring networks than we do. We derive a portion of our revenue as interchange fees from merchants with which we have contracts for credit card settlement. If intensifying competition were to reduce the number of contracted merchants, the amount of fees we collect may decrease.
- *Online banking*. *Rakuten Bank* faces significant competition in Japan's retail financial services market from other online banking providers, such as SBI Sumishin Net Bank, Ltd., Sony Bank

Incorporated, The Japan Net Bank, Limited and AEON Bank, Ltd., as well as from traditional Japanese banking institutions that have expanded their online banking services and broadened their retail asset management and retail lending services. These competitors may provide loans or other products with more attractive terms than we do, such as lower interest rates, or offer a more comprehensive range of banking products than we offer and may have stronger brand recognition, larger customer bases, greater financial resources, more effective online or physical networks and more developed marketing, asset management and risk management capabilities relative to us.

- *Electronic payments*. Through Rakuten Payment, Inc., or *Rakuten Payment*, we offer multiple payment services to address the needs of different segments of the marketplace. *Rakuten Edy* is an e-money service that allows users to use a physical Edy Card, a smartphone app linked to an Edy Card or a mobile wallet service on certain models of mobile phones to make purchases at participating online merchants as well as brick-and-mortar stores, while *Rakuten Pay* offers similar functionality but the payment method is made via QR code or barcode. Additionally, we introduced *Rakuten Wallet* in April 2019 as a cryptocurrency exchange service that will allow us to address developments in digital currencies. Due in part to the Japanese government's efforts to encourage cashless payments, the electronic payments marketplace in our primary market of Japan currently has a high number of market participants, each of which are making efforts to innovate their current offerings and introduce additional payment methods. It is not yet clear whether a variety of electronic and mobile payment methods will be able to continue to co-exist or whether users will eventually converge around a more limited set of electronic payment methods. Softbank Corp. and Yahoo Japan Corporation have partnered to establish PayPay Corporation, which offers the PayPay service, a mobile payment service based mainly on QR and barcodes that is one of our primary competitors in the electronic payments market in Japan. Additionally, certain of our competitors may have advantages that allow them to tie their payment service directly to operating systems, servers or applications that prove more attractive to potential users, such as the Suica card's association with the East Japan Railway Company or the WAON card offered by AEON Bank, Ltd. Additionally, to the extent that cashless services such as Apple Pay or Google Pay are able to appeal to users as a result of their integration with the iOS or Android mobile operating systems, respectively, our payment service offerings may not be able to offer the same level of convenience to potential users and may not be able to expand our customer base. Certain of our competitors also offer rewards or cashback programs which customers may find more appealing than our incentive programs. *Rakuten Card's* primary source of revenue is the interchange fees from payments conducted through payment terminals at member shops. In the event that competition with other forms of payment methods results in temporary or permanent reductions in interchange fees that we receive from member shops, our business, financial condition and results of operations may be adversely affected.

- *Online securities*. Rakuten Securities, Inc., or *Rakuten Securities*, faces direct competition from several other online securities firms, such as SBI SECURITIES Co., Ltd., MATSUI SECURITIES CO., LTD., MONEX, Inc., GMO CLICK Securities, Inc. and au Kabucom Securities Co., Ltd., as well as from full-service securities firms in Japan. These competitors may provide a more comprehensive range of services and may be able to offer more competitive commissions or interest rates on margin loans than we are able to provide. Although we expect brokerage commissions to remain our largest single source of revenue for *Rakuten Securities* and have historically reduced our brokerage commissions in order to keep a competitive commissions structure and continue to attract users, we could face pressure to reduce our commissions in the future due to increased competition.

- *Online life and general insurance*. *Rakuten Life Insurance* and *Rakuten General Insurance* face competition in Japan's life insurance and general insurance industries, respectively. *Rakuten Life Insurance* faces competition from dedicated online life insurance companies as well as both domestic and foreign-owned traditional life insurance companies, including large financial services companies that operate life insurance subsidiaries. *Rakuten General Insurance* faces competition particularly from online and traditional automobile insurance and fire insurance companies. As competitors may have greater financial resources, more effective marketing and sales networks, larger customer bases, stronger brand recognition or more extensive product offerings, *Rakuten Life Insurance* and *Rakuten General Insurance* face significant competitive challenges in expanding their businesses.

Mobile

In our Mobile segment, we face significant competition in our specific business areas, including the following:

- *MNOs and MVNOs.* We face significant competition from the other major existing MVNOs and MNOs in Japan. Previously, our MVNO business allowed users to purchase a SIM card and access the wireless network infrastructures of third-party MNOs, NTT DOCOMO, INC. and KDDI CORPORATION, but we no longer offer this service to new customers and are in the process of migrating our existing MVNO customers to the *Rakuten Mobile* network that is used for our MNO business. Following the launch of small-scale services through a free supporter program in October 2019, *Rakuten Mobile* launched commercial services on its MNO network in April 2020 with a single service plan structure. Our competitors in this market are primarily the established MNOs in Japan, SoftBank Corp., NTT DOCOMO, INC., and KDDI CORPORATION, each of which has a long history of operating in the Japanese MNO market, larger marketing and sales networks, more extensive network infrastructure, stronger brand recognition and larger established customer bases. Additionally, some of our competitors offer their customers multi-year contracts that cannot be terminated without paying a cancellation fee as well as bundles that include family plans and fixed-line services. Conversely, *Rakuten Mobile* does not require fixed-term contracts and had an introductory campaign that waived monthly fees for the first year of service until April 7, 2021, followed by a new campaign announced on April 8, 2021 that waives the first three months of service fees for new *Rakuten Mobile* subscribers. Accordingly, we are subject to the risk that subscribers may cancel their plan at any time in the event that another service is more appealing or may cancel their service when the free campaign period ends with respect to their individual plan. *Rakuten Mobile* is also currently not able to sell or allow use of certain models and brands of phones and smartphones on its MNO network, and there is no guarantee that it will be able to expand the line-up of phones to be used with its MNO network to match customer preferences, which could have an adverse effect on its ability to expand its customer base and grow its business. Accordingly, even if our MNO service proves attractive to potential customers, it may be difficult for customers to switch to our MNO service. Due to our competitors' longer experience, these customer-specific switching costs and potential customers' preferences for certain devices that may not be fully compatible with our MNO network and may not be offered directly for sale by us, our MNO service will face significant competitive challenges in acquiring customers and expanding the business. Additionally, although we believe that our MNO service pricing is competitive, the Japanese government has recently been pressuring MNO operators to offer lower cost plans, leading NTT DOCOMO, INC. to introduce its "ahamo" plan, SoftBank Corp. to introduce its "LINEMO" plan and KDDI CORPORATION to introduce its "povo" plan. These new plans and any future plans that our competitors may introduce may adversely affect our ability to expand our customer base or may force us to engage in further price competition, either of which may adversely affect our business and results of operations.
- *Digital contents*. The marketplace for digital contents is competitive, and some competitors have established significant market shares in some geographic markets and may have extensive digital contents offerings. Our streaming video services, including *Rakuten Viki, Rakuten Sports,*

Rakuten TV and *Rakuten Live*, compete with other video streaming services such as YouTube, Netflix and Hulu, as well as other online retailers with video streaming services such as Amazon.com, Inc. and Apple Inc., all of which have greater name recognition and a significantly larger customer base. Our music streaming service, *Rakuten Music*, competes with other music streaming services such as Apple Music and Spotify. Our e-book business (including audiobooks) competes with other providers of e-readers and sellers of e-books and audiobooks, including Amazon.com, Inc., which enjoys a variety of advantages due to its early entry into, and strong position within, the e-book market, including reader devices with strong name recognition and market penetration and long relationships with, and negotiating advantages over, authors and publishers. Our e-book business also competes with Apple Inc., which sells e-books and audiobooks through its iTunes software that users are able to read on devices running Apple's operating systems.

In addition to competition in our specific businesses described above, competition may intensify as our competitors enter into business combinations or alliances and established companies in other market segments expand to become competitive with our business. In addition, new and enhanced technologies, including search, web and computing services, digital contents and electronic devices, may increase our competition. The Internet facilitates competitive entry and comparison shopping, and increased competition may reduce our sales and profits. In particular, while we work to enhance user loyalty to our services through Rakuten Super Points reward program and other means, to the extent that we are unable to provide attractive services to our users, users would be able to obtain the same goods and services through competing platforms with relative ease. Moreover, as our online financial services businesses interact with customers through the Internet and generally do not maintain physical offices or branches, we may face difficulty attracting customers. There is also the possibility that we will be forced to increase our capital investment and advertising expenditures in response to increased competition. If the competitive environment of any of our businesses intensifies, or if we are otherwise unable to compete effectively in our target markets, our business, financial condition and results of operations could be materially and adversely affected.

Our failure to innovate or adapt to changes in technology or customer needs could damage our competitiveness.

The markets in which we operate are characterized by rapidly changing technology, evolving industry standards, consolidation, frequent new service announcements, introductions and enhancements and changing user demands. Our competitors are constantly introducing new products and services with new technologies. As a result, our future success will depend on our ability to innovate and adapt to rapidly changing technologies, to adapt our services to evolving industry standards and to continually improve the performance, features and reliability of our services in response to competition and the evolving demands of the marketplace and other services. If we are unable to innovate, adapt or improve in response to changing user needs or market conditions in a timely manner, we may lose customers, merchants, users and advertisers to our competitors, which could have a material adverse impact on our business and results of operations. In addition, the widespread adoption of new Internet, networking or telecommunications technologies or other technological changes, including developments related to Internet of Things, or IoT, services, could require us to incur substantial expenditures to modify or adapt our services or infrastructure.

In particular, consumers and businesses in Japan and overseas are increasingly using mobile devices, including smartphones and tablets, for a wide range of purposes, including e-commerce, financial services and accessing content. While a significant and growing portion of participants access our websites and services through mobile devices, this area continues to rapidly evolve, and we may not be able to continue to increase the level of mobile access to, and engagement on, our marketplaces or other services. The variety of technical and other configurations across different mobile devices and platforms increases the challenges associated with this environment. Our ability to successfully expand the use of mobile devices to access our services is affected by the following factors:

- our ability to continue to provide compelling services in a multi-device environment;
- the quality of our mobile offerings, including the service plan that we offer users of our MNO service as well as the speed and network quality of our MNO network;
- our ability to successfully deploy applications on popular mobile operating systems that we do not control, such as iOS and Android;
- our ability to adapt to the device standards used by third-party manufacturers and distributors;
- the attractiveness of alternative platforms; and
- our ability to anticipate and adapt to shifts in user behavior, including preferences with respect to mobile devices, electronic payments and cryptocurrency.

If we are unable to attract significant numbers of new mobile users and increase levels of mobile engagement, our ability to maintain or grow our business would be materially and adversely affected.

In addition, our technology infrastructure supports a high volume of user traffic, online transactions and streaming online media content across our services. Maintaining and improving our technology infrastructure require significant levels of investment. Any difficulties experienced in adapting our infrastructure to accommodate increased traffic, to store user data or to track user preferences, together with the associated costs and potential loss of traffic, could harm our operating results and financial condition.

We may be unsuccessful in expanding into new business areas.

We have entered into a number of new business areas through targeted acquisitions as well as organic development of new services, and we expect to continue to evaluate entry into new business areas as part of our ongoing strategy. For example, in March 2018, in order to expand the scope of our insurance offerings, we acquired Asahi Fire and Marine Insurance Co., Ltd., a provider of non-life insurance, which we then renamed Rakuten General Insurance. In October 2018 we acquired everybody's bitcoin Inc., a cryptocurrency exchange service, which we subsequently renamed Rakuten Wallet, Inc. and relaunched as a cryptocurrency exchange service provider in April 2019. We also continue to develop new businesses as part of our organic growth strategy, such as the launch of commercial services on *Rakuten Mobile*'s MNO network in April 2020. If demand for our products and services in our areas of expansion is not as strong as we anticipate, or if our efforts to increase our user appeal and client coverage are not effective, we may be unable to expand our business in these new areas, or we may incur losses due to the disposal or write-downs of assets in relation to the discontinuation or withdrawal of products and services. In particular, we have expanded into several business areas that are still rapidly evolving, and we cannot predict with any certainty how these markets will grow and develop in the future. There is no guarantee that our MNO network will prove successful in terms of technical performance or in gaining and retaining customers, whether due to complications arising from the large-scale installation of physical base stations, the advanced technical computational aspects of our network, the competitive environment in the Japanese mobile industry or the inability of potential customers to appreciate and demand these technological advantages. See "—Risks Relating to our Mobile Segment." In addition, we may face intense competition in new business areas, greater than expected costs in developing or expanding services and hiring and training personnel. As a result, our new businesses may not grow as we anticipate, and we may be unable to achieve the expected returns on any acquisitions, investments and costs incurred in connection with our entry into new business areas. In addition, our expansion into new business areas may expose us to new or enhanced risks, including reputational risks with respect to emerging fields, such as cryptocurrency, as well as other risks that we are unable to anticipate.

We may be unable to realize the anticipated benefits from our acquisitions and strategic investments, and we may be required to recognize impairment losses on our goodwill and other intangible assets as well as our tangible assets.

Acquisitions and strategic investments are a key part of our business and growth strategy, and we established several of our core businesses, including online travel, online marketing and online financial services, through acquisitions of other companies. In recent years, we have continued to pursue significant acquisitions, including our acquisitions of the MVNO business of Plus One Marketing Co., Ltd. in November 2017, Asahi Fire and Marine Insurance Co., Ltd. in March 2018, everybody's bitcoin Inc. in October 2018, the DMM mobile and DMM Hikari businesses operated by DMM.com LLC in September 2019, the Taiwanese professional baseball team Lamigo Monkeys (currently Rakuten Monkeys) in September 2019, Innoeye, LLC and Innoeye Technologies Pvt. Ltd. in 2020 and Medlight SA in August 2020. In recent years, we have increased our focus on strategic investments through transactions such as our investment in Altiostar Networks, Inc. in May 2019, our investment in the SpaceMobile business of AST & Science, LLC in March 2020 and our acquisition of a minority stake in Seiyu GK in March 2021. We aim to achieve synergies and other benefits from our acquisitions and strategic investments, including through expanding our Rakuten Ecosystem, the Rakuten Super Point rewards program and cross-business synergies, as well as through growing our user base, increasing traffic to our sites and expanding the scope of services provided on our platform and the regions in which they are provided.

With respect to our acquisitions, the process of integrating an acquired company into our business exposes us to a variety of risks and challenges. As a result, we may not be able to realize the full extent of synergies or benefits that we anticipate from the transaction within the expected timeframe or at all. Such risks and challenges could include, among others:

- diversion of management time and focus from operating our business to acquisition integration challenges;
- integration of each company's accounting, management information, human resource and other administrative systems to permit effective management and sufficient internal controls;
- corporate cultural challenges associated with integrating management and employees from the acquired company into our organization;
- retention of management and employees from the businesses we acquire, particularly in areas of Internet services and technology and other highly competitive labor markets which may involve substantial costs including stock option awards and performance-based bonuses;
- expansion into business areas with which our existing management has limited or no experience;
- addressing new legal and regulatory requirements, tax systems and compliance risks in new industries;
- mitigating potential damage to relationships with customers and other parties of the acquired business as a result of the integration of operations, rebranding and transition of existing users onto our platform;
- the difficulty of integrating or failure to successfully utilize the expertise, technology and rights held by the acquired business into our systems and services and unanticipated expenses related to such integration;

- implementation of internal controls, procedures and policies appropriate for a larger public company at acquired companies that lack such internal controls, procedures and policies; and
- challenges associated with managing larger and more complex operations and facilities, and employees from a wide variety of corporate cultures located in different geographic areas.

As overseas acquisitions have been an important aspect of our expansion strategy, we are exposed to unique risks in addition to those mentioned above, including risks related to management and integration of operations across different cultures and languages, currency risks and increased exposure to the particular economic, political and regulatory risks, including supervision by governmental authorities and self-regulatory bodies, associated with specific countries where acquired businesses operate. In addition, to the extent that we expand into new geographic markets or new business areas where we have limited experience and management resources of our own, we may rely heavily on existing management and employees to operate the acquired business and would be exposed to heightened risk of management and employee departures. Moreover, although we conduct due diligence in connection with each of our acquisitions, there may be contingent liabilities, legal claims or other unidentified problems associated with acquired businesses that may not be covered by indemnities obtained from the seller. Such contingent liabilities, legal claims and other problems may result in impairment charges or other expenses, other remedial actions, costly litigation, adverse judgments or settlements, reputational harm or decreased financial performance of the acquired business, any of which could have a material adverse effect on our business, financial condition and results of operations.

With respect to our strategic investments, and particularly minority investments, we face a variety of risks, including risks with respect to the target company's management and the influence of other investors and strategic partners. See "—Our investments, alliances and collaborations may not produce adequate opportunities or returns."

We have recognized a significant amount of goodwill and other intangible assets in connection with our acquisitions. As of December 31, 2020, goodwill on our consolidated statement of financial position was ¥356,359 million. In addition, we may recognize additional goodwill and other intangible assets in connection with future acquisitions. We assess at each quarterly reporting date whether there is an indication that tangible assets, such as land, buildings, machinery and equipment, and intangible assets with definite lives, such as software, may be impaired, and if there is any indication that an asset may be impaired, we estimate the recoverable amount of that asset or Cash Generating Unit, or CGU, to which it belongs, as appropriate. In addition, we perform impairment testing of goodwill and intangible assets with indefinite useful lives at least annually, regardless of whether there is any indication of impairment. If the carrying amount of an asset, CGU or group of CGUs to which goodwill and intangible assets with indefinite useful lives has been allocated exceeds its estimated recoverable amount, we recognize an impairment loss related to that asset or the assets in the CGU or CGU group first to reduce the carrying amount of goodwill and then as appropriate in accordance with IFRS. Should we recognize an impairment loss, there could be a material adverse effect on our financial condition and consolidated results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting our Results of Operations—General Factors—Acquisitions and Equity Investments."

We may be unable to acquire businesses in the future that enhance our existing operations.

We actively engage in acquisitions and other strategic transactions as a key part of our business strategy to develop and enhance our Rakuten Ecosystem through the integration of acquired businesses, products and technologies. From time to time, we expect to continue to evaluate potential acquisitions and strategic transactions, some of which may be significant in size or otherwise substantial. However, there is no assurance that we will engage in future acquisitions or that we will be able to complete acquisition opportunities that we do pursue in a timely manner or at all. We could fail to complete future acquisitions for a variety of reasons, including failure to negotiate and agree on acceptable pricing and other terms, failure to obtain required consents and approvals and address relevant legal or regulatory issues or inability to obtain necessary financing for any future acquisitions on acceptable terms or at all. If we are unable to complete attractive acquisition opportunities that we identify, we may be unable to implement our growth strategies, which could negatively affect our results of operations and growth prospects.

Our investments, alliances and collaborations may not produce adequate opportunities or returns.

We actively pursue alliances, collaborations and investments involving other companies as part of our strategy and have established internal investment frameworks to evaluate and pursue new investments in other companies. For example, on March 12, 2021, we entered into a business alliance agreement with Japan Post and its subsidiary, Japan Post Co., in order to collaborate across multiple fields with initiatives that may include the creation of shared logistics centers and delivery and pick-up systems, data sharing, joint commercialization of a digital transformation platform for logistics (including the establishment of a new company) and initiatives to expand usage of Rakuten fulfillment centers and Japan Post's "Yu-Pack" parcels as well as the acceptance of applications for *Rakuten Mobile's* MNO network at post offices owned by Japan Post Co. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments—Capital Raised Through Third-Party Allotments of Shares." Details of these collaborations have yet to be developed, however, and there can be no assurance that we will be successful in achieving the objectives of our alliances and business partnerships on the expected timeframes or at all. For additional information regarding our alliances and investments, see "Business—Our Business Operations—Alliances and Investments."

As of December 31, 2020, we held minority equity investments in a variety of companies, including Lyft, Inc. and Gurunavi, Inc. We also continue to make investments in various venture capital funds and start-up companies in emerging industries, including fields related to healthcare and biotechnology, that are still in the process of establishing their businesses and may not have achieved profitability, as well as companies in business areas and markets where we have limited or no experience. Our minority equity stakes in investee companies give us substantially less influence than if we established or acquired sufficient control to make them subsidiaries. There is no assurance that we will be able to maintain or enhance the value or performance of our past or future investments. The anticipated revenues or returns from such investments may not be achieved due to changes in the overall business environment and stagnation of such companies' operating results. If we are unable to achieve and enhance the profitability of these investments and investee companies, our business and results of operations could be adversely affected, and we could be required to incur additional costs or make additional capital contributions in connection with these investments and investee companies. In addition, we may be required to record impairments in the value of our investments in the investee companies. For example, in the nine-month period ended September 30, 2019, we recorded an impairment loss of ¥102.9 billion in the value of our investment in Lyft, Inc. as a result of a significant decline in the market price of Lyft, Inc.'s shares. Additionally, in the nine-month period ended September 30, 2020, we recorded ¥25.0 billion in share of losses of investments in associates and joint ventures due to a change in the accounting treatment with respect to our shares in Lyft, Inc. from the equity method to a financial asset measured at fair value through profit or loss as well as the losses of investments in Lyft, Inc. prior to the change in accounting treatment. There is also the possibility, particularly with respect to early-stage start-up companies, that we may ultimately lose part or all of our invested capital, which could negatively impact our results of operations and financial position. In addition, to the extent that these investments are accounted for by the equity method, our financial results will reflect our pro rata portion of any profits or losses recognized by the investee company.

Certain of our businesses require that we maintain a partner in the applicable jurisdiction in order to operate, such as for eligibility under the jurisdiction's regulatory framework. For example, in Malaysia, *Rakuten Securities* operates its *iSPEED* trading platform through a joint venture with Kenanga Investment Bank Berhad, and in Taiwan, *Rakuten Bank* and *Rakuten Card* operate a banking operation through a joint venture with IBF Financial Holdings Co., Ltd. (formerly Waterland Financial Holdings Co., Ltd.). If our relationships with our alliance and joint venture partners were to deteriorate, our businesses could be adversely affected. Additionally, in jurisdictions where a local partner is required in order to operate, a deterioration in our relationship with our local partner or an unrelated deterioration in the financial condition of the local partner could disrupt our operations.

Our success depends on the value of the Rakuten brand, and failure to maintain and enhance the value of our brand in a cost-effective manner could harm our operating results.

The strength of our brand is critical to our ability to build and maintain our Rakuten Ecosystem by attracting and retaining users for a broad range of Rakuten services including our e-commerce platform, online financial services, mobile network and digital contents offerings. As we expand into new geographic regions, work to grow our presence in existing markets or enter new business areas, we may experience increases in brand promotion costs, and there is no assurance that we will be able to achieve a corresponding increase in brand awareness or users. Additionally, as a result of the ongoing COVID-19 pandemic and the decrease in face-to-face interactions and activities outside the home, consumers may receive less exposure to our brand in their everyday life and we may face increased difficulty maintaining our brand awareness. Maintaining and enhancing our brand is challenging and depends on a number of factors, including:

- the attractiveness, usability, reliability and security of our websites and mobile applications;
- our ability to provide high-quality products and services across all our businesses, including customer service and technical support;
- our ability to respond quickly and effectively to the changing needs of our users and customers; and
- the effectiveness of our marketing and brand promotion efforts.

Due to our strategy of using the Rakuten brand across many of our diverse businesses, problems or negative publicity associated with one of our businesses or our brand itself could adversely affect our other businesses and our business as a whole. As part of our branding strategy, we have in many cases converted newly acquired businesses to the Rakuten brand by unifying membership databases and platforms, implementing a common membership points program and allowing access to our services using a single user ID in order to integrate these businesses into our Rakuten Ecosystem. In some cases, we also pursue a dual branding strategy by integrating the Rakuten brand with an acquired brand. While we generally conduct brand integration in a controlled manner by introducing the Rakuten brand gradually, changes to the logos, brand names or user IDs of newly acquired businesses could lead to a loss of loyalty among existing users and result in a reduction of the number of our users or the usage of our services.

Actual or alleged incidents involving us could result in negative publicity that could harm the Rakuten brand or our other brands, including misconduct or criminal activity, data privacy breaches, scandals involving our management or employees, operational problems, illegal, unfair or inconsistent employment practices, employee dissatisfaction and fraud or injury. In addition, any actual or alleged incidents by third parties including our alliance partners, licensees, customers, merchants or other users of our websites, over whom we have little or no control, could adversely affect the image of the Rakuten brand. Negative publicity could take a variety of forms including media reports, market rumors, postings to the Internet or social-networking services and anonymous letters or emails, and even untrue or unsubstantiated allegations could adversely affect public perception of our brand. Any developments adversely affecting our brand could make us or our products or services less appealing to customers, alliance partners, merchants, advertisers and investors.

If we are unable to maintain or enhance the value of the Rakuten brand in a cost effective manner, our business, financial condition and results of operations could be harmed.

Our results of operations could be adversely affected by negative economic conditions in Japan and overseas.

We operate in a number of business areas that are sensitive to economic conditions. We are primarily exposed to economic conditions in our home market of Japan, and we have become increasingly exposed to economic conditions in other countries such as the United States as the scale and scope of our international businesses are expanding. In recent years, the Japanese economy and market environment have experienced a gradual recovery due to increased capital investment and production by companies along with continuing improvements in the wage and employment environment, but the sustainability of this recovery trend remains uncertain. Particular concerns include whether and to what extent general economic activity will recover in Japan and internationally following anticipated widespread vaccinations in response to the ongoing COVID-19 pandemic, whether measures implemented by the Bank of Japan and the Japanese government will succeed in ending deflation, increasing consumption and investment and achieving growth, and the potential negative consequences of an increasing budget deficit and an aging and shrinking population that will adversely affect long-term economic prospects.

Changes in economic or market conditions both in Japan and overseas could adversely affect us in a number of respects. If we experience reduced consumer spending due to reductions in disposable income or other factors, transaction volumes in our e-commerce businesses or other businesses could decline. A weak economic environment could also adversely impact our financial services businesses through deterioration of consumers' credit quality in our consumer-related business, a reduction of securities transactions in our securities business or decreases in new contracts or premature cancellations of contracts for our insurance businesses. In addition, a portion of our revenues are derived from digital advertising which is a part of the advertising market that is particularly susceptible to general economic trends, and unfavorable general economic conditions would likely have a negative impact on the marketing budgets for our advertisers. Accordingly, any downturn in business confidence or general economic conditions could result in a decrease in our revenues from some of our Internet advertising products and similar sources. As a result, our business and results of operations could be adversely affected.

Demographic trends in Japan could have a negative effect on our business.

Although we have been expanding overseas in recent years, our businesses in Japan continue to constitute a majority of our operations and a substantial majority of our revenue and profitability. In the year ended December 31, 2020, revenue from external customers in Japan contributed 82.4% of our consolidated revenue. The ongoing aging and decline of both the overall population and the working population in Japan may adversely affect the Japanese economy and the size of the individual markets in which we operate and increase competitiveness in already intensely competitive markets. As a result, we face pressure over the mid-to-long term to further expand our operations overseas while also increasing our market share and profitability in Japan. Our inability to do so could impede our future growth and have a material and adverse effect on our business, financial condition and results of operations.

We are exposed to adverse political or economic developments in the foreign countries in which we operate and other difficulties related to our overseas operations.

Global expansion of our business is one of our key strategies, which includes the extension of our Internet services to many regions including primarily the Americas, Europe and Asia as well as the acquisition of overseas businesses. In addition to uncertainty about our ability to generate revenue and profit from our foreign operations and further expand our international market position, there are certain risks inherent in doing business internationally, including:

- difficulties in developing, staffing and simultaneously managing and monitoring a large number of varying foreign operations as a result of distance, language and cultural differences;
- different payment cycles and different accounting practices;
- different corporate governance and internal controls practices and difficulties in establishing and maintaining satisfactory governance and internal controls policies and adequate compliance and confirmation practices;
- currency exchange rate fluctuations;
- political or social unrest or economic instability;
- a worsening of Japan's relationships with China, South Korea or other foreign countries;
- a worsening of the bilateral relationships of foreign countries, including with respect to the United States and China, that may affect global trade and security policy, including with regards to technology;
- adverse tax consequences;
- different preferences and trends among users and customers;
- lower brand name recognition, particularly if we undertake post-acquisition brand conversion of locally well-known brands to the Rakuten brand name;
- competition in specific business markets outside Japan that may be significantly more intense than competition in the corresponding domestic Japanese business markets and competition with local companies who may understand the local market better than we do;
- credit risk and higher levels of payment fraud;
- different legal and regulatory systems with different and more stringent consumer protection, data protection and similar laws; different intellectual property laws; different legal and regulatory requirements that may limit or prevent the offering of our services or create uncertainty in our business, prevent enforceable agreements between sellers and buyers, prohibit the listing of certain categories of goods, require special licensure, limit the transfer of information between Rakuten and our affiliates, favor local competitors or prohibit or restrict foreign ownership of certain businesses; along with the possibility that such legal or regulatory systems could change to become less favorable to us or more complicated or result in a higher risk of litigation;
- different employee/employer relationships, labor market practices and the existence of workers' councils and labor unions;
- difficulties in integrating with local payment providers, including banks, credit and debit card associations, and electronic fund transfer systems;
- difficulties in developing products and services in different languages and for different cultures; and
- differing levels of retail distribution, shipping, and Internet and communications infrastructures.

Unfavorable performance of our overseas operations for the above reasons or any other factors would have an adverse effect on our business, financial condition and results of operations, and our international costs of doing business may exceed our comparable domestic costs. In addition, establishing businesses in new overseas markets may involve upfront costs to the extent that we establish local subsidiaries, personnel and infrastructure, and there is no assurance that we will be able to recover such costs.

Fluctuations in currency exchange rates could materially and adversely affect our financial condition and results of operations.

We have substantial overseas operations and are working to further expand the scope of our overseas businesses. We principally conduct our overseas business transactions in foreign currencies, in particular the U.S. dollar, Canadian dollar and Euro. Foreign currency-denominated assets and liabilities of our subsidiaries are reported in the relevant local currencies and then translated to Japanese yen at the period-end applicable exchange rate, while foreign currency-denominated results of operations of our subsidiaries are reported in local currencies and then translated to Japanese yen based on the period-average applicable exchange rate as part of the preparation of our consolidated financial statements. As a result of the translation of the financial results of our overseas subsidiaries into Japanese yen, substantial changes in exchange rates between the foreign currencies in which the financial results of our subsidiaries are denominated and the Japanese yen could have a material effect on our results of operations. Changes in foreign currency exchange rates also affect the amount of assets and liabilities denominated in foreign currency, including goodwill we carry in connection with past overseas acquisitions and *Rakuten Bank*'s foreign currency deposits and securities, when translated into Japanese yen, and as a result our net assets could be negatively affected as a result of fluctuations in foreign exchange rates.

Interruption or failure of our information technology and communications systems due to natural disasters, human error or malicious acts could impair our ability to effectively provide our products and services, which could damage our brand and reputation and adversely affect our operating results.

We depend on the continuing operation of our information technology and communications systems to provide our products and services. Most of our businesses rely almost exclusively on the Internet to provide services to our users and customers. In addition, our MNO network depends on over ten thousand physical base stations. Any damage to or failure of our digital systems, our physical infrastructure, including base stations, or the telecommunications infrastructure more broadly could result in interruptions in our services, which could damage our brand and reputation and could result in decreased use of our services and cause us to incur significant costs or financial losses. In addition, certain of our regulated subsidiaries, such as *Rakuten Bank*, *Rakuten Securities*, *Rakuten Payment*, *Rakuten Wallet*, *Rakuten Mobile*, *Rakuten Life Insurance*, *Rakuten General Insurance*, could be subject to administrative sanctions due to system failures.

Our systems are vulnerable to damage or interruption from earthquakes, acts of war or terrorist attacks, tsunamis, typhoons, floods, fires, power loss, hardware and software defects and malfunctions and telecommunications failures. A significant portion of our major businesses and their respective data centers are located in the Tokyo metropolitan area in Japan, which has a high risk of major earthquakes. Other major businesses are located on the east and west coasts of the United States, which may also experience natural disasters. Our data centers are also subject to break-ins, sabotage and intentional acts of vandalism, and to potential disruptions if the third-party operators of these facilities have operational or financial difficulties. The occurrence of a natural disaster, closure of a facility we are using without adequate notice for financial reasons or other unanticipated problems at our data centers could result in lengthy interruptions in our service.

Despite our implementation of network security measures, our servers and the Internet generally are vulnerable to computer viruses, worms, and other malicious software programs, physical and electronic break-ins, sabotage and similar disruptions, and we may be vulnerable to coordinated attempts to overload our systems with data, resulting in denial or reduction of service to some or all of our users for a period of time. In addition, we have observed a high level of attention in the industry to the risk of cyber-attacks that could result in unauthorized access to confidential or sensitive information, including personal information, misappropriation of assets, corruption of data or operational disruption. On December 25, 2020 and January 26, 2021, we announced that we had discovered an incident of unauthorized access of certain data related to our group companies that was stored by a third-party cloud system provider, including personal identifying information related to *Rakuten Ichiba*, *Rakuten Card* and *Rakuten Edy*. To combat cyber-attacks, we have policies and procedures in place to prevent or limit the effect of possible security breaches of our information technology systems, but there can be no assurance that our policies and procedures will be sufficient to protect our systems. For example, our e-commerce, financial services and online communications businesses must provide secure transmission of confidential information over public networks, and many of our users routinely provide us with credit card, bank account and other financial information. We rely on encryption and authentication technology licensed from third parties to effect secure transmission of confidential information, including customer credit card numbers. Advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in a compromise or breach of the technology we use to protect such personal and transaction data.

If our efforts to combat these malicious applications or cyber-attacks are unsuccessful, or if our products and services have actual or perceived vulnerabilities, customers and potential customers may lose confidence in our security and our user traffic could decline, which would have a negative effect on the value of our brand. Moreover, security breaches could damage our reputation and expose us to a risk of loss or litigation and possible liability. Certain of our businesses may not be insured against losses caused by security breaches, and any insurance policies we hold may not cover or may not be adequate to reimburse us for such losses. We are also exposed to targeted attempts by third parties to access and misuse our systems, such as unauthorized account access and fund transfers in our online banking business. In addition, we depend on third parties for certain services with respect to the implementation and maintenance of our information systems and accordingly some system problems and failures may be outside of our control. There is also a possibility that our disaster recovery and business continuity plans may not address all contingencies that could arise in the event of a major disruption of services, which could harm our reputation, business, financial condition and results of operations.

If the personal information of our users is mishandled, used inappropriately, leaked, lost or stolen, it may adversely affect the value of our brand, our reputation and our results of operations.

Our business operations involve the regular gathering, storing and transmitting a significant amount of confidential information, in particular the personal information of over 110 million cumulative registered Rakuten members (defined as members who logged in one or more times after registration and excluding membership withdrawals) as of December 31, 2020, directly or in some cases through our third-party service providers. Depending on the type of service, such confidential information could include names, email addresses, dates of birth, addresses, telephone numbers, bank account information, credit card information, financial information, health-related information and other personal information. We handle such information on a broad scale across our many services and transmit the information between users of our services to support a vast number of online transactions.

We are required to comply with various laws, regulations and guidelines relating to the protection of personal information, including the Act on the Protection of Personal Information of Japan (Act

No. 57 of 2003, as amended), and the financial services businesses in our FinTech segment are subject to strict regulation and supervision in connection with the handling of personal information relating to our customers under various laws and regulations including the Banking Act and guidelines and rules issued under the FIEA. Additionally, in the European Union we are required to comply with the General Data Protection Regulation (GDPR), which became effective May 25, 2018. The GDPR applies to any company established in the European Union as well as to those outside the European Union if they collect and use personal data in connection with the offering of goods or services to individuals in the European Union or the monitoring of their behavior. In the United States, California has enacted the California Consumer Privacy Act of 2018, or CCPA, which became subject to enforcement starting from July 1, 2020 and provide expanded privacy protection for consumers. The potential effects of this legislation and the related CCPA regulations are far-reaching and may require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply. For example, the CCPA gives California residents (including non-residents employed in California, though only in limited circumstances until January 1, 2023) expanded rights to transparency access and require deletion of their personal information, opt out of certain personal information sharing and receive detailed information about how their personal information is collected and used. The CCPA also provides for civil penalties for violations, as well as a private right of action for data breaches that may increase data breach litigation. Additionally, a new privacy law, the California Privacy Rights Act, or CPRA, was approved by California voters in November 2020. The CPRA creates obligations relating to consumer data beginning on January 1, 2022, with implementing regulations expected on or before July 1, 2022, and enforcement beginning July 1, 2023. The CPRA significantly modifies the CCPA, potentially resulting in further uncertainty and requiring us to incur additional costs and expenses in efforts to comply. The enactment of such laws is prompting similar legislative developments in other states in the United States, including Virginia which enacted the Virginia Consumer Data Protection Act in March 2021, which could create the potential for a patchwork of overlapping but different state laws, and is inspiring federal legislation.

We are subject to the risk that the personal information that we collect may not be handled in accordance with local regulations across the many jurisdictions in which we operate, which could result in alleged or actual violations of applicable rules and regulations leading to regulatory action, which could in turn damage our brand reputation and adversely affect our business and results of operations. For example, in August 2019, Unrollme Inc., our indirectly held subsidiary in the United States that operates an email subscription management business, entered into an agreement containing a consent order with the United States Federal Trade Commission, or the FTC, following a complaint by the FTC that Unrollme Inc. had violated the Federal Trade Commission Act for failing to sufficiently disclose its data usage and sharing practices under certain circumstances. In addition, in the past, we have experienced leaks of personal information by us and by third parties that have access to the personal information of our users. For example, on December 25, 2020 and January 26, 2021, we announced that we had discovered an incident of unauthorized access of certain data related to our group companies that was stored by a third-party cloud system provider, including personal identifying information related to *Rakuten Ichiba*, *Rakuten Card* and *Rakuten Edy*. Additionally, on March 10, 2021, *Rakuten Mobile* received written guidance from the Ministry of Internal Affairs and Communications, or the MIC, with regard to the leakage of personal information regarding approximately 16 users of our *Rakuten Link* mobile application. As a result of any leaks of confidential information, we could potentially be subject to regulatory actions or lawsuits for damages from users. We could incur additional expenses to provide compensation to victims or change our security systems, either voluntarily or in response to written guidance or other regulatory initiatives from the government, or in connection with public relations campaigns designed to prevent or mitigate damage to our brand or reputation. Potential future changes in the regulatory framework or shifts in public opinion may also restrict our ability to use the personal information that we collect for our planned purposes. Despite any efforts to mitigate the adverse impact on us, mishandling, leaks or misuse of confidential information could damage our brand and reputation and result in decreases in the use of our services, which could adversely affect our business and results of operations.

The loss of senior and other key management, in particular Hiroshi Mikitani, could adversely affect our business.

Our performance is substantially dependent on our senior and other key management. These individuals have acquired specialized knowledge and skills with respect to the Rakuten group and our businesses. The familiarity of these individuals with the group and our businesses, their experience in management and with financial matters and their decision-making abilities make them especially critical to our success. If one or more members of our key personnel were unable or unwilling to continue in their present positions, our business and operations could be disrupted and our growth potential could be impaired.

In particular, we depend in large part on the leadership, knowledge, expertise and services of Hiroshi Mikitani, the founder and Chief Executive Officer, Chairman and President and Representative Director of Rakuten Group, Inc., especially for managing our business, identifying new business opportunities, creating new business models and enhancing our brand image. Mr. Mikitani's reputation and personal contacts in and outside of the industries in which we operate give Rakuten group companies access to many opportunities which would not otherwise be available to us. Mr. Mikitani's departure or inability to provide services could have a material adverse effect on our business and results of operations. In addition, because of how closely associated our founder Mr. Mikitani is with our brand and the significant media attention that he attracts in Japan, negative publicity directed at Mr. Mikitani could also impact the Rakuten brand and have an adverse effect on our reputation and business.

We rely on third-party providers for key services critical to our business and any errors, failures or disruption in the services provided by these third parties could significantly harm our business, financial condition and results of operations.

We contract with a number of third parties for services that are key to our operations. We rely on third parties for services including:

- our principal Internet connections and technologies;
- prompt delivery, installation and maintenance of servers and other equipment to provide our services;
- co-location of a significant portion of our data servers and network access;
- travel and accommodation providers;
- technology underlying the delivery of news, stock quotes and current financial information, Internet search, chat services, street mapping and telephone listings, streaming capabilities and similar services;
- global and national credit card brands, including JCB Co., Ltd., American Express Company, Mastercard Incorporated and Visa Inc.;
- ATM services for accountholders through ATMs operated by other banks and convenience stores;
- back-office services for our online securities business;
- roaming services for our MNO business by KDDI CORPORATION which provides our MNO business with nationwide 4G mobile network roaming services through KDDI CORPORATION's *au* telecommunications network outside of our network coverage areas;

- infrastructure access and utilization rights based on agreements with certain of Japan's regional power companies, such as our agreement with Tokyo Electric Power Company Holdings, Inc., or TEPCO, which allows us to utilize TEPCO's transmission towers, utility poles, telecommunication towers, rooftop facilities and other equipment for our network of base stations for our MNO business;
- storage, fulfillment, logistics and delivery services for our direct sales of products to consumers; and
- the manufacture of our *Rakuten Kobo* e-reader devices.

Any disruption, from natural disasters, pandemics, technology malfunctions, cyberattacks, sabotage or other factors, in the Internet or network access or co-location services provided by these third-party providers, any failure of these third-party providers to handle current or higher volumes of use or any failure by our telecommunications and utility partners to comply with our access agreements or to properly maintain their networks or utility interconnection facilities may create interruptions or quality problems for our telecommunications services, and any of these disruptions could significantly harm our business, financial condition and results of operations. Any errors, failures, interruptions, or delays experienced in connection with these third-party technologies and information services could adversely impact our relationship with users and adversely affect our brand, business, financial condition and results of operations. We generally have no direct control over these third-party providers, which increases our vulnerability to disruptions or problems with their services. Any operational or financial difficulties experienced by our providers may have negative effects on our business, the nature and extent of which we cannot predict.

If we are unable to maintain or protect our intellectual property rights, including licensed intellectual property rights, our brand and results of operations may be adversely affected.

We regard our intellectual property rights, including our licenses to intellectual property rights and our rights to certain Internet domain names, as critical to our brand and success. We rely on trademark, copyright and patent law, trade secret protection and confidentiality and license agreements with customers, affiliates and others to protect our proprietary rights, and we rely on third parties to license to us some of the intellectual property that we use in our business. While we attempt to protect our brand and our intellectual property rights and stop any unauthorized use of our proprietary rights, the efforts we take to maintain our licenses and protect our proprietary rights may not be sufficient or effective. The contractual arrangements, information security measures and other steps we have taken to protect our intellectual property rights may not prevent misappropriation of our proprietary rights or deter independent development of similar technologies and services by others. Furthermore, protection of some of the distinctive elements of our services may not be available under copyright or other intellectual property laws, and second-mover businesses have emerged that seek to replicate such innovations, in some cases with significant success. In addition, third-party licensors of intellectual property rights may not continue to license intellectual property rights to us that we consider important to our business on commercially reasonable terms, or at all, particularly if those intellectual property rights are infringed upon by third parties as a result of our use of those rights. If we are not successful in protecting our intellectual property rights or maintaining our licenses to intellectual property rights on satisfactory terms, it could have a material adverse effect on our business, financial condition and results of operations.

We pursue the registration of our trademarks and service marks in Japan and internationally. We must protect our intellectual property rights in an increasing number of jurisdictions. However, effective trademark, service mark, copyright, trade secret and patent protection may not be available in every country in which our services are made available online. Furthermore, regulations governing Internet domain names may not prevent others from using our trademarks and similar proprietary rights. For example, if third parties use our trademarks in connection with their domain names, we could lose potential business or experience damage to our brand. In addition, protecting our intellectual property and other proprietary rights is expensive and time consuming. Any increase in the unauthorized use of our intellectual property rights could make it more expensive to do business, which would have an adverse effect on our results of operations.

We are, and may in the future be, subject to intellectual property infringement claims, which are costly to defend, could require us to pay damages and could limit our ability to provide certain content or services or use certain technologies.

Companies in the online services, technology, finance and media industries own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. In the ordinary course of business, we have been and continue to be subject to disputes regarding the ownership of technologies and rights associated with our online businesses, and as we continue to expand our businesses, develop new technologies and business models and face increasing competition, the possibility of additional intellectual property rights claims against us grows. In addition to patent claims, third parties may assert claims against us alleging infringement of copyrights, trademark rights, trade secret rights or other proprietary rights, or alleging unfair competition or violations of privacy rights.

Although we believe we make reasonable efforts to ensure that our services do not violate the intellectual property rights of others, it is possible that third parties may claim that we have infringed upon their rights. Any intellectual property claims against us, with or without merit, could be time-consuming and expensive to litigate or settle and could divert management resources and attention. In the event that there is a determination that we have infringed upon third-party proprietary rights such as patents, copyrights, trademark rights, trade secret rights or other third-party rights such as publicity and privacy rights, we could incur substantial monetary liability, be required to enter into royalty or licensing agreements, which may not be available on reasonable terms, or be prevented from using the rights, any of which could require us to change our business practices, limiting our ability to provide certain content or services and compete effectively or otherwise have a material adverse effect on our business, financial condition and results of operations.

Our financial condition and results of operations will be adversely affected if we are required to reduce our deferred tax assets.

In accordance with IFRS, we have established deferred tax assets for tax effects expected to be realized by us and certain subsidiaries. The calculation of deferred tax assets is based on various assumptions, including assumptions with respect to future taxable income based on business forecasts and applicable tax rates. Adverse changes in economic conditions, changes in applicable law or accounting standards or other factors could lead us to decrease our estimated future taxable income and this could require us to decrease our deferred tax assets. As a result, we would recognize additional income tax expense and our results of operations could be materially adversely affected.

We may not be able to attract, retain and train enough skilled personnel.

Our continued success depends on our ability to hire, retain and train qualified employees. We require employees with specialized expertise in a number of fields, such as web and systems design, programming and other information technology areas, e-commerce management and consulting, financial services and regulatory compliance. In order to maintain the effectiveness of our workforce, we must also engage in the ongoing training of our personnel, particularly in areas where the technology or business is rapidly evolving. There is significant competition for highly skilled technical, business and other personnel in Japan and our other operating markets, particularly in the Internet services and financial services industries. If we are unable to hire qualified personnel or retain and train our existing personnel, or if we are forced to incur additional costs to hire, retain and train personnel, our business, financial condition and results of operations could be adversely affected.

The occurrence of natural or man-made disasters may adversely affect our business, financial condition and results of operations.

Our business operations are subject to the risk of natural disasters such as earthquakes, volcanic eruptions, tsunamis, typhoons, hurricanes, floods, heavy snow, pandemics, man-made disasters, such as wars, acts of terrorism or armed conflict, and core infrastructure failures such as power grid failures. In particular, we are exposed to the risk of natural disasters in Japan, which is prone to disasters such as earthquakes and tsunamis, due to the concentration of a majority of our customers and merchants in Japan and our corporate functions in Tokyo. Disasters or catastrophes could result in significant disruptions to our business and operations and other negative consequences, including:

- disruption of our normal business operations or accessibility of our websites resulting from damage to our data centers, headquarters, information technology systems, logistics facilities, base stations for our MNO business or other properties or damage to public and private infrastructure, including power supply, communications and financial services and transport and delivery routes;
- disruption of operations in our business or the business of our partners or service providers due to the spread of infectious diseases such as the ongoing COVID-19 pandemic;
- decreases in online transactions due to disruptions in Internet access or the negative effect of disasters on our customers, users, merchants or other participants in our online services;
- shipping and delivery delays for logistics services related to *Rakuten Ichiba*, such as logistics delays in Kumamoto prefecture in July 2020 due to torrential rains;
- increases in the payment of insurance claims by *Rakuten General Insurance*, including an increase in claims that may exceed our reinsurance availability and risk reserves, which may negatively affect our profitability;
- costs and expenses for repairing, replacing or rebuilding damaged properties and infrastructure;
- losses in our investment and loan portfolio due to volatility in financial markets or the failure of counterparties to perform; and
- a downturn in economic conditions, decrease in advertising demand, decreases in consumer spending or adverse consumer sentiment that adversely affects demand for our services.

Our business, financial condition and results of operations could be materially and adversely affected in the event of any disaster or catastrophe. There can be no assurance that our business continuation and crisis management plan or insurance coverage would be effective in mitigating any negative effects of a disaster, or that the business continuation and crisis management plans of third parties on which we rely would be effective in mitigating any negative effects on the provision of such services and products in the event of a disaster.

In addition to larger scale natural disasters, in recent years Japan has experienced a relatively high number of typhoons and torrential rain that have affected general levels of economic activity on a regional basis for limited periods of time. To the extent that general climate change or shifts in weather patterns result in an increase in the frequency, severity or duration of severe weather events, such events could affect the general level of economic activity or may result in an increased risk of infrastructure failures or other disruptions in our operations, which may adversely affect our business, financial condition and results of operations.

We may be subject to legal proceedings and litigation, which could be costly and could materially and adversely affect our brands, reputation, business, financial condition and results of operations.

We are subject to litigation and other legal proceedings in the ordinary course of our business. See "Business—Legal Proceedings." In particular, we currently are and may in the future be subject to, among other things, claims, allegations, lawsuits and regulatory investigations regarding intellectual property, the proper handling, usage and protection of personal information, data security, false or deceptive advertising, delivery of services, product liability, losses incurred in connection with the use of our services and other matters from users of our services, competitors, regulators and other parties. Due to the evolving nature of the Internet services industry, we may also become exposed to the risk of legal proceedings as the business, legal and regulatory environment changes in our operating markets. Legal proceedings can be expensive and disruptive to our normal business operations regardless of the merit of the underlying claims. A determination adverse to us in any legal proceedings could result in significant costs, penalties or fines or require us to pay royalty fees, modify our services and products in order to provide non-infringing substitutes or cease the use of certain services, products or features altogether, which could materially and adversely affect our brands, reputation, business, financial condition and results of operations.

Defects in goods that we sell directly to customers or excess inventory may harm our business.

We sell goods directly to consumers through our *Rakuten 24*, *Rakuten Books*, *Rakuten Kobo*, *Rakuten Fashion* and *Rakuten Mobile* businesses as well as through *Rakuten BIC*, a joint venture with BIC CAMERA INC., and *Rakuten Seiyu Netsuper*, a joint venture with Seiyu GK. In connection with our direct sales, we are directly liable for the delivery, quality and content of goods. If any of our products are defective, we could be subject to legal proceedings brought by customers or regulators, incur costs resulting from product recalls or product liability claims, suffer reputational harm or otherwise suffer harm to our business. In addition, if demand for our products decreases or product prices decline due to technological innovation or increased competition, we may be required to recognize losses incurred by *Rakuten Kobo* and further recognize impairment charges for products, parts and materials held in inventory, which would negatively affect our results of operations. For example, if sales of our *Rakuten Kobo* e-readers do not increase as a result of technological and other features that fail to respond to consumer needs, pricing that is not competitive with competing devices or otherwise, the results of operations of our e-book business could be adversely affected.

Our businesses are subject to various laws and regulations.

The businesses that we currently operate, as well as those that we may operate in the future, encompass many business areas and regions and are consequently subject to a variety of laws and regulations. In particular, our financial services businesses operate in highly regulated industries. See "—Risks Relating to Our FinTech Segment—Our financial services businesses are subject to extensive regulation, any amendments to which may further increase our costs of doing business." We are also subject to a number of other laws and regulations, including regulations relating to telecommunications licenses, consumer protection, privacy and protection of personal information, fairness in commercial dealings with our customers, telecommunications, private lodgings in connection with our vacation rental business, payment services in connection with *Rakuten Edy*, *Rakuten Pay* and *Rakuten Wallet* and other areas. The laws and regulations that apply to our various businesses are complex, and even an inadvertent failure to comply with them could result in fines, penalties, loss of permission to operate some of our businesses, suspension of operations, litigation and other legal proceedings. Furthermore, future changes in such laws or regulations or entry into new regulated industries could result in additional compliance costs and increase the risk that we could fail to comply with applicable requirements. Any failure to comply with laws and regulations could harm our reputation and could materially and adversely affect our business, financial condition and results of operations.

We are required to register and obtain approvals or licenses in order to conduct certain of our businesses, and certain of our businesses are subject to supervision and monitoring by authorities in Japan and other countries. In particular, the Telecommunications Business Act of Japan (Act No. 86 of 1984, as amended) and the Radio Act of Japan (Act No. 131 of 1950, as amended), which govern our telecommunications businesses in our Mobile segment, the relevant guidelines under each Act formulated by the MIC and the regimes that govern the spectrum allocated to us by the MIC govern the way we are able to conduct our mobile telecommunications business, including the services we provide and the ways in which we market and price these services. For example, our recently launched MNO business is based on approval from the MIC to operate networks on various frequency bands. Although we have received approval for 4G base station deployment for the 1.7 GHz frequency band and 5G base station deployment for the 3.7 GHz and 28 GHz frequency bands, we may be required to apply for additional approvals in the future in the event of any changes in Japan's regulatory framework for telecommunications. Other aspects of our Mobile segment are also subject to regulation and oversight, including exchanges, reissuances and restrictions on SIM cards and mobile number portability (MNP) transfer fees, as well as general government pressure with respect to the fees that we charge. *Rakuten Mobile* has received written guidance from the MIC on multiple occasions, including as recently as August 2019, regarding the development plan for its MNO network and the delay in its initial timeline for base station construction, and *Rakuten Mobile* has delivered written responses describing its revised development plan, including reasons for the delay and initiatives to enhance the development plan going forward. Additionally, in July 2020, *Rakuten Mobile* received a warning and written guidance from the MIC regarding compliance with radio-related regulations with respect to the Rakuten Mini smartphone, and in September 2020, *Rakuten Mobile* received written guidance from the MIC regarding improper price discounts in connection with a smartphone campaign that offered new customers an amount of Rakuten Super Points. See "Supervision and Regulation—Mobile Segment."

Due to the significant size and market share of certain of our businesses, we may also become subject to restrictions on planned business acquisitions under antitrust and competition law. In particular, regulatory authorities in Japan have at times expressed competition-related concerns with respect to internet platforms that benefit from network effects, economies of scale and increased bargaining power, including *Rakuten Ichiba*. In February 2020, the Japan Fair Trade Commission commenced a probe to investigate our free shipping service for *Rakuten Ichiba*, although the Fair Trade Commission withdrew its suspension order in March 2020. There can be no assurance, however, that we will not encounter competition-related issues again in the future, and any such matters, even if subsequently withdrawn or resolved, may adversely affect our reputation and business.

With respect to privacy, there has been a trend in recent years towards additional privacy protection and limitations on methods that can be used to track user activity on the Internet, including third-party cookies. This trend may affect our business because one of primary attributes of the Rakuten Ecosystem is that users are able to use a single Rakuten ID to access many of our services across different industries. To the extent that laws and regulations inhibit our ability to track users' activities across our various services, including general Internet activities, our abilities to leverage the interconnectedness and synergies of our ecosystem and to effectively deliver targeted advertisements may be diminished, which may adversely affect our businesses.

For more information regarding the laws and regulations applicable to our businesses, see "Supervision and Regulation."

If we are unable to raise additional funds on acceptable terms in the future, due to a ratings downgrade or otherwise, or fail to comply with financial covenants applicable to our borrowings, our business, financial condition and results of operations could be adversely affected.

In addition to operating cash flows, we rely on a variety of funding sources, including loans from financial institutions, commitment lines, bonds and commercial paper, in order to finance our cash needs and execute our business strategies.

We may require additional funds in the future to pursue acquisitions, make capital investments or for other reasons. In particular, we have made significant capital investments for the development of our MNO network, including the installation of physical base stations, and we expect to make significant additional capital investments in the future. There is no guarantee that we will be able to borrow additional funds on favorable terms in a timely manner or at all. For example, we may face difficulty raising funds due to volatility in the financial markets or lowering of our credit rating, which is BBB- with a negative outlook from S&P, A with a negative outlook from JCR and A- with a stable outlook from R&I. On February 18, 2021, S&P placed us on CreditWatch, with negative implications, stating that it expected to resolve such placement after examining the scale of net free operating cash outflows in our nonfinancial businesses, the progress we are able to make in remedying such outflows and the effect on our financial position. S&P noted that it may downgrade us if it thinks that our nonfinancial businesses' operating performance will not recover quickly, or if it does not expect our financial standing and liquidity to recover swiftly despite successful financings. On April 9, 2021, S&P announced that it was keeping our ratings on CreditWatch with negative implications, stating that it would continue to examine the impact of our measures to offset the effects of our ongoing capital investments on our operating performance and key financial ratios, and that they expected to resolve that placement within three months of the April 9, 2021 announcement. S&P noted that they did not believe that our measures taken to such date, including the raising of capital through the third-party allotments of shares described under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments—Capital Raised Through Third-Party Allotments of Shares," are sufficient to offset the effect of our capital investments, and that they may downgrade us if they think our liquidity and financial standing will not recover swiftly despite our additional financing efforts. On April 12, 2021, S&P stated that its expected BB rating for the notes would be placed on CreditWatch with negative implications and that S&P would lower its rating for the notes to B+ or lower in the event that S&P downgrades our credit rating from BBB- to BB+ or lower. At that time, S&P stated that it believes there is at least a 50% chance of downgrading our credit rating from BBB- to BB+ or lower in the three months following April 12, 2021. See "—Risks Relating to the Notes—The ratings of the notes are subjective in nature and could be lowered." Accordingly, we may be unable to maintain our current credit ratings, and, as a result of a potential downgrade or other deterioration in our creditworthiness, our liquidity could be negatively affected to the extent that market participants or counterparties are reluctant to provide liquidity to us or demand higher funding costs. In addition, financing costs for our existing floating-rate borrowings and any additional borrowings could increase due to rising market interest rates. If we are unable to borrow additional funds on favorable terms or at all, we may be unable to make necessary capital investments, develop and expand our services or pursue acquisitions or other business opportunities and our business, financial condition and results of operations could be adversely affected.

Furthermore, we are subject to certain financial and other covenants under our borrowings and commitment lines. If we become unable to meet these financial covenants due to the deterioration of our financial performance, financial position or credit rating, our lenders could require us to repay the full amount of the relevant borrowings or provide additional collateral or increase the interest rate or commission rate of the borrowings.

There is a material risk that we will be classified as a passive foreign investment company for U.S. federal income tax purposes, which could result in adverse U.S. federal income tax consequences to U.S. investors.

In general, we will be classified as a passive foreign investment company, or a PFIC, for any taxable year in which either (i) 75% or more of our gross income is "passive income," or (ii) 50% or more of the value (generally determined on the basis of a quarterly average) of our assets is attributable to assets that produce, or are held for the production of, passive income. For this purpose, passive income generally includes, among other things, dividends, interest, rents and royalties (in each case, subject to certain exceptions), and gains from the disposition of passive assets. In addition, cash is generally considered a passive asset, and we currently hold a significant amount of cash.

Based on our financial statements and our income, assets and activities (in particular, our significant cash balances), we believe there is a material risk that we will be classified as a PFIC for 2021, and we may be classified as a PFIC in future taxable years. The determination of whether we are a PFIC is made annually after the close of each taxable year and will depend on the composition of our income and assets and the value of our assets from time to time. Accordingly, it is possible that our PFIC status may change due to changes in our income or asset composition or the value of our assets.

If we are a PFIC for any taxable year during which a U.S. holder (as defined in "Taxation—United States Federal Income Taxation") holds notes, certain adverse U.S. federal income tax consequences could apply to such U.S. holder. See "Taxation—United States Federal Income Taxation—Passive Foreign Investment Company Rules." There can be no assurance that we will not be a PFIC for 2021 or any future taxable year.

Risks Relating to Our Internet Services Segment

We may not be successful in attracting and retaining merchants and maintaining and expanding the user base for our e-commerce services.

The success of our e-commerce businesses depends on our ability to maintain the attractiveness of our platform to merchants and users and expand our user base and generate traffic to *Rakuten Ichiba* and similar services, as well as volume of purchases of goods and services through our websites. A significant portion of the revenue that we derive from *Rakuten Ichiba* and related services is derived from commissions from merchants that are calculated as a percentage of the total value of sales transactions completed through our system. In countries such as Japan, where our services have been available for some time, acquiring new users may become more difficult than it has been in the past due to the maturity of the Internet service industry and the presence of large competitors with established user bases. In order to expand our user base, we must continue to appeal to and attract users who may shop online using the services of our competitors or may be unaccustomed to online shopping entirely. If we are unable to attract new users or if new users are less active than our current users, our businesses could be adversely impacted. Our e-commerce businesses also depend on our ability to maintain an active merchant community by attracting and retaining merchants offering products and services that respond to the needs of our users. If merchants leave our services or reduce their use of our services due to inadequate support or development tools or their dissatisfaction with the fees we charge for listing their products on our marketplace, our inability to maintain a large and active user base, more attractive terms offered by our competitors' platforms, adverse changes in tax treatment for Rakuten points or for other reasons, the business and results of operations of e-commerce services could be adversely affected. In addition, our results of operations could be adversely affected if we incur higher costs to acquire or retain customers and merchants in the future. Competing e-commerce platforms, including websites operated by merchants with whom we have relationships, may provide a more convenient and comprehensive online customer experience. Merchants may also establish exclusive relationships with our competitors. If our merchants and customers bypass our e-commerce offerings and related services and contact competing providers or merchants directly, our revenue could decline.

Fraudulent activities on our websites and disputes relating to the use of our websites and services may harm our business.

We periodically receive complaints from customers who have not received the goods that they purchased through *Rakuten Ichiba* or who have received poor quality or defective merchandise or whose merchandise was not delivered on time. We also receive complaints from merchants who have not received payment for the goods that a user contracted to purchase. Non-payment may occur because of miscommunication, because a user has changed his or her mind and decided not to honor the contract to purchase the item, or because the user contracted or bid on the item maliciously, in order to harm either the seller or us.

While we can suspend the accounts of merchants, users, sellers and buyers who fail to fulfill their payment or delivery obligations to other users, we do not have the ability to require merchants, users, sellers and buyers to make payment or deliver goods. We expect to continue to receive communications from users requesting reimbursement. Our contracts with individual merchants, customers, sellers and buyers clarify that all disputes regarding purchases and payments are the responsibility of the parties involved in a transaction and not the responsibility of Rakuten Group, Inc., but we may become involved in disputes between our merchants and users as a platform operator. While we do not accept legal responsibility for any user claims against merchants or other users of our websites, we do reimburse users for the cost of products ordered from merchants that do not arrive, are damaged or are different from what was ordered under our "Rakuten Anshin Shopping Service," up to five times a year and up to a total of ¥300,000 per reimbursement request as long as the users remain Rakuten members. We also offer a similar service that provides reimbursement for counterfeit products ordered from merchants, which currently covers products from over 1,000 brands. In addition, affected merchants, customers, sellers or buyers may complain to regulatory agencies that could take action against us, including imposing fines, seeking injunctions or introducing new guidelines or regulations regarding Internet commerce. Negative publicity and sentiment among merchants, customers, sellers or buyers generated as a result of fraudulent or deceptive conduct by other users of our services could damage our reputation, reduce our ability to attract new, and retain existing, merchants, customers, sellers and buyers and diminish the value of our brand names.

In addition, we have received in the past, and we anticipate receiving in the future, communications alleging that certain items listed or sold through our services by our merchants and sellers are pirated or counterfeit items, infringe third-party copyrights, trademarks, trade names or other intellectual property rights or are otherwise illegal or improper items. Although we work to eliminate listings offering counterfeit, pirated or infringing items on our websites, rights owners may view our efforts as insufficient. Content owners and other intellectual property rights owners have been active in defending their rights against online companies, including us. In addition, we expect that these types of claims may increase as our websites gain prominence in markets outside of Japan, where the laws may be unsettled or less favorable to us. Such claims could be costly for us, result in damage awards or increased costs of doing business through adverse judgment or settlement, require us to change our business practices in expensive ways or otherwise harm our business.

If our merchants are unable to provide competitive, high-quality products and services, our business, financial condition and results of operations could be adversely affected.

Our e-commerce platforms, including *Rakuten Ichiba*, primarily function to connect and facilitate transactions between businesses with consumers. As a result, the success of our e-commerce platforms depends on the ability of our merchants to provide their customers with high-quality products, quick delivery times and appropriate customer service. We have no direct control over our merchants and their individual business practices. Users may choose to make purchases through the proprietary online stores of retailers and other e-commerce sites rather than with our merchants if the online stores of other retailers or other e-commerce sites offer lower prices, a wider selection of products, faster delivery speeds, more attractive loyalty programs, better customer service or a more user-friendly or convenient website interface. In particular, larger retailers such as Amazon Japan may have their own logistics operations that can significantly shorten delivery times and lower delivery costs compared with merchants relying on third-party delivery services like us and may provide other operational advantages, such as customer support centers with longer operating hours, that may not be provided by our merchants.

Our online travel business is subject to a number of risks, including adverse changes to relationships with travel and accommodation providers and disruptions in the travel industry.

Our online travel service *Rakuten Travel* provides a platform for customers to connect with travel and accommodation providers, and our travel business is highly influenced by changes in the domestic and worldwide travel industry. Travel expenditures are sensitive to business and personal discretionary spending levels and tend to decline during general economic downturns as well as safety concerns with travel in certain regions or airline travel generally. For example, incidents of terrorism, geopolitical conflicts, airline accidents and health epidemics have adversely affected demand for travel services in the past. Any future decrease in demand due to one or more of these types of events, depending on its scope and duration, could significantly and adversely impact our travel business, financial condition and results of operations over the short and long term. In particular, the ongoing COVID-19 pandemic has resulted in a significant reduction in both domestic and international travel due to border closures, lockdowns and related restrictions on ordinary business activities as well as general customer sentiment against traveling due to health concerns. Additionally, the “Go To Travel” campaign, a government-sponsored campaign to encourage domestic travel with discounts and incentive programs, was suspended during in December 2020 and has not been reintroduced. As a result, revenues for our *Rakuten Travel* business have been adversely affected, and we expect reduced revenue levels to continue until the resolution of the COVID-19 pandemic. However, it is difficult to predict the overall duration of the COVID-19 pandemic, and the pandemic may become prolonged in the event of the emergence of new strains of COVID-19, disappointing efficacy of expected vaccines and medical treatments for COVID-19, government failures or delays in administering vaccines or other unexpected factors, and there can be no assurance that domestic and international travel will return to pre-pandemic levels, even after the resolution of the pandemic.

In addition to general consumer travel demand, the success of *Rakuten Travel* depends on its relationships with travel and accommodation providers as well as global distribution system partners. Adverse changes in existing relationships, or *Rakuten Travel’s* inability to enter into new arrangements with these parties on favorable terms, or at all, could reduce the amount, quality and breadth of attractively priced travel products and services that *Rakuten Travel* is able to offer, which could adversely affect its business, financial condition and results of operations. Travel and accommodation providers are increasingly seeking to lower their travel distribution costs by promoting direct online bookings through their own websites. In some cases, providers’ direct channels offer advantages to consumers, such as loyalty programs or lower transaction fees. In addition, travel and accommodation providers may choose not to make some or all of their travel products and services available through *Rakuten Travel* distribution channels due to travel industry trends. To the extent that consumers increase their travel purchases through travel and accommodation providers’ proprietary websites or if travel and accommodation providers choose not to make some or all of their products and services available to *Rakuten Travel* due to travel industry trends, *Rakuten Travel*’s business may suffer.

Our logistics business for products sold through Rakuten Ichiba is subject to various risks.

Although each merchant on *Rakuten Ichiba* is generally responsible for the shipment and delivery of its products, we have established logistics agency services to assist merchants with order, shipment and delivery logistics. The logistics industry in Japan is subject to ongoing labor shortages, particularly for delivery vehicle drivers, and our cost competitiveness could be affected if outsourcing costs to logistics companies increase as a result of such shortages. As we plan to continue to expand our logistics-related service offerings, we may also face difficulties related to finding and leasing suitable real estate at attractive terms, opening and operating new fulfillment centers and creating and maintaining relationships with various external service providers. When planning new fulfillment centers, we make upfront investments in capacity based on anticipated order volumes. If volumes are less than expected, we may face difficulties recovering our initial investment and operating the facility at a profit and we may need to incur further costs to relocate or modify a facility, which may adversely affect our results of operations.

In addition, we compete for merchants and users with other e-commerce businesses such as Amazon Japan, which is directly responsible for the delivery and shipment of products sold by many of the merchants on its platform and, based on contracts and other relationships with major shipping and logistics companies in Japan, offers discounted or free delivery in certain cases. If we cannot operate and provide efficient distribution services, or if our competitors provide more attractive logistics services for merchants, we may not be able to maintain or enhance the competitiveness of our *Rakuten Ichiba* marketplace, which could have an adverse effect on our financial condition and results of operations. Furthermore, customer complaints and dissatisfaction related to our failure to operate and provide efficient distribution services or problems could damage our reputation and have an adverse effect on our business, financial condition and results of operations.

With respect to the ongoing COVID-19 pandemic, although we have implemented measures at our fulfillment centers to prevent the spread of COVID-19, including the distribution of masks to employees, employee temperature checks and additional ventilation, there can be no guarantee that such measures will be adequate to ensure uninterrupted operations. In the event of an outbreak at our facilities, operations within certain areas of our fulfillment centers may need to be temporarily suspended, which would adversely affect our ability to provide timely and efficient fulfillment services for our merchants.

As part of our logistics business, our group companies make use of motor vehicles. Although we have established safety measures, any serious traffic accidents that may occur involving our usage of motor vehicles may damage our reputation and have an adverse effect on our business and results of operations. Any such accidents could also potentially result in the suspension of business, our usage of motor vehicles, license revocation due to Japan’s traffic violation point system or other administrative penalties, which could result in interruptions or discontinuance of logistics business operations.

Our professional sports business may not be profitable and may not contribute to our other businesses.

The ticket sales and revenue from sponsorship marketing of the Tohoku Rakuten Golden Eagles, the Japanese professional baseball team we own and manage, and Vissel Kobe, the Japanese professional soccer club we own and manage, are the principal sources of revenue for our professional sports business. These sources of revenue are affected by the general popularity of professional baseball and soccer in Japan and of the Pacific League, of which the Tohoku Rakuten Golden Eagles are a member, and the J1 League, of which Vissel Kobe is a member, and, more specifically, by the popularity of the Tohoku Rakuten Golden Eagles and Vissel Kobe, which in turn depends in large part on each team’s success on the field. In order to strengthen the teams, we may need to pay more in recruiting costs and salaries to team management and players than we did in prior seasons, which could have a material adverse effect on the results of operations in our professional sports business. We also expect that the popularity of the Tohoku Rakuten Golden Eagles and Vissel Kobe will contribute to our other businesses, such as our e-commerce, banking and credit card businesses, through an increase in awareness of the Rakuten brand, leading to an increase in merchants, customers, accountholders and cardholders. Such benefits may not be realized, however, if the Tohoku Rakuten Golden Eagles or Vissel Kobe are not successful. Additionally, the ongoing COVID-19 pandemic and related restrictions, such as social distancing measures, as well as general reluctance by consumers to attend large-scale events, have resulted in a significant decrease in attendees for sporting events which has negatively affected our professional sports businesses. To the extent that social distancing restrictions or general societal sentiment against large-scale events persist during and after the resolution of the pandemic, our business and results of operations may be adversely affected.

Risks Relating to Our FinTech Segment

We are exposed to credit risk in connection with our FinTech businesses.

Our FinTech businesses involve consumer credit and commercial lending activities, insurance services and securities and foreign exchange brokerage, as well as investments in marketable debt securities. These activities expose us to the risk that the creditworthiness of our borrowers may deteriorate and that our borrowers may be unable to make principal or interest payments on their loans or debt securities. In particular, we are exposed to credit risk in the following business areas:

- *Rakuten Card*. In our credit card business operated through *Rakuten Card*, we are exposed to credit risk in connection with credit we extend to our cardholders. We have established an allowance for doubtful accounts in connection with loans in our credit card business based on our evaluation of borrowers' creditworthiness, our historical loan loss experience and other factors. As of December 31, 2020, our allowance for doubtful accounts was 4.0% as a percentage of our total balance of loan receivables in our credit card business. We are also subject to the risk of fraudulent transactions, which may adversely affect our business if they exceed anticipated levels.
- *Rakuten Bank*. In our online banking business operated through *Rakuten Bank*, we are exposed to credit risk in connection with commercial lending to retail borrowers as well as business borrowers. We have established an allowance for doubtful accounts in connection with loans in our banking business based on our evaluation of borrowers' creditworthiness, our historical loan loss experience, the value of collateral and other factors. We are also exposed to credit risk in connection with our investment in Japanese and foreign bonds including both government bonds and corporate bonds, and securitized credit card receivables of *Rakuten Card* as part of the investment portfolio of *Rakuten Bank*. Due to the online-only nature of *Rakuten Bank*, we are also subject to the risk of unexpectedly high levels of fund outflows in the event of a deterioration in economic conditions.
- *Rakuten Securities*. *Rakuten Securities* conducts margin lending in connection with its securities brokerage and foreign exchange businesses. We are subject to credit risk from our borrowers to the extent that the value of the securities held as collateral is not sufficient to cover the outstanding principal or we are unable to sell collateral at a favorable price or at all. As a result, fluctuations in trading prices of securities affects our exposure to credit risk in connection with margin lending. We face similar credit risks in extending credit to customers of our foreign exchange trading service, as fluctuations in currency exchange rates could affect the value of the currencies traded and the cash collateral held by us.
- *Insurance*. In our *Rakuten Life Insurance* and *Rakuten General Insurance* businesses, we are exposed to credit risk in connection with our investment in Japanese government and corporate

bonds and securitized credit card receivables of *Rakuten Card* as part of the investment portfolios of *Rakuten Life Insurance* and *Rakuten General Insurance*.

There is no assurance that our allowance for doubtful accounts will be an accurate estimate of our actual losses. For example, negative changes in our borrowers' payment abilities (such as due to deteriorating economic conditions resulting from the ongoing COVID-19 pandemic), the economic environment or other factors could require us to provide for additional allowances for doubtful accounts and record credit losses. In addition, the regulatory standards or guidance on establishing reserve for possible loan losses may also change, causing us to change some of the evaluations used in determining allowances and providing for additional reserve for possible loan losses. Additionally, our group companies regularly enter into various types of hedging transactions, such as interest rate swaps, currency swaps and other derivatives, and we are subject to the risk that our counterparties to such transactions may become insolvent and prevent us from obtaining the benefit of such transactions. For a discussion of our allowance policy, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition and Liquidity."

Changes in interest rates may significantly affect the profitability of our FinTech businesses.

We hold a significant amount of interest-earning assets and interest-bearing liabilities in connection with our financial services businesses, and as a result, we are exposed to changes in market interest rates. We are primarily exposed to market interest rates in Japan, which are at historically low levels due primarily to monetary easing measures implemented by the Bank of Japan. If the current monetary easing measures of the Bank of Japan are terminated or changed, interest rates in Japan could significantly increase, which could affect our results of operations and financial condition. In particular, the following businesses are affected by fluctuations in market interest rates:

- *Rakuten Card*. We rely in part on borrowings from financial institutions in addition to securitization transactions with *Rakuten Bank* to fund our credit card business. If interest rates on our borrowings or the funding cost of our securitization transactions increase and we are unable to increase interest rates applicable to our loans to the same degree, the profitability of our credit card business could decrease.

- *Rakuten Bank*. In our banking business, our primary source of income is interest income from our loans and our investment portfolio, and our primary source of funding is interest-bearing deposits. If market interest rates increase, interest rates applicable to our deposits could increase to a greater degree than rates earned on our loans and investments. If the spread between our interest-bearing liabilities and interest-earning assets decreases, the profitability of our banking business would be adversely affected. In addition, if interest rates increase, the carrying amount of debt securities carried at fair value could decrease, which would directly impact our financial condition and results of operations. We may also be required to recognize impairment losses on debt securities carried at amortized cost due to significant increases in market interest rates or objective evidence of impairment as a result of one or more events.

- *Insurance*. In our *Rakuten Life Insurance* and *Rakuten General Insurance* businesses, we hold debt securities as part of our investment portfolios. If market interest rates increase, we may also be required to recognize impairment losses on debt securities, which are carried at amortized cost, due to significant increases in market interest rates or objective evidence of impairment. In addition, decreases in interest rates could negatively affect the amount of interest income from our debt securities or our ability to replace them as they mature. As the relative sensitivities of our assets and liabilities to changes in interest rates may differ, our financial condition could also be affected depending on the composition of our assets and liabilities.

Our financial services businesses are subject to extensive regulation, any amendments to which may further increase our costs of doing business.

Our subsidiaries operating financial services businesses, including *Rakuten Card*, *Rakuten Bank*, *Rakuten Securities*, *Rakuten Payment*, *Rakuten Life Insurance*, *Rakuten Wallet*, *Rakuten General Insurance* and certain other subsidiaries, are subject to substantial regulation and supervision. Such regulatory requirements include the following:

Rakuten Card

Rakuten Card is registered as a moneylender and supervised by the Financial Services Agency of Japan, or the FSA, pursuant to the Money Lending Business Act (Act No. 32 of 1983, as amended) and is also registered as a mediator of installment sales transactions and supervised by METI. Additionally, *Rakuten Card* has a minimal 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 Act (Act No. 100 of 1954, as amended), and *Rakuten Card* may be subject to claims for reimbursement for the amount exceeding such interest rate ceiling. Although we have recorded an allowance for losses on interest repayments for future reimbursement claims relating to such loan contracts, actual claims may exceed the allowance and we may be required to establish an additional allowance if there is a change in the assumptions used to calculate *Rakuten Card* allowances, such as an increase in the average amount of claims. As a result, the results of operations of our credit card business could be negatively affected.

Rakuten Bank

Rakuten Bank is a licensed bank and also subject to regulation by the FSA under the Banking Act of Japan (Act No. 59 of 1981, as amended), including the requirement that it maintain risk-adjusted capital adequacy ratios above the levels specified in the capital adequacy standards stipulated by the FSA, based on Basel III. As a Japanese bank that does not have overseas operations, *Rakuten Bank* is subject to the domestic standard for capital adequacy. As of December 31, 2020, *Rakuten Bank*'s consolidated risk-adjusted capital adequacy ratio was 11.61% compared to the minimum risk-adjusted consolidated capital adequacy ratio of 4.0%. *Rakuten Bank* may be unable to continue to satisfy the capital adequacy requirements if its core capital decreases or risk-weighted assets increase for any reason, including as a result of the realization of any of the risks described elsewhere in this "Risk Factors" section, or if capital adequacy standards are amended to be more stringent. If *Rakuten Bank*'s capital adequacy ratios fall below required limits, the FSA could require *Rakuten Bank* to take corrective actions, including, depending upon the level of deficiency, submission of an improvement plan or suspension of a portion of its business operations. *Rakuten Bank* may also need to alter its business strategy or operations if its capital adequacy ratios decline to unacceptable levels. We are also subject to certain regulatory restrictions as a principal shareholder of *Rakuten Bank*, under which the FSA may request the submission of reports or materials from, or may conduct inspections of, us in certain circumstances, and may order us to take such measures as the FSA deems necessary under certain limited circumstances. For a discussion of our capital adequacy ratios and the related regulatory standards, see "Supervision and Regulation" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Adequacy of Rakuten Bank."

Rakuten Securities

Rakuten Securities is a registered financial instruments business operator and subject to extensive regulation by the FSA and self-regulatory organizations. Our online brokerage operations must comply with, among other rules, capital adequacy, customer protection and market conduct requirements. Securities regulatory agencies regularly review the operations of online brokerage companies, including us. We are also subject to certain regulatory restrictions as a principal shareholder of *Rakuten Securities*, under which the FSA may request the submission of reports or materials from, or may conduct inspections of, us in certain circumstances, and may order us to take such measures as the FSA deems necessary, including resigning from our position as a principal shareholder of *Rakuten Securities*, under certain limited circumstances. If we violate applicable rules and regulations, the regulatory authorities that oversee our activities may exercise their broad powers to issue an order canceling our registration or authorization, suspending or requiring changes in the manner of our business or removing our directors or audit and supervisory board members from their positions. In addition, the Japanese government in the future may adopt new regulations that adversely affect our online securities business by imposing additional costs, exposing us to increased liability or additional supervision or monitoring. See "Supervision and Regulation—FinTech Segment—Online securities and commodity derivatives trading business."

Under the FIEA and related regulations, *Rakuten Securities* is required to meet strict capital adequacy requirements. If *Rakuten Securities* fails to maintain the required level of regulatory capital, the FSA, may order changes in its operations or the deposit of assets, temporary suspension of its business or revocation of its registration as a securities company. As of December 31, 2020, *Rakuten Securities* had a regulatory capital adequacy ratio of 299.6%, which was above the required minimum ratio of 120%. Continued rapid growth in the aggregate principal amount of margin transaction assets held in relation to the margin loans *Rakuten Securities* extends and growth in other areas of its operations may create a need for additional capital in order to keep its capital adequacy ratio above levels mandated by regulations. *Rakuten Securities* may not be able to obtain additional regulatory capital on favorable terms or at all. If it fails to obtain additional capital, it may have to limit the margin trading of its customers. It may also have to limit the expansion of its foreign exchange, securities lending and other businesses requiring minimum capital, which could adversely affect our earnings and growth potential.

Payments Businesses

The Payment Services Act of Japan (Act No. 59 of 2009, as amended), or the Payment Services Act, requires entities that engage in business activities involving advance payments from customers using prepaid payment instruments to set aside for such customers amounts covering at least 50% of the total amount of the unused amounts or credits represented by such instruments issued as of the end of either the first or third quarter of any year (if such total amount is more than ¥10 million), either by making a deposit or by entering into guarantee or trust agreements. Rakuten, *Rakuten Bank*, *Rakuten Edy* and *Rakuten Card* are registered with the FSA as issuers of prepaid payment instruments that can be used to purchase goods or services that are offered by third parties. The FSA is authorized to issue a business improvement order or business suspension order, or cancel our registration and we may be subject to criminal sanctions, if we fail to comply with the regulations above.

Rakuten Life Insurance and Rakuten General Insurance

Rakuten Life Insurance and *Rakuten General Insurance* are licensed insurance companies and subject to comprehensive regulation by the FSA under the Insurance Business Act of Japan (Act No. 105 of 1995, as amended) and related regulations. The primary purpose of the Insurance Business Law and related regulations is to protect policyholders, not shareholders or noteholders. The Insurance Business Act specifies the types of businesses in which insurance companies may engage and requires insurance companies to maintain specified reserves and a minimum solvency margin ratio, which is a regulatory measure of capital adequacy calculated by dividing the solvency margin (net assets (less certain items), plus unrealized gains on assets, subordinated debt and other items) by a quantified measure of total risk. The FSA has broad regulatory powers over our insurance businesses, including the authority to grant or revoke operating permissions, suspend operations, request information and conduct rigorous onsite inspections of books and records. We generally must also receive FSA approval for the sale of new insurance products and for changes to the pricing terms of our products. We are also subject to certain regulatory restrictions as a principal shareholder of *Rakuten Life Insurance* and *Rakuten General Insurance*, under which the FSA may request the submission of reports or materials from, or may conduct inspections of, us in certain circumstances, and may order us to take such measures as the FSA deems necessary under certain limited circumstances.

Rakuten Wallet

Since April 2019, users of *Rakuten Wallet* have been able to purchase a selection of cryptocurrency assets, and in March 2020 we launched a cryptocurrency asset margin trading service following our registration as a Type 1 Financial Instruments Business under the Financial Instruments and Exchange Act. Because cryptocurrencies are an emerging field, the legal framework applicable to our cryptocurrency business, including regulations and tax treatment, is likely to continue to evolve and could result in additional compliance costs, tax increases or restrictions in the scope of our operations. Additionally, *Rakuten Wallet* conducts identity verification and maintains transaction records in accordance with the Act on Prevention of Transfer of Criminal Proceeds, but any failures to maintain compliance could result in penalties from the supervising authorities.

For further details regarding the effects of these regulations on our FinTech segment, see “Supervision and Regulation—FinTech Segment.” We believe we are in material compliance with these laws and regulations, but any amendments to these laws and regulations, any new laws or regulations or any unfavorable judicial or administrative interpretation or implementation of the laws and regulations, could materially and adversely affect our business, financial condition and results of operations due to increased compliance-related expenses or any other impacts that prompt us to discontinue any of our businesses. Furthermore, failure to comply with these laws and regulations and any amendments thereto, any new laws or regulations or any judicial or administrative interpretation or implementation of these laws and regulations, could result in regulatory investigations, penalties, business improvement orders, suspension or cancellation of business licenses, authorization or registration or other adverse consequences that could result in the termination of our businesses.

The volume of our trading activities are heavily influenced by trends in securities and cryptocurrency markets in Japan.

The principal source of revenue for our online securities business is brokerage commissions on the execution of customer trades and revenue from customers’ margin trading. Our online securities business is significantly affected by fluctuations in trading volume and price levels of securities transactions, particularly Japanese equity securities. If there is a downturn in the Japanese securities markets in the future, the volume of trades that we execute could decline, resulting in lower brokerage commissions. In addition, a downturn in the Japanese securities market would negatively affect margin trading, which in turn would negatively affect revenue we generate from margin loans extended to our users. The securities we hold as collateral are subject to fluctuations in trading price based on general economic conditions, factors specifically affecting the issuer of the securities or other factors. There is no assurance that the value of the securities held as collateral will be sufficient to cover the outstanding principal if there are defaults under our margin loans. Additionally, cryptocurrency prices and transaction demand can fluctuate significantly within a short period of time and such movements often do not correlate with general economic conditions, making it difficult to anticipate demand for the trading services offered by *Rakuten Wallet* for a certain period. In the event that demand for cryptocurrency transactions decreases during a certain period, our business, financial condition and results of operations may be adversely affected. With regard to the ongoing COVID-19 pandemic, there has been an increased level of volatility in financial markets both in Japan and globally. If such volatility were to negatively affect demand for our trading activities, our results of operations could be adversely affected.

We are exposed to liquidity risk.

We must manage liquidity in order to maintain our ability, and confidence in our ability, to meet our obligations in our financial services businesses. We are primarily exposed to liquidity risk in the following businesses:

- *Rakuten Card*. *Rakuten Card* requires liquidity to fund credit card settlement payments and other obligations and raises funds through securitization transactions, in which *Rakuten Bank* invests, and borrowings from other financial institutions to meet its liquidity needs. As a result, our liquidity would be adversely affected if we became unable to sell our securitized instruments or if we are unable to obtain sufficient funding from third-party sources.
- *Rakuten Bank*. *Rakuten Bank* requires liquidity to fund customer withdrawals and other obligations in our banking business. Due to the reliance of *Rakuten Bank* on deposits for funding liquidity, *Rakuten Bank* could be adversely affected due to unexpected deposit outflows in response to market conditions or negative developments specifically affecting *Rakuten Bank*. Due to the convenience and speed of online banking services, including withdrawals of ordinary and fixed-term deposits and online fund transfers to other institutions, deposit outflows may occur more rapidly than would be the case for traditional banks. In addition, the liquidity of *Rakuten Bank* could also be impaired if the market liquidity of the assets held by *Rakuten Bank* decreases significantly due to difficulties in the financial markets or other factors.
- *Rakuten Securities*. *Rakuten Securities* holds securities as collateral in extending margin loans to our customers. If the market for the securities is not sufficiently liquid, we may be unable to sell the securities at a price sufficient to cover the principal of our outstanding loans or at all.
- *Insurance*. *Rakuten Life Insurance* and *Rakuten General Insurance* require liquidity to fund anticipated benefits, claims and surrender and other payments in our life insurance and general insurance businesses. If *Rakuten Life Insurance* or *Rakuten General Insurance* requires significant cash on short notice due to unanticipated policy payments, natural disasters that increase claims in excess of reinsurance and catastrophe reserves or other factors, *Rakuten Life Insurance* or *Rakuten General Insurance*, as applicable, could be forced to liquidate assets on unfavorable terms.

The credit evaluation of our financial services businesses by market participants and rating agencies could also be negatively affected by a decline in the creditworthiness of Rakuten Group, Inc. at the parent level. In addition, a certain portion of our assets, such as our loans and real estate, are generally illiquid and, if we are forced to liquidate such assets, our financial condition and results of operations could be adversely affected.

Our banking business and securities business are subject to foreign exchange risk.

The investment portfolio of *Rakuten Bank* includes securities denominated in foreign currencies, such as foreign government and corporate bonds, and *Rakuten Bank* holds foreign currency deposits and securities. We manage a portion of our exchange rate risk by funding foreign currency investments with deposits in the same currency and entering into hedging arrangements for foreign currency investments that are not funded in the same currency. However, there is no assurance that our efforts to manage foreign currency risk will be completely effective. Unfavorable changes in foreign exchange rates could have an adverse effect on the value of these securities and could adversely affect our results of operations and financial condition.

Rakuten Securities is also exposed to foreign exchange risk in its foreign exchange trading services. Fluctuations in currency exchange rates could affect the value of the currencies traded and the cash collateral held by us. Cash collateral held by us may become insufficient to cover the amounts due to us from customers as a result of foreign exchange fluctuations.

Our Rakuten Wallet business is subject to risks related to protection and maintenance of customer funds and assets.

Through our *Rakuten Wallet* service, customers are able to deposit funds in Japanese yen and purchase a selection of cryptocurrency assets. Customer funds are held in bank deposits through trust accounts, and a portion of cryptocurrency assets are held in offline storage, referred to as "cold wallets." In order to secure customer funds and assets, *Rakuten Wallet* requires two-step authentication for customers to login, withdraw and transfer funds and assets. Additionally, *Rakuten Wallet* maintains security protocols and infrastructure to protect customer funds and assets from cyberattacks. However, if such risk management measures do not function effectively and any customer funds or assets are lost due to cyberattacks or technical failures, our brand, reputation, business, financial condition and results of operations could be adversely affected.

Our risk management policies and procedures may not adequately protect us from unidentified or unanticipated risks.

Rakuten Card, *Rakuten Bank*, *Rakuten Securities*, *Rakuten Life Insurance*, *Rakuten General Insurance*, *Rakuten Payment* and *Rakuten Wallet* have organized risk management policies and procedures to address a range of risks, including market risk, credit risk, liquidity risk, counterparty risk and a variety of other risks. Many of our methods of managing risks and exposures are based on our use of observed historical market behavior or statistics based on historical data. We may not be able to use those methods to accurately predict future losses, which could be significantly greater than indicated by the relevant historical data. Other risk management methods depend in part on our evaluation of publicly available information regarding markets, customers or other matters, and such information may not always be accurate, complete, up-to-date or properly evaluated. In addition, our risk management procedures depend in part on information gathered from numerous other sources, and errors may be introduced during the process of gathering and compiling such information. In addition, operational risk is inherent in our business and can manifest itself in various ways, including inappropriate internal processes, human error, employee misconduct, systems malfunction and other internal or external factors. Management of operational risk requires, among other things, policies and procedures to properly record, verify and inspect a large number of transactions and events, and our policies and procedures may not be entirely effective. Any failure or ineffectiveness of our risk management policies or procedures could materially and adversely affect our business, financial condition and results of operations.

As we expand our product and service offerings, our customer base and our transaction volume, we may have difficulty achieving the administrative, systems and risk management improvements necessary to manage the risks associated with new business activities and increased scale. The risk management policies and procedures we adopt may not be effective in preventing losses related to the various types of risks that we face in our businesses. Failure or ineffectiveness of these policies and procedures could materially and adversely affect our business or result in losses.

Risks Relating to Our Mobile Segment

We may face further losses, delays or cost increases as we continue to invest in our MNO network.

Rakuten Mobile launched commercial services on its MNO network in April 2020. However, we are still in the process of expanding the network's coverage through base stations and other related infrastructure. During the year ended December 31, 2020, segment loss for our Mobile segment steadily increased due to our growing investments in infrastructure, with segment loss of ¥36.6 billion, ¥54.0 billion, ¥61.0 billion and ¥75.4 billion for the three-month periods ended March 31, 2020, June 30, 2020, September 30, 2020 and December 31, 2020, respectively. The initial development plan for *Rakuten Mobile's* MNO network that we submitted to the Japanese regulatory authorities targeted 96% population coverage for our 4G network by March 31, 2026, but we have undertaken initiatives to accelerate this expansion to achieve our target population coverage by summer 2021. In order to improve quality with a higher density of base stations and to respond to the expected increase in users, we plan to construct a total of approximately 44,000 4G outdoor base stations (as compared to the initially planned 27,397 base stations). We expect the total capital investments for coverage infrastructure to consist of approximately ¥200 billion for 5G-related infrastructure expenses and approximately ¥600 billion for 4G-related infrastructure expenses as well as investments to improve the density of base station coverage for our 4G network that we expect to result in additional expenses of approximately 30-40% of such 4G-related infrastructure expenses. Our total cumulative capital investments in the Mobile segment since the year ended December 31, 2018 have been approximately ¥532 billion, which includes ¥126 billion of right-of-use assets, funded with the corresponding lease liabilities and accounted for in accordance with IFRS 16. We plan to fund the capital investments through a combination of self-funding by *Rakuten Mobile* from asset financings, including lease financings and securitization of receivables, and capital injections to *Rakuten Mobile* from Rakuten Group, Inc., which includes the proceeds of our ¥182 billion domestic subordinated bond issuance in 2018 and our ¥120 billion domestic subordinated bond issuance in 2020, the proceeds from the third-party allotments completed on March 29 and March 31, 2021 and a portion of the proceeds of this offering and the concurrent offering of the USD notes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments—Capital Raised Through Third-Party Allotments of Shares," "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments—Capital Investments in Rakuten Mobile's MNO Network" and "Use of Proceeds."

There can be no assurance that we will be successful in achieving our population coverage target by summer 2021, whether due to construction delays, unexpected coverage gaps, technical difficulties, insufficient funding or other reasons. We currently expect that *Rakuten Mobile* will become profitable by the end of the year ending December 31, 2023, but there can be no assurance that we will be successful in acquiring and retaining customers, reducing capital investments and improving profitability on that timeline or at all. In the event that we are unable to control and reduce segment loss of our Mobile segment in the future, our business, financial condition and results of operations may be adversely affected.

Because *Rakuten Mobile's* MNO network is the world's first end-to-end, fully virtualized, cloud-native mobile network and allows for high-speed 5G coverage in certain areas, we may encounter unexpected technical difficulties as the number of users and coverage area increases. In the event that our MNO network experiences technical issues, the anticipated revenues from our MNO business may not be achieved, which could negatively impact our business, financial condition and results of operations. Additionally, we may encounter unexpected costs, and the sources and types of financing for such expenditures, such as forms of non-recourse asset-backed financing by *Rakuten Mobile*, may change from our original plan submitted to the MIC or may prove to be more challenging to obtain, depending on our and *Rakuten Mobile*'s financial performance and other factors, which could in turn necessitate an increase in our debt that is senior to or *pari passu* with the notes.

Rakuten Mobile's service plans and limited network coverage may cause us to lose customers to our competitors.

Beginning on April 1, 2021, *Rakuten Mobile* began offering a service plan called Rakuten UN-LIMIT VI, which offers data plans of 0-1GB, 1-3GB and 3-20GB at prices of ¥0, ¥980 and ¥1,980 per month, respectively, as well as an unlimited data plan for ¥2,980 per month. *Rakuten Mobile's* previous service plan, Rakuten UN-LIMIT V, was based on a single service plan structure that provided unlimited data and unlimited domestic voice over IP ("VoIP") calls through the *Rakuten Link* app for a monthly fee of ¥2,980. Until April 7, 2021, for the first three million customers for our UN-LIMIT service, we offered an introductory campaign that waived the monthly fee for the first year of service. In part due to the success of this campaign, we were able to increase the number of applications for new subscribers from an accumulated total of approximately 1 million as of the end of June 2020 to over 3 million as of March 9, 2021 and over 3.9 million as of April 8, 2021. On April 8, 2021, we announced a new campaign that waives the first three months of UN-LIMIT VI fees for new *Rakuten Mobile* subscribers. However, despite the introduction of this new campaign, the pace of new subscriber applications may decrease. Additionally, we offer our MNO service through an untied contract under which customers' devices are SIM-lock free with no minimum subscription periods or cancellation charges. Accordingly, we are subject to the risk that customers may cancel their service when the free campaign period ends or may otherwise switch to our competitors' networks in the future.

Additionally, as of December 31, 2020, our *Rakuten Mobile* base stations provided 4G network coverage for approximately 70% of the Japanese population. If we are unable to secure agreements with land owners to install necessary base stations, we may be unable to expand our coverage area as planned or may incur additional costs. High-speed data usage within our MNO network coverage area is unlimited, while monthly high-speed data usage is limited to 5GB for domestic roaming usage on KDDI CORPORATION's *au* 4G mobile network and 2GB on international partner networks, with data usage over these thresholds subject to lower speeds. If our competitors' networks provide wider or higher quality coverage, including 5G, higher data caps or higher minimum speeds, our customers may decide to switch to a competitor's network. In the event that we are unable to retain paying customers after the free introductory campaign ends or if our customers choose to switch to a competitor's network for other reasons, our business, financial condition and results of operations may be adversely affected.

Our MNO business relies heavily on regulatory frameworks as well as agreements with and support from third parties.

Although we believe our MNO network has certain advantages over the MNO networks of our competitors, such as a reduction in latency delays due to edge computing technology, these advantages generally only apply in circumstances where our customers are connected to *Rakuten Mobile*'s base stations. Outside of these areas, our customers rely on access to KDDI CORPORATION's *au* 4G mobile network. Although we have entered into a partnership with KDDI CORPORATION which provides these roaming services to our customers, an unexpected termination of this partnership or a degradation of our business relationship with KDDI CORPORATION that resulted in a loss of roaming services would significantly reduce the value of the services to be provided to customers by our MNO business. Additionally, we have entered into infrastructure access and utilization agreements with certain of Japan's regional power companies, such as our agreements with TEPCO, Chubu Electric Power Company, Incorporated and Hokuriku Electric Power Company, which allow us to utilize such companies' transmission towers, utility poles, telecommunication towers, rooftop facilities and other equipment for our network of base stations for our MNO business. In the event that we were no longer able to install our base stations on such companies' existing infrastructure, our ability to provide base station access to our customers could be adversely affected. To the extent that deteriorations in our relationships with KDDI CORPORATION, Japan's regional power companies or our equipment suppliers were to impact our ability to provide expected services to our customers, our business, financial condition and results of operations could be adversely affected.

The growth of our MNO business will depend on the satisfactory performance of our network systems and sufficient allocation of spectrum to operate the MNO network.

The growth of our MNO network depends on, among other things, the satisfactory performance of our network systems and the spectrum that the government allocates to us. In order to remain competitive and retain and grow the customer base of our MNO network, we must undertake continuous maintenance and upgrades to our mobile and fixed-line networks to ensure adequate network capacity and capability and to protect against disruptions. In the event of a slowdown or disruption of services that affects steady and uninterrupted service on our MNO network, whether due to technical difficulties, natural disasters, cyberattacks or other unexpected events, our reputation and business may be adversely affected.

Constraints on network capacity may cause unanticipated system disruptions and slower response times, adversely affecting data transmission. In addition, in order to continue to grow our network capacity, we are required to accurately predict our future capacity needs based on present and historical amounts of network traffic. If we underestimate the amount of network capacity required for our MNO business, or if we are unable to upgrade our network systems quickly enough to accommodate future traffic levels, our reputation may be harmed and we could lose customers and encounter difficulties in acquiring new customers or may need to make unanticipated additional capital investments.

In areas where customers have direct access to our MNO network through our base stations, the quality of our network depends, among other things, on the spectrum that the government has allocated to us. Although we have been allocated spectrum for the 1.7 GHz frequency band for our 4G network and the 3.7 GHz and 28 GHz frequency bands for our 5G network, we may need to secure additional spectrum in the future if the level of traffic on our MNO network increases significantly. If we are unable to secure the required spectrum in the future, the quality of our MNO network may decline relative to our competitors, or we may be unable to develop and enhance our network as planned, which could make it difficult to acquire or retain customers, and this may be exacerbated if our competitors receive more favorable spectrum allocations than we do. There is also the possibility that fee payment commitments may be required in the future in order to receive allocations, or that a spectrum auction system may be implemented. In such circumstances, we may be required to make additional unexpected expenditures, which may adversely affect our business, financial condition and results of operations.

We purchase and lease various equipment, products and services from suppliers for the operation of our MNO network, and our inability to procure such equipment, products or services or defects therein could adversely affect our business.

We procure telecommunications equipment, network devices and various other hardware, software, support and services from various suppliers. In particular, we rely upon certain key suppliers such as Nokia Corporation, Cisco Corporation and NEC Corporation to supply the network equipment for our MNO business. Although we generally expect our suppliers to supply their products and services free of defects in a timely manner and in sufficient volume in accordance with our agreements with such suppliers, we may be unable to switch suppliers or equipment in a timely or cost-efficient manner in case problems occur. We do not have direct operational or financial control over these key suppliers, and there can be no assurance that such suppliers will continue to provide equipment and services at attractive prices or that we will be able to obtain such equipment and services in the future from those or other providers, on the scale and within the time frames that we require, if at all. Our contractual arrangements with these counterparties also expose us to certain risks. We may not be able to reach commercially reasonable agreements on the procurement of equipment, installation and maintenance of telecommunications equipment or other key aspects of our MNO business, or maintain acceptable commercial terms to such agreements over time. Supply interruptions, delivery delays, order volume shortfalls, defects and the cessation of installation, maintenance and inspection services, or any other similar problems could impede our provision of services, making it difficult to acquire and retain customers, or causing us to incur additional costs, such as additional maintenance-related capital investments or equipment replacement costs. Suppliers may also cease providing the installation, maintenance and inspection services necessary to maintain performance of their supplied equipment. Any of the foregoing consequences could have a material adverse effect on our business, financial condition and results of operations.

Our mobile messaging and VoIP communications business faces significant challenges.

The messaging and VoIP industry is rapidly expanding, and there are a number of major competing services that have achieved widespread use in certain markets, such as Skype, LINE, Facebook Messenger, WeChat, KakaoTalk and WhatsApp. If we fail to maintain and grow our user base due to intense competition or our failure to provide competitive features and a seamless user experience, our active user base could decline. In addition, the expansion of our MNO business may result in a decrease of active users for *Rakuten Viber* if users prefer to use our MNO service instead of the VoIP services provided by *Rakuten Viber*. Any decline in our user base could materially affect our online messaging and communications business because the business model necessarily depends on building user communities that actively use our service and recommend it to new users. In addition, our messaging and communications business currently operates at a loss, and our results of operations will continue to be affected to the extent that we cannot achieve profitability for this business.

If our Rakuten Communications Platform does not expand and develop as we expect, our business, financial condition and results of operations could be adversely affected.

As part of our efforts to expand the international reach of our Mobile business, we announced the opening of a headquarters in Singapore in June 2020 for our Rakuten Communications Platform. This business targets customers such as telecom companies, government organizations and other enterprise customers around the world with the objective of deploying fully virtualized cloud-native network services using the experience and expertise that we have acquired through the development of *Rakuten Mobile's* MNO network in Japan. However, our Rakuten Communications Platform business is still in its early stages, and may not expand and develop as we expect, and we may encounter delays due to obstacles such as technical difficulties, regulatory clearances and changes in the needs of our target customers. Any such obstacles or resulting changes to our development plans may result in cost increases or delays in the development and monetization of our Rakuten Communications Platform business, which may adversely affect our business, financial condition and results of operations.

Our retail electricity supply business is subject to the risk of power price fluctuations.

As part of our Mobile segment, Rakuten Energy operates in the retail electricity supply market to provide power plans to retail customers based on a unit cost fee structure that varies with the level of energy consumption. In order to provide electricity to retail customers, Rakuten Energy procures power from the wholesale power trading market, which is subject to price fluctuations. Rakuten Energy enters into fixed rate power procurement contracts for a portion of the power it procures, but that can be no assurance that these contracts will be sufficient to mitigate the effects of fluctuating power prices. In the event of significant fluctuations in power prices, our business and results of operations may be adversely affected.

Our digital contents businesses are subject to various risks.

We engage in a number of digital contents businesses, including our e-book business, our video streaming services and our music streaming services. Many of our digital contents businesses are early-stage businesses or businesses operating in emerging industries that are currently operating at losses. In addition, procuring digital contents for our businesses is subject to various costs, including costs related to format conversion as well as licensing fees and advance payments to licensors where applicable. If we fail to monetize our digital contents businesses by generating sufficient revenue from sales of such digital contents, we could continue to incur losses, which would adversely affect our results of operations. In particular, we may face challenges developing and expanding our digital contents businesses in more mature markets with established competitors, such as the United States. *Rakuten TV* produces original content for our video streaming services, including films and documentaries, certain of which are also concurrently released in theaters, but the market for original video content is highly competitive and there can be no assurance that our original content will reach a sufficient audience or secure secondary usage fees to recoup production costs.

We depend on licensed content from third parties for substantially all of the content in our digital contents businesses. For example, in our e-book business, we depend on licensed content from publishers to sell and distribute on our e-book platform. In our video and music streaming services, we similarly enter into licenses for video and music content. If we are unable to secure licensed content that is popular with our users under acceptable terms, or if competing services are more successful at providing a larger and more attractive selection of content, our competitiveness could be adversely affected and the number of active users on, and revenue from, our service could decline. In addition, we may be subject to legal claims for infringement of intellectual property rights. We compete to attract users to our digital contents businesses, and if we are unable to provide an attractive user interface and features or fast and reliable content delivery, our active user base could decline.

Risks Relating to the Notes

The market for the notes may have limited liquidity.

Although approval in-principle has been received for the listing of the notes on the Singapore Exchange, there can be no assurance that any liquid markets for the notes will ever develop or be maintained. The initial purchasers have advised us that they currently intend to make a market in the notes following the offering. However, the initial purchasers have no obligation to make a market in the notes and they may stop at any time. Furthermore, there can be no assurance as to the liquidity of any markets that may develop for the notes or the prices at which you will be able to sell your notes, if at all.

Future trading prices of the notes will depend on many factors, including:

- prevailing interest rates;
- our financial condition and results of operations;
- the then-current ratings assigned to the notes;
- the market for similar securities; and
- general economic conditions.

Any trading markets that develop would be affected by many factors independent of and in addition to the foregoing, including the outstanding amount of the notes and the level, direction and volatility of market interest rates generally.

In addition, in the event that our obligations in connection with maintaining the listing of the notes on the Singapore Exchange become unduly burdensome, we may be entitled to, and may decide to, delist the notes from the Singapore Exchange and seek an alternate listing for the notes on another securities exchange.

The notes will be perpetual securities, and there are no optional or mandatory redemption or other features of the notes triggered by a change of control.

The notes will be perpetual securities in respect of which there is no fixed maturity date by which we would be under obligation to redeem the notes. See "Description of the Notes—Maturity and Redemption." The notes are not subject to any optional or mandatory redemption or other features triggered by a change of control.

Our obligations under the notes are subordinated, and will be terminated completely upon the occurrence of a Claim Rights Termination Event.

Our obligations under the notes will be unsecured and subordinated. Although subordinated debt securities, such as the notes, may pay a higher rate of interest than comparable debt securities which are not subordinated, there is a risk that an investor in subordinated securities such as the notes will lose all or some of its investment should we become insolvent.

Upon the occurrence of a Subordination Event (liquidation proceedings (*seisan tetsuzuki*) or bankruptcy proceedings (*hasan tetsuzuki*) under Japanese law and analogous proceedings in other jurisdictions, all as more particularly described in "Description of the Notes"), our obligations pursuant to the notes will be subordinated in right of payment (except as otherwise provided by mandatory provisions of law) to all Senior Obligations, rank substantially *pari passu* with all Parity Obligations and rank senior to all Junior Obligations. So long as such Subordination Event continues, no payment will be made with respect to such note unless and until the relevant Subordinate Payment Conditions have been satisfied, and to the extent any Senior Preference Shares (as defined in "Description of the Notes") are then outstanding, the holder of such note shall only be entitled to the Subordination Claim Amount (which shall be the amount payable by us in respect of each note (in lieu of any other payment by us), which shall be the amount, if any, as would have been payable to the holder of such note if, on the day prior to the commencement of the relevant Subordination Event, and thereafter, such holder were the holder of a Senior Preference Share having an equal right to a return of assets on the occurrence of the relevant Subordination Event, and so ranking *pari passu* with, the holders of Parity Obligations, but ranking junior to the claims of holders of all Senior Obligations (except as otherwise provided by mandatory provisions of law), on the assumption that the amount that such holder was entitled to receive in respect of each Senior Preference Share on a return of assets on the occurrence of such Subordination Event, were an amount equal to the principal amount of the relevant note and any accrued and unpaid interest and any outstanding Arrears of Interest). The Subordinate Payment Conditions provide that all Senior Obligations must be paid in full, or satisfied in full through some other means, pursuant to the relevant order, plan, scheme or other structure adopted pursuant to the relevant proceedings before any payment on the notes may be made, all as more particularly described in "Description of the Notes." Notwithstanding the foregoing, no amount in respect of the notes shall, merely as a result of the commencement of rehabilitation proceedings, reorganization proceedings or analogous proceedings under any non-Japanese law, be or become payable sooner than the same would otherwise have been or become payable by us had no such proceedings been commenced (see "—Japanese insolvency laws may be different from, and not as favorable to you as, insolvency laws in other jurisdictions").

In addition, upon the occurrence of a Claim Rights Termination Event (reorganization proceedings (*kaisha kousei tetsuzuki*) or rehabilitation proceedings (*minji saisei tetsuzuki*) under Japanese law and analogous proceedings in other jurisdictions, all as more particularly described in "Description of the Notes"), the holders of the notes will be deemed to have irrevocably waived their right to claim or receive, and will not have any rights against us, the Trustee or the Paying Agent with respect to, payment of principal, any interest, Arrears of Interest or Additional Amounts, except for any payments of any interest, Arrears of Interest or Additional Amounts that have become due and payable prior to the occurrence of the Claim Rights Termination Event.

We have the right to defer interest payments on the notes.

We may, at our discretion, elect to defer all or part of any payment of interest on the notes. See "Description of the Notes—Optional Interest Deferral." While the deferral of payment of interest continues, we are not prohibited from making payments on any instrument ranking senior to the relevant notes or on certain instruments ranking *pari passu* with the relevant notes and, in such event, the holders of such notes are not entitled to claim immediate payment of interest so deferred. Any such deferral of interest payment shall not constitute a default for any purpose unless such payment is required in accordance with the terms of the notes.

Any deferral of interest payments is likely to have an adverse effect on the market price of the relevant notes. In addition, as a result of the interest deferral provision of the notes, the market price of the notes may be more volatile than the market prices of other debt securities on which original issue discount or interest accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in our financial condition.

The notes may not be redeemed unless and until all outstanding Arrears of Interest in respect of the notes are satisfied in full, on or prior to the date set for the relevant redemption.

Holders have limited remedies in the event that we do not pay interest on the notes.

The terms of the notes provide that the notes will be perpetual securities and there is, therefore, no obligation on us to repay principal on any given date. In addition, payments of interest on the notes may be deferred in accordance with the terms of the notes and we will not be obligated to pay interest other than in the limited circumstances described in "Description of the Notes."

Non-payment of principal or interest will not constitute an event of default under the notes. Amounts under the notes will become payable only upon an acceleration of the notes, as described in the next sentence. If a Subordination Event occurs, the Trustee may, or if so requested by the holders of not less than 25% in aggregate principal amount of the notes then outstanding shall, by written notice to us declare the principal of, premium, if any, and all interest then accrued on the notes to be forthwith due and payable upon receipt of such notice by us. Immediately upon delivery of such notice, the notes shall become immediately due and payable, subject to the subordination provisions.

Modification and waiver may bind all holders of the notes.

The terms of the notes will contain provisions allowing holders of the majority of the aggregate principal amount of the notes to waive or modify certain of their terms or certain terms of the Indenture in agreement with us.

The relevant terms of the notes will also provide that the Trustee may, without the consent of the relevant holders, agree with us to (i) any modification of the terms of the notes or of any other provisions of the Indenture in respect of the notes which is in each case, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification to (except as mentioned in the Indenture in respect of the notes), and any waiver or authorization of, any breach or proposed breach by us of, any of the terms of the notes which is, in the opinion of the Trustee, not materially prejudicial to the interests of the relevant holders (which will not include, for the avoidance of doubt, any provision entitling the relevant holders to institute proceedings for winding-up which is more extensive than those set out in the terms of the notes).

There is no limitation on issuing or guaranteeing debt ranking senior to or pari passu with the notes.

There is no restriction on the amount of debt which we may issue or guarantee or any negative pledge provisions. We and our subsidiaries and affiliates may incur additional indebtedness or grant guarantees in respect of indebtedness of third parties, including indebtedness or guarantees that rank senior to or *pari passu* with the obligations under and in connection with the notes. If our financial condition were to deteriorate, the holders of the notes could suffer direct and materially adverse consequences, including loss of interest and, if we were liquidated (whether voluntarily or not), the holders of the notes could suffer a loss of their entire investment.

The notes will be subject to optional redemption by us, including upon the occurrence of certain events.

The notes will be redeemable, at our option, in whole but not in part on the relevant First Reset Date and any Interest Payment Date thereafter at their principal amount together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest.

Upon the occurrence of an Accounting Event, a Rating Methodology Event, a Substantial Repurchase Event, a Tax Deduction Event or a Withholding Tax Event (each as defined in "Description of the Notes"), we will have the option to redeem, in whole but not in part, the notes at the prices set out therein, in each case together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. In addition, on any date after April 22, 2026 but prior to the First Reset Date, we may redeem the notes in whole, but not in part, at the Make-whole Redemption Amount (as defined in "Description of the Notes").

During any period when we may elect to redeem the notes, the market value of the notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

We may be expected to redeem the notes when our cost of borrowing is lower than the interest payable on them. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest payable on the notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

The interest rate on the notes will reset on the relevant First Reset Date and on every relevant Reset Date thereafter, which can be expected to affect the interest payment on the notes and the market value of the notes.

Although the notes will earn interest at a fixed rate until (but excluding) the relevant First Reset Date, the current market interest rate on the capital markets (the "market interest rate") typically changes on a daily basis. Since the initial fixed rate of interest for the notes will be reset on the relevant First Reset Date (as defined in "Description of Notes"), and on each subsequent Reset Date, the interest payment on the notes will also change. Holders should be aware that movements in these market interest rates can adversely affect the price of the notes and can lead to losses for the holders if they sell the notes.

Holders are exposed to the risk of fluctuating interest rate levels and uncertain interest income as the reset rates could affect the market value of an investment in the notes.

Changes in rating criteria may lead to the early redemption of the notes.

If as a consequence of an amendment to, clarification of or change in the assessment criteria or a change in the interpretation thereof which becomes effective on or after the Issue Date, the notes are no longer eligible for the same or higher category of equity credit attributed to the notes at the date of their issue, we may redeem all (but not part) of the notes as provided in "Description of the Notes."

Changes in Japanese tax law may lead to the early redemption of the notes.

Under Japanese tax law as currently applied, it is expected that we will be entitled to claim a deduction in respect of computing our tax liabilities in Japan in respect of our obligation to make interest payments on the notes, and that such deduction may be set off against the profits of companies with which we are grouped for applicable Japanese tax purposes if we adopt a consolidated tax system. If, as a result of a Tax Law Change (as defined in "Description of the Notes"), in respect of our obligation to make any interest payment on the next following interest payment date on the notes, (i) we would not be entitled to claim a deduction in respect of computing our taxation liabilities in Japan, or such entitlement is reduced as compared to such entitlement as of the Issue Date or (ii) we would not be entitled to have such deduction set against the profits of companies with which we are grouped for applicable Japanese tax purposes, we may redeem all (but not part) of the notes. A change in Japanese tax law could also result in a Withholding Tax Event occurring, in which case we may redeem all (but not part) of the notes.

Changes in accounting principles may lead to the early redemption of the notes.

If, as a result of a change in accounting principles which becomes effective on or after the Issue Date, but not otherwise, our obligations under the notes must not or may no longer be recorded as "equity" in the next following audited annual consolidated financial statements of the Company prepared in accordance with IFRS or any other accounting standards that we may adopt in the future for the preparation of its audited annual consolidated financial statements in accordance with Japanese company law, we may redeem all (but not part) of the notes.

If we are unable to comply with the restrictions and covenants in our debt agreements, there could be a default under the terms of these agreements, which could cause repayment of our debt to be accelerated.

If we are unable to comply with the restrictions and covenants in our current or future debt and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate repayment of the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of repayment of debt or result in a default under other debt agreements. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us. Furthermore, such acceleration with respect to other debt agreements would not automatically trigger any requirement for us to make any payments with respect to the notes. Moreover, a court of competent jurisdiction may institute proceedings constituting a Subordination Event or a Claim Rights Termination Event under the notes, which may materially and adversely affect or, in the case of a Claim Rights Termination Event, terminate, the ability of holders of the notes to recover any amounts from us.

Japanese insolvency laws may be different from, and not as favorable to you as, insolvency laws in other jurisdictions.

We are incorporated in Japan and, consequently, will be subject to Japanese laws and procedures affecting debtors and creditors, such as bankruptcy, corporate reorganization, civil rehabilitation or special liquidation proceedings. Under the Bankruptcy Act of Japan (Act No. 75 of 2004, as amended), a petition for the commencement of bankruptcy proceedings may be filed with a court by us or any of our directors or creditors if we are generally and continuously unable to pay our debts as they become due because of a lack of ability to pay or if our liabilities exceed our assets. Under the Corporate Reorganization Act of Japan (Act No. 154 of 2002, as amended), a petition for the commencement of corporate reorganization proceedings may be filed with a court by us or certain qualified shareholders or creditors if it is likely that any of the grounds for bankruptcy as described above will arise, although the rights of holders shall be limited in the manner described under "—Holders have limited remedies in the event that we do not pay interest on the notes" and as more particularly described in "Description of the Notes." In addition, we may file a petition for the commencement of corporate reorganization proceedings if it is likely that the payment of a debt which becomes due would cause serious impediments to our continued business operations. Under the Civil Rehabilitation Act of Japan (Act No. 225 of 1999, as amended), a petition for the commencement of civil rehabilitation proceedings may be filed with a court by us or any of our creditors if it is likely that we face any of the grounds for bankruptcy as described above, although the rights of holders shall be limited in the manner described under "—Holders have limited remedies in the event that we do not pay interest on the notes" and as more particularly described in "Description of the Notes." A petition for civil rehabilitation may be also filed by us if we are unable to make any payments as they become due without causing any material obstruction to the continuation of our business. Under the Companies Act of Japan (Act No. 86 of 2005, as amended), a petition for the commencement of special liquidation proceedings may be filed with a court by any of our creditors, liquidators, audit and supervisory board members or shareholders if, after liquidation proceedings have commenced, circumstances exist which would seriously impede the carrying out of our liquidation or if there exists any possibility or doubt that our liabilities exceed our assets. The court will be required to order the commencement of bankruptcy proceedings at its initiative if, after a special liquidation has been commenced, the court determines that there exists a fact which constitutes a cause of commencement of the bankruptcy proceedings while: (i) there is no prospect of entering into a settlement agreement; (ii) there is no prospect of performing a settlement agreement; or (iii) the special liquidation conflicts with the general interest of the creditors.

Under Japanese insolvency laws, no party (including, without limitation, any director of a company) is expressly obligated to file for the commencement of insolvency proceedings in any particular circumstance (except that liquidators are required to file for the commencement of special liquidation proceedings or bankruptcy proceedings in certain circumstances). However, our directors are subject to general fiduciary duties and duties of care of a "good manager" under the Companies Act of Japan, and may file for the commencement of insolvency proceedings when a cause for insolvency arises (which involves the consideration of various factors). Creditors may also file for these proceedings in the manner described above. If, based on a petition for the commencement of bankruptcy proceedings, a court orders the commencement of such bankruptcy proceedings, a trustee in bankruptcy (*hasan kanzainin*) would ordinarily be appointed to administer our operations, realize all assets belonging to the bankruptcy estate and make distributions to creditors. If, based on a petition for the commencement of corporate reorganization proceedings, a court orders the commencement of such reorganization proceedings, a reorganization administrator (*kousei kanzainin*) would ordinarily be appointed to take over our operations, assess all assets and liabilities, propose a reorganization plan and, if the plan is approved by our creditors and confirmed by the court, transfer management responsibilities to the new management under the plan. If, based on a petition for the commencement of civil rehabilitation proceedings, a court orders the commencement of such rehabilitation proceedings, our directors would usually remain in position (subject to supervision by a court appointed rehabilitation supervisor (*kantoku i-in*)), to propose a rehabilitation plan and, if approved by our creditors and confirmed by the court, execute the plan. If, based on a petition for the commencement of special liquidation proceedings, a court orders the commencement of such special liquidation proceedings, a liquidator (*seisan-nin*) will, under court supervision, liquidate all remaining assets and liabilities and make distributions to creditors under a settlement agreement approved by our creditors and confirmed by the court. In each such case, holders will rank junior to all Senior Obligations in the manner set out under "—Our obligations under the notes are subordinated, and will be terminated completely upon the occurrence of a Claim Rights Termination Event" and as more particularly described in "Description of the Notes."

Payments made to the holders of the notes may be avoided in insolvency proceedings (except for special liquidation proceedings) by the bankruptcy trustee, reorganization administrator or rehabilitation supervisor pursuant to their "right of avoidance" (*hi-nin ken*) as a fraudulent conveyance or voidable preference if any payment is made under financially distressed situations.

The notes, upon a Subordination Event, are expressed to rank *pari passu* with all Parity Obligations of the Company and any other unsecured subordinated bonds with interest deferrable clause and early redeemable option (with a subordination provision) (*ribarai kurinobe jyoukou kigen zen shoukan jyoukou tsuki mu tanpo shasai* (*retsugo tokuyaku tsuki*)) issued from time to time). Upon a Claim Rights Termination Event, we will have no obligations whatsoever on the notes.

The ratings of the notes are subjective in nature and could be lowered.

It is expected that the notes will be assigned a rating of BB from S&P, BBB from R&I and BBB+ from JCR. Other rating agencies may assign credit ratings to the notes without solicitation from or provision of information by us. Such ratings are limited in scope, and do not address all material risks relating to an investment in the notes, and reflect only the subjective view of the relevant rating agency at the time the rating is issued. There is no assurance that any credit ratings issued will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in the relevant rating agency's judgment, circumstances so warrant. In particular, on February 18, 2021, S&P placed us on CreditWatch with negative implications, which was extended on April 9, 2021 and which may lead to a downgrade in our issuer credit rating and the rating on the notes. On April 12, 2021, S&P stated that its expected BB rating for the notes would be placed on CreditWatch with negative implications, and that S&P would lower its rating for the notes to B+ or lower in the event that S&P downgrades our credit rating from BBB- to BB+ or lower. S&P stated that it believes there is at least a 50% chance of downgrading our credit rating from BBB- to BB+ or lower in the three months following April 12, 2021. See "—Risks Relating to our Business Generally—If we are unable to raise additional funds on acceptable terms in the future, due to a ratings downgrade or otherwise, or fail to comply with financial covenants applicable to our borrowings, our business, financial condition and results of operations could be adversely affected." A downgrade or potential downgrade in existing ratings or the assignment of new ratings that are lower than existing ratings could result in reclassification of the notes from investment grade, reduce the population of potential investors in the notes and adversely affect the price and liquidity of the notes. A rating is based upon information furnished by us or obtained by the rating agency from its own sources and is subject to revision, suspension or withdrawal by the rating agency at any time.

The notes are unsecured obligations.

The notes are unsecured obligations and repayment of the notes may be compromised if, among other things:

- we enter into bankruptcy, liquidation, rehabilitation or other winding-up proceedings;
- we default in payment of our secured indebtedness or other unsecured indebtedness; or
- any of our indebtedness is accelerated.

If any of these events occurs, then our assets may be insufficient to pay amounts due on the notes.

The Indenture and the notes contain only very limited restrictions on our ability to pledge our assets.

The Indenture and the notes do not contain any financial covenants and contain only very limited restrictions on our ability to pledge assets to secure other indebtedness. These or other actions by us could adversely affect our ability to pay amounts due on the notes.

The notes are subject to transfer restrictions.

Notes will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except to QIBs in reliance on the exemption provided by Rule 144A, or pursuant to another exemption from, or in another transaction not subject to, the registration requirements of the Securities Act and in accordance with applicable state securities laws. In addition, subject to the conditions set forth herein and in the Indenture, the notes may be transferred only if the principal amount of the notes transferred is at least €200,000. For further discussion of the transfer restrictions applicable to the notes, see "Transfer Restrictions."

USE OF PROCEEDS

We estimate that the net proceeds that we will receive from the offering of the notes will be approximately €984 million, after deducting estimated initial purchasers' discounts and estimated offering expenses payable by us. We intend to use the net proceeds from the sale of the notes, together with the net proceeds from the offering of the USD notes, primarily to fund capital investments for our mobile business, with the remainder to be used for general corporate purposes, including repayment of short-term debt over time as it comes due and potential repurchases of existing subordinated bonds. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments—Capital Investments in Rakuten Mobile's MNO Network."

CAPITALIZATION

The following table sets forth our consolidated capitalization as of December 31, 2020 on an actual basis and on an as adjusted basis to give effect to (i) the offering and sale of the notes and the USD notes and (ii) the third-party allotments (consisting of 139,737,600 newly issued shares and 71,918,900 treasury shares) completed on March 29 and March 31, 2021 for which we received aggregate proceeds of ¥242.3 billion (see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments—Capital Raised Through Third-Party Allotments of Shares").

The information in the table below should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes included elsewhere in this offering circular.

	As of December 31, 2020	
	Actual	As adjusted
	(in millions of yen)	
Short-term debt:		
Bonds and borrowings (current portion)	¥1,136,303	¥ 1,136,303
Long-term debt:		
Bonds and borrowings (non-current portion)	1,351,154	1,351,154
Total indebtedness	2,487,457	2,487,457
Equity:		
Common stock(1)	205,924	285,924
Authorized—3,941,800,000 shares		
Issued—1,434,573,900 shares (1,574,311,500 shares as adjusted)		
Capital surplus(1)	227,844	305,432
Retained earnings	290,449	290,449
Treasury stock(1)	(84,941)	(182)
Other components of equity	(30,538)	(30,538)
Total equity attributable to owners of the company(1)	608,738	851,085
USD notes(2)	—	180,600
Subordinated notes offered hereby(3)	—	126,160
Non-controlling interests	20,276	20,276
Total equity	629,014	1,178,121
Total capitalization and indebtedness	¥3,116,471	¥ 3,665,578

Notes:

(1) The "as adjusted" figures as a result of the third-party allotments are based on provisional amounts.

(2) Dollar amounts translated into yen have been translated at the rate of ¥103.20 = $1.00, the rate as of December 31, 2020 as reported by Bloomberg L.P.

(3) Euro amounts translated into yen have been translated at the rate of ¥126.16 = €1.00, the rate as of December 31, 2020 as reported by Bloomberg L.P.

Other than as described above, there has been no material change in our consolidated capitalization and indebtedness since December 31, 2020.

SELECTED FINANCIAL AND OTHER DATA

Consolidated financial information as of and for the years ended December 31, 2018, 2019 and 2020 is derived from and should be read together with our audited consolidated financial statements, which are included elsewhere in this offering circular. Consolidated financial information as of and for the years ended December 31, 2016 and 2017 is derived from our consolidated financial statements not included in this offering circular. Financial information of Rakuten Group, Inc. on a stand-alone basis as of and for the years ended December 31, 2016, 2017, 2018, 2019 and 2020 is derived from financial data used in the preparation of our consolidated financial statements. Effective from January 1, 2018, we adopted IFRS 9 (2014), Financial Instruments, and effective January 1, 2019, we adopted IFRS 16, Leases. As a result, our financial information as of and for the years ended after the dates of adoption may not be directly comparable with our financial information for prior periods.

	As of and for the year ended December 31,[1]				
	2016	2017	2018	2019	2020
	(in millions of yen, except ratios)				
Selected Statement of Income Data:					
Revenue:					
Internet Services segment	¥ 560,555	¥ 596,923	¥ 638,763	¥ 743,266	¥ 820,115
FinTech segment	296,066	345,187	424,488	486,372	576,195
Mobile segment	—	67,481	127,777	169,054	227,142
Adjustments[2]	(74,705)	(65,117)	(89,548)	(134,760)	(167,914)
Total	781,916	944,474	1,101,480	1,263,932	1,455,538
Operating expenses	677,063	837,550	1,027,753	1,266,902	1,579,630
Other income	5,323	51,096	120,634	86,901	54,483
Other expenses	6,305	6,009	23,936	11,186	24,240
Impairment loss[3]	25,359	2,667	4,168	4,641	7,591
Operating income (loss)	78,512	149,344	170,425	72,745	(93,849)
Financial income	256	410	954	3,642	60,150
Financial expenses	3,501	3,323	4,132	9,027	79,607
Share of income (loss) of associates and joint ventures[4]	(809)	(8,349)	(1,824)	(111,918)	(37,710)
Income (loss) before income tax	74,458	138,082	165,423	(44,558)	(151,016)
Income tax expense (benefit)	36,023	27,594	23,534	(11,490)	(35,178)
Net income (loss)	¥ 38,435	¥ 110,488	¥ 141,889	¥ (33,068)	¥ (115,838)
Net income (loss) attributable to owners of the company	¥ 38,429	¥ 110,585	¥ 142,282	¥ (31,888)	¥ (114,199)
Net income (loss) attributable to non-controlling interests	6	(97)	(393)	(1,180)	(1,639)

	As of and for the year ended December 31,(1)				
	2016	2017	2018	2019	2020
	(in millions of yen, except ratios)				
Selected Statement of Financial Position Data:					
Cash and cash equivalents	¥ 548,269	¥ 700,881	¥ 990,242	¥1,478,557	¥3,021,306
Accounts receivable—trade	117,088	128,057	181,026	222,485	243,886
Property, plant and equipment	53,271	73,171	91,335	376,424	684,110
Goodwill	358,432	356,868	353,655	355,401	356,359
Total assets	4,604,672	6,184,299	7,345,002	9,165,697	12,524,438
Bonds and borrowings	711,104	1,015,781	1,234,143	1,727,096	2,487,457
Total liabilities	3,922,182	5,500,891	6,568,795	8,428,497	11,895,424
Total equity attributable to owners of the company	682,391	683,181	774,473	735,672	608,738
Non-controlling interests	99	227	1,734	1,528	20,276
Total equity	682,490	683,408	776,207	737,200	629,014
Ratios:					
Shareholders' equity ratio(5)	14.8%	11.1%	10.6%	8.0%	5.0%
Selected Stand-alone Statement of Financial Position Data of Rakuten Group, Inc.:					
Cash and cash equivalents	¥ 32,453	¥ 30,895	¥ 152,732	¥ 180,209	¥ 110,082
Bonds and borrowings	331,565	531,000	720,200	905,256	958,855
Total equity	607,152	568,702	652,842	507,501	505,614
Shareholders' equity ratio	53.5%	42.5%	36.5%	25.2%	21.3%

Notes:

(1) From the year ended December 31, 2020, we reorganized certain of our businesses within the Internet Services segment and the Mobile segment. These changes are reflected in the above table for the year ended December 31, 2020 and amounts for the years ended December 31, 2018 and 2019 have been restated accordingly. The amounts shown in the above table for the years ended December 31, 2016 and 2017 have not been so restated.
From the year ended December 31, 2019, the segment structure of certain subsidiaries engaged in research and development was modified, and the method of allocating certain shared administrative costs was revised. These changes are reflected in the above table for the years ended December 31, 2019 and 2020, and amounts for the years ended December 31, 2017 and 2018 have been restated accordingly. The amounts shown in the above table for the year ended December 31, 2016 have not been so restated.
From the year ended December 31, 2019, we implemented a corporate reorganization pursuant to which our group companies were reorganized from the previous two reporting segments (Internet Services and FinTech) to three reporting segments that included our new Mobile segment. These changes are reflected in the above table for the years ended December 31, 2019 and 2020, and amounts for the years ended December 31, 2017 and 2018 have been restated accordingly. The amounts shown in the above table for the year ended December 31, 2016 have not been so restated.
From the year ended December 31, 2017, we modified our standards with respect to the calculation of insurance policy reserves. These changes are reflected in the above table for the years ended December 31, 2017, 2018, 2019 and 2020. The amounts of segment profit (loss) shown in the above table for the year ended December 31, 2016 have not been so restated (but the consolidated total has been so restated).

(2) Adjustments mainly include elimination of intercompany transactions and management fees.

(3) Impairment loss for the years ended December 31, 2018, 2019 and 2020 is a component of other expenses for such periods in our consolidated financial statements.

(4) Share of loss of associates and joint ventures for the year ended December 31, 2019 includes an impairment loss of ¥102.9 billion in the value of our investment in Lyft, Inc. as a result of a significant decline in the market price of Lyft, Inc.'s shares.

(5) Shareholders' equity ratio = total equity / total assets.

	For the year ended December 31,				
	2016	2017	2018	2019	2020
	(in millions of yen)				
Non-GAAP Financial Measures(1):					
Segment profit (loss):					
Internet Services segment	¥ 55,568	¥106,444	¥120,207	¥107,211	¥ 40,114
Including: Domestic E-commerce	77,509	72,146	58,494	51,503	58,192
FinTech segment	65,587	63,509	67,903	69,306	81,291
Mobile segment	—	(6,947)	(26,172)	(76,524)	(226,976)
Adjustments(2)	(1,541)	4,004	(807)	(4,864)	2,904
Total non-GAAP operating income(3)	¥119,615	¥167,010	¥161,130	¥ 95,129	¥(102,667)
Adjusted EBITDA(4):					
Internet Services segment	¥ 79,724	¥125,690	¥145,962	¥133,880	¥ 70,247
Includes: Domestic E-commerce business	85,300	81,908	68,819	66,832	78,313
FinTech segment	82,480	86,125	94,387	102,215	123,940
Mobile segment	—	(2,869)	(15,634)	(55,017)	(172,996)
Adjustments(2)	(3,614)	7,387	6,839	15,657	25,995
Total	¥158,590	¥216,333	¥231,554	¥196,736	¥ 47,186

Notes:

(1) From the year ended December 31, 2020, we reorganized certain of our businesses within the Internet Services segment and the Mobile segment. These changes are reflected in the above table for the year ended December 31, 2020 and amounts for the years ended December 31, 2018 and 2019 have been restated accordingly. The amounts shown in the above table for the years ended December 31, 2016 and 2017 have not been so restated.
From the year ended December 31, 2019, the segment structure of certain subsidiaries engaged in research and development was modified, and the method of allocating certain shared administrative costs was revised. These changes are reflected in the above table for the years ended December 31, 2019 and 2020, and amounts for the years ended December 31, 2017 and 2018 have been restated accordingly. The amounts shown in the above table for the year ended December 31, 2016 have not been so restated.
From the year ended December 31, 2019, we implemented a corporate reorganization pursuant to which our group companies were reorganized from the previous two reporting segments (Internet Services and FinTech) to three reporting segments that included our new Mobile segment. These changes are reflected in the above table for the years ended December 31, 2019 and 2020, and amounts for the years ended December 31, 2017 and 2018 have been restated accordingly. The amounts shown in the above table for the year ended December 31, 2016 have not been so restated.
From the year ended December 31, 2017, we modified our standards with respect to the calculation of insurance policy reserves. These changes are reflected in the above table for the years ended December 31, 2017, 2018, 2019 and 2020. The amounts of segment profit (loss) shown in the above table for the year ended December 31, 2016 have not been so restated (but the consolidated total has been so restated).

(2) Adjustments mainly include consolidation adjustments and management fees.

(3) Non-GAAP operating income = operating income + amortization of acquisition-related intangible assets + stock-based compensation expense + other items. For further information regarding non-GAAP operating income, including reconciliations to the closest comparable measures presented in accordance with IFRS, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Adjusted/Non-GAAP Financial Measures—Non-GAAP Operating Income.”

(4) Adjusted EBITDA = operating income + depreciation and amortization + stock-based compensation expense + disposal and impairment + EBITDA adjustments. For further information regarding adjusted EBITDA, including reconciliations to the closest comparable measures presented in accordance with IFRS, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Adjusted/Non-GAAP Financial Measures—Adjusted EBITDA.”

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this offering circular. Our financial statements are prepared in conformity with IFRS, which differ in certain significant respects from accounting principles generally accepted in other jurisdictions, including U.S. GAAP and Japanese GAAP. The presentation in this section contains forward-looking statements that involve risks, uncertainties and assumptions, and are subject to the qualifications set forth under "Forward-Looking Statements." Our actual results may differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including but not limited to those set forth under "Risk Factors" and elsewhere in this offering circular.

Overview

We are a leading e-commerce company in Japan in terms of GMS for e-commerce product sales in 2020, according to FUJI KEIZAI CO., LTD. Under the concept of "single brand, single membership," we seek to integrate our core businesses as part of our "Rakuten Ecosystem" business model through which Rakuten members can access a wide variety of our services with a single Rakuten ID and participate in a single loyalty program. We began operations in 1997 as one of the first e-commerce platforms in Japan and have expanded our operations to include a broad range of e-commerce services as well as credit card, securities, banking, insurance, mobile operator, and other online financial services and digital contents and other businesses.

We categorize our business into the following three reporting segments:

- *Internet Services*. Our Internet Services segment includes our primary e-commerce marketplace business, *Rakuten Ichiba*, as well as our online travel business. In addition, this segment also includes our overseas e-commerce businesses and various other Internet services, including our performance marketing services and online cash-back services. This segment also includes our professional sports business.
- *FinTech*. Our FinTech segment includes our credit card business provided through *Rakuten Card*, online banking services provided through *Rakuten Bank* and online brokerage services provided through *Rakuten Securities*. In addition, this segment also includes life insurance products and services provided by *Rakuten Life Insurance* and online general insurance products and services provided by *Rakuten General Insurance*, as well as our payments businesses, including *Rakuten Edy* and *Rakuten Pay*, our service to provide online and offline retailers with credit card payment settlement services, and our cryptocurrency trading business, *Rakuten Wallet*.
- *Mobile*. Our Mobile segment includes *Rakuten Mobile*, which is primarily based on our MNO business (and also includes our MVNO business, which is no longer accepting new service activations) as well as our mobile messaging and VoIP services through *Rakuten Viber*. We previously also offered an MVNO service that allowed users to purchase a SIM card and access the wireless network infrastructures of third-party MNOs, NTT DOCOMO, INC. and KDDI CORPORATION, but we no longer offer this service to new customers and are in the process of migrating our existing MVNO customers to the *Rakuten Mobile* network that is used for our MNO business. Our Mobile segment also includes our digital contents businesses such as our e-book business and video and music streaming services as well as Rakuten Energy which operates in the retail electricity supply market.

The Mobile segment was added from the three-month period ended March 31, 2019 in connection with our corporate reorganization effective April 1, 2019. Prior to the creation of the Mobile segment, *Rakuten Mobile* and our mobile messaging and VoIP services were included in the Internet Services segment. Additionally, from the three-month period ended December 31, 2020, in order to enhance collaboration and synergy between digital contents services and mobile services, our digital contents businesses were transferred from the Internet Services segment to the Mobile segment. Unless otherwise stated in this offering circular, segment information for the years ended December 31, 2018, 2019 and 2020 is presented on the basis of these reorganizations.

Historically, our operations in Japan have generated a substantial majority of our revenue. We have gradually expanded our business outside our home market of Japan, and we have also continued to expand our operations into a variety of businesses, including banking, insurance and telecommunications, and have also promoted our brand through partnerships with professional sports teams.

Recent Developments

The COVID-19 Pandemic

Government Measures

Beginning in March 2020, Japan has implemented entry bans on travelers from most of the world, including China, most European countries and the United States, and many other jurisdictions have enacted similar bans. The Japanese government has taken initial steps since September 2020 to ease entry bans with respect to certain Asian countries and re-entry bans for foreign residents, as well as to resume processing of applications for long-term visas more generally. Many international travel destinations still maintain certain border controls and/or quarantine requirements for entrants, especially in relation to leisure travel, which continue to adversely affect demand for travel services. While the Japanese government has begun bilateral discussions with a number of countries to begin mutually easing border restrictions, especially those relating to business travel, it remains unclear as to when such restrictions will be lifted, and certain measures taken to relax restrictions on entry to Japan by non-citizens have been reversed as part of the state of emergency declared in January 2021 as described below.

In Japan, on April 7, 2020 a state of emergency was declared, covering Tokyo, Chiba, Kanagawa, Saitama, Osaka, Hyogo and Fukuoka prefectures, and was extended to all prefectures in mid-April 2020. Under the state of emergency, prefectural governments requested voluntary business closures and the avoidance of all non-essential travel, in particular travel between prefectures. The state of emergency was lifted for all prefectures by May 25, 2020. In an effort to promote domestic travel, in July 2020 the JTA launched the "Go To Travel" campaign, which encouraged domestic travel by offering vouchers and the reimbursement of certain qualifying travel expenses. While residents of and travel to Tokyo were initially excluded from the campaign, the "Go To Travel" campaign qualifying travel expenses for trips to Tokyo and qualifying travel expenses of Tokyo residents became eligible for the campaign in October 2020. However, due to a gradual rise in the number of infections in Japan in December 2020, the campaign was suspended from December 28, 2020 until March 21, 2021 and the Japanese government declared a second state of emergency from January 8, 2021 through March 21, 2021, although the state of emergency was lifted for certain prefectures outside of major urban areas on February 28, 2021.

Impact of the COVID-19 Pandemic on our Results of Operations

The COVID-19 pandemic and the various countermeasures introduced by the Japanese government have resulted in a decline in domestic and international travel, which for the year ended December 31, 2020 has had a negative impact on revenue of *Rakuten Travel*, our online travel booking business. In addition, due to the cancellation of many sports events throughout Japan in 2020, for the year ended December 31, 2020, revenue of our professional sports business also decreased significantly compared to the prior year. Although revenue of *Rakuten Travel* for the three-month periods ended September 30, 2020 and December 31, 2020 increased compared to the three-month periods ended March 31, 2020 and June 30, 2020, revenue for all such three-month periods decreased when compared to the same periods in the prior year. We expect that the results of operations of our *Rakuten Travel* business and our professional sports business will continue to be negatively impacted as the pandemic continues to affect travel and sports events. Although our *Rakuten Card* business was not materially affected by the COVID-19 pandemic during the year ended December 31, 2020, we have adjusted our accounting estimate of allowance for doubtful accounts as of December 31, 2020 to reflect increased credit risk and possible incurrence of losses in the event of a deteriorating economic environment due to the pandemic.

Despite the negative impact of the pandemic on the results of operations of our *Rakuten Travel* business and our professional sports business, our other businesses have for the most part not been negatively affected by the pandemic. For example, in our Internet Services segment, due to voluntary business closures and the generalization of arrangements allowing employees to work from home, our domestic e-commerce business, in particular, has experienced and continues to experience a positive impact on its results of operations as the stay-at-home economy generates demand for general merchandise, food, medical supplies, electronics and other products and services meeting essential daily and other consumer needs. Due to the prolonged COVID-19 pandemic, we believe that domestic e-commerce and usage of our digital contents services will continue to grow as employees continue to adopt remote work arrangements.

Although it is difficult to predict the duration and extent of the economic impact of the COVID-19 pandemic, we expect that the overall impact on our business, financial condition and results of operations will continue to be limited.

For further information on the impact of the COVID-19 pandemic on our business and results of operations, see "Risk Factors—The outbreak and global spread of the COVID-19 pandemic has created new challenges for our business. The duration and severity of the COVID-19 pandemic could result in adverse effects on our business, financial condition and results of operations."

Capital Raised Through Third-Party Allotments of Shares

On March 29 and March 31, 2021, we completed sales of shares by means of third-party allotments (consisting of 139,737,600 newly issued shares and 71,918,900 treasury shares) to multiple entities at a price of ¥1,145 per share for aggregate proceeds of ¥242.3 billion. We intend to use the proceeds to fund capital investments for *Rakuten Mobile's* MNO network. As a result of such third-party allotments, our non-consolidated total equity increased to ¥747.9 billion from ¥505.6 billion as of December 31, 2020, and our non-consolidated shareholders' equity ratio increased from 21.3% as of December 31, 2020 to 28.6%. See "—Capital Investments in *Rakuten Mobile's* MNO Network." The shares were allocated as follows:

- Japan Post Holdings Co., Ltd.: 131,004,000 shares
- Image Frame Investment (HK) Limited: 57,382,900 shares
- Walmart Inc.: 14,536,000 shares
- Mikitani Kosan, Inc.: 4,366,800 shares
- Spirit Inc.: 4,366,800 shares

The investment by Japan Post Holdings Co., Ltd. was made in conjunction with the execution of a business alliance agreement between Rakuten group and Japan Post group on March 12, 2021 building on a previous collaboration to strengthen e-commerce logistics which began in April 2017. As part of the business alliance, we seek to partner across multiple fields, with the final form and content of these partnerships to be negotiated. For logistics, we will consider initiatives such as the creation of shared logistics centers and delivery and pick-up systems, data sharing, joint commercialization of a digital transformation platform for logistics (including the establishment of a new company) and initiatives to expand usage of Rakuten fulfillment centers and Japan Post's "Yu-Pack" parcels, among other initiatives. With respect to our Mobile business, we plan to utilize Japan Post Co.'s delivery network for marketing initiatives and accept new signup applications for our MNO network at Japan Post Co.'s post nationwide offices. We also consider to assist Japan Post group with its digital transformation and potentially collaborate in the fields of financial services and e-commerce as well.

Image Frame Investment (HK) Limited is an investment holding company wholly-owned by Tencent Holdings Limited, a global internet company that provides communication, social, games, digital contents, advertising, FinTech and cloud services.

The investment by Walmart Inc. is a further evolution of the relationship that Rakuten group has built with Walmart Inc. and that began with a strategic partnership that we announced in January 2018. This partnership has included the development of Rakuten Seiyu Net Super, an online grocery business launched in October 2018 as well as our recent acquisition of a 20% stake in Seiyu GK from Walmart Inc.

Mikitani Kosan, Inc. and Spirit Inc. are asset management companies affiliated with our founder and CEO, Mr. Hiroshi Mikitani.

Capital Investments in Rakuten Mobile's MNO Network

Our ongoing capital investments in *Rakuten Mobile's* MNO network have had a significant impact on our results of operations in recent years. For the years ended December 31, 2019 and 2020, our capital investments for our Mobile segment were ¥187.2 billion and ¥336.0 billion, respectively. We plan to continue to make significant capital investments to accelerate the expansion of coverage for our MNO network, and we currently expect that our 4G network will cover approximately 96% of the Japanese population by summer 2021 (as compared to the initial target of March 31, 2026 that we previously submitted to Japan's regulatory authorities). In order to improve quality with a higher density of base stations and to respond to the expected increase in users, we plan to construct a total of approximately 44,000 4G outdoor base stations (as compared to the initially planned 27,397 base stations). We expect the total capital investments for coverage infrastructure to consist of approximately ¥200 billion for 5G-related infrastructure expenses and approximately ¥600 billion for 4G-related infrastructure expenses as well as investments to improve the density of base station coverage for our 4G network that we expect to result in additional expenses of approximately 30-40% of such 4G-related infrastructure expenses. Our total cumulative capital investments in the Mobile segment since the year ended December 31, 2018 have been approximately ¥532 billion, which includes ¥126 billion of right-of-use assets, funded with the corresponding lease liabilities and accounted for in accordance with IFRS 16. We plan to fund the capital investments through a combination of self-funding by *Rakuten Mobile* from asset financings, including lease financings and securitization of receivables, and capital injections to *Rakuten Mobile* from Rakuten Group, Inc., which includes the proceeds of our ¥182 billion domestic subordinated bond issuance in 2018 and our ¥120 billion domestic subordinated bond issuance in 2020, the proceeds from the third-party allotments completed on March 29 and March 31, 2021 and a portion of the proceeds of this offering and the concurrent offering of the USD notes. We currently expect that *Rakuten Mobile* will become profitable by the end of the year ending December 31, 2023. See "—Capital Raised Through Third-Party Allotments of Shares" and "Use of Proceeds."

Sources of Revenue

Internet Services Segment

Our Internet Services segment accounted for 53.6%, 53.1% and 50.5% of our consolidated revenue before intersegment eliminations for the years ended December 31, 2018, 2019 and 2020, respectively. The sources of revenue in our Internet Services segment vary depending on the industry and type of business. Our primary sources of revenue include the following:

Domestic E-commerce Business

Our Domestic E-commerce business is largely composed of *Rakuten Ichiba* and our online travel business, as well as other domestic e-commerce sites.

We derive revenue from our *Rakuten Ichiba* business primarily from commissions and fees from merchants that sell goods and services through our online marketplace, including sales commissions representing a percentage of merchant sales and fixed monthly merchant usage fees. See "Business—Our Business Operations—Internet Services Segment—Rakuten Ichiba Business—Our Products and Services" for a summary of our fee system. We also record revenue from advertising on *Rakuten Ichiba* such as display ads, search ads and email ads. In addition, we record commissions and fees from offering credit card and other payment methods. We also engage in direct sales of goods and services through *Rakuten 24*, *Rakuten Books*, *Rakuten BIC*, *Rakuten Seiyu Netsuper* and *Rakuten Fashion*.

The primary source of revenue in our online travel business is commissions from hotels and accommodation facilities, airlines, car rental companies and other travel-related companies that sell their services through our online travel service *Rakuten Travel*. We also record revenue from advertising on *Rakuten Travel*.

Our C2C business is our main other domestic e-commerce business. The primary source of revenue in our C2C business is commissions from sellers through our online C2C service, *Rakuma*.

Other Internet Services Businesses

Overseas e-commerce businesses

Our overseas e-commerce marketplace businesses also primarily generate revenue from commissions received from merchants who sell goods and services through our e-commerce platforms. We also engage in some direct sales of goods and services through our overseas e-commerce platforms.

Other e-commerce and Internet Services businesses

We derive revenue on commissions on sales of goods and services through some of our other domestic e-commerce websites and record revenue from advertising on other Internet services websites. In addition, we derive revenue on commissions and fees from clients through our online performance marketing businesses through Rakuten MARKETING LLC, or *Rakuten Advertising*, and other advertising businesses. We also derive revenue from our online golf course reservation business, *Rakuten GORA*.

Professional sports business

The primary sources of revenue for our professional sports business are ticket sales to games, merchandise-related sales, sale of broadcasting rights and income from sponsorship marketing.

FinTech Segment

Our FinTech segment accounted for 35.6%, 34.8% and 35.5% of our consolidated revenue before intersegment eliminations for the years ended December 31, 2018, 2019 and 2020, respectively. The sources of revenue in our FinTech segment vary depending on the type of business. Our primary sources of revenue include the following:

Credit Card Business

The primary sources of revenue for our credit card business are card shopping transaction fees from merchants, commissions shared with card settlement network providers and fees, including annual fees, received from cardholders along with revolving payment and installment, financing revenue, which includes cash advance monthly commissions and interest income on cash advance balances, and fees from credit guarantees to other financial institutions including *Rakuten Bank*.

Online Banking Business

The primary source of revenue for our online banking business is interest income from loans and securities. In particular, we derive interest income from debt obligations in connection with our consumer loan business. Our online banking business also generates revenue from fees for fund transfers and remittances, financial instruments and its debit card business.

Online Securities Business

The primary source of revenue for our online securities business is commissions received from financial instruments transactions (including trading of stocks and bonds and sales of investment trusts). Our online securities business also derives income from net trading income on foreign exchange margin transactions, commissions received, interest revenue on domestic margin transactions and other operating revenue.

Insurance Businesses

We operate life insurance and general insurance businesses. The primary sources of revenue for our insurance businesses are the premiums paid by policyholders and interest income from the investment portfolios that we manage.

Other FinTech Businesses

The primary source of revenue for our *Rakuten Edy* e-money business is commissions from participating merchants, and the primary sources of revenue for our *Rakuten Pay* business are interchange fees from payments conducted through payment terminals at member shops. We also operate a cryptocurrency trading service through *Rakuten Wallet* which derives income from transaction fees as users buy and sell a selection of cryptocurrency assets.

Mobile Segment

Our Mobile segment accounted for 10.7%, 12.1% and 14.0% of our consolidated revenue before intersegment eliminations for the years ended December 31, 2018, 2019 and 2020, respectively. The sources of revenue in our Mobile segment vary depending on the type of business. Our primary sources of revenue include the following:

Telecommunications Business

The primary sources of revenue for our telecommunications business are fees for our MNO business, IP phone services and other telecommunications services, including IP phone, cloud solution and private branch exchange solution services provided to businesses. We also derive revenue from our remaining MVNO service users (we previously offered an MVNO service that allowed users to purchase a SIM card and access the wireless network infrastructures of third-party MNOs, NTT DOCOMO, INC. and KDDI CORPORATION, but we no longer offer this service to new customers and are in the process of migrating our existing MVNO customers to the *Rakuten Mobile* network that is used for our MNO business). *Rakuten Mobile* launched commercial operations of its MNO network in April 2020 and began offering the Rakuten UN-LIMIT VI plan on April 1, 2021, which features an innovative tiered pricing structure of ¥0, ¥980 and ¥1,980 per month for 0-1GB, 1-3GB and 3-20GB, respectively, of monthly data usage, or ¥2,980 per month for unlimited data within our network coverage area. The fees that we collect in connection with our MNO service began to contribute to revenue for our telecommunications business since the three-month period ended December 31, 2019. In addition to our MNO service, we also derive revenue from sales of a selection of Rakuten-brand smartphones, including the *Rakuten BIG*, a 5G-compatible smartphone with a 6.9-inch OLED display that we released in September 2020.

Mobile Messaging and VoIP Business

The primary sources of revenue for our mobile messaging and VoIP business are sales of virtual stickers and games, respectively, and fees received for voice calls to outside phone lines.

Digital contents businesses

We derive revenue from our digital contents businesses through several monetization models, including the following:

- *E-books*. We derive revenue from our e-book business through the sale of e-books and e-readers to our customers through our *Rakuten Kobo* business.
- *Streaming video*. Revenue from our streaming video services, including *Rakuten Viki* and *Rakuten TV*, are derived primarily from sales of digital contents to users and advertising revenue.
- *Streaming music*. Revenue from *Rakuten Music* is derived from monthly subscription plans allowing users to listen to either unlimited or time-capped music from our selection.

Factors Affecting our Results of Operations

Internet Services Segment

The main businesses in our Internet Services segment are our Domestic E-commerce businesses, which consist principally of our e-commerce marketplace *Rakuten Ichiba* and our online travel agency *Rakuten Travel*. Our Domestic E-commerce businesses accounted for 64.4%, 64.9% and 71.2% of the Internet Services segment revenue in the years ended December 31, 2018, 2019 and 2020, respectively. We also operate our overseas e-commerce and other Internet Services businesses, including *Rakuten Advertising* and *Rakuten Rewards* in the United States (formerly *Ebates*) and our professional sports business, which includes the operation of the Tohoku Rakuten Golden Eagles, a Japanese professional baseball team, and Vissel Kobe, a Japanese professional soccer team, as part of the business. Prior to the creation of the Mobile segment effective as of April 1, 2019, our mobile messaging and VoIP services and *Rakuten Mobile* were included in the Internet Services segment.

Factors Affecting our Domestic E-commerce Business

Gross merchandise sales

The total value of the transactions made through our websites is an important indicator of our business performance because many of our businesses are based on a commission model, in which we receive a certain percentage of the value of the transactions made through our websites. GMS is one of the primary KPIs and measures gross sales across our e-commerce businesses. GMS on our Domestic E-commerce websites increased steadily over the last five years from ¥2.8 trillion in the year ended December 31, 2016 to ¥4.5 trillion in the year ended December 31, 2020. The following table shows the growth in GMS in our Domestic E-commerce businesses from the year ended December 31, 2016 to the year ended December 31, 2020.

	For the year ended December 31,				
	2016	2017	2018	2019	2020
	(in trillions of yen)				
Domestic E-commerce GMS(1)	¥ 2.8	¥ 3.1	¥ 3.3	¥ 3.7	¥ 4.5

Note:

(1) Because the various services we offer change over time as operations are reorganized or new services are introduced, the range of services upon which each figure is based varies from year to year, and, therefore, such figures are not directly comparable. For example, in 2017, following the merger of Kenko.com, Inc. and Soukai Drug Co., Ltd., which became Rakuten Direct, Inc., we revised the components of the calculation of Domestic E-commerce GMS. Additionally, in 2020, we transferred certain digital contents businesses, including *Rakuten Ticket*, from the Internet Services segment to the Mobile segment, and the above figures have been adjusted to reflect such transfer. Our current calculation of Domestic E-commerce GMS includes gross sales of *Rakuten Ichiba, Rakuten Books, Rakuten Golf, Rakuten Fashion, Rakuten Dream, Rakuten Beauty, Rakuten Delivery, Rakuten 24, Rakuten Car, Rakuma, Rakuten Rebates, Rakuten Seiyu Netsuper* and *Rakuten Travel*.

Mobile ratio

In addition, our *Rakuten Ichiba* mobile ratio, representing the percentage of GMS for *Rakuten Ichiba* attributable to transactions through mobile devices, including feature phones, smartphones and tablets, reached 76.5% for the three-month period ended December 31, 2020.

The following table shows our mobile ratio on a quarterly basis for the specified periods:

	For the three-month period ended December 31,				
	2016	2017	2018	2019	2020
Rakuten Ichiba mobile ratio	60.8%	64.2%	70.2%	73.4%	76.5%

We expect our mobile ratio to continue to grow as we see increasing numbers of users accessing our platforms through mobile devices.

Number of merchants

The total number of merchants is one of the factors affecting the number of transactions on several of our websites, including *Rakuten Ichiba*. We have benefited from a virtuous circle, in which a certain scale of merchants and items for sale has attracted an increasing number of users to *Rakuten Ichiba* and an increasing number of users has kept our marketplace attractive to our merchants. We are now focused on maintaining a healthy and secure marketplace and increasing Domestic E-commerce GMS per merchant. The following table shows the number of merchants on *Rakuten Ichiba* as of the dates indicated.

	As of December 31,				
	2016	2017	2018	2019	2020
Number of *Rakuten Ichiba* merchants	44,528	45,619	47,007	49,887	53,794

Expenses in our Domestic E-commerce business consist primarily of costs related to advertising and marketing campaigns recorded as advertising and promotion expenditures, as well as personnel expenses and IT costs.

Factors Affecting our Overseas E-Commerce Business

GMS from our overseas e-commerce websites, including our *Rakuten Rewards* operations in the United States (formerly *Ebates*), is an important indicator of the performance of our overseas e-commerce business because many of our businesses are based on a commission model, in which we receive a certain percentage of the value of the transactions made through our websites. The GMS of merchants through our overseas marketplaces is increasingly contributing to growth in our Internet Services segment.

Expenses in our overseas e-commerce business consist primarily of costs related to advertising and marketing campaigns recorded as advertising and promotion expenditures, as well as personnel expenses and IT costs.

Factors Affecting our Travel Business

Our travel business is a commission-based business in which we receive fees from travel-related companies that represent a percentage of the value of the travel and accommodation services our customers purchase, calculated at the time of payment by our customers. The value of the travel and accommodation services purchased is affected by domestic economic conditions, consumer spending, as well as events that can impact demand for travel services in the short term, such as adverse weather conditions and natural disasters, including typhoons and earthquakes.

Factors Affecting our Other Internet Services Businesses

Our *Rakuten Advertising* business is affected by overall advertising expenditures in Japan and the United States, which are determined primarily by general economic conditions and developments affecting specific industries such as technological advances, deregulation and increased competition and the percentage of overall advertising expenditures spent on Internet advertising, which is determined by the extent to which consumers spend time using the Internet in comparison with other media, such as television, newspapers, magazines and radio, and also by the total value of e-commerce.

Factors Affecting our Professional Sports Business

Our professional sports business records most of its revenue on a seasonal basis. A large portion of our revenue from the Tohoku Rakuten Golden Eagles is recorded from April to October during the baseball season in Japan and a large portion of our revenue from Vissel Kobe is recorded from February to December during the soccer season in Japan. Both of these professional sports teams have substantial expenses without substantial off-setting revenue during their respective pre-season training periods.

Other Factors Affecting our Internet Services Segment

Competition

Competition from other e-commerce sites in Japan or from e-commerce businesses based overseas further expanding into the Japanese market could reduce our share of the domestic e-commerce market or require us to reduce our fees for merchants, thereby adversely affecting our revenue. Competition from other online travel agencies or travel agencies in Japan or online travel agencies based overseas could place similar pressure on our *Rakuten Travel* business.

Economic conditions

Levels of disposable income, inflation, economic growth, unemployment rates, consumer purchasing power and consumer confidence in Japan affect the GMS of our Domestic E-commerce businesses and therefore affect our revenue from commissions in those businesses. Where economic conditions are such that consumers are able and willing to spend increasing amounts, we may see an increase in traffic on our websites or an increase in the number of items ordered or services purchased per customer, which may result in an increase in GMS; conversely, where economic conditions for consumer spending are poor, we may experience a decrease in GMS.

Seasonality

Our e-commerce and travel businesses experience fluctuations in their revenue from quarter to quarter that reflect patterns in consumer spending behavior in Japan, the Americas and Europe. Revenue of our e-commerce businesses tends to increase in our fourth fiscal quarter, ending December 31 of each year, which coincides with the winter holiday and gift-giving season occasioned by Christmas, New Year's and other holidays, as well as post-Christmas and New Year promotions. Advertisement sales also increase in our fourth fiscal quarter, coinciding with the increased consumer activity, generally producing higher revenue in our e-commerce and performance marketing businesses from the sale of Internet advertisements. Our travel business tends to have higher net sales in our second and third fiscal quarters, ending June 30 and September 30 of each year, due to Golden Week, a period of several consecutive national holidays in Japan from the final week of April to early May, and the summer holiday period in Japan during which students have several weeks of vacation and workers typically take time off for the observation of the Obon holiday in mid-August. The seasonality of the revenue of some of our businesses may make it more difficult for you to compare our results of operations for historical periods or to analyze our future prospects.

Marketing and advertising expenses

Expenses in our Internet Services segment consist primarily of costs related to advertising and marketing campaigns for our domestic e-commerce and travel businesses recorded as advertising and promotion expenditures. Such costs are primarily due to expenses from additional Rakuten Super Points awarded to users during campaigns like our Rakuten Super Sale or other similar campaigns that we carry out on a continuous basis. Marketing and advertising expenses also include amounts we pay for offline advertising and amounts we pay to other Internet companies for search word and keyword advertisements, in which we purchase the rights to have our advertisements appear whenever a user searches for a particular word as well as Internet advertisements such as banner advertisements or advertisements on social networking services. We consider such advertising expenditures to be an important way to expand our customer base to new users and increase our share of the domestic e-commerce and travel markets.

Personnel expenses

Personnel expenses are also a major expense in our Internet Services segment and consist of fixed costs in the form of salaries for employees as well as stock-based compensation. See "—Factors Affecting our Results of Operations—General Factors—Employee Benefits Expenses."

IT costs

IT costs for our Internet Services segment consist primarily of server costs and costs from the maintenance of our IT systems, including outsourcing costs for work performed by third-party engineers. We may also incur a loss due to disposal and amortization of software or other IT assets in the event of the discontinuation or withdrawal of a service.

FinTech Segment

The main businesses in our FinTech segment are our credit card business, our online banking business and our online securities business. Our credit card business accounted for 44.1%, 47.2% and

45.4% of our FinTech segment revenue for the years ended December 31, 2018, 2019 and 2020, respectively. Our online banking business accounted for 19.4%, 18.3% and 16.6% of our FinTech segment revenue for the years ended December 31, 2018, 2019 and 2020, respectively. Our online securities business accounted for 14.1%, 11.6% and 12.9% of our FinTech segment revenue for the years ended December 31, 2018, 2019 and 2020, respectively. Our FinTech segment also includes our life insurance and general insurance businesses and our e-money business.

Factors Affecting our Credit Card Business

The total value of the transactions made using credit cards issued by *Rakuten Card* and the shopping revolving balance from *Rakuten Card* cardholders are important indicators of our business performance as *Rakuten Card* receives the majority of its revenue from fees and commissions from credit card transactions and interest income from revolving loans. The following table shows the shopping transaction value, including transactions outside of the Rakuten group, both online and offline, and shopping revolving balance in our *Rakuten Card* business, as of the dates and for the periods indicated.

	As of and for the year ended December 31,				
	2016	2017	2018	2019	2020
	(in billions of yen)				
Rakuten Card shopping transaction value . .	¥4,997.6	¥ 6,073.8	¥7,422.4	¥ 9,456.8	¥ 11,469.1
Rakuten Card shopping revolving balance	373.7	424.9	517.2	614.0	619.8

Another important indicator of the growth of our *Rakuten Card* business is the total number of card holders, as our revenue increases as the number of total card holders increases. The following table shows the number of *Rakuten Card* holders as of the dates indicated:

	As of December 31,				
	2016	2017	2018	2019	2020
	(in millions)				
Number of *Rakuten Card* holders	13.5	15.0	16.6	19.0	21.6

Expenses of our *Rakuten Card* business primarily consist of marketing and general expenses and credit costs relating to doubtful accounts. *Rakuten Card* also incurs financial expenses, which include interest expenses and other expenses for funding along with borrowing from financial institutions and implementation of securitizations. The following table shows the ratio of expenses related to doubtful accounts for the periods indicated:

	For the year ended December 31,				
	2016	2017	2018	2019	2020
Ratio of expenses related to doubtful accounts(1)	2.08%	1.89%	2.06%	1.97%	1.80%

Note:

(1) Ratio of expenses related to doubtful accounts is calculated as expenses related to doubtful accounts divided by the average total balance of loan receivables at the beginning and end of the applicable period.

Factors Affecting our Online Banking Business

Outstanding *Loans*. The balance of loans outstanding at *Rakuten Bank* and the number of loan customers are important indicators of our business performance as *Rakuten Bank* received about half of its revenue from interest income from loans to its customers for the year ended December 31, 2020. *Rakuten Bank* is the lender of *Rakuten Bank* Super Loans and *Rakuten Card* provides loan customers with credit guarantees. Loan receivables associated with *Rakuten Bank* Super Loans are held on the balance sheet of *Rakuten Bank* except for loan receivables associated with delinquency or other difficulties, which are held on the balance sheet of *Rakuten Card* as foreclosed assets*. Rakuten Bank* pays fees for credit guarantees to *Rakuten Card* from the revenue received from the loan customers. The table below shows the total loan receivables (including loan receivables associated with delinquency or other difficulties) and loan customers associated with *Rakuten Bank* Super Loans for *Rakuten Bank* as of the dates indicated.

	As of March 31,				
	2016	**2017**	**2018**	**2019**	**2020**
	(in billions of yen and thousands of customers)				
Loan receivables	¥476.0	¥641.3	¥801.6	¥951.3	¥1,113.8
Rakuten Bank Super Loan customers	465	536	587	639	701

Interest on loans is affected by a number of factors, including the creditworthiness of the borrower, the length of the loan term and the total maximum balance of the loan.

Outstanding Deposits. Another important indicator of the performance of *Rakuten Bank*'s business is the total amount of deposits from account holders. Assuming interest rate spreads remain constant, our profitability increases as our deposit level increases. In recent years, the Bank of Japan has been actively implementing monetary easing measures, including the introduction of a negative interest rate policy, which have resulted in lower market interest rates and flattened the yield curve in Japanese yen. An increase in the market interest rates in Japanese yen will impact our interest rate spread depending on the relative sensitivity of our interest-earning assets and interest-bearing liabilities to changes in interest rates as well as how the yield curve shifts as interest rates rise. If interest rates in Japan experience a sustained or substantial increase, our interest rate spread could be negatively affected. Such factors may include the extent to which the rise in the market interest rates will result in increases in interest rates on our deposits. The total deposit balance has grown steadily over the last five years, from ¥1,502.5 billion as of March 31, 2016 to ¥3,404.9 billion as of March 31, 2020. The following table shows the number of accounts and total amount of deposits as of the dates indicated.

	As of March 31,				
	2016	**2017**	**2018**	**2019**	**2020**
	(in millions of accounts and billions of yen)				
Number of accounts(1)	5.4	5.8	6.4	7.3	8.7
Deposit balance	¥1,502.5	¥1,607.1	¥2,010.2	¥2,611.2	¥3,404.9

Note:

(1) Represents the total number of accounts. Individual accountholders are permitted to open one account at *Rakuten Bank*. Sole proprietors may open one account as an individual and one account for their business, and corporations may open multiple accounts, but in each case each account is counted separately.

Income from Securities Portfolio. *Rakuten Bank*'s securities portfolio consists mainly of Japanese national government bonds, Japanese corporate bonds and foreign bonds, as well as securitized credit card receivables of *Rakuten Card*. Interest earned on *Rakuten Bank*'s securities portfolio is affected by a number of factors, including: the average balances held; fluctuations in prevailing market interest rates; the relative proportion of yen-denominated and foreign currency-denominated investments; fluctuations in foreign exchange rates; the relative proportion of government bonds and corporate bonds; fluctuations in the duration of its investments; the proportion of investments with corresponding hedge positions; the effectiveness of those hedge positions; and default rates of loan receivables of *Rakuten Card*'s underlying securitization interests.

Fees and Commissions Revenue. *Rakuten Bank*'s fees and commissions revenue consists primarily of fees on fund transfers, fees on debit card transactions and commissions on foreign exchange transactions.

Interest Expenses. *Rakuten Bank*'s interest-bearing liabilities consist primarily of retail deposits, including both yen deposits and foreign currency deposits, on which we pay interest. Factors affecting interest paid on deposits include: competition with deposit products offered by other banks, as well as competition with retail investment products; the aggregate amount and relative proportion of yen deposits and foreign currency deposits, as well as the relative proportion of each separate denomination of foreign currency deposits; fluctuations in interest rates offered on yen deposits and each denomination of foreign currency deposits; the relative proportion of ordinary deposits and time deposits; and the mix of remaining maturities of time deposits.

Fees and Commissions Expenses. *Rakuten Bank*'s fees and commissions expenses consist primarily of fees for credit guarantees for *Rakuten Bank* Super Loans paid to *Rakuten Card* and ATM usage fees paid on behalf of its accountholders. ATM usage fees vary according to the rates charged by owners of ATM networks and the volume of customer transactions.

Factors Affecting our Online Securities Business

We view the trading value of our *Rakuten Securities* online securities business as an important indicator of the strength of the business and our competitive position vis-à-vis other online and full-service online securities businesses because our online brokerage commissions depend on the total value of the trades made per day or per month by our securities customers and our commission rates. In addition, we generate a large portion of our *Rakuten Securities* revenue from brokerage commissions on margin transactions and interest income on margin trading.

The following table shows the steady increase in domestic stock brokerage trading value and foreign exchange trading value from the year ended December 31, 2016 to the year ended December 31, 2020.

	For the year ended December 31,				
	2016	2017	2018	2019	2020
	(in billions of yen)				
Rakuten Securities domestic stock brokerage trading value	¥ 40,956	¥ 47,349	¥ 54,619	¥ 53,173	¥89,813
Rakuten Securities foreign exchange trading value	377,163	303,569	268,558	247,148	457,234

The trading value of our *Rakuten Securities* business depends on three factors:

- Trading volume for the Japanese securities industry, particularly domestic stock markets, which is dependent upon general economic conditions and overall trends in financial markets;
- The percentage of trading volume that takes place through the online trading platforms of online securities companies rather than through traditional securities brokerage transactions that do not operate over the Internet; and
- *Rakuten Securities*' share of the trading volume taking place through online trading platforms, which depends on:
  - The number of brokerage accounts we have; and
  - The average total value of the securities trades made by each account holder.

In addition to brokerage commissions, *Rakuten Securities* charges commissions in connection with the initial sale of interests in investment trusts and other funds. Subscription and distribution commissions are determined primarily by customer purchase volume, which is dependent on factors including our ability to provide an attractive selection of investment trusts and other funds as well as by the contractual terms of the particular funds *Rakuten Securities* chooses to offer to its customers.

Rakuten Securities also receives other commissions, which are principally composed of management fees for investment trusts. Management fees are based upon customers' investment balances in investment trusts and vary depending on the contractual terms of the fund.

The following table shows growth in the net asset balance of investment trusts at *Rakuten Securities* as of the dates indicated.

	As of December 31,				
	2016	2017	2018	2019	2020
	(in billions of yen)				
Balance of investment trusts	¥526.9	¥653.9	¥675.3	¥951.3	¥1,458.0

Net trading income is primarily from commissions from foreign currency transactions conducted by customers of *Rakuten Securities*, and is affected by movements in foreign currency markets and the timing of our execution of customers' orders and the volumes of our purchases of non-yen-denominated bonds for resale to *Rakuten Securities* customers. Financial revenue is primarily from interest paid to *Rakuten Securities* by customers in connection with margin trading.

Expenses of our *Rakuten Securities* business primarily consist of financial expenses and selling, general and administrative expenses. Financial expenses for *Rakuten Securities* are primarily fees and interest expenses incurred as a result of stock and cash borrowing arrangements it enters into in connection with facilitating margin transactions by its customers. Selling, general and administrative expenses are primarily transaction-related expenses, administrative expenses, personnel expenses and expenses from software and hardware depreciation.

Factors Affecting our Other FinTech Businesses

Rakuten Life Insurance and Rakuten General Insurance

As the primary source of revenue in our *Rakuten Life Insurance* and *Rakuten General Insurance* businesses is insurance premiums, the total amount of annualized insurance premiums and number of policies are important indicators of our business performance. The following table shows the annualized insurance premiums in force and the number of policies in our *Rakuten Life Insurance* and *Rakuten General Insurance* businesses as of the dates and for the periods indicated. The reductions in new policies for *Rakuten General Insurance* in the year ended December 31, 2020 as compared to the prior year shown below are primarily due to initiatives to avoid the issuance of policies that may become unprofitable.

	As of and for the year ended December 31,		
	2018	2019	2020
	(in millions of yen and thousands of policies)		
Rakuten Life Insurance:			
Annualized insurance premiums in force	¥30,248	¥31,057	¥30,951
Number of policies in force	851	851	827
Annualized insurance premiums of new policies	¥ 5,263	¥ 5,380	¥ 4,636
Rakuten General Insurance:			
Number of new automobile insurance policies	92	20	8
Number of new fire insurance policies	75	29	14

Note:
(1) *Rakuten General Insurance* became our consolidated subsidiary from March 2018.

Other businesses

We also record revenue from other businesses in our FinTech segment, including our e-money service provider, *Rakuten Edy*, our mobile payment solution service provided through *Rakuten Pay* and our cryptocurrency exchange service, *Rakuten Wallet*.

Mobile Segment

The main businesses in our Mobile segment are *Rakuten Mobile*, our telecommunications business, *Rakuten Viber*, our mobile messaging and VoIP business, *Rakuten Communications* and our digital contents businesses, including *Rakuten Kobo*.

Factors Affecting our Telecommunications Business

The number of subscribers for services offered by our telecommunications business *Rakuten Mobile* is an important indicator of the growth of our telecommunications business. In our MNO operations, the number of subscribers, the average revenue per user and the churn rate, which we define as the proportion of subscribers who terminate their MNO services during a specific period, are some of the key indicators of the growth of the business. Following the launch of commercial operations for *Rakuten Mobile*'s MNO network in April 2020, the number of applications for new subscribers increased from an accumulated total of approximately 1 million as of the end of June 2020 to over 3 million as of March 9, 2021 and over 3.9 million as of April 8, 2021. In addition, other services that we offer to our subscribers, the Japanese regulatory environment and competition in the Japanese mobile telecommunications industry also affect the results and performance of our MNO operations. We previously offered an MVNO service that allowed users to purchase a SIM card and access the wireless network infrastructures of third-party MNOs, NTT DOCOMO, INC. and KDDI CORPORATION, but we no longer offer this service to new subscribers and are in the process of migrating our existing MVNO subscribers to the *Rakuten Mobile* network that is used for our MNO business. The historical results of operations for our MVNO service were affected by similar factors as our current MNO business, such as number of subscribers, the average revenue per user and the churn rate.

The results of operations for our telecommunications business is also affected by the level of expenditures for the development of our network and acquisition of new subscribers. We have made significant capital investments for the development of our MNO network, including the installation of physical base stations and the development of network technologies. For the years ended December 31, 2019 and 2020, our capital investments for our Mobile segment were ¥187.2 billion and ¥336.0 billion, respectively. For the year ended December 31, 2019, capital investments for our Mobile segment consisted of ¥163.6 billion of property, plant and equipment and ¥23.6 billion of intangible assets. For the year ended December 31, 2020, capital investments for our Mobile segment consisted of ¥298.2 billion of property, plant and equipment and ¥37.8 billion of intangible assets. These capital investments have affected the results of operations of our telecommunications business through increased depreciation expenses and we expect that these and anticipated additional increases in capital investments will result in an increase in depreciation expenses. We also incur significant sales and marketing expenses to promote the capabilities of our network and acquire new users.

Factors Affecting our Mobile Messaging and VoIP Business

The number of monthly active users is an important indicator of the growth of our mobile messaging and VoIP business *Rakuten Viber.* The number of *Rakuten Viber* unique IDs, defined as unique phone numbers excluding deactivations, reached over 1.2 billion as of December 31, 2020.

Factors Affecting our Digital Contents Businesses

The number of registered or active users is an important indicator of the growth of our digital contents businesses.

Expenses in our digital contents businesses consist primarily of content-licensing fees recorded as cost of sales of merchandise and services rendered, marketing costs, personnel costs and IT costs.

General Factors

Acquisitions and Equity Investments

Because the technologies and business models used in Internet services change at a very rapid pace, we have found it strategically useful to grow our business through the acquisition of other established businesses as well as early-stage growth companies in addition to pursuing organic growth. This allows us to abbreviate substantially the lead time that would otherwise be necessary to establish new businesses or use new technologies and business models to expand our present businesses. In addition, we have recently made several acquisitions internationally as part of our strategy to strengthen our global platform and integrate existing users and members of such overseas businesses into our Rakuten Ecosystem. Our strategic investments and acquisitions may affect our financial results. For example, new acquisitions may not increase our revenue materially in the short term, may have the effect of lowering our margins if the newly acquired businesses have lower overall margins than our margins and may result in us carrying a large amount of goodwill and intangible assets, and incurring significant impairment losses when expected returns are unrealized.

In recent years, we have made a number of acquisitions and investments in companies in a variety of industries. Our recent acquisitions and investments have included the following:

Acquisition of Freetel. On November 1, 2017, we acquired Freetel, a MVNO business, from Plus One Marketing Ltd., in order to increase our subscriber base and bolster our MVNO operations.

Acquisition of Asahi Fire and Marine Insurance Co., Ltd. On March 30, 2018, we completed the acquisition via tender offer of Asahi Fire and Marine Insurance Co., Ltd., a provider of non-life insurance that sells mainly automobile insurance and fire insurance. We renamed the company Rakuten General Insurance Co., Ltd. in July 2018. *Rakuten General Insurance* derives its revenue mainly from insurance premiums paid by policyholders and earnings from asset management and, together with Rakuten Life Insurance Co., Ltd., generates the majority of the revenue of our insurance business. See "Business—Our Business Operations—FinTech Segment—Other FinTech Businesses—Rakuten General Insurance."

Acquisition of everybody's bitcoin Inc. On October 1, 2018, we completed the acquisition of everybody's bitcoin Inc., a cryptocurrency exchange service. We subsequently renamed the company Rakuten Wallet, Inc. and relaunched it as a cryptocurrency exchange service provider in April 2019. This acquisition aimed to respond to the needs of a growing number of customers, in particular foreign exchange customers, of *Rakuten Securities*, as well as to provide a foundation for the potential settlement of transactions through cryptocurrencies using our services in the future. See "Business—Our Business Operations—FinTech Segment—Other FinTech Businesses—Rakuten Wallet."

Investment in Altiostar Networks, Inc. In May 2019, we completed our investment in Altiostar Networks, Inc., a U.S.-based company that provides a 5G-ready virtualized software solution.

Investment in AST & Science. In March 2020, we invested together with Vodafone Group in AST & Science, LLC, a Texas-based company that is developing SpaceMobile, a space-based low-Earth-orbit and low-latency satellite network that aims to connect directly to 4G and 5G smartphones without additional specialized hardware.

Acquisition of Innoeye. In 2020, we completed our acquisition of Innoeye, LLC and Innoeye Technologies Pvt. Ltd., which together form an engineering technology company that developed an end-to-end platform process automation solution that we have already deployed to support our 4G and 5G platform.

Acquisition of Interest in Seiyu GK. On March 1, 2021, we completed our acquisition of a 20% stake in Seiyu GK from Walmart Inc. Seiyu GK operates supermarkets, shopping centers and department stores in Japan. We were also joined by KKR & Co. Inc., which acquired a 65% stake in Seiyu GK from Walmart Inc. Through this acquisition, the three companies intend to bring complementary strengths to support Seiyu's growth in Japan. See "Business—Alliances and Investments—Retail."

We have typically financed our acquisitions in whole or in part through incurring additional borrowings, which increases our interest expenses.

Monetization of Early-stage Businesses

We operate a number of early-stage businesses, and businesses operating in emerging industries, including *Rakuten TV*, *Rakuten Music* and *Rakuten Wallet*, which have not reached the stage of stable profitability and have been generating operating losses. We have succeeded in reducing the operating losses of many of our early-stage businesses by improving financial performance while maintaining high growth in revenue, but our ability to effectively monetize these businesses will continue to affect our overall results of operations. Our ability to monetize our early-stage businesses depends on a number of factors, including competition in the relevant industry, the ability to achieve synergies with our more established businesses and the evolution of business conditions in the relevant industries.

Impairment, Depreciation and Amortization

We carry a significant amount of intangible assets, primarily in connection with our acquisitions. As of December 31, 2020, we had ¥639.6 billion in intangible assets, including ¥356.4 billion in goodwill. We assess at each quarterly reporting date whether there is an indication that intangible and tangible assets may be impaired, and when such an indication is identified we estimate the recoverable amount of that asset. In addition, we perform impairment testing of goodwill and other intangible assets with indefinite useful lives at least annually, regardless of whether there is any indication of impairment. If the carrying amount of an asset exceeds its estimated recoverable amount, we recognize an impairment loss on that asset. A large portion of our goodwill has been recognized in connection with the acquisition of early-stage businesses and businesses in emerging industries, including businesses that are susceptible to fluctuations in financial performance but nevertheless have a substantial purchase price due to expectations of future growth.

While goodwill is not amortized under IFRS, we recognize amortization in connection with certain other intangible assets with definite useful lives, including intangible assets that are acquired in business combinations, such as trademarks and other similar items. Within intangible assets with definite useful lives, the value of customer relationships acquired through business combinations are amortized based on the ratio of expected revenue occurring in a year over the total expected revenue over the useful life. Other intangible assets are amortized using the straight-line method over the estimated useful life of the assets. We also recognize depreciation in connection with our property, plant and equipment. Assets classified as property, plant and equipment are generally depreciated using the straight-line method over their estimated useful lives.

Foreign Exchange Rates

The results of operations of our overseas operations are impacted by movements in foreign exchange rates. Expenses incurred in overseas business operations are denominated in foreign currencies, in particular the U.S. dollar, Canadian dollar and euro. Our results of operations reported in yen are impacted by the translation effect upon conversion of the local currency results of our overseas subsidiaries, which are reported in U.S. dollars, Canadian dollars, euros and other currencies. A strengthening of the U.S. dollar against the yen will generally increase the profit or losses from our overseas subsidiaries in our consolidated results and conversely a weakening of the U.S. dollar against the yen will generally decrease the profit or losses from these subsidiaries.

Employee Benefits Expenses

Employee benefits expenses primarily consist of personnel expenses in our various businesses, including for computer systems engineers, web designers, marketing personnel and salespeople working with *Rakuten Ichiba* merchants at our neighborhood sales offices. Employee benefits expenses is primarily composed of wages and salaries but also includes stock option expenses relating to directors and employees. Our stock-based compensation includes stock options granted to a wide range of personnel including non-management employees starting from the second year of employment and management-level employees and directors in and outside of Japan. We consider such personnel expenditures to be an important way to motivate employees to enhance corporate and shareholder value as well as a way of attracting and retaining talented personnel. See “Business—Employees—Employee Stock Options.”

We grant stock options as incentive compensation for certain of our directors, audit and supervisory board members, executive officers and employees. We recognize the fair value of stock options expected to vest as a personnel expense from the grant date over the relevant vesting period. We recognize the corresponding amount as an increase in capital surplus in our consolidated statements of financial position. The fair value of the stock options is measured using the Black-Scholes model or other models, taking into account the terms of the options granted. We regularly review the assumptions and revise estimates of the number of options that are expected to vest.

Rakuten Super Points

Costs associated with Rakuten Super Points granted in connection with sales of goods and services meeting certain conditions, such as transactions where we act as the direct seller, are treated as a deduction of revenue in our consolidated statements of income, with a corresponding increase in the provision for customer points in our consolidated statements of financial position. Upon redemption of the outstanding points, we decrease the provision for customer points by an amount corresponding to the points redeemed. In connection with ordinary sales by registered merchants, such merchants bear the cost of Rakuten Super Points granted by reimbursing Rakuten Group, Inc. for the cost of the points granted based upon a percentage of ordinary sales. The cost of awarding Rakuten Super Points to users during campaigns such as Rakuten Super Sales or other similar campaigns that we carry out on a continuous basis is generally borne by us and is recognized as an expense when the points are granted. We capitalize the cost of certain Rakuten Super Points granted in connection with acquisition of new users as an asset that is amortized over the estimated life of the customer contract period.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with IFRS. In doing so, we are required to make estimates and assumptions that affect our reported amounts of assets, liabilities, revenue and expenses, as well as related disclosure of contingent assets and liabilities. In addition, certain accounting principles require significant judgment by management in applying complex accounting principles to individual transactions to determine the most appropriate accounting treatment. Although our actual results may be different from the results anticipated in the estimates we use, we base our estimates on our historical experience and other assumptions that we consider reasonable under the circumstances based on the best information available to us at the time we make our estimates. In some cases, we could reasonably have used different accounting policies and estimates.

We refer to some of our accounting policies as “critical accounting policies” because:

- the estimates involved in these policies require us to make assumptions about matters that are uncertain at the time the estimates are made; and
- different estimates that we reasonably could have used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on the presentation of our financial condition, or changes in our financial condition or results of operations.

We consider the following significant accounting policies to be our critical accounting policies:

Goodwill Evaluation

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

Recoverability of Deferred Tax Assets

For temporary differences that are differences between the carrying value of an asset or liability in the consolidated statements of financial position and its tax base, we recognize deferred tax assets and deferred tax liabilities in respect of such temporary differences 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 credit carried forward to the extent that it is probable that taxable income will be available. The estimation of taxable income in the future is derived from the business plan approved by our management, and is based on management’s subjective judgments and assumptions. We 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.

Methods of Determining Fair Value for Financial Instruments Measured at Fair Value Including Derivative Instruments

The fair value of financial assets and financial liabilities, including derivatives, held by Rakuten group companies are estimated based on the following amounts:

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

In particular, fair values estimated through valuation techniques that incorporate unobservable inputs are based on the decisions and assumptions of our management, such as appropriate base rates, assumptions and models utilized. We consider these estimates to be significant as it is probable that the changes of estimates and assumptions might have a significant impact on the calculation of the fair value of financial instruments.

Impairment of Financial Assets Measured at Amortized Cost and Debt Instruments Measured at Fair Value through Other Comprehensive Income

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

When estimating future cash flows, our management considers factors including the possibility of default, historical trends concerning the amount of credit loss and reasonably expected future events. If these estimates and assumptions change, the amount of any impairment losses for financial assets measured at amortized cost and debt instruments measured at fair value might vary widely. Therefore, we consider these estimates to be significant.

Provisions

We record certain provisions, such as provisions for our points programs, including the Rakuten Super Point rewards program, through which we grant points to customers in connection with certain user activities, including sales of products and services, new membership registration, customer referrals and limited-time promotions. Users are able to exchange accumulated points for products and services, obtain discounts or transfer points to *Rakuten Edy* e-money or third-party point programs. Points have an expiration date and once they expire a customer forfeits the right to use them. The cost of the majority of points granted to customers is borne by registered merchants unaffiliated with us in connection with sales to *Rakuten Ichiba* users. The cost of awarding Rakuten Super Points to users during campaigns such as Rakuten Super Sales or other similar campaigns that we carry out on a continuous basis is generally borne by us.

We record a provision for customer points in anticipation of the future use of points by users. We use historical experience of point usage to estimate the provision for our Rakuten Super Point rewards program, which involves the subjective judgment of our management and various underlying assumptions. We consider the estimates underlying the provision for customer points to be significant as it is probable that changes of our estimates and underlying assumptions could have a significant impact on the calculation of the amount of the provision. There is inherent uncertainty regarding the extent of usage of points by users, and we may need to revise our estimates and underlying assumptions in the future.

Liability Adequacy Test for Insurance Contracts

We perform a liability adequacy test for insurance contracts to assess whether our insurance liability needs to be increased by reviewing the estimated present value of cash inflows such as related insurance premiums and investment income, and cash outflows, such as insurance claims and benefits and operating expenses.

Measurement of Post-Employment Benefit Obligations

Certain of our group companies have defined benefit retirement 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 based on our management's judgement, estimates and assumptions. If these estimates and assumptions were to change, the amount of our employee retirement benefit liabilities may vary. Therefore, we consider these estimates to be significant.

Measurement of Lease Liabilities

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

New Accounting Standards

For a list of new accounting standards, revised standards and new interpretations that had been issued but had not been adopted on the date on which our board of directors approved our consolidated financial statements, see Note 1(8) to our consolidated financial statements as of and for the year ended December 31, 2020 included elsewhere in this offering circular.

Results of Operations

The following table shows our consolidated statement of income data for the years ended December 31, 2018, 2019 and 2020.

	For the year ended December 31,		
	2018	2019	2020
	(in millions of yen)		
Revenue	¥1,101,480	¥1,263,932	¥1,455,538
Operating expenses	1,027,753	1,266,902	1,579,630
Other income	120,634	86,901	54,483
Other expenses	23,936	11,186	24,240
Operating income (loss)	170,425	72,745	(93,849)
Financial income	954	3,642	60,150
Financial expenses	4,132	9,027	79,607
Share of losses of associates and joint ventures, net	1,824	111,918	37,710
Income (loss) before income tax	165,423	(44,558)	(151,016)
Income tax expense (benefit)	23,534	(11,490)	(35,178)
Net income (loss)	¥ 141,889	¥ (33,068)	¥ (115,838)

Comparison of the Year Ended December 31, 2020 with the Year Ended December 31, 2019

Revenue

Revenue for the year ended December 31, 2020 was ¥1,455,538 million, an increase of ¥191,606 million, or 15.2%, compared to revenue of ¥1,263,932 million for the year ended December 31, 2019.

Revenue of the Internet Services segment increased for the year ended December 31, 2020 compared to the prior year. This increase was due mainly to an increase in revenue in our domestic e-commerce services, which reflected sales promotion activities to cultivate loyal customers and win new customers, promotion of cross-use of services, and further opening up the Rakuten Ecosystem. In particular, services such as the Internet shopping mall *Rakuten Ichiba* and *Rakuten 24*, which sells medical supplies and daily necessities by mail order, saw an uplift in transaction volume due to increased demand for online shopping in Japan following the growth in so-called "stay-at-home consumption" triggered by the voluntary restraints on outings intended to prevent the spread of the COVID-19 pandemic. On the other hand, our online travel booking service, *Rakuten Travel*, was affected by a slump in reservations and a series of cancellations due to factors including voluntary business closures, the avoidance of all non-essential travel and the declaration of a state of emergency in April and May 2020. As a result, revenue for *Rakuten Travel* decreased compared to the prior year, despite an improvement in revenue in the third quarter onward resulting from a recovery in travel bookings following the launch in July 2020 of the Japanese government's "Go To Travel" campaign, which was subsequently suspended in December 2020 to prevent the resurgence of the COVID-19 pandemic. In addition, due to the cancellation of many sports events throughout Japan and the imposition of restrictions on the number of visitors to professional baseball regular-season games and soccer's league competitions in 2020, revenue of our professional sports business for the year ended December 31, 2020 also decreased significantly compared to the prior year.

Revenue in the FinTech segment increased for the year ended December 31, 2020 compared to the prior year due mainly to the continued expansion of the *Rakuten Card* membership, with the number of members topping 20 million in June 2020 and 21 million in November 2020. While consumption in lodging and dining services decreased due to the COVID-19 pandemic compared to the prior year, the growth in transaction volume mainly in online shopping contributed to an increase in revenue, resulting in transaction value of credit card shopping with *Rakuten Card* exceeding ¥11 trillion for the year ended December 31, 2020. At *Rakuten Bank*, the number of new bank accounts rose steadily after the total number of accounts exceeded 9 million in June 2020, leading to increased income from service transactions, which contributed to revenue growth. Similarly, revenue of *Rakuten Securities* increased compared to the prior year as a result of an increase in the number of new accounts, with the total number of cash management accounts reaching approximately 5 million as of December 31, 2020, and an increase in commissions from domestic shares and foreign currency trading.

Revenue of the Mobile segment increased for the year ended December 31, 2020 compared to the prior year due mainly to an increase in the number of applications for subscription to *Rakuten Mobile*'s MNO network following the launch of commercial services in April 2020 and the resulting acquisition of new customers. The customer base for our digital contents services, which includes e-book and video streaming services, has continued to expand, fueled by expanding demand for online content services during the COVID-19 pandemic.

Operating Expenses

Operating expenses for the year ended December 31, 2020 were ¥1,579,630 million, an increase of ¥312,728 million, or 24.7%, from operating expenses of ¥1,266,902 million for the year ended December 31, 2019. This increase was due mainly to an increase in expenses associated with sales activities to increase revenue, including advertising and promotion expenses, an increase in expenses related to logistics facilities in the Internet Services segment and an increase in expenses in the Mobile segment related to the construction of base stations for our MNO business.

Other Income

Other income for the year ended December 31, 2020 decreased from the prior year by ¥32,418 million, or 37.3%, to ¥54,483 million due mainly to a decrease in valuation gains on investment securities reflecting the valuation gains on investment securities related to investments in the ride-sharing business which we recorded in the prior year but which did not recur in the year ended December 31, 2020 and an absence of foreign exchange gains. These changes were partially offset by gains on sales of subsidiaries in connection with the sale of shares in OverDrive Holdings, Inc. recorded during the year ended December 31, 2020.

Other Expenses

Other expenses for the year ended December 31, 2020 increased from the prior year by ¥13,054 million, or 116.7%, to ¥24,240 million due mainly to losses on investments in the filmmaking business.

Operating Income

As a result of the foregoing, we recorded an operating loss of ¥93,849 million for the year ended December 31, 2020 compared to operating income of ¥72,745 million for the prior year.

Financial Income

Financial income for the year ended December 31, 2020 increased from the prior year by ¥56,508 million to ¥60,150 million. This increase was due mainly to an increase of ¥57,564 million in valuation gains on investment securities as a result of the recording of ¥56,980 million in valuation gains incurred through the fair value measurement of the shares that we hold in Lyft, Inc.

Financial Expenses

Financial expenses for the year ended December 31, 2020 increased from the prior year by ¥70,580 million to ¥79,607 million. This increase was due mainly to a loss on derivatives of ¥65,118 million during the year ended December 31, 2020 as a result of the recording of ¥63,903 million in loss on derivatives as a result of the forward contract derivative transaction that we entered into for the sale of our shares in Lyft, Inc.

Share of Losses of Associates and Joint Ventures, Net

Share of losses of associates and joint ventures, net, for the year ended December 31, 2020 decreased from the prior year by ¥74,208 million to ¥37,710 million. The loss in the year ended December 31, 2020 was mainly due to a change in accounting treatment for Lyft, Inc. shares, which had been previously accounted for using the equity method, but changed to being accounted for as a financial asset measured at fair value through profit or loss, effective from the three-month period ended September 30, 2020.

Loss Before Income Tax

As a result of the foregoing, we recorded a loss before income tax of ¥151,016 million for the year ended December 31, 2020 as compared to loss before income tax of ¥44,558 million for the prior year.

Income Tax Expense (Benefit)

We recorded an income tax benefit of ¥35,178 million for the year ended December 31, 2020 as compared to an income tax benefit of ¥11,490 million for the prior year.

Net Loss

As a result of the foregoing, our net loss for the year ended December 31, 2020 increased from the prior year by ¥82,770 million, or 250.3%, to ¥115,838 million.

Comparison of the Year Ended December 31, 2019 with the Year Ended December 31, 2018

Revenue

Revenue for the year ended December 31, 2019 was ¥1,263,932 million, an increase of ¥162,452 million, or 14.7%, from revenue of ¥1,101,480 million for the year ended December 31, 2018.

Revenue of the Internet Services segment increased for the year ended December 31, 2019 compared to the prior year. This increase was due mainly to an increase in revenue in our domestic e-commerce services, which reflected sales promotion activities to cultivate loyal customers and win new users, promoting cross-use of services, implementing programs aimed at improving customer satisfaction through our free shipping offerings and further promoting the Rakuten Ecosystem. In our overseas Internet services, we integrated various services into the Rakuten brand, conducted proactive sales promotions activities to raise our brand profile and expanded our businesses overseas.

Revenue in the FinTech segment increased for the year ended December 31, 2019 compared to the prior year due to the continued expansion of the *Rakuten Card* membership base and an associated increase in commission income and an increase in interest income from loans made by *Rakuten Bank* as well as improvements in administrative efficiency despite the negative interest rate policy implemented by the Japanese government. In our insurance services, a gain on sales of securities and a rebound from large payments of insurance claims related to natural disasters that occurred in the year ended December 31, 2018 contributed to an increase in revenue for the year ended December 31, 2019. These increases were offset by decreased revenue of *Rakuten Securities* due to a decrease in stock trading commissions earned in a sluggish period for Japanese stock markets.

In the Mobile segment, revenue increased for the year ended December 31, 2019 compared to the prior year due primarily to increased revenue from our MVNO business and *Rakuten Viber* due to significant expansion in the user base.

Operating Expenses

Operating expenses for the year ended December 31, 2019 were ¥1,266,902 million, an increase of ¥239,149 million, or 23.3%, from operating expenses of ¥1,027,753 million for the year ended December 31, 2018. This increase was due mainly to an increase in expenses associated with sales activities to increase revenue and expenses associated with logistics facilities and their reinforcement, as well as increases in expenses in the Mobile segment related to the construction of base stations for our MNO business.

Other Income

Other income for the year ended December 31, 2019 decreased from the prior year by ¥33,733 million, or 28.0%, to ¥86,901 million due mainly to a gain on sale of consolidated subsidiaries and a gain from a bargain purchase recorded in the prior year.

Other Expenses

Other expenses for the year ended December 31, 2019 decreased from the prior year by ¥12,750 million, or 53.3%, to ¥11,186 million due mainly to a decrease in losses associated with the liquidation of subsidiaries and foreign exchange loss recorded in the prior year.

Operating Income

As a result of the foregoing, our operating income for the year ended December 31, 2019 decreased from the prior year by ¥97,680 million, or 57.3%, to ¥72,745 million.

Financial Income

Financial income for the year ended December 31, 2019 increased from the prior year by ¥2,688 million, or 281.8%, to ¥3,642 million. This increase was due mainly to a gain on derivatives for the year ended December 31, 2019, which we did not have in the prior year.

Financial Expenses

Financial expenses for the year ended December 31, 2019 increased from the prior year by ¥4,895 million, or 118.5%, to ¥9,027 million. This increase was due to an increase in interest expense for the year ended December 31, 2019.

Share of Losses of Associates and Joint Ventures, Net

Share of losses of associates and joint ventures, net, for the year ended December 31, 2019 increased from the prior year by ¥110,094 million to ¥111,918 million. This increase was due mainly to an impairment loss of ¥102.9 billion in the value of our investment in Lyft, Inc. as a result of a significant decline in the market price of Lyft, Inc.'s shares.

Income (Loss) Before Income Tax

As a result of the foregoing, we recorded loss before income tax of ¥44,558 million for the year ended December 31, 2019 as compared to income before income tax of ¥165,423 million for the prior year.

Income Tax Expense (Benefit)

We recorded income tax benefit of ¥11,490 million for the year ended December 31, 2019 as compared to income tax expense of ¥23,534 million for the prior year.

Net Income (Loss)

As a result of the foregoing, we recorded net loss of ¥33,068 million for the year ended December 31, 2019 compared to net income of ¥141,889 million for the prior year.

Results of Operations by Operating Segment for the Years Ended December 31, 2018, 2019 and 2020

Comparison of the Year Ended December 31, 2020 with the Year Ended December 31, 2019

The following tables show selected statement of operations information for each segment for the years ended December 31, 2019 and 2020. From the year ended December 31, 2020, we reorganized certain of our businesses within the Internet Services segment and the Mobile segment. The main change was made to businesses that operate digital contents sites, including Rakuten Kobo Inc. in the Internet Services segment, which were transferred to the Mobile segment. These changes are reflected in the below selected statement of operations for the year ended December 31, 2020 and amounts for the year ended December 31, 2019 have been restated accordingly. The amounts presented in the tables below are before intercompany eliminations.

	For the year ended December 31, 2019			
	Internet Services	FinTech	Mobile	Total
	(in millions of yen)			
Segment revenue	¥743,266	¥486,372	¥169,054	¥1,398,692
Segment operating expenses	636,055	417,066	245,578	1,298,699
Segment profit (loss)	107,211	69,306	(76,524)	99,993
Other items:				
Depreciation and amortization	19,352	38,018	21,003	78,373

	For the year ended December 31, 2020			
	Internet Services	FinTech	Mobile	Total
	(in millions of yen)			
Segment revenue	¥820,115	¥576,195	¥ 227,142	¥1,623,452
Segment operating expenses	780,001	494,904	454,118	1,729,023
Segment profit (loss)	40,114	81,291	(226,976)	(105,571)
Other items:				
Depreciation and amortization	31,546	46,625	52,620	130,791

Internet Services

In the Internet Services segment, segment revenue for the year ended December 31, 2020 increased from the prior year by ¥76,849 million, or 10.3%, to ¥820,115 million due mainly to an increase in revenue in our domestic e-commerce services, which reflected sales promotion activities to cultivate loyal customers and win new customers, promotion of cross-use of services, and further opening up the Rakuten Ecosystem. In particular, services such as the Internet shopping mall *Rakuten Ichiba* and *Rakuten 24*, which sells medical supplies and daily necessities by mail order, saw an uplift in transaction volume due to increased demand for online shopping in Japan following the growth in so-called “stay-at-home consumption” triggered by the voluntary restraints on outings intended to prevent the spread of the COVID-19 pandemic. On the other hand, our online travel booking service, *Rakuten Travel*, was affected by a slump in reservations and a series of cancellations due to factors including voluntary business closures, the avoidance of all non-essential travel and the declaration of a state of emergency in April and May 2020. As a result, revenue for *Rakuten Travel* decreased compared to the prior year, despite an improvement in revenue in the third quarter onward resulting from a recovery in travel bookings following the launch in July 2020 of the Japanese government’s “Go To Travel” campaign, which was subsequently suspended in December 2020 to prevent the resurgence of the COVID-19 pandemic. In addition, due to the cancellation of many sports events throughout Japan and the imposition of restrictions on the number of visitors to professional baseball regular-season games and soccer’s league competitions in 2020, revenue of our professional sports business for the year ended December 31, 2020 also decreased significantly compared to the prior year.

Segment operating expenses for the year ended December 31, 2020 increased from the prior year by ¥143,946 million, or 22.6%, to ¥780,001 million due mainly to an increase in expenses associated with sales promotion activities and expenses related to increasing capacity of the Rakuten group’s logistics facilities to accept products for stores on the Rakuten marketplace and expanding the last mile delivery area covered by the Rakuten group in order to provide comprehensive logistics services.

As a result of the foregoing, segment profit for the year ended December 31, 2020 decreased from the prior year by ¥67,097 million, or 62.6%, to ¥40,114 million.

FinTech

In the FinTech segment, segment revenue for the year ended December 31, 2020 increased from the prior year by ¥89,823 million, or 18.5%, to ¥576,195 million due mainly to the continued expansion of the *Rakuten Card* membership, with the number of holders topping 20 million in June 2020 and 21 million in November 2020. While consumption in lodging and dining services decreased due to the COVID-19 pandemic compared to the prior year, the growth in transaction volume mainly in online shopping contributed to an increase in revenue, resulting in transaction value of credit card shopping with *Rakuten Card* exceeding ¥11 trillion for the year ended December 31, 2020. At *Rakuten Bank*, the number of new bank accounts rose steadily throughout the year and reached 9.9 million by December 31, 2020, leading to increased income from service transactions, which contributed to revenue growth. Similarly, revenue of *Rakuten Securities* increased compared to the prior year as a result of an increase in the number of new accounts, with the total number of cash management accounts reaching approximately 5 million as of December 31, 2020, and an increase in commissions from domestic shares and foreign currency trading.

Segment operating expenses for the year ended December 31, 2020 increased from the prior year by ¥77,838 million, or 18.7%, to ¥494,904 million due mainly to increased variable costs associated with the increase in segment revenue.

As a result of the foregoing, segment profit for the year ended December 31, 2020 increased from the prior year by ¥11,985 million, or 17.3%, to ¥81,291 million.

Mobile

In the Mobile segment, segment revenue for the year ended December 31, 2020 increased from the prior year by ¥58,088 million, or 34.4%, to ¥227,142 million due primarily to an increase in the number of applications for subscription to *Rakuten Mobile*'s MNO network following the launch of commercial services in April 2020 and the resulting acquisition of new customers. The customer base for our digital contents services, which includes e-book and video streaming services, has continued to expand, fueled by expanding demand for online content services during the COVID-19 pandemic.

Segment operating expenses for the year ended December 31, 2020 increased from the prior year by ¥208,540 million, or 84.9%, to ¥454,118 million due mainly to an increase in expenses related to the constructions of base stations for our MNO business.

As a result of the foregoing, segment loss for the year ended December 31, 2020 increased from the prior year by ¥150,452 million, or 196.6%, to ¥226,976 million.

Comparison of the Year Ended December 31, 2019 with the Year Ended December 31, 2018

The following tables show selected statement of operations data for each segment for the years ended December 31, 2018 and 2019. From the year ended December 31, 2020, we reorganized certain of our businesses within the Internet Services segment and the Mobile segment. The main change was made to businesses that operate digital contents sites, including Rakuten Kobo Inc. in the Internet Services segment, which were transferred to the Mobile segment. These amounts presented in the tables below for the years ended December 31, 2018 and 2019 have been restated accordingly. The amounts presented in the tables below are before intercompany eliminations.

	For the year ended December 31, 2018			
	Internet Services	FinTech	Mobile	Total
	(in millions of yen)			
Segment revenue	¥638,763	¥424,488	¥127,777	¥1,191,028
Segment operating expenses	518,556	356,585	153,949	1,029,090
Segment profit (loss)	120,207	67,903	(26,172)	161,938
Other items:				
Depreciation and amortization	12,579	30,752	11,649	54,980

	For the year ended December 31, 2019			
	Internet Services	FinTech	Mobile	Total
	(in millions of yen)			
Segment revenue	¥743,266	¥486,372	¥169,054	¥1,398,692
Segment operating expenses	636,055	417,066	245,578	1,298,699
Segment profit (loss)	107,211	69,306	(76,524)	99,993
Other items:				
Depreciation and amortization	19,352	38,018	21,003	78,373

Internet Services

In the Internet Services segment, segment revenue for the year ended December 31, 2019 increased from the prior year by ¥104,503 million, or 16.4%, to ¥743,266 million due mainly to an increase in revenue in our domestic e-commerce services, which reflected sales promotion activities to cultivate loyal customers and win new users, promoting cross-use of services, implementing programs aimed at improving customer satisfaction through our free shipping offerings and further promoting the Rakuten Ecosystem. In our overseas Internet services, we integrated various services into the Rakuten brand, conducted proactive sales promotions activities to raise our brand profile and expanded our businesses overseas.

Segment operating expenses for the year ended December 31, 2019 increased from the prior year by ¥117,499 million, or 22.7%, to ¥636,055 million due mainly to an increase in expenses associated with sales promotion activities and expenses incurred towards the reinforcement of our logistics facilities.

As a result of the foregoing, segment profit for the year ended December 31, 2019 decreased from the prior year by ¥12,996 million, or 10.8%, to ¥107,211 million.

FinTech

In the FinTech segment, segment revenue for the year ended December 31, 2019 increased from the prior year by ¥61,884 million, or 14.6%, to ¥486,372 million due to the continued expansion of the *Rakuten Card* membership base and an associated increase in commission income and an increase in interest income from loans made by *Rakuten Bank* as well as improvements in administrative efficiency despite the negative interest rate policy implemented by the Japanese government. In our insurance services, a gain on sales of securities and a rebound from large payments of insurance claims related to natural disasters in the year ended December 31, 2018 contributed to an increase in revenue for the year ended December 31, 2019. These increases were offset by decreased revenue of *Rakuten Securities* due to a decrease in stock trading commissions earned in a sluggish period for Japanese stock markets.

Segment operating expenses for the year ended December 31, 2019 increased from the prior year by ¥60,481 million, or 17.0%, to ¥417,066 million due mainly to increased variable costs associated with the increase in segment revenue.

As a result of the foregoing, segment profit for the year ended December 31, 2019 increased from the prior year by ¥1,403 million, or 2.1%, to ¥69,306 million.

Mobile

In the Mobile segment, segment revenue for the year ended December 31, 2019 increased from the prior year by ¥41,277 million, or 32.3%, to ¥169,054 million due primarily to increased revenue from our MVNO business and *Rakuten Viber* due to significant expansion in the user base.

Segment operating expenses for the year ended December 31, 2019 increased from the prior year by ¥91,629 million, or 59.5%, to ¥245,578 million due mainly to an increase in expenses related to the constructions of base stations for our MNO business.

As a result of the foregoing, segment loss for the year ended December 31, 2019 increased from the prior year by ¥50,352 million, or 192.4%, to ¥76,524 million.

Reconciliation of Segment Revenue to Consolidated Revenue for the Years Ended December 31, 2018, 2019 and 2020

The reconciliation of segment revenue to consolidated revenue for the years ended December 31, 2018, 2019 and 2020 is as follows:

	For the year ended December 31,		
	2018	2019	2020
	(in millions of yen)		
Segment revenue	¥1,191,028	¥1,398,692	¥1,623,452
Intercompany transactions	(89,548)	(134,760)	(167,914)
Consolidated revenue	¥1,101,480	¥1,263,932	¥1,455,538

Financial Information for Certain of our Businesses

We monitor for management purposes the financial information of our Internet Services, FinTech and Mobile segments as well as certain of our businesses, which are part of such segments, due to their distinct business models. This information is prepared for management accounting purposes and does not represent the results of reporting segments on our consolidated financial statements.

The following table shows revenue (prepared on a management accounting basis and before eliminations of intercompany transactions) for certain of our businesses within our Internet Services and FinTech segments for the years ended December 31, 2018, 2019 and 2020. From the year ended

December 31, 2020, we reorganized certain of our businesses within the Internet Services segment and the Mobile segment. The main change was made to businesses that operate digital contents sites, including Rakuten Kobo Inc. in the Internet Services segment, which were transferred to the Mobile segment. These changes are reflected in the below table for the year ended December 31, 2020 and amounts for the years ended December 31, 2019 and 2018 have been restated accordingly.

	For the year ended December 31,		
	2018	2019	2020
	(in millions of yen)		
Revenue			
Domestic E-commerce	¥411,384	¥482,206	¥584,135
Other Internet Services	227,378	261,061	235,980
Rakuten Card	187,124	229,756	261,328
Rakuten Bank	82,471	89,081	95,527
Rakuten Securities	59,681	56,556	74,091
Rakuten Payment	22,754	28,842	33,060
Rakuten Life Insurance	30,624	33,565	38,539
Rakuten General Insurance	60,413	65,656	55,578

Adjusted/Non-GAAP Financial Measures

We use financial measures to which certain adjustments have been applied, which are non-GAAP financial measures and not measures prescribed by IFRS, in addition to segment profit, in evaluating our operating results and for financial and operational decision-making purposes, including non-GAAP operating income and Adjusted EBITDA.

We believe that these adjusted/non-GAAP financial measures provide useful information about our financial performance by excluding certain expenses, gains and losses that may not be indicative of our core ongoing operating results and business outlook. We believe that our adjusted/non-GAAP financial measures enhance the overall understanding of our past performance and future prospects, and these measures are the key metrics used by our management in its financial and operational decision-making. Adjusted/non-GAAP financial measures provide greater visibility to the underlying performance of our business operations and facilitate comparison of our results with other periods. Such financial measures may also facilitate more meaningful comparisons between our operating results and those of other companies.

Our adjusted financial measures should not be considered in isolation or construed as an alternative to net income, operating income, cash flows from operating activities or any other measure of performance presented in accordance with IFRS. Non-GAAP operating income, Adjusted EBITDA and non-GAAP segment operating income presented here may not be comparable to similarly-titled measures presented by other companies. Other companies may calculate similarly-titled measures differently, limiting their usefulness as comparative measures to our data.

We calculate non-GAAP operating income and non-GAAP operating income of our segments by adding income tax expense (benefit), shares of income (loss) of associates and joint ventures, financial expenses and financial income to our consolidated net income (loss) (which is then separated into segment profit (loss) of the relevant segment, for the purpose of calculating segment non-GAAP operating income), based on IFRS, and then adding the following items:

- *Amortization of intangible assets*. We incur amortization expenses for intangible assets recognized in connection with acquisitions through purchase price allocation. We exclude these expenses because they are non-cash expenses that management does not believe correlate to our ongoing operating results.

- *Stock-based compensation expense*. This expense consists of expenses for stock options granted to management and employees. Due to the varying available valuation methodologies, subjective assumptions and the variety of award types that can be used to calculate stock-based compensation expense, we believe that non-GAAP financial measures that exclude this expense are useful indicators of underlying performance of our business operations and facilitate comparison of our results with other periods, as well as the results of other companies in our industry.
- *Other items*. Other items include gains, losses or expenses during a period that are the result of isolated events or transactions which have not occurred within the past two years and are not expected to recur in the subsequent two years. Other items also include business restructuring related items, such as gains on sales of subsidiaries. Regarding asset impairment, individual impairment losses exceeding a certain threshold amount, and meeting the foregoing standard with respect to their non-recurring nature, are included in other items. Other items also include impairment of goodwill exceeding a certain threshold amount that is incurred in connection with a change in strategy of the underlying business. We exclude these amounts primarily because management does not believe they are indicative of our ongoing operating results.

We calculate non-GAAP operating income for our segments based on operating income for such segments before elimination of intragroup transactions prepared in accordance with IFRS. Our segment operating income is prepared on a management accounting basis and is not prepared based on the financial accounting information we use to prepare our consolidated financial statements in accordance with IFRS.

We present our segment profit or loss based on non-GAAP operating income calculated as described above rather than operating income calculated in accordance with IFRS, as this is the financial measure used by our management to make decisions from operating income based on IFRS to non-GAAP operating income.

We calculate Adjusted EBITDA by adding income tax expense (benefit), share of income (loss) of associates and joint ventures, financial expenses and financial income to consolidated net income (loss) (which is then separated into segment profit (loss) for the purpose of calculating segment Adjusted EBITDA), based on IFRS, and then adding the following items:

- *Depreciation and amortization*. We incur depreciation and amortization expenses for certain assets, including property, plant and equipment and intangible assets. We exclude these expenses because they are non-cash items that management believes do not correlate to our ongoing operating results.
- *Stock-based compensation.* Stock-based compensation consists of expenses for stock options granted to management and employees. Due to the varying available valuation methodologies, subjective assumptions and the variety of award types that can be used to calculate stock-based compensation expense, we believe that non-GAAP financial measures that exclude this expense are useful indicators of underlying performance of our business operations and facilitate comparison of our results with other periods, as well as the results of other companies in our industry.
- *Other items*. Other items include gains, losses or expenses during a period that are the result of isolated events or transactions which have not occurred within the past two years and are not expected to recur in the subsequent two years. Other items also include business restructuring related items, such as gains on sales of subsidiaries. Regarding asset impairment, individual impairment losses exceeding a certain threshold amount, and meeting the foregoing standard with respect to their non-recurring nature, are included in other items. Other items also include impairment of goodwill exceeding a certain threshold amount that is incurred in connection with a

change in strategy of the underlying business. We exclude these amounts primarily because management does not believe they are indicative of our ongoing operating results.

- *EBITDA adjustments*. EBITDA adjustments includes other items such as gains, losses or expenses during a period that are the result of isolated events or transactions which have not occurred within the past two years and are not expected to recur in the subsequent two years. We exclude these amounts primarily because management does not believe they are indicative of our ongoing operating results. EBITDA adjustments also includes loss on sale of fixed assets and impairment loss on fixed assets that are not included in "Other items" as well as adjustment amounts with respect to depreciation and amortization due to differences in financial and management accounting.

Non-GAAP Operating Income

The table below sets forth a reconciliation of our net income (loss) to non-GAAP operating income (loss) for the years ended December 31, 2016, 2017, 2018, 2019 and 2020. The amounts in the table are prepared on a management accounting basis.

	For the year ended December 31,				
	2016	2017	2018	2019	2020
	(in millions of yen)				
Reconciliation of non-GAAP operating income (loss):					
Net income (loss)	¥ 38,435	¥110,488	¥141,889	¥ (33,068)	¥(115,838)
Income tax expense (benefit)	36,023	27,594	23,534	(11,490)	(35,178)
Income (loss) before income tax	74,458	138,082	165,423	(44,558)	(151,016)
Share of income (loss) of associates and joint ventures	(809)	(8,349)	(1,824)	(111,918)	(37,710)
Financial expenses	3,501	3,323	4,132	9,027	79,607
Financial income	256	410	954	3,642	60,150
Operating income (loss)	78,512	149,344	170,425	72,745	(93,849)
Add: Amortization of acquisition-related intangible assets	7,789	7,758	10,982	8,764	9,502
Add: Stock based compensation expense	7,344	7,509	7,833	10,137	10,612
Add: Other items(1)	25,970	2,399	(28,110)	3,483	(28,932)
Non-GAAP operating income (loss)	¥119,615	¥167,010	¥161,130	¥ 95,129	¥(102,667)

Note:

(1) Other items for the year ended December 31, 2016 are composed of expenses in connection with the reorganization of our European operations of ¥2,042 million and an impairment loss related to an overseas subsidiary etc. of ¥23,928 million. Other items for the year ended December 31, 2017 are composed of an impairment loss on fixed assets of ¥2,399 million. Other items for the year ended December 31, 2018 are composed of a gain on the purchase of shares of Rakuten General Insurance and others of ¥7,648 million, an impairment loss due to PriceMinister's brand change of ¥3,112 million and a gain on sale of shares in O-net, Inc. of ¥23,574 million. Other items for the year ended December 31, 2019 are composed of impairment loss on fixed assets in the United States of ¥3,483 million. Other items for the year ended December 31, 2020 are composed of a gain on sales of all shares in OverDrive Holdings, Inc. of ¥40,926 million, losses on investments in the filmmaking business of ¥3,277 million and ¥8,716 million consisting primarily of impairment of fixed assets due mainly to the closure of a U.S. based business.

The table below sets forth segment profit (loss) for each of our segments for the years ended December 31, 2016, 2017, 2018, 2019 and 2020. The amounts in the tables are prepared on a management accounting basis.

	For the year ended December 31,				
	2016	2017	2018	2019	2020
	(in millions of yen)				
Segment profit (loss)[1]:					
Internet Services segment	¥ 55,568	¥106,444	¥120,207	¥107,211	¥ 40,114
FinTech segment	65,587	63,509	67,903	69,306	81,291
Mobile segment	—	(6,947)	(26,172)	(76,524)	(226,976)
Total	121,155	163,006	161,938	99,993	(105,571)
Adjustments[2]	(1,541)	4,004	(807)	(4,864)	2,904
Non-GAAP operating income	¥119,615	¥167,010	¥161,130	¥ 95,129	¥(102,667)

Notes:

(1) From the year ended December 31, 2020, we reorganized certain of our businesses within the Internet Services segment and the Mobile segment. These changes are reflected in the above table for the year ended December 31, 2020, and amounts for the years ended December 31, 2018 and 2019 have been restated accordingly. The amounts shown in the above table for the years ended December 31, 2016 and 2017 have not been so restated.
From the year ended December 31, 2019, the segment structure of certain subsidiaries engaged in research and development was modified, and the method of allocating certain shared administrative costs was revised. These changes are reflected in the above table for the years ended December 31, 2019 and 2020, and amounts for the years ended December 31, 2017 and 2018 have been restated accordingly. The amounts shown in the above table for the year ended December 31, 2016 have not been so restated.
From the year ended December 31, 2019, we implemented a corporate reorganization pursuant to which our group companies were reorganized from the previous two reporting segments (Internet Services and FinTech) to three reporting segments that included our new Mobile segment. These changes are reflected in the above table for the years ended December 31, 2019 and 2020, and amounts for the years ended December 31, 2017 and 2018 have been restated accordingly. The amounts shown in the above table for the year ended December 31, 2016 have not been so restated.
From the year ended December 31, 2017, we modified our standards with respect to the calculation of insurance policy reserves. These changes are reflected in the above table for the years ended December 31, 2017, 2018, 2019 and 2020. The amounts of segment profit (loss) shown in the above table for the year ended December 31, 2016 have not been so restated (but the consolidated total has been so restated).

(2) Adjustments mainly include elimination of intercompany transactions and management fees.

Adjusted EBITDA

The table below sets forth a reconciliation of Adjusted EBITDA to net income (loss) for the years ended December 31, 2016, 2017, 2018, 2019 and 2020. The amounts in the table are prepared on a management accounting basis.

	For the year ended December 31,				
	2016	2017	2018	2019	2020
	(in millions of yen)				
Reconciliation of Adjusted EBITDA:					
Net income (loss)	¥ 38,435	¥110,488	¥141,889	¥ (33,068)	¥(115,838)
Income tax expense (benefit)	36,023	27,594	23,534	(11,490)	(35,178)
Income (loss) before income tax	74,458	138,082	165,423	(44,558)	(151,016)
Share of income (loss) of associates and joint ventures	(809)	(8,349)	(1,824)	(111,918)	(37,710)
Financial expenses	3,501	3,323	4,132	9,027	79,607
Financial income	256	410	954	3,642	60,150
Operating income (loss)	78,512	149,344	170,425	72,745	(93,849)
Add: Depreciation and amortization	44,257	54,376	72,429	106,370	151,506
Add: Stock-based compensation expense	7,344	7,509	7,833	10,137	10,612
Add: Other items(1)	25,970	2,399	(28,110)	3,483	(28,932)
Add: EBITDA adjustments(2)	2,507	2,705	8,977	4,001	7,849
Adjusted EBITDA	¥158,590	¥216,333	¥231,554	¥ 196,736	¥ 47,186

Notes:

(1) Other items for the year ended December 31, 2016 are composed of expenses in connection with the reorganization of our European operations of ¥2,042 million and an impairment loss related to an overseas subsidiary etc. of ¥23,928 million. Other items for the year ended December 31, 2017 are composed of an impairment loss on fixed assets of ¥2,399 million. Other items for the year ended December 31, 2018 are composed of a gain on the purchase of shares of Rakuten General Insurance and others of ¥7,648 million, an impairment loss due to PriceMinister's brand change of ¥3,112 million and a gain on sale of shares in O-net, Inc. of ¥23,574 million. Other items for the year ended December 31, 2019 are composed of impairment loss on fixed assets in the United States of ¥3,483 million. Other items for the year ended December 31, 2020 are composed of a gain on sales of all shares in OverDrive Holdings, Inc. of ¥40,926 million, losses on investments in the filmmaking business of ¥3,277 million and ¥8,716 million consisting primarily of impairment of fixed assets due mainly to the closure of a U.S. based business.

(2) EBITDA adjustments consists of certain other amounts, including loss on sale of fixed assets and impairment loss on fixed assets that are not included in "Other items" as well as adjustment amounts with respect to depreciation and amortization due to differences in financial and management accounting.

The table below sets forth a reconciliation of Adjusted EBITDA for each of our segments to segment profit (loss) for the years ended December 31, 2016, 2017, 2018, 2019 and 2020. The amounts in the table are prepared on a management accounting basis.

	For the year ended December 31,				
	2016	2017	2018	2019	2020
	(in millions of yen)				
Reconciliation of Adjusted EBITDA for Internet Services segment(1):					
Segment profit (loss)	¥55,568	¥106,444	¥120,207	¥107,211	¥40,114
Add: EBITDA adjustments(2)	24,156	19,246	25,755	26,669	30,133
Adjusted EBITDA	¥79,724	¥125,690	¥145,962	¥133,880	¥70,247

Notes:
(1) From the year ended December 31, 2020, we reorganized certain of our businesses within the Internet Services segment and the Mobile segment. These changes are reflected in the above table for the year ended December 31, 2020, and amounts for the years ended December 31, 2018 and 2019 have been restated accordingly. The amounts shown in the above table for the years ended December 31, 2016 and 2017 have not been so restated.
From the year ended December 31, 2019, the segment structure of certain subsidiaries engaged in research and development was modified, and the method of allocating certain shared administrative costs was revised. These changes are reflected in the above table for the years ended December 31, 2019 and 2020, and amounts for the years ended December 31, 2017 and 2018 have been restated accordingly. The amounts shown in the above table for the year ended December 31, 2016 have not been so restated.
From the year ended December 31, 2019, we implemented a corporate reorganization pursuant to which our group companies were reorganized from the previous two reporting segments (Internet Services and FinTech) to three reporting segments that included our new Mobile segment. These changes are reflected in the above table for the years ended December 31, 2019 and 2020, and amounts for the years ended December 31, 2017 and 2018 have been restated accordingly. The amounts shown in the above table for the year ended December 31, 2016 have not been so restated.
(2) EBITDA adjustments consists of certain adjustment amounts, including amounts related to depreciation and amortization, impairment loss on fixed assets and loss on sales of fixed assets minus amortization of acquisition-related intangible assets.

	For the year ended December 31,				
	2016	2017	2018	2019	2020
	(in millions of yen)				
Reconciliation of Adjusted EBITDA for FinTech segment[(1)]:					
Segment profit (loss)	¥65,587	¥63,509	¥67,903	¥ 69,306	¥ 81,291
Add: EBITDA adjustments[(2)]	16,893	22,616	26,484	32,909	42,649
Adjusted EBITDA	¥82,480	¥86,125	¥94,387	¥102,215	¥123,940

Notes:
(1) From the year ended December 31, 2019, the segment structure of certain subsidiaries engaged in research and development was modified, and the method of allocating certain shared administrative costs was revised. These changes are reflected in the above table for the years ended December 31, 2019 and 2020, and amounts for the years ended December 31, 2017 and 2018 have been restated accordingly. The amounts shown in the above table for the year ended December 31, 2016 have not been so restated.
From the year ended December 31, 2019, we implemented a corporate reorganization pursuant to which our group companies were reorganized from the previous two reporting segments (Internet Services and FinTech) to three reporting segments that included our new Mobile segment. These changes are reflected in the above table for the years ended December 31, 2019 and 2020, and amounts for the years ended December 31, 2017 and 2018 have been restated accordingly. The amounts shown in the above table for the year ended December 31, 2016 have not been so restated.
From the year ended December 31, 2017, we modified our standards with respect to the calculation of insurance policy reserves. These changes are reflected in the above table for the years ended December 31, 2017, 2018, 2019 and 2020. The amounts shown in the above table for the year ended December 31, 2016 have not been so restated.
(2) EBITDA adjustments consists of certain adjustment amounts, including amounts related to depreciation and amortization, impairment loss on fixed assets and loss on sales of fixed assets minus amortization of acquisition-related intangible assets.

	For the year ended December 31,				
	2016	2017	2018	2019	2020
	(in millions of yen)				
Reconciliation of Adjusted EBITDA for Mobile segment[(1)]:					
Segment profit (loss)	¥ —	¥(6,947)	¥(26,172)	¥(76,524)	¥(226,976)
Add: EBITDA adjustments[(2)]	—	4,078	10,538	21,507	53,980
Adjusted EBITDA	¥ —	¥(2,869)	¥(15,634)	¥(55,017)	¥(172,996)

Notes:
(1) From the year ended December 31, 2020, we reorganized certain of our businesses within the Internet Services segment and the Mobile segment. These changes are reflected in the above table for the year ended December 31, 2020, and amounts for the years ended December 31, 2018 and 2019 have been restated accordingly. The amounts shown in the above table for the year ended December 31, 2017 have not been so restated.

From the year ended December 31, 2019, the segment structure of certain subsidiaries engaged in research and development was modified, and the method of allocating certain shared administrative costs was revised. These changes are reflected in the above table for the years ended December 31, 2019 and 2020, and amounts for the year ended December 31, 2017 and 2018 have been restated accordingly. The amounts shown in the above table for the year ended December 31, 2016 have not been so restated.

From the year ended December 31, 2019, we implemented a corporate reorganization pursuant to which our group companies were reorganized from the previous two reporting segments (Internet Services and FinTech) to three reporting segments that included our new Mobile segment. These changes are reflected in the above table for the years ended December 31, 2019 and 2020, and amounts for the years ended December 31, 2017 and 2018 have been restated accordingly. No such restated amounts have been included in the above table for the year ended December 31, 2016.

(2) EBITDA adjustments consists of certain adjustment amounts, including amounts related to depreciation and amortization, impairment loss on fixed assets and loss on sales of fixed assets minus amortization of acquisition-related intangible assets.

Financial Condition and Liquidity

Total assets as of December 31, 2020 increased to ¥12,524,438 million from ¥9,165,697 million as of December 31, 2019. This was due mainly to an increase of ¥1,542,749 million in cash and cash equivalents, an increase of ¥697,220 million in financial assets for securities business, and an increase of ¥386,520 million in loans for banking business.

Total assets as of December 31, 2019 increased to ¥9,165,697 million from ¥7,345,002 million as of December 31, 2018. This was due mainly to 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 new lease agreements entered into during the year.

Total liabilities as of December 31, 2020 increased to ¥11,895,424 million from ¥8,428,497 million as of December 31, 2019. This was due mainly to an increase of ¥1,555,414 million in deposits for banking business, an increase of ¥760,361 million in bonds and borrowings, and an increase of ¥726,583 million in financial liabilities of securities business.

Total liabilities as of December 31, 2019 increased to ¥8,428,497 million from ¥6,568,795 million as of December 31, 2018. This was due mainly to an increase of ¥805,634 million in deposits for banking business mainly due to an increase in savings accounts at *Rakuten Bank*, 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 and new lease agreements entered into during the fiscal year.

Financial Condition and Liquidity of our FinTech Businesses

Credit Card Business

Loans and Receivables

The following table sets forth the composition of loans and receivables for our *Rakuten Card* business:

	As of December 31,		
	2018	2019	2020
	(in millions of yen)		
Breakdown of Loans and Receivables for Credit Card Business:			
Gross amount of loans and receivables for credit card business	¥1,540,176	¥1,910,840	¥2,117,358
Allowance for doubtful accounts	(76,146)	(82,624)	(84,345)
Net amount of loans and receivables for credit card business	¥1,464,030	¥1,828,216	¥2,033,013

Sources of Funding

Funding sources for *Rakuten Card* include securitization of receivables, with *Rakuten Bank* as the primary investor, for both shopping and revolving balances generated from *Rakuten Card* holders. Additional funding is obtained from short-term and long-term borrowings from financial institutions.

Rakuten Bank

Investment Securities

The following table sets forth the composition of investment securities for our *Rakuten Bank* business:

	As of December 31,		
	2018	2019	2020
	(in millions of yen)		
Breakdown of Investment Securities for Banking Business:			
Financial assets measured at amortized cost:			
Foreign bonds	¥ 12,848	¥ 13,304	¥ 13,061
Others	1,032	673	46
Gross amount of financial assets measured at amortized cost	13,880	13,977	13,107
Allowance for doubtful accounts	(173)	(99)	(12)
Net amount of financial assets measured at amortized cost	13,707	13,878	13,095
Financial assets measured at fair value through profit or loss:			
Trust beneficiary rights	1,214	1,137	1,061
Domestic bonds	—	—	—
Foreign bonds	243	220	192
Total financial assets measured at fair value through profit or loss	1,457	1,357	1,253
Debt instruments measured at fair value through other comprehensive income:			
Trust beneficiary rights	71,380	105,649	154,430
Domestic bonds	119,097	151,827	97,449
Total debt instruments measured at fair value through other comprehensive income	190,477	257,476	251,879
Financial assets measured at fair value through other comprehensive income	0	0	0
Total investment securities for banking business	¥205,641	¥272,711	¥266,227

Loans

The following table sets forth the composition of loans for our *Rakuten Bank* business. Guarantees comprise the majority of the security for loans in our banking business:

	As of December 31,		
	2018	2019	2020
	(in millions of yen)		
Breakdown of Loans for Banking Business:			
Gross amount of loans for banking business	¥906,314	¥1,062,947	¥1,448,697
Allowance for doubtful accounts	(14,389)	(12,954)	(12,184)
Net amount of loans for banking business	¥891,925	¥1,049,993	¥1,436,513

Deposits

The primary source of funding for *Rakuten Bank* is from a large balance of deposits. *Rakuten Bank*'s deposits are from retail customers and primarily denominated in Japanese yen. The following table sets forth the composition of deposits for our *Rakuten Bank* business:

	As of December 31,		
	2018	2019	2020
	(in millions of yen)		
Breakdown of Deposits for Banking Business:			
Financial liabilities measured at amortized cost:			
Demand deposits	¥1,619,989	¥2,565,702	¥4,213,787
Time deposits	734,641	595,046	502,375
Total financial liabilities measured at amortized cost	2,354,630	3,160,748	4,716,162
Financial liabilities measured at fair value through profit or loss:			
Time deposits	484	—	—
Total deposits for banking business	¥2,355,114	¥3,160,748	¥4,716,162

Rakuten Securities

Financial Assets

The following table sets forth the composition of financial assets for our *Rakuten Securities* business:

	As of December 31,		
	2018	2019	2020
	(in millions of yen)		
Breakdown of Financial Assets for Securities Business:			
Financial assets measured at amortized cost:			
Cash segregated as deposits	¥ 994,878	¥1,241,980	¥1,563,586
Accounts receivable relating to investment securities transactions	362,755	236,130	478,503
Margin transactions assets	344,016	406,325	503,798
Short-term guarantee deposits	70,688	76,092	105,795
Others	18,242	16,636	22,582
Gross amount of financial assets measured at amortized cost	1,790,579	1,977,163	2,674,264
Allowance for doubtful accounts	(1,604)	(2,102)	(1,884)
Net amount of financial assets measured at amortized cost	1,788,975	1,975,061	2,672,380
Financial assets measured at fair value through profit or loss	857	948	849
Total financial assets for securities business	¥1,789,832	¥1,976,009	¥2,673,229

Investment securities held for trading purposes are included in financial assets measured at fair value through profit or loss.

Financial Liabilities

The following table sets forth the composition of financial liabilities for our *Rakuten Securities* business:

	As of December 31,		
	2018	2019	2020
	(in millions of yen)		
Breakdown of Financial Liabilities for Securities Business:			
Accounts payable relating to securities transactions	¥ 360,865	¥ 235,638	¥ 470,834
Margin transactions liabilities	67,424	149,300	143,955
Deposits received	765,010	953,951	1,222,263
Borrowings secured by securities	246,463	179,008	314,589
Guarantee deposits received	313,268	342,621	435,519
Others	186	127	67
Total financial liabilities for securities business	¥1,753,216	¥1,860,645	¥2,587,227

Rakuten Life Insurance

Investment Securities

The following table sets forth the composition of investment securities for our *Rakuten Life Insurance* business:

	As of December 31,		
	2018	2019	2020
	(in millions of yen)		
Breakdown of Investment Securities for Insurance Business:			
Financial assets measured at amortized cost:			
Trust beneficiary rights	¥ —	¥ —	¥ —
Domestic bonds	6,978	—	—
Total financial assets measured at amortized cost	6,978	—	—
Financial assets measured at fair value through profit or loss:			
Domestic bonds	2,582	2,699	2,796
Beneficiary investment trust securities:			
Unlisted	509	513	519
Others	2,447	2,216	2,169
Total financial assets measured at fair value through profit or loss	5,538	5,428	5,484
Debt instruments measured at fair value through other comprehensive income:			
Trust beneficiary rights	5,098	4,839	5,470
Domestic bonds	59,653	44,680	77,639
Foreign bonds	105,939	25,598	46,446
Total debt instruments measured at fair value through other comprehensive income[1]	170,690	75,117	129,555
Equity instruments measured at fair value through other comprehensive income:			
Domestic bonds	6,506	5,803	8,572
Stock:			
Listed	53,969	48,034	27,913
Unlisted	4,644	5,037	4,807
Beneficiary investment trust securities:			
Listed	27,691	146,779	107,638
Others	1,041	1,002	0
Total equity instruments measured at fair value through other comprehensive income	93,851	206,655	148,930
Total investment securities for insurance business	¥277,057	¥287,200	¥283,969

Note:

(1) Loss allowance on debt instruments measured at fair value through comprehensive income amounted to ¥33 million for the year ended December 31, 2018, ¥6 million for the year ended December 31, 2019 and ¥42 million for the year ended December 31, 2020 and is included in other comprehensive income for such years.

Investment securities for insurance business are measured at amortized cost because they are defined as financial assets held as part of Rakuten group's business model with the objective of collecting contractual cash flows, and such cash flows are limited solely to repayments of principal including interest on the principal balance outstanding.

Credit Risk

The following tables show our exposure to credit risks associated with financial instruments as of December 31, 2019 and 2020:

	As of December 31, 2019				
	Classification by creditworthiness				
	Financial assets not impaired	Financial assets impaired	Total	Allowance for doubtful accounts	Maximum credit risk exposure (gross)
	(in millions of yen)				
On-balance sheet items:					
Accounts receivable—trade[1]	¥219,197	¥11,191	¥230,388	¥(8,024)	¥222,364
Other financial assets[1]	130,808	738	131,546	(826)	130,720
Total	¥350,005	¥11,929	¥361,934	¥(8,850)	¥353,084

Note:

(1) Applies only to financial instruments whose allowance for doubtful accounts are always measured at 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					
	Classification by creditworthiness					
	12-months expected credit losses	Financial assets whose credit risk has significantly increased since initial recognition	Financial assets impaired	Total	Allowance for doubtful accounts(1)(2)(3)	Maximum credit risk exposure
	(in millions of yen)					
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

Notes:

(1) Allowance for doubtful accounts of debt instruments measured at fair value through other comprehensive income is not included.

(2) With regard to credit-impaired financial assets, the allowance for doubtful accounts has been reduced by ¥467 million in the year ended December 31, 2019 as a result of collateral and other credit enhancements.

(3) Regarding the financial assets with terms and conditions that are modified when customers or clients request modification of payment due dates of financial assets, 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 year ended December 31, 2019, with regard to the financial assets whose allowance for doubtful accounts were based on an amount equivalent to estimated credit loss over the entire period, the amortized cost of the financial asset prior to the modification and net losses recognized as a result of the contractual cash flow modification were ¥21,480 million and ¥5,671 million, respectively.

	As of December 31, 2020				
	Classification by creditworthiness				
	Financial assets past due but not impaired	Financial assets impaired	Total	Allowance for doubtful accounts	Maximum credit risk exposure (gross)
	(in millions of yen)				
Items recognized in the Consolidated Statement of Financial Position:					
Accounts receivable—trade[1]	¥236,129	¥16,705	¥252,834	¥ (8,950)	¥243,884
Other financial assets[1]	215,329	1,158	216,487	(4,514)	211,973
Total of items recognized in the Consolidated Statement of Financial Position:	¥451,458	¥17,863	¥469,321	¥(13,464)	¥455,857

Note:

(1) Applies only to financial instruments whose allowance for doubtful accounts are always measured at amounts equal to lifetime expected credit loss and there are no categories that depend on whether a significant increase in credit risk since initial recognition has taken place, as they do not contain a significant financing component.

	As of December 31, 2020					
	Classification by creditworthiness					
	12-months expected credit losses	Financial assets whose credit risk has significantly increased since initial recognition	Financial assets impaired	Total	Allowance for doubtful accounts(1)	Maximum credit risk exposure (gross)
	(in millions of yen)					
Items recognized in the Consolidated Statement of Financial Position:						
Cash and cash equivalents	¥3,021,306	¥ —	¥ —	¥3,021,306	¥ —	¥ 3,021,306
Financial assets for securities business	2,672,199	2	2,063	2,674,264	(1,884)	2,672,380
Loans for credit card business	1,994,971	12,456	109,931	2,117,358	(84,345)	2,033,013
Investment securities for banking business	264,965	9	12	264,986	(12)	264,974
Loans for banking business	1,446,501	82	2,114	1,448,697	(12,184)	1,436,513
Investment securities for insurance business	129,554	—	—	129,554	—	129,554
Investment securities	8,009	—	—	8,009	—	8,009
Other financial assets	207,596	2,165	3,324	213,085	(52)	213,033
Total of items recognized in the Consolidated Statement of Financial Position:	9,745,101	14,714	117,444	9,877,259	(98,477)	9,778,782
Items not recognized in the Consolidated Statement of Financial Position:						
Commitment lines	—	—	—	—	—	4,390,034
Financial guarantee agreements	—	—	—	—	—	5,024
Total of items recognized in the Consolidated Statement of Financial Position:	—	—	—	—	—	4,395,058
Total	¥9,745,101	¥14,714	¥117,444	¥9,877,259	¥(98,477)	¥14,173,840

Notes:

(1) Allowance for doubtful accounts of debt instruments measured at fair value through other comprehensive income is not included.

(2) With regard to credit-impaired financial assets, the allowance for doubtful accounts has been reduced by ¥2,099 million in the year ended December 31, 2020 as a result of collateral and other credit enhancements.

(3) Regarding financial assets where terms and conditions are modified when customers or clients request modification of payment due dates, our 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 year ended December 31, 2020, with regard to the financial assets with allowance for doubtful accounts based on an amount equivalent to estimated credit loss over the entire period, the amortized cost of the financial asset prior to the modification and net losses recognized as a result of the contractual cash flow modification were ¥25,041 million and ¥6,607 million, respectively.

Consolidated Cash Flows

The following table shows our consolidated cash flow data for the years ended December 31, 2018, 2019 and 2020:

	For the year ended December 31,		
	2018	2019	2020
	(in millions of yen)		
Net cash flows from operating activities	¥145,615	¥ 318,320	¥1,041,391
Net cash flows from (used in) investing activities	(67,569)	(286,290)	(303,347)
Net cash flows from financing activities	208,418	458,340	808,108
Effect of change in exchange rates on cash and cash equivalents	2,897	(2,055)	(3,403)
Net increase in cash and cash equivalents	289,361	488,315	1,542,749
Cash and cash equivalents at the beginning of the period	700,881	990,242	1,478,557
Cash and cash equivalents at the end of the period	¥990,242	¥1,478,557	¥3,021,306

Comparison of the Year Ended December 31, 2020 with the Year Ended December 31, 2019

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

Net cash flows from operating activities for the year ended December 31, 2020 were ¥1,041,391 million, an increase from ¥318,320 million for the prior year, due mainly to a cash outflow of ¥697,382 million for an increase in financial assets in the securities business and a cash outflow of ¥386,520 million for an increase in loans in the banking business, offset by a cash inflow of ¥1,555,229 million from an increase in deposits in the banking business and a cash inflow of ¥726,799 million from an increase in financial liabilities in the securities business.

Net cash flows used in investing activities for the year ended December 31, 2020 were ¥303,347 million, an increase from ¥286,290 million for the prior year, due mainly to a net cash inflow of ¥6,039 million from purchase and sales of investment securities in the banking business (a cash outflow of ¥467,460 million for purchase of investment securities, and a cash inflow of ¥473,499 million from sales and redemption of investment securities), offset by a cash outflow of ¥279,278 million for purchases of property, plant and equipment, and a cash outflow of ¥105,796 million for purchases of intangible assets.

Net cash flows from financing activities for the year ended December 31, 2020 were ¥808,108 million, an increase from ¥458,340 million for the prior year, due mainly to a cash outflow of ¥324,141 million for repayment of long-term debts, offset by a cash inflow of ¥424,590 million from proceeds from long-term debts, a cash inflow of ¥411,279 million from an increase in short-term debts, and a cash inflow of ¥148,900 million from proceeds on issuance of bonds.

Comparison of the Year Ended December 31, 2019 with the Year Ended December 31, 2018

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

Net cash flows from operating activities for the year ended December 31, 2019 were ¥318,320 million, an increase from ¥145,615 million for the prior year, due mainly to a cash outflow of

¥364,138 million for an increase of loans for credit card business, a cash outflow of ¥186,289 million for an increase in financial assets in the securities business, offset by a cash inflow of ¥805,850 million from an increase in deposits for the bank business.

Net cash flows used in investing activities for the year ended December 31, 2019 were ¥286,290 million, an increase from ¥67,569 million for the prior year, due mainly to a cash outflow of ¥108,065 million for purchases of property, plant and equipment, a cash outflow of ¥99,173 million for acquisition of intangible assets, a net cash outflow of ¥67,187 million from purchase and sales of investment securities in the banking business (a cash outflow of ¥383,885 million for purchase of investment securities and a cash inflow of ¥316,698 million from sales and redemption of investment securities).

Net cash flows from financing activities for the year ended December 31, 2019 were ¥458,340 million, an increase from ¥208,418 million for the prior year, due mainly to a cash outflow of ¥324,166 million for repayment of long-term debt, offset by a cash inflow of ¥490,805 million from issuance of long-term debt, a cash inflow of ¥215,516 million from the issuance of bonds, and a cash inflow of ¥107,701 million from an increase in short-term borrowings.

Liquidity and Liquidity Management

We undertake liquidity management to ensure sufficient cash to meet both normal and unanticipated funding needs. As the parent company of the financial businesses in our FinTech segment, we establish overall principles and guidelines for risk management and our Governance Risk Compliance Department works with each of our operating subsidiaries to implement prudent liquidity management strategies, together with the Finance Department. See "—Risk Management" for a description of our and our operating subsidiaries' risk management activities, including those relating to the management of liquidity risk.

Cash Requirements

We require cash on an ongoing basis to finance our regular operations in all segments of our business. Our cash outlays for operating expenses include principally interest expenses on our borrowings and general and administrative expenses, including employee compensation, rent and other items. Income tax payments also require significant cash outlays. We expect that funds required for working capital and income tax payments will fluctuate generally with the growth of our business and earnings, although a variety of factors may affect the level of funds required in any particular year. We also require cash to fund acquisitions and other strategic investments. In recent years, we have made significant capital investments related to the development of our MNO network and installation of physical base stations. For the years ended December 31, 2019 and 2020, our capital investments for our Mobile segment were ¥187.2 billion and ¥336.0 billion, respectively.

In addition, the businesses in our FinTech segment have substantial cash requirements consisting of:

- settlement of credit card transactions with merchants, payments in connection with cash advances to customers, operating expenses and income and other taxes in our *Rakuten Card* business;
- customers' deposit withdrawals and loan requirements, payments in connection with new investments, repayment of short-term borrowings, payment of principal and interest under derivative instruments, operating expenses and income and other taxes in our *Rakuten Bank* business;

- payments in connection with margin lending to customers of our *Rakuten Securities* business; and
- insurance claims and other product-related payments, payments in connection with new investments, income and other taxes and operating expenses in our *Rakuten Life Insurance* business.

Sources of Liquidity and Funding

In our Internet Services segment, we principally finance our cash requirements through operating cash flows, bonds and borrowings.

We have special funding needs in our FinTech segment, where we require funds in order to support revolving loans in our credit card business and lending in our online banking business as well as margin trading in our online securities business. We typically address the funding needs of our FinTech businesses on an entity-by-entity basis. See "—Financial Condition and Liquidity of Our FinTech Businesses."

We consider a diverse variety of financing sources for acquisitions and other strategic transactions, including additional borrowings, cash on hand and issuances of additional debt or equity securities.

Schedule of Bonds

The following tables show our schedules of bonds and borrowings for the years ended December 31, 2019 and 2020.

Issuer Name	Type	Maturity Date	Interest rate	As of December 31, 2019	As of December 31, 2020
				(in millions of yen)	
Rakuten Group, Inc.	The 4th unsecured bond Currency: JPY Maturity: five years	June 25, 2021	0.13%	¥ 9,983	¥ 9,994
Rakuten Group, Inc.	The 5th unsecured bond Currency: JPY Maturity: seven years	June 23, 2023	0.25%	9,971	9,979
Rakuten Group, Inc.	The 6th unsecured bond Currency: JPY Maturity: three years	June 25, 2020	0.09%	39,973	—
Rakuten Group, Inc.	The 7th unsecured bond Currency: JPY Maturity: five years	June 24, 2022	0.22%	29,930	29,958
Rakuten Group, Inc.	The 8th unsecured bond Currency: JPY Maturity: seven years	June 25, 2024	0.32%	19,938	19,952
Rakuten Group, Inc.	The 9th unsecured bond Currency: JPY Maturity: ten years	June 25, 2027	0.42%	9,956	9,962
Rakuten Group, Inc.	The 10th unsecured bond Currency: JPY Maturity: three years	June 24, 2022	0.08%	9,963	9,978
Rakuten Group, Inc.	The 11th unsecured bond Currency: JPY Maturity: five years	June 25, 2024	0.25%	9,855	9,865
Rakuten Group, Inc.	The 12th unsecured bond Currency: JPY Maturity: seven years	June 25, 2026	0.35%	19,912	19,925

Issuer Name	Type	Maturity Date	Interest rate	As of December 31, 2019	As of December 31, 2020
				(in millions of yen)	
Rakuten Group, Inc.	The 13th unsecured bond Currency: JPY Maturity: ten years	June 25, 2029	0.45%	19,899	19,909
Rakuten Group, Inc.	The 14th unsecured bond Currency: JPY Maturity: fifteen years	June 23, 2034	0.90%	19,885	19,893
Rakuten Group, Inc.	The 1st subordinated bond Currency: JPY Maturity: 35 years	December 13, 2053	2.35%	139,057	139,298
Rakuten Group, Inc.	The 2nd subordinated bond Currency: JPY Maturity: 37 years	December 13, 2055	2.61%	22,771	28,811
Rakuten Group, Inc.	The 3rd subordinated bond Currency: JPY Maturity: 40 years	December 13, 2058	3.00%	12,882	12,895
Rakuten Group, Inc.	The 4th subordinated bond Currency: JPY Maturity: 35 years	November 4, 2055	1.81%	—	49,579
Rakuten Group, Inc.	The 5th subordinated bond Currency: JPY Maturity: 37 years	November 4, 2057	2.48%	—	19,827
Rakuten Group, Inc.	The 6th subordinated bond Currency: JPY Maturity: 40 years	November 4, 2060	3.00%	—	49,521
Rakuten Group, Inc.	The November 2024 maturity USD-denominated unsecured bond Currency: USD Maturity: five years	November 27, 2024	3.546%	85,784	82,006
Rakuten Card Co., Ltd.	The 1st unsecured bond Currency: JPY Maturity: three years	December 12, 2022	0.14%	19,918	19,946
Rakuten Card Co., Ltd.	The 2nd unsecured bond Currency: JPY Maturity: five years	December 12, 2024	0.30%	19,808	19,826
Rakuten Card Co., Ltd.	The 3rd unsecured bond Currency: JPY Maturity: seven years	December 11, 2026	0.42%	9,952	9,959
Rakuten Card Co., Ltd.(3)	The 4th unsecured bond Currency: JPY Maturity: five years	December 23, 2025	0.49%	—	29,835
	Total senior bonds			334,727	320,987
	Total subordinated bonds			174,710	299,931
	Total			¥509,437	¥620,918

Notes:

(1) All bonds are measured at amortized cost. The nominal interest rates applied for each bond in the years ended December 31, 2019 and 2020 stated in the "Interest rate" column differ from the effective interest rates.

(2) R&I and JCR provide a 50% equity credit with respect to the 1st, 2nd and 3rd subordinated bonds. R&I, JCR and S&P provide a 50% equity credit with respect to the 4th, 5th and 6th subordinated bonds.

(3) The 4th unsecured bonds due December 23, 2025 were an issuance to retail investors in Japan.

Schedule of Borrowings

	As of December 31,			
	2019		2020	
	Amount	Interest rate	Amount	Interest rate
	(in millions of yen and percentages)			
Short-term debt	¥ 218,755	0.002%–1.18%	¥ 630,262	0%–1.18%
Floating-rate debt(2)	522,068	0.39227%–4.88554%	353,530	0.39909%–4.90814%
Fixed-rate debt(3)	292,336	0%–4%	562,747	0%–3%
Commercial paper	184,500	0.007%–0.125%	320,000	0.007%–0.350%
Total borrowings	¥1,217,659		¥1,866,539	

Notes:

(1) All borrowings are measured at amortized cost. The nominal interest rates applied for each borrowing in the years ended December 31, 2019 and 2020 stated in the "Interest rate" column differ from the effective interest rates. In addition, the 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 incorporate the effect of the cash flow hedges.

(2) For our floating-rate debt, the maturities for the year ended December 31, 2019 ranged from three years to ten years and the maturities for the year ended December 31, 2020 ranged from one year to ten years.

(3) For our fixed-rate debt, the maturities for the year ended December 31, 2019 ranged from three years to 25 years and the maturities for the year ended December 31, 2020 ranged from one year to 25 years.

Maturity Schedule of Financial Liabilities

The table below sets forth the maturity schedule for our outstanding financial liabilities as of December 31, 2020:

	As of December 31, 2020					
	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
	(in millions of yen)					
Financial liabilities other than derivatives:						
Accounts payable—trade	¥ 337,427	¥ —	¥ —	¥ —	¥ —	¥ —
Deposits for banking business	4,696,311	8,048	4,805	2,639	2,961	1,031
Financial liabilities for securities business	2,587,227	—	—	—	—	—
Bonds and borrowings	1,142,884	208,006	342,297	389,861	170,214	252,824
Lease liabilities	38,969	39,484	37,248	34,316	29,144	102,066
Other financial liabilities	640,131	124,832	6,779	6,453	48,175	24,375
Derivatives associated with cover deals of special time deposits	10,890	675	202	741	43,705	21,838
Off-balance sheet items:						
Commitment lines	4,390,034	—	—	—	—	—
Financial guarantee agreements	5,024	—	—	—	—	—

Capital Adequacy of *Rakuten Bank*

Regulatory Capital Requirements

The Basel Committee has issued "A global regulatory framework for more resilient banks and banking systems," or Basel III, outlining the global regulations for stronger bank capital adequacy. With respect to banks with no international operations, including *Rakuten Bank*, the FSA promulgated in March 2013 certain amendments to the domestic standard of the capital adequacy requirements applicable to such banks, adapting and partially implementing the requirements set forth in Basel III, with the aim of improving their quality of capital.

Under the new requirements, the concepts of Tier 1 and Tier 2 capital, which were the key concepts of the framework of Basel II, have been replaced with the single concept of "core capital." Capital instruments that may be counted as core capital are effectively limited to common stock and preferred stock that is mandatorily convertible into common stock, while other preferred securities and subordinate debts are no longer included. These and other requirements partially based on Basel III have started to phase in from the end of March 2014, subject to a transitional period up to 15 years for certain of the new requirements.

Under the new requirements, the capital adequacy ratio is calculated by dividing adjusted capital by risk-weighted assets.

Adjusted capital is calculated based on the amount of instruments and reserves that qualify as core capital, with certain regulatory adjustments. Risk-weighted assets generally include credit risk-weighted assets, the equivalent amount of market risk divided by 8% and the equivalent amount of operational risk divided by 8%. In calculating *Rakuten Bank*'s capital adequacy ratio, *Rakuten Bank* has adopted the standardized approach to calculate the amount of *Rakuten Bank*'s credit risk weighted assets, as well as the standardized approach to assess the equivalent amount of operational risk. *Rakuten Bank* has adopted exemptions for market risk amounts, because *Rakuten Bank* is not proactively taking market risk and fulfills the requirements for such exemptions.

If the capital adequacy ratio of a financial institution falls below the required level, the FSA may, depending upon the extent of capital deterioration, take certain corrective actions, including requiring the financial institution to submit an improvement plan to strengthen its capital base, reduce its total assets, restrict its business operations or other actions that could have a material effect on its financial statements.

The minimum capital adequacy ratio applicable to Japanese banks with no international operations is 4%.

Capital Adequacy Ratios

Rakuten Bank's capital adequacy ratios as of March 31, 2019 and 2020 calculated in accordance with Japanese GAAP and guidelines established by the FSA are as set forth in the following tables:

	For the year ended March 31,	
	2019	2020
	(in millions of yen, except percentages)	
Core Capital: instruments and reserves (A)	¥ 129,203	¥ 147,372
Core Capital: regulatory adjustments (B)	5,280	6,428
Total adjusted capital (A)-(B)=(C)	123,922	140,943
Total credit risk-weighted assets	1,074,495	1,266,130
Total market risk equivalent / 8%	—	—
Total operational risk equivalent / 8%	87,301	98,381
Total amount of risk-weighted assets (D)	¥1,161,797	¥1,364,511
Capital adequacy ratio (C)/(D)(%)	10.66%	10.32%

Note:
(1) The numbers for the years ended March 31, 2019 and 2020 are calculated under the regulatory capital requirements applicable to banks with no international operations, which are based on Basel III.

Rakuten Bank's capital adequacy ratio as of March 31, 2020 was 10.32%, which decreased from March 31, 2019 due to an increase in risk-weighted assets. Risk-weighted assets increased by ¥202,714 million to ¥1,364,511 million as of March 31, 2020 due mainly to an increase in monetary claims and overdraft facilities. We believe that *Rakuten Bank* was in compliance with all regulatory capital requirements to which it was subject as of March 31, 2020. *Rakuten Bank*'s capital adequacy ratio was 10.0%, 10.8% and 10.7% as of March 31, 2016, 2017 and 2018, respectively.

Capital

The following table shows a breakdown of *Rakuten Bank*'s total adjusted capital and risk-weighted assets as of March 31, 2019 and 2020:

	As of March 31, 2019	As of March 31, 2020
	(in millions of yen except for percentages)	
Core Capital: instruments and reserves:		
Directly issued qualifying common stock or preferred stock mandatorily converted into common stock capital plus related capital surplus and retained earnings	¥ 128,312	¥ 146,925
of which: Capital and capital surplus	28,422	28,422
of which: Retained earnings	99,890	118,503
of which: Cash dividends to be paid (deduction)	—	—
Reserves included in Core Capital: instruments and reserves	890	447
of which: General reserve for possible loan losses	890	447
Eligible capital instrument subject to phase-out arrangement included in Core Capital: instruments and reserves	—	—
Core Capital: instruments and reserves (A)	129,203	147,372
Core Capital: regulatory adjustments:		
Total intangible fixed assets (net of related tax liability, excluding those relating to mortgage servicing rights)	5,280	6,428
of which: Other intangible fixed assets other than goodwill and mortgage servicing rights (net of related tax liability)	5,280	6,428
Core Capital: regulatory adjustments (B)	5,280	6,428
Total adjusted capital (A)–(B)=(C)	¥ 123,922	¥ 140,943
Risk-weighted assets:		
Credit risk-weighted assets	1,074,495	1,266,130
of which: Intangible fixed assets other than goodwill and mortgage servicing rights (net of related tax liability)	—	—
of which: Deferred tax assets (net of related tax liability)	—	—
Market risk equivalent / 8%	—	—
Operational risk equivalent / 8%	87,301	98,381
Credit risk-weighted assets adjustments	—	—
Total amount of risk-weighted assets (D)	¥1,161,797	¥1,364,511
Capital adequacy ratio:		
Capital adequacy ratio (C)/(D)	10.66%	10.32%

Note:

(1) Capital adequacy ratio (non-consolidated, applicable to banks with no international operations) is calculated based on standards stipulated by Article 14-2 of the Banking Act for the purpose of determining whether banks have sufficient equity capital given their holdings of assets and other instruments (Notification No. 19, the FSA, 2006, or Capital Adequacy Notification). *Rakuten Bank* adheres to capital adequacy standards applicable in Japan.

Rakuten Bank's core capital increased by ¥18,169 million from ¥129,203 million of March 31, 2019 to ¥147,372 million as of March 31, 2020. This increase was due mainly to an increase in retained earnings. As a result, together with deductions of ¥6,428 million, total adjusted capital as of March 31, 2020 was ¥140,943 million, an increase of ¥17,021 million compared to March 31, 2019. Risk-weighted assets increased by ¥202,714 million to ¥1,364,511 million due mainly to an increase in credit risk-weighted assets. Operational risk equivalent assets increased by ¥11,080 million to ¥98,381 million.

Solvency Margin Ratio of *Rakuten Life Insurance* and *Rakuten General Insurance*

Solvency margin ratio is a measure of capital adequacy which is calculated by dividing the solvency margin (net assets (less certain items), plus unrealized gains on assets, subordinated debt and other items) by a quantified measure of total risk. In Japan, insurance companies with solvency margin ratios of 200% or higher are generally considered sound and not requiring prompt corrective action. If the ratio falls below 200%, the Commissioner of the FSA may order the insurer to submit a plan for capital reinforcement. If it falls below 100%, the Commissioner may order measures including a suspension of shareholder and/or policyholder dividend payments and director compensation. If it falls below 0%, the Commissioner may suspend the insurer's operations. As of March 31, 2018, 2019 and 2020, *Rakuten Life Insurance*'s solvency margin ratio was 799.5%, 887.5% and 1,886.4%, respectively. As of March 31, 2018, 2019 and 2020, *Rakuten General Insurance*'s solvency margin ratio was 694.5%, 636.6% and 676.6%, respectively.

Risk Management

We conduct risk management activities from various perspectives. As part of our enterprise risk management initiatives, we conduct group-wide risk assessment of each business on a regular basis, and the results are reported to our management. In addition, accidents and incidents that may have an adverse effect on our business are immediately reported to our management to ensure adequate initial response and countermeasures. Separately, we have an Investment Committee that provides an opportunity to analyze and discuss risks with respect to acquisitions and/or new investments thoroughly before such transactions are brought before our Board of Directors.

In our FinTech segment, *Rakuten Bank*, *Rakuten Securities*, *Rakuten Life Insurance* and *Rakuten General Insurance* are required by regulators to establish an organizational risk management system focusing on various risks, including, but not limited to, the duration of investment securities, value at risk and sensitivity, etc., specific to the nature of their businesses. The risk management that our financial business companies carry out is conducted on an each-entity basis.

BUSINESS

Overview

We are a leading e-commerce company in Japan in terms of GMS for e-commerce product sales in 2020, according to FUJI KEIZAI CO., LTD. Under the concept of "single brand, single membership," we seek to integrate our core businesses as part of our "Rakuten Ecosystem" business model through which Rakuten members can access a wide variety of our services with a single Rakuten ID and participate in a single loyalty program. See "—Our Business Operations—Membership and Incentive Programs."

We operate *Rakuten Ichiba*, one of Japan's two largest e-commerce platforms based on product sales in 2020, according to FUJI KEIZAI CO., LTD., and *Rakuten Travel*, one of Japan's two leading online travel agencies in terms of GTV according to the JTA. We are expanding overseas to establish several e-commerce platforms using a similar B2B2C marketplace model. We also offer e-books, e-book readers and online video-streaming and music-streaming services. We provide online financial services, including credit card, online banking, online securities, life insurance, general insurance, electronic payments and cryptocurrency trading services. We launched the world's first end-to-end, fully virtualized, cloud-native mobile network in April 2020 and began offering high-speed 5G service in September 2020. As part of our marketing strategy to bring our Internet-based services to a wider segment of the Japanese population, we also operate a professional baseball team in Japan, the Tohoku Rakuten Golden Eagles, a professional soccer team in Japan, Vissel Kobe, and we have partnerships with FC Barcelona, one of the world's most esteemed soccer clubs, and the Golden State Warriors, a leading team in the National Basketball Association, in order to boost our brand recognition around the globe. Global GTV for the Rakuten group, including transactions in our domestic and overseas e-commerce, *Rakuten Travel*, *Rakuten Card* and *Rakuten Edy* businesses, reached ¥22.3 trillion for the year ended December 31, 2020.

We divide our operations into three segments:

- *Internet Services*: includes businesses running various e-commerce sites such as our primary online shopping platform, *Rakuten Ichiba*, online cash back sites and online travel booking sites, along with businesses for sales of advertising on these sites and our businesses related to professional sports teams;
- *FinTech*: includes businesses engaged in providing services over the Internet such as credit cards, online banking, online securities, life insurance, general insurance, electronic payments and cryptocurrency trading; and
- *Mobile*: includes businesses engaged in communication and messaging services, such as our MNO business (and also includes our MVNO business, which is no longer accepting new service activations) and our mobile messaging and VoIP businesses. Our Mobile segment also includes our digital contents businesses such as our e-book business and video and music streaming services.

As of December 31, 2020, we had 174 consolidated subsidiaries and 64 affiliates accounted for under the equity method. Our revenue was ¥1,455,538 million for the year ended December 31, 2020.

History

Rakuten Group, Inc. was incorporated under the laws of Japan as MDM, Inc. in February 1997 and began operating *Rakuten Ichiba* in May of that year. *Rakuten Ichiba* began with only 13 merchants in its mall and has grown to have 53,794 merchants as of December 31, 2020. Since our IPO in 2000, we have made strategic acquisitions to leverage our strengths and enter into new markets across the Internet, including our travel and securities businesses in 2003, our marketing business in 2005, our banking and card businesses in 2009 and our payments business in 2010. In the 2010's we made various international and content services acquisitions, and in 2018 we received regulatory approval to begin construction on *Rakuten Mobile*'s MNO network.

The following table shows a more detailed list of important events in our history and the development of our business operations:

Year/Month		History
1997	Feb	MDM, Inc. was founded with ¥10 million in capital at 1-6-7, Atago, Minato-ku, Tokyo.
	May	*Rakuten Ichiba began operations.*
1999	Jun	MDM, Inc. changed its trade name to Rakuten, Inc.
2000	Apr	Rakuten, Inc. completed its IPO on JASDAQ (currently Tokyo Stock Exchange Inc. JASDAQ (standard)).
2001	Mar	*Rakuten Travel* was launched.
2002	Nov	Rakuten Super Point rewards program was launched.
2003	Sep	Mytrip Net Co. (subsequently Rakuten Travel, Inc.) became a wholly-owned subsidiary of Rakuten, Inc. through a share acquisition and was subsequently merged into Rakuten, Inc.
	Nov	DLJdirect SFG Securities, Inc. (currently Rakuten Securities, Inc.) became a subsidiary of Rakuten, Inc. through a share acquisition.
2004	Oct	Rakuten Baseball, Inc. was founded.
	Nov	Nippon Professional Baseball Organization approved the new entry of the Tohoku Rakuten Golden Eagles.
	Dec	The shares of Rakuten, Inc. were listed on Jasdaq Securities Exchange, Inc. (currently Tokyo Stock Exchange Inc. JASDAQ (standard)).
2005	Jun	Kokunai Shinpan Co., Ltd (subsequently Rakuten KC Co., Ltd.) became a subsidiary of Rakuten, Inc.
	Sep	Rakuten group acquired 100% of the shares of LinkShare Corporation (currently Rakuten MARKETING LLC), which became a wholly-owned subsidiary of Rakuten, Inc. through Rakuten USA, Inc.
2007	Aug	FUSION COMMUNICATIONS CORPORATION (currently Rakuten Communications Corp.), the IP phone business operator, became a subsidiary of Rakuten, Inc. (and is currently a subsidiary of Rakuten Mobile, Inc.).
2009	Feb	The preferred shares of eBANK Corporation (currently Rakuten Bank, Ltd.) were converted to ordinary shares and eBANK Corporation became a subsidiary of Rakuten, Inc. (and is currently a subsidiary of Rakuten Card Co., Ltd.).
2010	Jan	bitWallet, Inc. (currently Rakuten Edy, Inc.) became a subsidiary of Rakuten, Inc. (and is currently a subsidiary of Rakuten Payment, Inc.).
	Jul	PRICEMINISTER S.A. (currently Rakuten FRANCE S.A.S.), an e-commerce website operator in France, became a wholly-owned subsidiary of Rakuten, Inc. through Rakuten Europe S.a.r.l.
2011	Aug	The Rakuten Card related businesses operated by Rakuten KC Co., Ltd. were succeeded by a way of absorption-type company split to Rakuten Credit, Inc. (currently Rakuten Card Co., Ltd.) and subsequently the shares of Rakuten KC Co., Ltd. were sold.

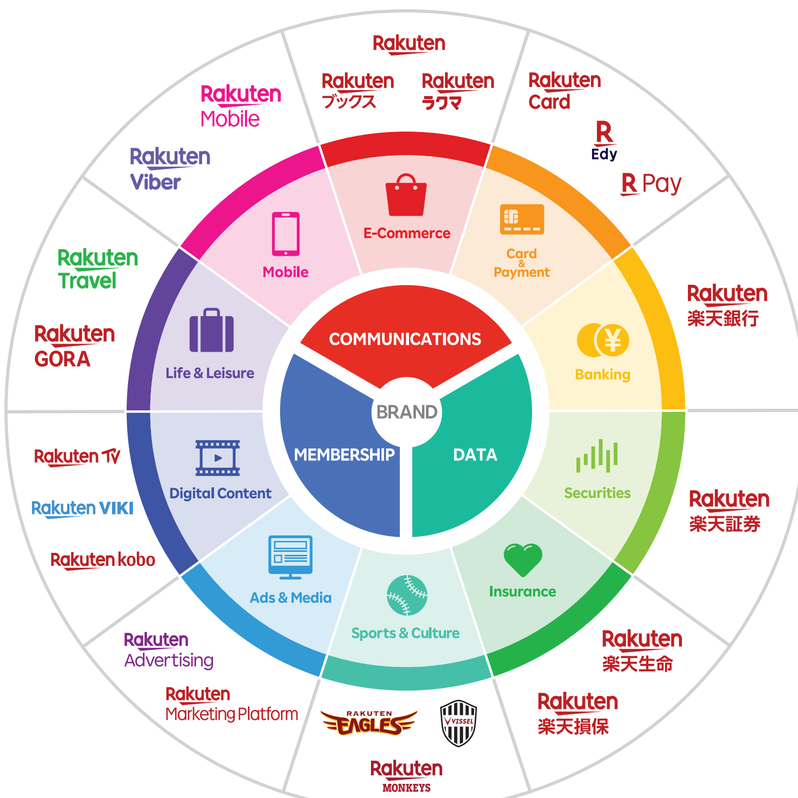
Year/Month		History
2012	Jan	Rakuten group acquired 100% of the shares of Kobo Inc. (currently Rakuten Kobo Inc.), a Canada-based global e-reading service company.
	May	Rakuten, Inc. subscribed for new shares of Kenko.com. Inc. through a third-party allotment, and Kenko.com. Inc. became a subsidiary of Rakuten, Inc.
	Jun	Rakuten group acquired 100% of the shares of Wuaki.TV, S.L. (currently Rakuten TV Europe, S.L.U.), a provider of on-demand video services in Spain.
	Oct	Additional shares of AIRIO LIFE Insurance Co., Ltd. (currently Rakuten Life Insurance Co., Ltd.), an equity-method affiliate, were acquired and it became a subsidiary of Rakuten, Inc. (and is currently a subsidiary of Rakuten Card Co., Ltd.).
2013	Sep	Rakuten group acquired 100% of the shares of VIKI, Inc., a global provider of on-demand video services.
	Nov	The Tohoku Rakuten Golden Eagles won the Japan Pro Baseball championship series for the first time.
	Dec	Rakuten, Inc. changed the listing of its shares to the First Section of the Tokyo Stock Exchange.
2014	Mar	Rakuten group acquired 100% of the shares of VIBER MEDIA LTD. (currently Viber Media S.a.r.l.), a global mobile messaging and VoIP company.
	Oct	Rakuten group acquired 100% of the shares of Ebates Inc., the provider of *Ebates*, a leading membership-based online cash-back site in the United States (currently operating as *Rakuten Rewards*).
2015	Mar	Rakuten group acquired 11.9% of the shares of Lyft, Inc., a transportation network company and developer of smartphone applications offering peer-to-peer ridesharing services.
	Apr	Rakuten group acquired 100% of the shares of OverDrive Holdings, Inc., a leading distributor of digital contents including e-books, audiobooks, music and video to libraries.
	Aug	Head office is transferred to 1-14-1 Tamagawa, Setagaya-ku Tokyo.
2016	Nov	Rakuten, Inc. enters into a basic agreement with FC Barcelona to become the Global Main Partner and Global Innovation & Entertainment Partner, starting from the 2017-2018 season.
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. (which was merged into Rakuten, Inc. as part of the corporate reorganization implemented on April 1, 2019).
	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 (and *Rakuten General Insurance* is currently a subsidiary of Rakuten Card Co., Ltd.).
	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) for its 4th generation (4G) mobile communications network.
2019	Mar	Rebranded *Rakuten Aspyrian* to *Rakuten Medical* to focus on global biotechnology opportunities.
	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 and 28 GHz band allocations) for its 5th generation (5G) mobile communications network.
	Oct	Rakuten Mobile, Inc. launches MNO network with small-scale services through a free supporter program.

Year/Month		History
2020	Apr	Rakuten Mobile, Inc. commences commercial launch of MNO network with “Rakuten UN-LIMIT 2.0,” a full-scale mobile carrier service providing unlimited usage for ¥2,980 per month.
	Jun	Rakuten group completed the sale of 100% of the shares of OverDrive Holdings, Inc. to Aragorn Parent Corporation.
	Sep	Rakuten Mobile, Inc. launches 5G service on its MNO network with “Rakuten UN-LIMIT V,” which includes 5G service for compatible devices for the same ¥2,980 monthly fee as UN-LIMIT 2.0.
2021	Mar	Rakuten group acquired 20% of the shares of Seiyu GK, a group that operates supermarkets, shopping centers and department stores in Japan.
	Apr	Rakuten, Inc. changed its trade name to Rakuten Group, Inc.
	Apr	Rakuten Mobile, Inc. begins offering “Rakuten UN-LIMIT VI” plan which includes flexible pricing tiers for different levels of data usage.

Our Strengths

Our unique Rakuten Ecosystem provides our loyal membership base with access to a wide range of interconnected services

The Rakuten Ecosystem provides our users with one-stop access to a wide range of interconnected services, including e-commerce services, online financial services, digital contents and communication services, through an integrated platform. Furthermore, *Rakuten Mobile* commenced commercial operations for its MNO network in April 2020 and launched its 5G service in September 2020, creating an additional gateway for introducing new users to the Rakuten Ecosystem. The following diagram illustrates the Rakuten Ecosystem, which encourages users joining through a particular service to take advantage of our other services and to benefit from their interconnected functionality:



The distinctive Rakuten Ecosystem allows users to experience our services through a unified Rakuten ID and benefit from the Rakuten Super Points rewards program

Within the Rakuten Ecosystem, our user base in Japan, totaling over 100 million members, can access many of our services using a single Rakuten ID and benefit from frequent use of our services through our Rakuten Super Points rewards program. The Rakuten Ecosystem is distinctive in terms of the breadth of services that it offers, and the attractiveness of the Rakuten Super Points rewards program we provide to our members promotes user engagement and loyalty. By encouraging our users to discover our other services, we are able to increase adoption and cross-use between our various businesses across our Internet Services, FinTech and Mobile segments. The ability to use Rakuten Super Points across many of our services also enables us to use innovative marketing methods to cross-promote other Rakuten services to our users.

Many of our services have strong positions in their respective markets, which promotes further cross-use of our services

We are one of Japan's most recognizable brands. Many of our services hold leading positions across multiple industries in Japan, making it easy and natural for users to try our other services. The following is a selection of our market-leading businesses:

- For domestic e-commerce, our *Rakuten Ichiba* business is one of the two leading e-commerce businesses in Japan, with a market share of approximately 25.2% based on e-commerce product sales in 2020, according to FUJI KEIZAI CO., LTD.
- For credit cards, *Rakuten Card* had the highest GTV among credit card issuers in Japan based on the value of purchase transactions in the domestic market for 2017, as estimated by Yano Research Institute, Ltd.
- For online securities businesses, *Rakuten Securities* had the highest number of new account openings among online-only brokerage firms in Japan during 2020 based on public disclosure materials.
- For online banking, *Rakuten Bank* had the highest number of accounts as of December 2020 for online banks without physical branches in Japan based on public disclosure materials.
- For online travel booking, *Rakuten Travel* is one of the two leading players in the Japanese market based on booked GTV as of December 2020 based on public disclosure materials.
- For electronic payments, *Rakuten Payment* was rated highest in overall satisfaction according to MDD Research Institute's January 2021 smartphone payment (QR code) satisfaction survey.

Because Rakuten Super Points, our primary group-wide reward program, can be earned and redeemed through most of the services offered in the Rakuten Ecosystem, including *Rakuten Ichiba* and *Rakuten Card*, our users have a strong incentive to use our other services. As of December 31, 2020, our cross-use ratio reached 73.0%. Our cross-use ratio is defined as the ratio of the number of Rakuten members in Japan who have utilized two or more Rakuten services eligible to earn Rakuten Super Points during the past twelve months to the number of all members that utilized any such service during the last month of that period.

We have accumulated rich and diverse user data through our services

The wide-ranging services provided in the Rakuten Ecosystem allow us to collect e-commerce data as well as financial and communications-related data in compliance with applicable laws and regulations, enabling us to analyze and respond effectively to the needs of our users. Because this data is tied to a unified Rakuten ID across our services, we are able to conduct comprehensive data analysis which can be used as a foundation for innovative marketing strategies. As consumers continue to demand personalized solutions to their diverse needs, we expect that further developments in the usage of big data and artificial intelligence will enable us to better tailor our services to individual consumers, making our ecosystem even more attractive.

With a leading position in Japan's e-commerce market, Rakuten Ichiba is well-positioned to capture further growth

The total GMS of our domestic e-commerce businesses was ¥4.5 trillion for the year ended December 31, 2020, Japan's e-commerce industry grew at a 12.1% CAGR from the year ended December 31, 2015 to the year ended December 31, 2020, according to FUJI KEIZAI CO., LTD., and sales from *Rakuten Ichiba* constitute a significant portion of our GMS. During the ongoing COVID-19 pandemic, interest in e-commerce in Japan has increased due to changes in consumer behavior resulting from "stay-at-home" policies and health concerns, leading to significantly accelerated growth, with total GMS for our domestic e-commerce businesses growing 19.9% in the year ended December 31, 2020 compared to the previous year and surpassing ¥4 trillion for the first time. However, Japan's e-commerce penetration rate of 6.8% is still relatively low compared to the United States (11.0%) and China (36.6%) (according to a report issued by METI in 2019), and we believe Japan's e-commerce industry will continue to grow.

Our FinTech businesses have maintained stable revenue and profit growth

Our FinTech segment consists of a diverse portfolio of financial services with stable revenue and profit growth. Revenue for our FinTech segment grew from ¥296,066 million for the year ended December 31, 2016 to ¥576,195 million for the year ended December 31, 2020, representing a CAGR of 18.1%, and segment profit increased from ¥65,587 million for the year ended December 31, 2016 to ¥81,291 million for the year ended December 31, 2020. *Rakuten Card* was the most popular credit card in Japan with GTV of ¥11.6 trillion for the year ended December 31, 2020 (with a year-over-year growth rate in shopping GTV for the year ended December 31, 2020 that was 28% higher than the credit card industry's average rate according to METI). Over the years ended December 31, 2016 to December 31, 2020, we have successfully controlled credit costs for *Rakuten Card*, consistently maintaining a ratio of expenses related to doubtful accounts of roughly 2%, and the complementary nature of our FinTech businesses has allowed *Rakuten Card* assets held through *Rakuten Bank* to serve as funding sources through securitization, further contributing to increased profitability for the Rakuten group. As of January 2021, *Rakuten Bank* became the first online-only bank in Japan to reach 10 million accounts. This was an increase from approximately 5.35 million accounts as of March 31, 2016 and represents an increasingly accelerated pace of user acquisition. *Rakuten Securities* had the highest number of new account openings among Japan's online-only banks for three years in a row based on public disclosure materials, with approximately 600,000, 700,000 and 1,300,000 new account openings for the 2018, 2019 and 2020 calendar years, respectively (compared to approximately 400,000, 400,000 and 800,000 new account openings for SBI Securities Co., Ltd. for the 2018, 2019 and 2020 calendar years, respectively).

Our management team has achieved growth while prudently managing risk

Our management team, in particular our founder and CEO, Chairman and President and Representative Director, Mr. Hiroshi Mikitani, has significant experience in the Internet services, finance and technology sectors. We believe the continued commitment of Mr. Mikitani to the growth of Rakuten as one of Japan's truly global companies has been essential to our success. Our team has an established track record of transformation and growth-generation, as illustrated by our expansion from a domestic e-commerce platform based on our B2B2C online marketplace *Rakuten Ichiba* to our current position offering e-commerce, financial, digital contents, communication and numerous other services globally, with GTV exceeding ¥22 trillion for the year ended December 31, 2020.

Our Strategies

Strengthen our leading market position by increasing the membership value of the Rakuten Ecosystem

Our vision is to become a global company with Japanese roots, and we will continue to focus our efforts on increasing the aggregate lifetime value of our users, which we call the “membership value” of the Rakuten Ecosystem. We aim to more than double membership value over the mid-to-long term. We believe that the key elements to increasing the membership value of the Rakuten Ecosystem are a combination of increases in the number of users, the cross-use ratio of our users and the lifetime value per user. We aim to achieve continued growth by satisfying the needs of our users, business partners and local communities. In the domestic e-commerce market, our goal is to be “beyond No.1” by strengthening our leading market position through efforts to promote specific genres of goods (such as clothing and related fashion accessories) while also improving customer satisfaction through the development of a centralized logistics network with a unified shipping infrastructure.

More specifically, we will focus on the following strategies:

Leverage our cutting-edge MNO network to bring new users into the Rakuten Ecosystem and increase cross-use by existing users

In April 2020, *Rakuten Mobile* commenced commercial operations for its MNO network, which is the world’s first end-to-end, fully virtualized, cloud-native mobile network, and we began offering a high-speed 5G service in September 2020. Due to the fully virtualized nature of our network, we believe that we are able to operate with approximately 30% lower operating expenses (due mainly to reduced field maintenance, operations center, rent and electricity expenses) and approximately 40% lower ongoing capital investments (due mainly to reduced hardware and deployment costs) compared to traditional MNO networks. These advantages enable us to offer wireless services to our customers at a lower cost and significantly below historical pricing levels for MNO services in Japan.

Until April 7, 2021, for the first three million customers for our UN-LIMIT service, we offered an introductory campaign that waived the monthly fee for the first year of service. In part due to the success of this campaign, we were able to increase the number of applications for new subscribers from an accumulated total of approximately 1 million as of the end of June 2020 to over 3 million as of March 9, 2021 and over 3.9 million as of April 8, 2021. To continue to appeal to new mobile subscribers (including subscribers that are new to the Rakuten Ecosystem as well as existing users of our other services), we launched our latest service plan, Rakuten UN-LIMIT VI, on April 1, 2021, which features an innovative tiered pricing structure with lower priced data plans than our competitors, and on April 8, 2021, we announced a new campaign that waives the first three months of UN-LIMIT VI fees for new *Rakuten Mobile* subscribers. Going forward, we believe our significant price advantage will enable us to acquire additional new subscribers that will subsequently cross-use additional services within the Rakuten Ecosystem and also increase the transaction value of existing users of our other services. For example, we recently introduced a campaign that provided *Rakuten Mobile* subscribers with additional Rakuten Super Points when making purchases on *Rakuten Ichiba*, and we have found that users of *Rakuten Mobile* tend to increase their spending on *Rakuten Ichiba*. Our data shows that users who made a purchase on *Rakuten Ichiba* between December 2019 and May 2020 and then joined *Rakuten Mobile* increased their subsequent *Rakuten Ichiba* spending by 44% on average during the period from June 2020 to December 2020 (as compared to a 13% increase in *Rakuten Ichiba* spending by users that did not join *Rakuten Mobile*). Additionally, our data as of September 2020 shows that 15% of *Rakuten Mobile* applicants are new Rakuten users, 35% of which have subsequently used a different Rakuten service (which includes new users using multiple services, including 25%, 10% and 5% of such new users that have subsequently begun to use *Rakuten Ichiba*, *Rakuten Card* and *Rakuten Bank*, respectively).

We also plan to continue to make significant capital investments to accelerate the expansion of coverage for our MNO network, and we currently expect that our 4G network will cover approximately 96% of the Japanese population by summer 2021 (as compared to the initial target of March 31, 2026 that we previously submitted to Japan's regulatory authorities). In order to improve quality with a higher density of base stations and to respond to the expected increase in users, we plan to construct a total of approximately 44,000 4G outdoor base stations (as compared to the initially planned 27,397 base stations). We expect the total capital investments for coverage infrastructure to consist of approximately ¥200 billion for 5G-related infrastructure expenses and approximately ¥600 billion for 4G-related infrastructure expenses as well as investments to improve the density of base station coverage for our 4G network that we expect to result in additional expenses of approximately 30-40% of such 4G-related infrastructure expenses. Our total cumulative capital investments in the Mobile segment since the year ended December 31, 2018 have been approximately ¥532 billion, which includes ¥126 billion of right-of-use assets, funded with the corresponding lease liabilities and accounted for in accordance with IFRS 16. We plan to fund the capital investments through a combination of self-funding by *Rakuten Mobile* from asset financings, including lease financings and securitization of receivables, and capital injections to *Rakuten Mobile* from Rakuten Group, Inc., which includes the proceeds of our ¥182 billion domestic subordinated bond issuance in 2018 and our ¥120 billion domestic subordinated bond issuance in 2020, the proceeds from the third-party allotments completed on March 29 and March 31, 2021 and a portion of the proceeds of this offering and the concurrent offering of the USD notes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments—Capital Raised Through Third-Party Allotments of Shares" and "Use of Proceeds."

In addition, we plan to expand the international reach of our Mobile business through the Rakuten Communications Platform. Through this business, we target customers such as telecom companies, government organizations and other enterprise customers around the world with the objective of deploying fully virtualized cloud-native network services using the experience and expertise that we have acquired through the development of *Rakuten Mobile*'s MNO network in Japan.

Increase our cross-use ratio through the Super Point Up program

Our primary strategy is to encourage our members to use multiple services in the Rakuten Ecosystem, which is facilitated by a single Rakuten ID and our Rakuten Super Points rewards program that offers benefits and rewards across our services. As part of this strategy, we offer the Super Point Up program, which allows users to increase the number of points they earn when using multiple Rakuten services. By offering this reward multiplier, we seek to increase our cross-use ratio and further strengthen user engagement and loyalty across our services.

Our "One Delivery" vision for e-commerce in Japan

In July 2018, we introduced our "One Delivery" vision for a nation-wide, end-to-end logistics service for merchants on the *Rakuten Ichiba* marketplace in Japan, covering product storage to final delivery to ensure a smooth process for our customers from the moment an order is placed on the online marketplace up until delivery of the product. To realize our One Delivery vision, we will continue to focus on strengthening and expanding *Rakuten Super Logistics*, our comprehensive logistics service for merchants on the *Rakuten Ichiba* marketplace, as well as further expanding the delivery coverage area of *Rakuten EXPRESS*, our door-to-door delivery service. We plan to open an additional fulfillment center in Kanagawa prefecture in September 2021. As of December 2020, 63.5% of the Japanese population lived within the delivery coverage area of *Rakuten EXPRESS*. In addition to continuing to improve our internal logistics capability, we are collaborating with external partners to build a comprehensive logistics network that will allow centralized management of shipping related to *Rakuten Ichiba*. For example, on March 12, 2021, we entered into a business alliance agreement with Japan

Post and Japan Post Co. to collaborate across multiple fields with initiatives that may include the creation of shared logistics centers and delivery and pick-up systems, data sharing, joint commercialization of a digital transformation platform for logistics (including the establishment of a new company) and initiatives to expand usage of Rakuten fulfillment centers and Japan Post's "Yu-Pack" parcels, and on March 29, 2021, we completed a sale of shares to Japan Post representing 8.32% of our shares (based on the number of outstanding shares as of December 31, 2020). See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments—Capital Raised Through Third-Party Allotments of Shares." Through these efforts, we aim to offer efficient and nation-wide logistics services to our merchants to further grow our domestic e-commerce business.

Continue to strengthen and expand the businesses in our FinTech portfolio

We intend to leverage the interconnected nature of the Rakuten Ecosystem to continue to expand the revenue base for our various FinTech businesses. For example, *Rakuten Life Insurance* and *Rakuten General Insurance* have partnered with *Rakuten Bank* to provide credit insurance and fire insurance, and *Rakuten Payment* has introduced a program to allow Japanese customers using Android mobile devices to recharge their "Suica" electronic commuter cards using Rakuten Points. Over the year ended December 31, 2020, one in four new members in the Rakuten Ecosystem joined through a payment service offered by *Rakuten Payment*. In this way, our FinTech businesses operate as a gateway to introduce new members to our other various convenient services.

Pursue a disciplined financial strategy for managing capital and liquidity to support growth investments

As we continue to actively pursue new business opportunities and further expansion in our existing businesses, we consistently seek to balance this growth with a disciplined financial strategy. This strategy includes carefully managing adequate levels of equity and liquidity and diversifying our funding sources. We have also formed a Business Portfolio Committee tasked with the responsibility of improving our business portfolio based not only on each business' results and profitability but also based on contributions to the larger Rakuten Ecosystem.

In the short term, our policy is to manage our current debt balance through multiple measures, including equity financings, monetization of our businesses and investment portfolios and hybrid financings. Our most recent equity financing was completed on March 29 and March 31, 2021, consisting of multiple third-party allotments for aggregate proceeds of ¥242.3 billion. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments—Capital Raised Through Third-Party Allotments of Shares." With respect to monetizing our business portfolio, we sold our equity stakes in Pinterest, Inc. and Careem Network FZ LLC in 2019 and 2020, respectively, and in the year ended December 31, 2020 we entered into a collar financing transaction with respect to our equity interest in Lyft, Inc. We also optimized and refocused our business portfolio by exiting the online marketplace business in Brazil in 2019 and the United States and Germany in 2020, and we sold *Rakuten O-net*, our marriage planning and counseling service, and OverDrive Holdings, Inc., a digital contents distributor, in 2018 and 2020, respectively. With regards to our hybrid financings, we recently issued ¥120 billion of hybrid bonds in a domestic issuance in November 2020.

In the mid-term, we intend to pursue an optimal debt balance and improve our leverage by expanding our Adjusted EBITDA. We also intend to maintain a minimum cash balance and liquidity through our diversified minority investment assets which had a fair value of approximately $1.1 billion as of December 31, 2020 (calculated based on the fair value of the relevant assets on our balance sheet, the stock price of listed shares as of December 31, 2020 and valuation of unlisted shares based on recent transactions by third parties or comparable companies' valuations, and excluding our holdings in Lyft, Inc. and Rakuten Medical, Inc.). With respect to *Rakuten Mobile*, we seek to expand the subscriber base for our new MNO network through upfront capital investments, which we expect will lead to an expansion in cash flows and a transition to profitability in the mid-term.

Our Business Operations

Group Reorganization

Through a company split that was effected on April 1, 2019, we reorganized our group companies from two segments (Internet Services and FinTech) to three segments (Internet Services, FinTech and Mobile). As part of this reorganization, our Internet Services businesses are now held by Rakuten, Group Inc., our FinTech businesses are held by *Rakuten Card*, among others, our Payments businesses (which are part of our FinTech segment) are held by *Rakuten Payment*, and our Mobile businesses are held by *Rakuten Mobile*. Also as part of this reorganization, the communications businesses that were previously part of our Internet Services segment were moved to the new Mobile segment, and the sports businesses within our Internet Services segment were recategorized as other businesses in our Internet Services segment.

At the general meeting of shareholders held on March 30, 2021, the shareholders approved a resolution to change our name from "Rakuten, Inc." to "Rakuten Group, Inc." effective as of April 1, 2021.

Membership and Incentive Programs

One of our key strategies is to maintain and enhance our Rakuten Ecosystem in order to create strong network effects between users, merchants and other participants. In order to integrate our businesses and create incentives for users to be active in our Rakuten Ecosystem, we have unified membership databases and platforms, allowed access to many of our services using a single user ID and implemented our Rakuten Super Point rewards program across many of our services. We reinforce network effects in our Rakuten Ecosystem by cross-promotion of our services and targeted promotions such as opportunities to earn additional Rakuten Super Points by purchasing or using multiple products and services during Rakuten group-wide sales campaigns such as Rakuten Super Sales or for using new services in our Rakuten Ecosystem. During the year ended December 31, 2020, we issued approximately 470 billion Rakuten Super Points to our users.

Rakuten IDs

Rakuten members can access a wide variety of our services with a single Rakuten ID, and we believe that the number of Rakuten IDs is a useful metric for tracking our expansion within Japan. We calculate the total Rakuten IDs as the number of Rakuten member IDs in Japan that have logged in at least once after membership ID registration, excluding members who withdrew their membership (some individuals have multiple Rakuten IDs). As of December 31, 2020, there were approximately 119.8 million Rakuten IDs, an increase of 7.5% from December 31, 2019.

Rakuten Global Membership

To track our expansion efforts in Japan and internationally, we measure Rakuten global membership as the sum of the members across Rakuten (Japan), overseas e-commerce (including *Rakuten Rewards*), *Rakuten Kobo*, *Rakuten TV* and *Viber* (some users have multiple memberships within or across these services). Our global membership has grown steadily, increasing from approximately 1.1 billion members as of December 31, 2016 to approximately 1.5 billion members as of December 31, 2020. We believe that awareness of our brand is high in Taiwan, Spain and France, with moderately lower levels of awareness in the United States and Canada.

Cross-use ratio

Our cross-use ratio is defined as the ratio of the number of Rakuten members in Japan who have utilized two or more Rakuten services eligible to earn Rakuten Super Points during the past twelve months to the number of all members that utilized any such service during the last month of that period. We believe this is a useful metric for measuring our success at engaging and retaining customers within the Rakuten Ecosystem. The following table shows our cross-use ratio on a quarterly basis for the specified periods:

	For the three-month period ended							
	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020
Cross-use ratio	70.1%	70.5%	71.1%	71.9%	72.3%	72.3%	72.6%	73.0%

Rakuten Super Point Rewards Program

With our Rakuten Super Point rewards program, consumers collect points by shopping or using a service within the Rakuten group which can then be used to pay for shopping and other services in the Rakuten group.

One Rakuten Super Point is equivalent to one yen. Currently, customers gain points equivalent to 1% of the value of purchases from shopping on *Rakuten Ichiba* as well as the various services offered by the Rakuten group. Members can earn extra points by paying using *Rakuten Card* or *Rakuten Edy*, the credit card and e-money services we operate in the FinTech segment, and we introduced the Super Point Up program in January 2016 which allows members to increase the number of points they earn when using multiple Rakuten services. These points can then be used towards purchases through *Rakuten Ichiba* or any of our other participating services. Customers can also use their "Rakuten Point Card," a universal point card for Rakuten Super Points to earn or pay with Rakuten Super Points at various physical retail outlets, either by showing the card itself or by using a free app for iOS and Android that displays the card information. Members can also exchange Rakuten Super Points for *Rakuten Edy* e-money or use their points for the payment of their Rakuten Card bills, and since December 2019, users of *Rakuten Wallet* have been able to exchange Rakuten Super Points for a selection of cryptocurrency assets. In March 2020 we launched *Rakuten Point Mall*, an online entertainment portal that allows users to earn Rakuten Super Points through a variety of games and other interactive content that we believe can promote and strengthen our customers' use of our other services. In addition, we have reciprocity programs through affiliation with third parties, such as "ANA Mileage Club" offered by All Nippon Airways Co., Ltd., and in February 2016 we expanded our partnership with All Nippon Airways to offer customers the "Rakuten ANA Mileage Club Card," a Rakuten Card supplemented with ANA Mileage Club functions that also allows customers to board ANA domestic flights without going through the check-in process at the airport. We continue to explore new avenues for users to collect Rakuten Super Points, and in May 2016 we announced a partnership with Energy Demand Side Service Development Cooperative to allow applicable energy customers to receive Rakuten Super Points when paying their electricity bills. In May 2017 we formed a partnership with McDonald's Japan to allow customers to use their Rakuten Point Card at McDonald's restaurants across Japan. Since then, a number of other partners have been added including *Seven Eleven* and *Family Mart* convenience stores as well as *Sundrug* drug stores. We pool Rakuten Super Points for individual customers and, after a customer uses points towards a purchase, the merchant reimburses us for that amount.

We believe that Rakuten Super Points are a particularly effective marketing tool because they can be easily redeemed. In principle, points do not expire as long as users use a service within one year, and there are no restrictions on when and where members can redeem points, although we do sometimes issue points with special time and other restrictions. In addition, Rakuten Super Points can be redeemed with a low minimum requirement of ¥100, meaning that even a small number of points have value, unlike with many other point-based incentive programs. We also award points even when a customer uses Rakuten Super Points to make a purchase.

Rakuten Gakuwari

Rakuten Gakuwari is a membership program for students aged 15 to 25 that we launched in March 2016. Members are able to enjoy exclusive benefits relating to services that Rakuten offers in the fields of e-commerce, travel, finance and entertainment, such as Rakuten Ichiba, Rakuten Card and Rakuten Travel. For example, on Rakuten Ichiba, Rakuten Gakuwari members are able to utilize a free-shipping coupon for applicable products up to 24 times per year and can receive shop-issued coupons exclusive to Rakuten Gakuwari members.

Internet Services Segment

Overview

Our Internet Services segment operates websites and provides services related to e-commerce, an online travel agency and other services including online marketing. Within our Internet Services segment, the most significant business is *Rakuten Ichiba*, one of Japan's two largest e-commerce platforms based on product sales in 2020, according to FUJI KEIZAI CO., LTD. The Internet Services segment also operates our online travel agency *Rakuten Travel* and is engaged in various other businesses such as online marketing and overseas e-commerce businesses.

The Internet Services segment contributed 53.6%, 53.1% and 50.5% of our revenue before intersegment eliminations for the years ended December 31, 2018, 2019 and 2020, respectively. Its revenue before intersegment eliminations was ¥638,763 million, ¥743,266 million and ¥820,115 million for the years ended December 31, 2018, 2019 and 2020, respectively.

Gross Merchandise Sales

GMS, which measures the total sales value of items sold on our services, in our Domestic E-commerce businesses amounted to ¥4.5 trillion for the year ended December 31, 2020. GMS on our Domestic E-commerce websites increased steadily over the last five years from ¥2.8 trillion in the year ended December 31, 2016 to ¥4.5 trillion in the year ended December 31, 2020 as shown in the following table.

	For the year ended December 31,				
	2016	2017	2018	2019	2020
	(in trillions of yen)				
Domestic E-commerce GMS(1)	¥2.8	¥3.1	¥3.3	¥3.7	¥4.5

Note:

(1) Because the various services we offer change over time as operations are reorganized or new services are introduced, the collection of services upon which each figure is based varies from year to year. For example, in 2017, following the merger of Kenko.com, Inc. and Soukai Drug Co., Ltd. to become Rakuten Direct, Inc., we revised the components of the calculation of Domestic E-commerce GMS. Additionally, in 2020, we transferred certain digital contents businesses, including *Rakuten Ticket*, from the Internet Services segment to the Mobile segment, and the above figures have been adjusted to reflect such transfer. Our current calculation of Domestic E-commerce GMS includes gross sales of *Rakuten Ichiba*, *Rakuten Books*, *Rakuten Golf*, *Rakuten Fashion*, *Rakuten Dream*, *Rakuten Beauty*, *Rakuten Delivery*, *Rakuten 24*, *Rakuten Car*, *Rakuma*, *Rakuten Rebates*, *Rakuten Seiyu Netsuper* and *Rakuten Travel*.

Gross Transaction Value

GTV, which measures the global gross transaction value for certain of our services, amounted to ¥22.3 trillion for the year ended December 31, 2020. GTV increased steadily over the last five years from ¥10.7 trillion in the year ended December 31, 2016 to ¥22.3 trillion for the year ended December 31, 2020.

	For the year ended December 31,				
	2016	2017	2018	2019	2020
	(in trillions of yen)				
GTV(1)	¥10.7	¥12.9	¥15.4	¥19.0	¥22.3

Note:
(1) GTV is calculated as Domestic E-commerce GMS + *Rakuten Card* GTV + *Rakuten Edy* GTV + *Rakuten Pay GTV + Rakuten Point Card* GTV + overseas e-commerce GMS + *Rakuten Rewards* GMS + digital contents GTV + *Rakuten Advertising* GTV, and includes intercompany transactions for settlement and affiliate services.

Rakuten Ichiba Business

Overview

Rakuten Ichiba had 47,007, 49,887 and 53,794 participating merchants as of December 31, 2018, 2019 and 2020, respectively.

Our Products and Services

Rakuten Ichiba is the core focus of our Domestic E-commerce businesses. Through our *Rakuten Ichiba* online shopping services, we act primarily as a facilitator for participating merchants, who represent a large spectrum of retailers, service providers and manufacturers to sell their products and services on the Internet.

We believe we offer a number of value propositions to both merchants and users, and that the attraction of both merchants and users creates a virtuous cycle. For merchants, we provide a secure store system, settlement services, marketing services including our Rakuten Super Points rewards program and business know-how. For users, we offer a secure online shopping experience with a comprehensive line-up of products at competitive pricing and a loyalty reward program.

We arrange products sold on *Rakuten Ichiba* under the following major categories:

- Fashion
- Fashion accessories
- Kids and baby goods
- Sports and golf
- Appliances, television and cameras
- PC, smartphones and communications
- Food and sweets
- Drinks and alcohol
- Interior and furniture
- Everyday needs and kitchen supplies
- Books, e-books and music
- Games, hobbies and musical instruments
- Cars and bicycles

- Cosmetics, health products and medical goods
- Pet-related goods, flowers and do-it-yourself tools
- Home services and renovations

Our main sources of revenue for the *Rakuten Ichiba* business are commissions and fees from merchants that sell goods and services through our online marketplace, including sales commissions representing a percentage of merchant sales, fees received in return for providing Rakuten Merchant Service, or "RMS," an application system for establishing and running an online shop and marketing on *Rakuten Ichiba*, and fixed monthly merchant usage fees. We also record revenue from advertising on *Rakuten Ichiba* such as display ads, search ads and email ads. In addition, we record commissions and fees from offering credit card and other payment methods.

Fixed monthly fees received from merchants in return for the right to open and retain their shops on *Rakuten Ichiba* range between ¥19,500 and ¥100,000. For our most popular Gambare! plan, fees primarily consist of a fixed monthly fee of ¥19,500 for up to 5,000 items listed plus a percentage commission that varies from between 3.5% to 7.0% of the yen amount of sales. We also have plans with more expensive monthly fees and unlimited listable items. The following table is a summary of our fee system:

	Mega shop plan	Standard plan	Gambare! plan
Number of products that can be listed	Unlimited	Up to 20,000 products	Up to 5,000 products
Amount of image storage	Unlimited	Up to 5 GB	Up to 500 MB
Contract period	1 year	1 year	1 year
Monthly merchant fee(1)	¥100,000	¥50,000	¥19,500
RMS usage fee(1)	2.0% to 4.5% of revenue through PC transaction	2.0% to 4.5% of revenue through PC transaction	3.5% to 7.0% of revenue through PC transaction

Note:
(1) Fees do not include tax.

Rakuten Ichiba Mobile Ratio

GMS from mobile phones, smartphones and tablets continue to increase as a share of total *Rakuten Ichiba* GMS. For the three-month period ended December 31, 2020, our *Rakuten Ichiba* mobile ratio, representing the percentage of GMS for *Rakuten Ichiba* attributable to transactions through mobile devices, including feature phones, smartphones and tablets, reached 76.5%.

The following table shows our mobile ratio on a quarterly basis for the specified periods:

	For the three-month period ended December 31,				
	2016	2017	2018	2019	2020
Rakuten Ichiba mobile ratio	60.8%	64.2%	70.2%	73.4%	76.5%

We believe that the mobile e-commerce market will continue to grow, and we have continued to enhance our services for use on mobile phones, smartphones and tablets.

Payment and Delivery

Payment and delivery between customers and merchants on *Rakuten Ichiba* take place after an order is confirmed and notification has been made to the merchant. For credit card payments, we utilize a system whereby the credit card information of the card holder is not disclosed to the merchant, thus enhancing customer privacy and confidence in our system. The merchant makes the delivery directly to the customer after receiving an order confirmation from us, and we direct the credit card company to make the appropriate payment to the merchant. In addition, merchants may choose to take advantage of our *R-Card Plus* system, whereby we handle all the dealings with the credit card company directly and we pay the merchants ourselves, thus greatly facilitating the settlement process for merchants. Customers can also choose from a variety of other payment options specified by the merchant, including bank remittance, credit cards, cash on delivery executed by logistic operators and payment through convenience stores.

Deliveries are typically made by a home delivery service using one of several major distributors with which we have an agreement, pursuant to which merchants may qualify for a discounted delivery rate. In addition, we have established logistics agency services through *Rakuten Super Logistics* to assist merchants that need assistance with order shipment and delivery logistics. For further details, see "—Logistics Business." In April 2017 we began a collaboration with Japan Post Co. to strengthen e-commerce logistics and increase the efficiency of deliveries and pick-ups, and in December 2020 we signed a basic agreement to form a strategic partnership to develop a more robust and sustainable logistics system for the "new normal" era where e-commerce has taken on a larger and more important role as a cornerstone of daily life. Through this collaboration, we have been able to improve the provision of and policies for the "last mile" of delivery to reduce the instances of missed deliveries and redeliveries at the customers' homes. As part of this collaboration, *Rakuten Ichiba* shoppers have the option to choose to pick up their ordered goods at Japan Post Co.'s approximately 20,000 post offices around Japan and can receive a reward in Rakuten Super Points for doing so. We also operate *Rakuten EXPRESS*, a delivery service for products sold on *Rakuten* 24, *Rakuten Books*, *Rakuten BIC*, *Rakuten Fashion* and selected products from merchants on *Rakuten Ichiba* that allows customers to specify a time for delivery up to midnight and offers an unattended delivery service option which allows customers to set a location on their property for products to be delivered either due to the customer's absence or to avoid face-to-face contact due to the ongoing COVID-19 pandemic. In March 2021, Japan Post acquired 8.32% of our shares (based on the number of outstanding shares as of December 31, 2020) and we entered into a business alliance to build on our existing partnership and develop new initiatives across multiple fields, including logistics. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments—Capital Raised Through Third-Party Allotments of Shares."

Sales and Marketing

Marketing Activities Targeting Consumers

We believe our e-commerce services appeal to consumers because of the large number and diversity of merchants and products we offer. We have focused our marketing efforts for consumers towards gaining new users and increasing the rate of repeated use. Our marketing activities include Rakuten Super Points, an incentive program for making purchases, and promotional activities to enhance cross-use among various Rakuten services including our travel business and the businesses in our FinTech segment.

Rakuten Super Sale

Rakuten Super Sale is a large-scale sales campaign and promotional event centered on *Rakuten Ichiba* typically carried out every three months. Rakuten Super Sales are announced one or two weeks before the event is to take place on *Rakuten Ichiba* itself and on other Rakuten sites, as well as via marketing on television and other services like Facebook and LINE. During the event, members can earn additional points on purchases made on *Rakuten Ichiba*. As members purchase items from additional merchants (in amounts greater than ¥1,000) on *Rakuten Ichiba*, they have the opportunity to multiply the number of earned points, up to a ten times multiplier. We believe that in addition to increasing traffic to and sales on *Rakuten Ichiba* and participating services during the course of the event, Rakuten Super Sales also increase our sales by increasing both the number of members and the cross-use of members on our other services by improving customer loyalty in the mid to long term.

International Partnerships

China

In December 2015, we announced that we had entered into an agreement to establish a Rakuten online flagship store on JD Worldwide, the cross-border platform for JD.com, which is China's largest direct online sales company. Through this China-focused portal, we are able to offer a selected range of merchandise directly to Chinese consumers. Similarly, in June 2016, we announced a partnership with Kaola, the e-commerce and cross-border platform of Chinese internet services leader NetEase, Inc., to launch an online flagship store on Kaola.com to allow NetEase users in China to purchase a selection of top Japanese brands.

South Korea

In February 2016, we announced a partnership with Gmarket, South Korea's largest e-commerce shopping mall, to open a Rakuten online flagship store on Gmarket and to allow Gmarket to launch an online flagship store on *Rakuten Ichiba* featuring mini-shops that offer South Korea's diverse fashion and beauty products. In October 2016, we announced a separate partnership with 11STREET, one of South Korea's leading online marketplaces, to open a Rakuten online flagship store to sell a variety of goods, beauty and sports products from leading Japanese merchants to South Korean customers.

United States

In April 2020, we announced an initiative with Shopify Inc., one of the world's leading multichannel commerce platforms, that allows merchants in the United States and Japan to operate e-commerce stores on *Rakuten Ichiba* through the Shopify Inc. platform. By adding the *Rakuten Ichiba* application on the Shopify platform, Shopify merchants can easily add *Rakuten Ichiba* as a new sales channel and expand their market.

Synergies with Professional Sports

As part of our overall promotional strategy, we also established a Japanese professional baseball team, the Tohoku Rakuten Golden Eagles, in November 2004. If the team wins the league championship, as the Tohoku Rakuten Golden Eagles did in 2013, the promotional effect on *Rakuten Ichiba* as well as other services is significant and boosts transaction volume. We also generally offer Super Point Up campaign promotions on the day following a victory by the Tohoku Rakuten Golden Eagles, Vissel Kobe or FC Barcelona.

Aside from our direct team management, we also have partnerships with international sports teams, such as FC Barcelona, the Golden State Warriors and the Spartan endurance race.

See "—Our Business Operations—Internet Services Segment—Other Internet Services Businesses—Professional Sports Business."

Rakuten Anshin Shopping Service

While we, acting as a facilitator, do not take legal responsibility for products offered by our merchants to users on *Rakuten Ichiba*, we do offer a service called "Rakuten Anshin Shopping

Service” to reimburse Rakuten members for the cost of products ordered from merchants that do not arrive, are damaged or defective or differ significantly from the description on the product page. When merchants are unresponsive to user concerns, users can contact us within 90 days from the day after the order date to apply to be reimbursed up to five times a year and up to a total of ¥300,000 per reimbursement request as long as the users remain Rakuten members. We began offering a similar service in 2015 that provides reimbursement for counterfeit products ordered from merchants, which currently covers products from over 1,000 brands.

Customer Reviews

Customers can write and view recommendations and reviews of merchants and particular products in order to assist them with their purchases. We believe these reviews make our service more attractive to customers because they can obtain other customers’ opinions about items they are interested in.

Marketing Activities Targeting Merchants

We are actively engaged in recruiting new merchants for our *Rakuten Ichiba* Internet website. While we started our service as an online marketplace for mostly small and medium-sized merchants, with the rapid growth in our customer base we have recently focused our attention on attracting more well-known merchants and luxury brands to *Rakuten Ichiba*. In December 2018, Walmart opened its first e-commerce store in Japan, the “Walmart Rakuten Ichiba Store,” on *Rakuten Ichiba*, to offer Japanese consumers access to a wide variety of U.S. branded products. Additionally, in December 2017, we established *Rakuten BIC* in collaboration with BIC CAMERA INC., a popular consumer electronic retailer chain in Japan. Purchasers of consumer electronics often prefer to inspect merchandise at physical stores and then compare prices online. This customer preference prompted us to enter into this collaboration to address the needs of consumers who need assistance installing large appliances and appreciate the opportunity to consult with specialists when purchasing these items. *Rakuten BIC* offers a wide range of products from BIC CAMERA through *Rakuten Ichiba* as well as the accompanying product installation services. In order to provide for prompt delivery, *Rakuten BIC* utilizes BIC CAMERA’s distribution centers to provide same-day delivery service on many items.

When appealing to larger merchants, we emphasize the large number of consumers who use our service, the support from our dedicated staff, called EC consultants, offering ongoing e-commerce consulting services and other support we provide through our Rakuten University and other services, as well as the ease with which merchants can design homepages and use various marketing tools on RMS, our proprietary system that allows merchants to easily operate and manage their *Rakuten Ichiba* activities.

EC Consultants

We employ approximately 350 EC (e-commerce) consultants as of December 31, 2020. Our EC consultants work to gain a shared understanding of each merchant’s goals and vision, and then help our merchants achieve sales targets by providing wide-ranging advice, including suggestions on how to expand sales, marketing strategies for each type of good and sharing best practices and success stories.

Quality Control of Merchants

We continuously conduct strict screening of applications from merchants in order to avoid potential fraudulent and illegal transactions on *Rakuten Ichiba*. We conduct daily monitoring for fake branded merchandise listed on *Rakuten Ichiba* and have close relationships with 1,613 famous brands to identify illegal items.

Rakuten EXPOs

We generally hold Rakuten EXPOs or conferences at least once a year in major cities in Japan and once a year in a selected foreign country where we operate e-commerce businesses as opportunities for direct contact with *Rakuten Ichiba* merchants. Each year, a theme linked to current business trends is chosen for the events, which are used not only to share Rakuten strategies but also to find solutions to merchants' problems and foster communications among partners.

Rakuten University

Rakuten University, our private training school for *Rakuten Ichiba* merchants, extends invitations to participating merchants to attend classes held at our offices and online. At these special classes, merchants learn not only how to set up their own storefronts but also about marketing, other techniques and management. Introductory courses consisting of courses in webpage design and operating an Internet shop are available. Additional classes are available for RMS usage, auctions and other topics. As well as classroom-based courses, Rakuten University also offers "RUx" lectures, which are online e-learning courses available to merchants at their convenience.

Rakuten Merchant Server (RMS)

RMS, a system based on proprietary software which we developed and own, allows merchants to easily operate and manage their *Rakuten Ichiba* activities, through functions such as:

- *R-Storefront*: RMS's simple function for webpage design, which allows merchants to launch and edit a webpage on *Rakuten Ichiba* without having knowledge of Internet programming languages and interfaces such as HTML or CGI. Webpages created by *R-Storefront* are accessible to consumers either by a personal computer or by an Internet-equipped mobile phone. R-Storefront also allows merchants to set and control their inventory by selecting two different features, such as color and size, for one product.
- *R-Backoffice*: Manages large volumes of customer orders in a timely and organized fashion. Once RMS receives an order from a customer, the information is stored by *R-Backoffice*, which automatically distributes thank you messages and delivery information to customers by e-mail. Merchants can use *R-Backoffice* to print out invoices, information regarding packaging and delivery specifications, and ledgers for accounts receivable. Merchants can also use a separately-charged "CSV Data Download Service" to link *R-Backoffice* to their own systems.
- *R-Messe*: RMS's email function, allowing merchants to easily and effectively communicate with customers, distribute useful information, introduce new products and announce sales and other events. Merchants can select the text to be displayed, create distribution lists and send informational content to their customers in bulk in an efficient manner.
- *R-Karte:* A marketing tool that allows merchants to obtain a comprehensive analysis of useful data such as sales amounts, unit cost per customer, trends by category and access statistics with graphic and other display functions. *R-Karte*'s data analysis allows merchants to better understand their stores' strengths and weaknesses in order to improve sales potential. In order to facilitate understanding of *R-Karte*, Rakuten University has e-learning courses targeted at specific industries and business types.

Competition

Although we believe we maintain a position of leadership in the Japanese e-commerce market, the environment for our products and services is competitive. Our current and potential competitors include:

- Other e-commerce sites operated by Internet service companies such as Amazon.com, Inc., Z Holdings Corporation and Mercari, Inc.

- Online special purpose shopping sites operated by traditional retailers such as BIC CAMERA INC. in electronic products and Z Holdings Corporation in apparel products or category-focused Internet service companies such as ZOZO, Inc., although we have also found opportunities to collaborate with traditional retailers where appropriate.
- Traditional retailers, catalog retailers, publishers, vendors, distributors and manufacturers of our products, many of which possess significant brand awareness, sales volume, and customer bases, and some of which currently sell, or may sell, products or services through the Internet, mail order, or direct marketing.
- A number of indirect competitors, including media companies, Internet portal website operators, comparison shopping Internet website operators, Internet search engines website operators, either directly or in collaboration with other retailers, smartphone media platforms and consumer-to-consumer shopping platforms such as Mercari.
- Companies that provide e-commerce services, including Internet website development, third-party fulfillment and customer service.

We believe that the principal competitive factors in our e-commerce businesses include selection, price, availability, convenience, reward programs, information, brand recognition, personalized services, accessibility, customer service, reliability, speed of fulfillment, ease of use, security and ability to adapt to changing conditions, as well as our customers' overall experience and trust in transactions with us and facilitated by us on behalf of third-party sellers. For services we offer to businesses and individual sellers, additional competitive factors include the quality of our services and tools, our ability to generate sales for third parties we serve, and the speed of performance for our services.

Travel Business

Overview

We operate our travel-related businesses as a subset of our Domestic E-commerce business. We provide online travel agency services to Rakuten members through our online travel agency *Rakuten Travel*, which we launched in March 2001 as a travel portal site in Japan and expanded through the acquisition of MyTrip.net in 2003. *Rakuten Travel* was previously operated by our wholly-owned subsidiary, Rakuten Travel, Inc., which we established in 2002 and which was merged into Rakuten, Inc. in April 2014. In addition, in 2006, we established a joint venture company, Rakuten ANA Travel Online Co., Ltd., with All Nippon Airways Co., Ltd. (ANA) to provide travel packages combining ANA flights with hotel, car rental and other services provided by *Rakuten Travel* and ANA Sales Co. Ltd. *Rakuten Travel* has also been expanding its operations internationally in order to increase both inbound and outbound transactions for Japan.

Our Products and Services

Rakuten Travel

We provide travel services directly to consumers on the Internet through *Rakuten Travel* and through contact centers. There is no membership fee for users to register with our service.

Rakuten Travel is an online travel agency. Our services include a research and reservation system to allow users to find, compare and purchase travel products and services such as:

- *Hotel rooms*. By simply selecting a date and destination, users can access a list of hotels available that suit their needs and then book a hotel room by filling out a simple online reservation application form. Hotels can be searched by region, closest train station, type of hotel, and key words such as sightseeing spots. The number of participating vendors has steadily grown, and, as of December 31, 2020, there were over 40,000 domestic hotels registered with *Rakuten Travel*.

- *Dynamic packages*. We provide domestic and international travel packages combining flights with hotel, car rental and other services at the choice of our users.
- *Other services*. We also provide reservations for various travel services, including primarily international air tickets, as well as domestic air tickets, car rentals, long-distance buses, sightseeing tours and vacation packages.

We generate revenue in our *Rakuten Travel* business primarily through commissions collected from travel and accommodation providers and sales of banner and email advertisements. Our system for domestic hotel room reservations, our largest source of revenue for *Rakuten Travel*, is designed to eliminate room shortages during peak-season periods and increase room bookings during off-season periods by creating an incentive, in the form of lower commission fees, for our hotel partners to allot more rooms for reservation on *Rakuten Travel.* We have also established English language and local language versions of our reservation service for inbound travel to Japan for customers in the United States and mainland China, Hong Kong, Taiwan, South Korea, Thailand, Singapore, Malaysia, Indonesia and Europe.

Competition

The marketplace for online travel reservations is large and intensely competitive. We believe that factors affecting competitive success include depth and breadth of information, level of marketing undertaken and incentives provided to acquire and retain travel and accommodation providers and customers, room availability, ease of use, reliability and service.

Consumers are increasingly using the Internet to book reservations directly. As a result, Internet portal operators are also bolstering their travel services in an attempt to boost traffic to their sites. Airlines and hotels also are expanding services that allow customers to make reservations and purchases directly on their websites without any need for a portal service, leading to more intense competition. In addition, travel meta-search engines aggregate pricing and other information from other travel websites, and consumers can purchase travel products and services directly by clicking through to their branded websites through search results or links posted on the travel meta-search engine.

Rakuten Travel competes with RECRUIT LIFESTYLE CO., LTD. and Z Holdings Corporation, which operate websites offering similar travel and accommodation information and a reservation service.

The barriers to entry in this market for Internet-based competitors are relatively limited due to the ubiquity of the Internet and we currently face competition, which may intensify in the future in light of the increasing size of this market from:

- Japanese travel agencies, which have an existing network of users cultivated in part through in-person sales activities and relationships with travel and accommodation providers in Japan, and have the ability to offer a variety of transportation, accommodation and sightseeing packages; and
- foreign companies with a similar business model to ours, such as Booking Holdings Inc. and Expedia, Inc., which have existing global networks of users and have been making inroads into the Japanese market in recent years in part through efforts to partner with travel and accommodation providers in Japan.

Partnerships

In January 2016 we announced a partnership with Marriott International, Inc. that enables our *Rakuten Travel* customers to check room inventory in real-time and rates in Marriott International's hotel portfolio, as well as to book hotel rooms online on their smartphones or digital devices.

Other Internet Services Businesses

In the years ended December 31, 2018, 2019 and 2020, revenue of our other Internet Services businesses contributed 35.6%, 35.1% and 28.8% of our Internet Services segment revenue, respectively.

Overseas e-commerce businesses

We have established several overseas online marketplaces, including:

- *Rakuten Global Market*, which offers shopping services for overseas Rakuten customers.
- *Rakuten France*, operated by Rakuten FRANCE S.A.S., which offers online shopping in France, which joined the Rakuten group after our acquisition in June 2010 of PriceMinister S.A., one of the leading French e-commerce companies.
- *Taiwan Rakuten Ichiba*, operated by Taiwan Rakuten Ichiba, Inc., which offers online shopping in Taiwan.
- *Rakuten Rewards*, previously known as *Ebates*. In October 2014, we acquired Ebates Inc., which operated *Ebates*, a leading membership-based online cash-back site in the United States. In order to boost our brand recognition, we re-branded the service as *Rakuten Rewards* and ceased using the *Ebates* brand in February 2019. The site rewards shoppers with cash back on purchases made at stores through links on the site while also providing access to thousands of coupons, discounts, promotions and special deals at over 2,500 retailers. In this way, retailers are able to attract new shoppers and retain existing customers to drive traffic to retailer partners. Our principal source of revenue is commissions received from retailer partners on purchases made on their sites by members.

Some of our overseas marketplaces which were established based on acquisitions of existing online stores offer online shopping on a B2C model, as well as the B2B2C model of *Rakuten Ichiba*.

Our eventual goal is to transition our existing overseas marketplaces to the same B2B2C model as *Rakuten Ichiba* and to establish global marketplaces using a single global ID. Our main sources of revenue for our overseas online shopping malls include direct sales as well as commissions and fees received from merchants participating in our online shopping malls, including fixed monthly basic fees, sales commissions and fees received in return for providing advertising space throughout each website.

Logistics business

We generate revenue in our Logistics business primarily through service fees paid by merchants. Although each of our merchants is generally responsible for shipment and delivery of its products, we established our logistics business in order to support logistics for merchants on *Rakuten Ichiba* by offering services we call *Rakuten Super Logistics* consisting of general fulfillment and logistics services, including value-added services like receiving and shipping of products, storage, inventory control, packing, delivery, customer service, gift services and dealing with returned goods to *Rakuten 24*, *Rakuten Books*, *Rakuten BIC* and *Rakuten Fashion.*

As part of our Logistics business, we also provide additional delivery service options for applicable items that offer more expedited shipping timeframes. *Rakuten EXPRESS* is a delivery service operated by Rakuten that delivers products sold on *Rakuten 24*, *Rakuten Books*, *Rakuten BIC* and *Rakuten Fashion* and products from merchants on *Rakuten Ichiba* that are handled by *Rakuten Super Logistics*. *Rakuten EXPRESS* allows customers to specify a time for delivery up to midnight and offers an unattended delivery service option which allows customers to set a location on their property for products to be delivered to in the event of their absence. As part of our *Rakuten EXPRESS* service, we partner with the Tokyu group to share delivery depots and Tokyu Bell, a home convenience store service of the Tokyu Corporation, delivers Rakuten merchandise in Rakuten-branded vehicles and uniforms. As of December 2020, 63.5% of the Japanese population lived within municipalities that are fully or partially covered as delivery areas for *Rakuten EXPRESS*.

In July 2018, we introduced our "One Delivery" vision for an end-to-end logistics service for merchants on the *Rakuten Ichiba* marketplace, from storage to delivery, to ensure a smooth process for the customer, from placing an order on the online marketplace to receiving the product. As part of this "One Delivery" vision, we aim to further strengthen *Rakuten Super Logistics* and *Rakuten EXPRESS* and to expand the number of fulfillment centers. As of March 2021, we operate *Rakuten Super Logistics* fulfillment centers around Japan as part of our "One Delivery" vision for efficient delivery operations. See "—Our Strategies—Strengthen our leading market position by increasing the membership value of the Rakuten Ecosystem—Our "One Delivery" vision for Japan e-commerce."

On March 12, 2021, we entered into a business alliance agreement with Japan Post and Japan Post Co. to collaborate across multiple fields with initiatives that may include the creation of shared logistics centers and delivery and pick-up systems, data sharing, joint commercialization of a digital transformation platform for logistics (including the establishment of a new company) and initiatives to expand usage of Rakuten fulfillment centers and Japan Post's "Yu-Pack" parcels, and on March 29, 2021, we completed a sale of shares to Japan Post representing 8.32% of our shares (based on the number of outstanding shares as of December 31, 2020). See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments—Capital Raised Through Third-Party Allotments of Shares."

Other E-Commerce and Internet Services Businesses

In addition to *Rakuten Ichiba* and our overseas marketplaces, we conduct the following e-commerce and Internet Services businesses, all of which are accessible through links from the *Rakuten Ichiba* site:

Rakuma. In November 2014, we launched *Rakuma*, a flea market smartphone app that enables transactions directly between individuals, intended to appeal to younger users and expand the online used goods market, complementing the operations of *Rakuten Auction*. In March 2016 we launched a version of *Rakuma* in Taiwan, and in February 2018, we merged our existing *Rakuma* app in Japan, which was used by a broad range of men and women in the 30s age range, with *FRIL*, a separate consumer-to-consumer marketplace mobile app that we acquired in September 2016, which was more popular among women in the teenage and 20s age brackets due to its focus on fashion and beauty products, and debuted new *Rakuma* branding. The integration allows us to provide users with a more diverse lineup of products while enhancing safety and security through the combined platform's capabilities for detecting listings of illegal items.

Books Business. *Rakuten Books* is an online bookstore that sells books, magazines, CDs, DVDs, videogames and PC software and accessories. Customers can view our best sellers list to see what others are reading. In addition, customers can search for book titles by author or by publisher. Unlike many of our other e-commerce services, we maintain our own inventory for most of the books we sell through our *Rakuten Books* service. However, under agreements with publishers and suppliers, we are generally allowed to return our inventory to them without expenses. In March 2016, we launched *Readee*, a reading management app for smartphones, that enables users to record and manage books they want to read, and in April 2016, we launched *Rakuten Manga*, an e-comic service for smartphones that allows users to read both individual issues and volumes of e-comic titles through the *Rakuten Manga* store.

Rakuten Advertising. As the first major step in our strategy of developing our overseas e-commerce businesses, in September 2005 we acquired 100% of the shares of LinkShare Corporation, a leading U.S. pay-for-performance affiliate marketing company, and later rebranded the company *Rakuten Advertising*. In May 2010, we added to our affiliate marketing network by acquiring LinkShare Japan K.K. In 2014 we integrated *Rakuten LinkShare* services with our other related global marketing services to form *Rakuten Affiliate Network*, which we operate through Rakuten MARKETING LLC, a wholly-owned subsidiary of Rakuten USA, Inc. *Rakuten Affiliate Network* has been nominated as the number one affiliate network for the last eight consecutive years in the affiliate network survey conducted by mThink.

Rakuten Affiliate Network generates the majority of its revenue from network fees collected from merchants based on the volume and dollar amount of the transactions generated through links with affiliates. *Rakuten Affiliate Network* also generates revenue from merchants through license fees, marketing consulting fees and affiliate search fees. Other *Rakuten Advertising* businesses include *Rakuten LinkShare*, which provides affiliate marketing services in Japan, *Rakuten Search,* which provides paid search marketing services, *Rakuten Display*, which provides display advertising services and *Rakuten Attribution*, which provides attribution modeling and analytics services.

Rakuten Data Marketing. In October 2017, in partnership with Dentsu Inc., Rakuten Data Marketing, Inc., or *Rakuten Data Marketing*, launched a service that offers marketing solutions that integrate Rakuten group's big data and Dentsu Group's data and mass media expertise. *Rakuten Data Marketing* harnesses the Rakuten group's broad membership base and big data, combining this with the Dentsu Group's data and insights relevant to mass media and consumers and its strategy-building knowhow, in order to provide comprehensive digital marketing solutions that allow optimization and maximize the effectiveness of marketing activities. In April 2018, *Rakuten Data Marketing* launched an online-to-offline marketing solution called "RMP (Rakuten Advertising Platform)—Go! Spot." RMP—Go! Spot utilizes various channels and Rakuten ID-based data to make possible location-targeted advertisements designed to inform users of special offers and campaigns taking place at brick-and-mortar stores in their vicinity. The effectiveness of the promotions can then be measured by visitor numbers or other data gathered at the store. Grounded in analysis of big data gleaned from Rakuten's points rewards app "Super Point Screen" and the store visitation points rewards app "Rakuten Check," the new service facilitates effective promotional campaigns and provides insights into users' offline activity that can contribute to improving online-to-offline marketing strategies.

R-Influencer Insight. In September 2018, Rakuten Insight, Inc., or *Rakuten Insight*, launched "R-Influencer Insight," a research service which utilizes influencers on social media services to enable companies to receive direct feedback on their services, products and projects through interviews and behavior observation surveys with influencers. Through this service, *Rakuten Insight* creates interview questions and designs the surveys, analyzes the collected data and provides reports for client companies to use in product planning and the creation of marketing plans.

Rakuten AdRoll. In October 2018 we established Rakuten AdRoll K.K., or *Rakuten AdRoll*, a joint venture with AdRoll Group. *Rakuten AdRoll* combines Rakuten's big data with AdRoll Group's expertise at data-driven advertising.

Innovator Marketing. In October 2018, *Rakuten Insight* launched Innovator Marketing, a comprehensive survey solution that utilizes analytics data derived from approximately 99 million Rakuten IDs. The program is based on Innovator Theory, which classifies consumers into five groups according to the degree of interest they have in new products or information. By combining subjective "perception data" obtainable from surveys, a mainstay of marketing research to date, with objective "behaviour data" obtainable from careful analysis of consumption behavior patterns available based on Rakuten ID, this new solution provides a method for classifying survey monitors with a greater degree of accuracy than previously possible and conducting surveys, analysis, and consulting.

Rakuten SQREEM. In February 2020, we announced the establishment of Rakuten SQREEM, Inc., a joint venture with SQREEM Technologies Pte. Ltd. that seeks to provide advertising companies located in Japan with marketing solutions built on AI-based behavioral pattern analysis.

Rakuten Tokyu Planning Co., Ltd. In August 2020, we announced the establishment of Rakuten Tokyu Planning Co., Ltd., a joint venture with Tokyu Corporation that will provide data marketing solutions to companies in Japan.

Golf Business. *Rakuten GORA* is the leading online golf tee time reservation service in Japan based on GTV. Golfers can visit the *Rakuten GORA* Internet website and learn about golf courses throughout Japan and the United States and make reservations online or by using the *Rakuten GORA* smartphone application. People interested in learning how to play golf can join one of the many golf academies advertised through *Rakuten GORA*. *Rakuten GORA* has also developed an application for wearable devices that allows users to easily record their score during play.

Coupon Business. *RaCoupon, Rakuten Coupon Service* is an e-commerce site which sells online discount coupons which can be used for the various services of the Rakuten group.

Slice. We acquired Slice Technologies, Inc. in August 2014, the provider of the application service *Slice*, which aggregates the history of purchases by users by analyzing emails delivered when purchasing goods at certain e-commerce sites.

Rakuten Seiyu Netsuper. In October 2018, we launched *Rakuten Seiyu Netsuper*, an online grocery delivery service jointly developed through a strategic alliance with Seiyu GK. In November 2020, we announced our expected acquisition of a minority stake in Seiyu GK.

RGames. In April 2017, Rakuten Games, Inc. launched RGames, a social gaming platform that offers HTML-based games for users in Japan through smartphone devices and PC web browsers. As a platform, RGames provides a line-up of free-to-play titles, including original titles developed by Rakuten. Rakuten Games, Inc. is a game development and operation company that was established through a joint venture by Rakuten Group, Inc. and Silicon Valley-based technology company, Blackstorm Labs Inc.

Rakuten Ragri. In April 2017, we launched *Rakuten Ragri*, an internet-based community-supported agriculture service in partnership with Telefarm Co., Ltd., a Rakuten group company. *Rakuten Ragri* connects consumers with producers of pesticide-free, pesticide-reduced and other agricultural produce. *Rakuten Ragri* provides a new framework for the agriculture market through which producers plant crops based on pre-paid orders placed by consumers for specific produce, which facilities planned production and revenue stabilization. In March 2018 we announced a partnership with Tanita Corporation to develop original menus and products using vegetables provided by *Rakuten Ragri* for Tanita's "TANITA CAFÉ" business, and in June 2018 we established a prepared salad factory in Ehime, Japan that uses *Rakuten Ragri's* organic vegetables for prepared salads that are distributed throughout Japan.

Rakuten Super English. In April 2017, we launched *Rakuten Super English*, a comprehensive English learning service utilizing technology to provide practical English education. *Rakuten Super English* offers the "Lingvist" language learning software developed by Lingvist Technologies OÜ and the English learning app "Maname" provided by ReDucate, a Rakuten group company. Both software are designed based on adaptive learning algorithms to allow users to effectively acquire English vocabulary.

Rakuten LIFULL STAY. In June 2017, in partnership with LIFULL Co., Ltd., we established Rakuten LIFULL STAY, Inc., a vacation rental business in Japan that provides a platform for connecting owners of unoccupied homes or rooms who are looking to provide accommodation with prospective renters. In the following years, we have entered into several partnerships with vacation rental platforms in other countries to provide Japanese property listings to foreign users on other platforms and increase demand for Japanese properties. As of October 2019 we have partnerships with HomeAway, Inc., an Expedia Group company that operates one of the world's largest vacation rental sites, Booking.com and Agoda. We have similar partnerships with AsiaYo.com, Taiwan's largest vacation rental reservation site, Tujia, an operator of one of China's leading vacation rental platforms, Yanolja, one of South Korea's leading accommodation platform companies, and Luxstay, a fast growing vacation rental booking platform in Vietnam.

In August 2017, we expanded the scope of our operations by launching LIFULL HOME's Monthly, a site focused on monthly rental apartments, and in November 2017, we launched *Rakuten STAY*, a comprehensive branding and operational support service for property owners that provides ongoing property management services. In June 2018, we opened Vacation STAY, a vacation rental and accommodation booking site. Through Vacation STAY, guests can make reservations at vacation rentals and shared accommodation that have been registered by individuals or organizations. In September 2018 we announced a business collaboration with Showa Leasing Co., Ltd. to develop *Rakuten STAY* accommodation facilities that will operate as shared accommodation for guests traveling in a ground, with family or friends, and we also partnered with SOHGO SECURITY SERVICES CO., LTD., or ALSOK, to jointly develop vacant home-usage services with the aim of promoting the utilization of unused assets such as unoccupied homes and holiday villas as vacation rental properties.

Rakuten Direct. In July 2017, in order to realize improved efficiency in logistics infrastructure and information systems and to expand the range of products offered and further improve customer service, we merged *Kenko.com*, an e-commerce site specializing in the sale of daily life items and health products, with Soukai Drug Co., Ltd., an internet-based seller of a wide range of household products that we acquired in October 2016, to form Rakuten Direct, Inc. (which was merged into Rakuten, Inc. as part of the corporate reorganization implemented on April 1, 2019).

Professional sports business

Overview

We operate and manage the Tohoku Rakuten Golden Eagles, a Japanese professional baseball team. In addition, we acquired a professional soccer team, Vissel Kobe, in January 2015.

In November 2004, we were awarded franchise rights by Nippon Professional Baseball, the organization governing Japan's professional baseball leagues, to found the first newly-established team in more than 50 years. Rakuten Baseball, Inc., our wholly-owned subsidiary, manages operations for the Tohoku Rakuten Golden Eagles, who are based in the city of Sendai, Miyagi Prefecture, and are the first professional baseball team in the Tohoku region of northeastern Japan.

We believe the establishment of a professional baseball team has been beneficial for our operations as a whole. Operating the team has raised public recognition and media coverage of our brand and services in the general public, including among demographic groups that may have had relatively little familiarity with IT venture companies such as us. As a result, we believe we have added a significant number of new customers throughout our operations.

Our products and services

We derive revenue from our professional sports business primarily through ticket sales and sponsorship marketing. We also sell broadcasting rights for our games, sell Tohoku Rakuten Golden Eagles merchandise and operate the stadium used by the Tohoku Rakuten Golden Eagles.

In April 2017, we entered into a partnership with J.League to be the official e-commerce platform partner. Through this partnership, we designed the “J.League Online Store,” an e-commerce site for selling the league’s merchandise, and we have continued to provide support for its operations.

In July 2017, we began a partnership with one of the world’s most esteemed soccer clubs, FC Barcelona, and in November 2020 we announced the extension of the partnership until the end of the 2021/2022 season on June 30, 2022. As the Main Global Partner of FC Barcelona, the Rakuten name appears on the team’s match-day jerseys, which further boosts our international brand awareness, and our *Rakuten Card* offers special FC Barcelona credit cards with FC Barcelona designs.

In September 2017, we entered into a multi-year partnership with the Golden State Warriors, a leading team in the National Basketball Association, or NBA. Beginning in the 2017-2018 NBA season, all Warriors jerseys include the Rakuten badge logo, which further enhances our brand development efforts in the United States market. As part of the partnership, Rakuten became the official e-commerce partner and affiliate marketing partner of the Warriors. We built on this partnership in October 2017 by becoming the NBA’s exclusive distribution partner in Japan for all live NBA games.

In September 2018, we entered into a multi-year partnership with Spartan, the world’s largest obstacle race and endurance brand, designating Rakuten as the exclusive global innovation partner. Rakuten branding is integrated throughout Spartan’s global ecosystem of events, digital advertising, content and merchandise. The finisher shirts, worn by more than one million annual Spartan participants at competitions around the world, also feature the Rakuten logo. In September 2019, Rakuten reached an agreement to acquire the Taiwanese baseball team Lamigo Monkeys, which we subsequently renamed the Rakuten Monkeys.

FinTech Segment

Overview

Our FinTech segment operates our online financial services, including our own Rakuten-branded credit card, online banking services, online brokerage services, insurance services, electronic payments and cryptocurrency trading services.

The FinTech segment contributed 35.6%, 34.8% and 35.5% of our consolidated revenue before intersegment eliminations for the years ended December 31, 2018, 2019 and 2020, respectively. Its revenue before intersegment eliminations was ¥424,488 million, ¥486,372 million and ¥576,195 million for the years ended December 31, 2018, 2019 and 2020, respectively.

Our businesses operate on a collaborative business model whereby the broad exposure of *Rakuten Ichiba* encourages customers to use *Rakuten Card*, which in turn helps to promote their purchasing activities on *Rakuten Ichiba*. Concurrently, users of *Rakuten Card* tend to deposit their cash in *Rakuten Bank*, which can then provide low-cost funding through securitization for *Rakuten Card*.

Credit Card Business

Overview

We provide credit card services to Rakuten members through our *Rakuten Card* business, which is operated by our wholly-owned subsidiary Rakuten Card Co., Ltd. We established our credit card business with our purchase of Kokunai Shinpan Co., Ltd (subsequently Rakuten KC Co., Ltd.) in June 2005. In August 2011, the *Rakuten Card*-related businesses operated by Rakuten KC Co., Ltd. were succeeded by Rakuten Credit, Inc. (currently Rakuten Card Co., Ltd.), and subsequently the shares of Rakuten KC Co., Ltd. were sold.

The following table shows shopping transaction value, including transactions outside of the Rakuten group, either online or offline, shopping revolving balance and cash advances for our *Rakuten Card* business, as of the dates and for the periods indicated.

	As of and for the year ended December 31,				
	2016	2017	2018	2019	2020
	(in billions of yen, except percentages)				
Rakuten Card shopping transaction value	¥4,997.6	¥6,073.8	¥7,422.4	¥9,456.8	¥11,469.1
Rakuten Card shopping revolving balance	373.7	424.9	517.2	614.0	619.8
Rakuten Card cash advances	80.6	96.3	117.4	135.4	119.7

In the year ended December 31, 2020, revenue of our credit card business contributed 45.4% of our FinTech segment revenue.

Our Products and Services

On December 21, 2020, Rakuten Card was ranked as the number one credit card for the twelfth consecutive year in the Japanese Customer Satisfaction Index Survey, one of Japan's largest surveys of consumer satisfaction compiled by Service Productivity & Innovation for Growth. In addition to offering standard and premium credit cards under international brands like MasterCard, Visa and JCB, we offer special purpose cards such as cards for students, cards that also can be used as cash cards for accounts held by our *Rakuten Bank* customers, cards affiliated with our professional sports teams and cards for the electronic toll collection system for Japanese expressways. In April 2014, *Rakuten Card* began offering a Rakuten Rewards MasterCard to U.S. consumers through its affiliate Rakuten Card USA, Inc. in partnership with First Bankcard, a division of First National Bank of Omaha. In June 2014, *Rakuten Card* established Taiwan Rakuten Card, Inc. and, in January 2015, began issuing its own credit card outside of Japan for the first time. In December 2015, we began issuing a new version of *Rakuten Card* that contained integrated functions from our Rakuten Point Card and *Rakuten Edy* e-money services, providing increased convenience to customers by no longer requiring them to use multiple cards to complete transactions and to earn Rakuten Super Points regardless of whether they choose to pay by credit card, e-money or cash. In September 2016, we began issuing the Rakuten Gold Card, a version of *Rakuten Card* with a ¥2,000 annual membership fee that allows cardholders to be awarded five times the amount of Rakuten Super Points for purchases made on *Rakuten Ichiba* and grants free access to certain airport lounges. In October 2016, we brought *Rakuten Card* to Apple Pay, allowing customers that complete purchases using Apple Pay to continue to receive Rakuten Super Points, and introduced similar functionality to Android Pay in December 2016. In September 2018, we began issuing the Rakuten Card American Express Card, which enables cardholders to enjoy the services and features of *Rakuten Card* as well as the complementary benefits and campaigns available through the American Express network.

Sales and Marketing

We have made efforts to take advantage of the Rakuten brand and our group resources to market and develop our *Rakuten Card* business. Our marketing efforts include:

- Including links in our group websites to attract new consumers. For example, our *Rakuten Ichiba* homepage promotes *Rakuten Card* and provides direct links to the service. *Rakuten Card*'s share of the *Rakuten Ichiba* GMS, calculated by dividing the GMS for *Rakuten Ichiba* paid for with *Rakuten Card* by the total GMS for *Rakuten Ichiba* for the applicable period, was 59.4%, 63.7% and 66.9% for the months ended December 31, 2018, 2019 and 2020, respectively.

- Providing incentive programs through point systems that consumers can use throughout our group. Our *Rakuten Card* customers accumulate Rakuten Super Points which they can use towards purchases on *Rakuten Ichiba* and other group services in our Rakuten Ecosystem. In addition, purchases made by *Rakuten Card* on *Rakuten Ichiba* earn additional Rakuten Super Points representing 1% of the amount of the purchase.
- Offering special incentives that are exclusive to *Rakuten Card* holders, such as the Rakuten Card Lounge in Waikiki, Hawaii that was opened in August 2017. This airport lounge offers baggage storage services, welcome drinks, massage chairs, a play area for children and various other amenities free of charge to cardholders.

Competition

Our *Rakuten Card* service faces significant competition in Japan's consumer credit industries from large Japanese consumer finance companies, a number of major Japanese banks, Japanese subsidiaries of foreign financial institutions, Japanese Internet companies that have entered into the consumer finance industry by acquiring existing consumer finance companies, bank-affiliated credit card companies, retailer-affiliated credit card companies and shopping credit companies that issue credit cards, such as Mitsubishi UFJ NICOS Co., Ltd., Sumitomo Mitsui Card Company, Limited, Credit Saison Co., Ltd. and AEON Bank, Ltd.

Online Banking Business

Overview

We conduct our online banking business, *Rakuten Bank*, through Rakuten Bank, Ltd., our consolidated banking subsidiary. We established our online banking business with our purchase of eBANK Corporation (currently Rakuten Bank, Ltd.) in February 2009. As an online bank focusing on payment, asset management and borrowing needs of individual customers, *Rakuten Bank* offers a variety of products and services including yen and foreign currency deposits and mortgages and other individual loans. As of December 31, 2020, *Rakuten Bank* had over 9.9 million accounts and an aggregate customer account balance of ¥4,889.2 billion.

In the year ended December 31, 2020, revenue of our banking business contributed 16.6% of our FinTech segment revenue.

International Operations

In January 2017, we launched commercial banking operations in Europe through Rakuten Europe Bank S.A. We are currently focused on providing payment, deposit and loan services, but we plan to expand our banking platform in Europe and offer banking services to new and high-growth FinTech businesses across the region.

In January 2019, we formed a joint venture with Waterland Financial Holdings Co., Ltd. (currently IBF Financial Holdings Co., Ltd.) to start a banking operation in Taiwan by proceeding with acquiring the necessary regulatory approvals from local authorities. The joint venture, Rakuten International Commercial Bank Co., Ltd., completed its registration in May 2020 and began operations in January 2021.

In July 2019, we established Rakuten Bank America with the objective of establishing banking operations in the United States, and we are currently in the process of applying for the required banking licenses. In March 2020, we announced that Rakuten Bank America and Rakuten Card had withdrawn their application for deposit insurance from the Federal Deposit Insurance Corporation with the intent to file an updated application at a later date.

Our Products and Services

Deposit products and remittance services

Rakuten Bank offers yen and foreign currency deposit products. Yen deposit products include ordinary deposits and time deposits. Foreign currency deposit products, which are offered in eight currencies, include ordinary deposits, time deposits and time deposits with forward exchange and other features.

As an online bank, *Rakuten Bank* does not have the high fixed costs associated with maintaining a network of physical branches, which enables it to offer its accountholders interest and exchange rates closely tied to prevailing market rates and competitively-priced transaction fees. For example, as of December 31, 2020 *Rakuten Bank* currently offers remittance services from Japan to 234 foreign countries for ¥1,000 to ¥2,500 per transaction in 68 types of currencies, a rate which we believe is highly competitive compared to those offered by other Japanese banks.

Rakuten Bank Super Loans

Rakuten Bank offers users loans of up to a maximum of ¥8 million through its *Rakuten Bank* Super Loan service. After applying online and being approved for a Super Loan card, customers can use the card at ATMs at convenience stores to withdraw cash directly or transfer money using their computer or mobile phone directly to their bank account. Repayment can be arranged on low monthly payment terms. The main customers for *Rakuten Bank* Super Loans are higher-income retail customers. Interest rates vary depending on the maximum amount available to a given customer, ranging from 1.9% to 14.5%. As of December 31, 2020, there were 715,664 Super Loan customers.

The balance of loans under the *Rakuten Bank* Super Loan service as of December 31, 2020, which represents the total loans receivables of *Rakuten Bank* and credit guarantees of *Rakuten Card*, was ¥1,448.7 billion, an increase of 36.3% compared to one year earlier.

Housing loans

In 2013, *Rakuten Bank* also began offering customers housing loans. *Rakuten Bank* borrowers can complete all steps of the borrowing process, including initial consultation, loan application and contract execution, without having to visit a bank branch. In addition, subject to certain restrictions, borrowers may be able to structure *Rakuten Bank*'s mortgage loans to include multiple variable-rate and fixed-rate periods over the term of repayment, and eligible borrowers who wish to accelerate repayments may do so at any time and as often as they like. Borrowers may also alternate their existing payment obligation from variable-rate to fixed-rate at any time. *Rakuten Bank*'s low-cost structure and high operating efficiency as an online bank allow it to offer highly competitive interest rates with no mandatory guarantee fees.

Business loans

In August 2016, *Rakuten Bank* began offering business loans for companies and sole proprietors that have a *Rakuten Bank* savings account, provide a specified level of collateral and submit financial statements or income tax returns for three quarterly periods in addition to meeting certain other required standards. *Rakuten Bank's* business loans provide working capital in amounts greater than ¥1 million and less than ¥100 million for a borrowing period of up to five years. Interest rates on *Rakuten Bank* business loans can be fixed or floating, with elevated rates for late payments.

Investment products

Rakuten Bank offers investment products such as investment trusts as well as securities in cooperation with *Rakuten Securities.* Investment trust products include products such as Japanese yen and foreign currency money market funds, as well as yen-denominated investment trusts that invest in Japanese government and corporate bonds, foreign government and corporate bonds, Japanese stock indices, foreign stock indices, Japanese stocks, foreign stocks and other assets. The investment trusts offered by *Rakuten Bank* are created and managed by *Rakuten Securities* and other third-party financial institutions.

Other Products and Services

To complement its deposit products, remittance services, loan services and investment products, *Rakuten Bank* also offers the following products and services targeted at the asset management and borrowing needs of consumers:

- *Mobile Banking Services*. Accountholders can access their accounts using the *Rakuten Bank* mobile application available on both iOS and Android mobile operating systems as well as on feature phones and conduct banking transactions including confirming balances and viewing account statements and making transfers, including remittances to friends over Facebook and/or email.
- *ATM Services*. *Rakuten Bank* does not own or operate its own ATMs, but has entered into agreements with a number of third-party financial institutions under which its accountholders may use ATMs owned and operated by those institutions. *Rakuten Bank*'s accountholders can withdraw and deposit cash, transfer funds and conduct other transactions through ATMs located throughout Japan, including ATMs operated by JAPAN POST BANK Co., Ltd., Seven Bank, Ltd. (including ATMs located in Seven Eleven Japan convenience stores, as well as in retail stores operated by Seven and I Holdings Co., Ltd.), E-net Co. (including ATMs located in FamilyMart convenience stores), LAWSON ATM NETWORKS, Inc. (including ATMs located in Lawson convenience stores), The Bank of Tokyo-Mitsubishi UFJ, Ltd., Mizuho Bank, Ltd. and AEON Bank, Ltd. (including ATMs located in retail stores of AEON Co., Ltd.), PatSat Station ATMs installed at Hankyu Railway stations, Kita Osaka Express Railway stations, Kobe Municipal Subway stations and Nankai Electric Railway stations. *Rakuten Bank's* accountholders can also withdraw and confirm their account balances at VIEW ALTTE ATMs, which are installed at many JR East stations as well as certain branches of BIC CAMERA and LUMINE.
- *Other Individual Loans*. In addition to its Super Loan services, *Rakuten Bank* also offers special purpose loans to individuals including travel loans, education loans and loans for wedding expenses.

Sales and Marketing

We have made efforts to take advantage of the Rakuten brand to market and develop our *Rakuten Bank* business. Our marketing efforts include:

- Including links in our group websites to attract new consumers. For example, our *Rakuten Ichiba* homepage currently promotes *Rakuten Bank* and provides a direct link to *Rakuten Bank*.
- Providing incentive programs through point systems that consumers can use throughout our group. For example, by linkage between *Rakuten Bank* accounts and Rakuten IDs, customers can accumulate Rakuten Super Points from transactions and assets at *Rakuten Bank*. Rakuten Super Points can be used towards commissions at *Rakuten Bank,* purchases on *Rakuten Ichiba* and other group services in our Rakuten Ecosystem. Additionally, in September 2016 we launched "Transfer by Viber," a money transfer service that enables money transfers to anyone

on a user's *Rakuten Viber* contact list from the *Rakuten Bank* app and does not charge transfer fees when sending money to a *Rakuten Bank* account that is linked to a *Rakuten Viber* account.

- *Money Bridge*, an intra-group settlement system linking *Rakuten Bank* and *Rakuten Securities* accounts, makes investment through *Rakuten Securities* easier and faster for *Rakuten Bank* accountholders. *Rakuten Bank* offers higher interest rates on ordinary deposits to *Money Bridge* accounts.

Competition

Rakuten Bank faces significant competition in Japan's retail financial services market. Many traditional Japanese banking institutions have expanded their online banking services and broadened their retail asset management and retail lending services, including through the sale of investment products and extension of individual loans. Many of the financial institutions *Rakuten Bank* competes against are much larger than *Rakuten Bank* in terms of assets, customer base and employee headcount. Many of *Rakuten Bank*'s competitors may offer products and services that *Rakuten Bank* does not offer, or enjoy greater brand awareness and more extensive marketing and sales networks than *Rakuten Bank*. In addition, because *Rakuten Bank*'s primary interface with customers is through the Internet and it does not maintain physical branches, it may face difficulty attracting customers who prefer financial institutions that offer the ability to complete transactions at physical branches.

The online banking market is also highly competitive. Our major competitors include other online banking providers, such as SBI Sumishin Net Bank, Ltd., Sony Bank Incorporated and The Japan Net Bank, Limited. We believe we compete with such other firms on the basis of price, brand recognition, breadth of services and reliability of services.

Online Securities Business

Overview

We conduct our online securities business through Rakuten Securities, Inc., a wholly-owned subsidiary of *Rakuten Card*. We established our online securities business with our purchase in November 2003 of 96.7% of the outstanding shares of DLJ*direct* SFG Securities, which was established in March 1999 as one of the first online brokerage companies in Japan. As of December 31, 2020, *Rakuten Securities* is Japan's second largest online securities company in terms of the transaction value of domestic stocks.

In the year ended December 31, 2020, revenue of our online securities business contributed 12.9% of our FinTech segment revenue.

Our Products and Services

Rakuten Securities is an online securities company that utilizes technology to bring together our Internet services and financial techniques to provide services to customers. *Rakuten Securities* features one of the largest product lineups in the online securities industry. We strive to develop products that suit the needs of new investors as well as experienced traders with significant investment experience. Products available through *Rakuten Securities* include the following:

- Japanese stocks and derivatives, including those listed on the Tokyo Stock Exchange, the Osaka Exchange and the Nagoya Stock Exchange;
- non-Japanese stocks, including stocks listed on the New York Stock Exchange and NASDAQ, Chinese equities listed on the Hong Kong Stock Exchange and stocks listed on exchanges in the ASEAN countries of Singapore, Thailand, Malaysia and Indonesia, as well as international exchange-traded funds;

- Nippon Individual Saving Accounts, or NISA, a special type of retail investment account which offers exemptions from income tax and capital gains tax on the investment returns;
- derivatives, including equity index futures and equity index options and covered warrants;
- investment trusts and mutual funds;
- currency trading, including exchange transactions with deposits available in numerous pairs of currencies;
- commodities and futures; and
- domestic and foreign bonds.

We were the first online provider in Japan of such services as real-time transactions in U.S. stocks and covered warrants, Chinese stock transactions, foreign exchange transactions with deposits, and the trading of futures options. In addition, we were the first to provide individual investors with high-quality information and transaction execution services that are based on real-time, automatically updated stock prices through our *MARKETSPEED* software. We also have a system infrastructure that allows our customers to safely participate in transactions in a high-security environment.

Among our various services, we generate a significant proportion of our online securities revenue from commissions on domestic equity trading, commissions and interest from margin trading, foreign exchange transactions and commissions from sales of investment trusts.

MARKETSPEED and iSPEED

MARKETSPEED is our trading software available for both Windows and Mac operating systems that serves as a trading tool for real-time online security trading for both beginners and experienced investors. *MARKETSPEED* offers various features to allow users to quickly conduct transactions and research, analyze and follow investments. *iSPEED* is a real-time trading tool specialized for mobile phones, smartphones and tablets on the iOS and Android mobile operating systems. We operate iSPEED in Malaysia through a joint venture between *Rakuten Securities* and Kenanga Investment Bank Berhad.

Rakuten Securities also provides its business platform to registered independent financial advisors, or IFAs, financial professionals which provide independent asset management advice to clients without being part of a specific securities firm. *Rakuten Securities* provides order, execution, settlement, custody and compliance services through agency agreements with such IFAs, who primarily target wealthy individuals.

Fee Structure

In order to increase trading volume and acquire new accounts, we have made drastic reductions in domestic stock brokerage commission rates, especially in margin trading, and eliminated initial margins in forward and option trading. We believe we are a market leader in terms of price for online securities services in Japan. We have a simple and accessible fee structure, including daily rates for trades of domestic stocks based upon aggregate trading volume, which customers can elect to apply on a monthly basis; rates for individual trades of domestic stocks; and rates for individual trades for domestic stocks under our *Chowari* (“Super Discount”) service, which offers discounted commission rates ranked based on the amount of the trade to customers that place individual trades in large amounts, which we believe results in the lowest rates in the industry.

Margin Trading

We have generated an increasingly larger portion of our *Rakuten Securities* revenue from brokerage commissions on margin transactions and interest on margin trading, through reductions in fees and increased participation in margin transactions by customers. We extend margin trading to customers after they have deposited a minimum of ¥300,000 in cash or substitute securities as collateral (with substitute securities valued at 80% of market value). We require our customers to maintain a minimum ¥300,000 account balance (which also serves as a margin call threshold) and collateral, the deemed value of which, minus any net loss in the value of securities purchased on margin, is at least 20% of the outstanding principal and accrued interest of the margin trading within a specified period. In the event that the value of the collateral minus any net loss in the value of the securities bought on margin becomes less than 20% of the margin trading, we make a margin call by e-mail and require the customer to deposit cash or substitute securities as collateral to bring the total deemed value of the collateral to at least 20% of the outstanding principal and accrued interest of the margin trading within a specified period. If a customer fails to satisfy the margin call within the specified time period, we liquidate the collateral and the securities purchased on margin and apply the proceeds towards paying off the customer's debts.

Rakuten FX

We generate a growing portion of our *Rakuten Securities* revenue from commissions from foreign currency transactions conducted by customers of *Rakuten Securities*, in particular following the introduction of our *Rakuten FX* service in 2013. Prior to the introduction of this service, *Rakuten Securities* outsourced back-end services to a third party, but subsequently has performed both front-end and back-end foreign exchange trading services.

Investment Trusts

We have also generated a growing portion of our *Rakuten Securities* revenue from commissions in connection with the initial sale of interests in investment trusts and management fees for mutual funds, which are based upon customers' investment balances in investment trusts. Investment trust products include products such as Japanese yen and foreign currency money market funds, as well as yen-denominated investment trusts that invest in Japanese government and corporate bonds, foreign government and corporate bonds, Japanese stock indices, foreign stock indices, Japanese stocks, foreign stocks and other assets. The investment trusts created and managed by *Rakuten Securities* are also offered to customers of *Rakuten Bank*. The investment trust asset balance has grown from ¥526.9 billion as of December 31, 2016 to ¥1,458.0 billion as of December 31, 2020. *Rakuten Securities* derives revenue on sales of investment trusts through up-front sales commissions and annual trust fees earned under contracts with these institutions.

Asset Management

Rakuten Investment Management, Inc., a wholly-owned subsidiary of Rakuten Group, Inc., creates and operates real estate and other asset management funds which are marketed through *Rakuten Securities*.

Sales and Marketing

We have made efforts to take advantage of the Rakuten brand to market and develop our *Rakuten Securities* online securities business. Our marketing efforts include:

- Our *Rakuten Ichiba* homepage currently promotes *Rakuten Securities* as a "Money and Finance" service and provides a direct link to *Rakuten Securities*.

- Providing incentive programs through point systems that consumers can use throughout our group. Customers accumulate Rakuten Super Points from transactions on *Rakuten Securities* which they can use towards purchases on *Rakuten Ichiba* and other group services in our Rakuten Ecosystem. In November 2015 we held our inaugural Rakuten Finance Festival, a rewards campaign that encouraged customers to use their Rakuten Card for *Rakuten Bank* and *Rakuten Securities* services.
- *Money Bridge*, an intra-group settlement system linking *Rakuten Bank* and *Rakuten Securities* accounts, makes investment through *Rakuten Securities* easier and real-time fund transfer from *Rakuten Bank* accounts to *Rakuten Securities* accounts.

Competition

The online securities industry is also highly competitive. Our major competitors include other online securities firms, such as SBI SECURITIES Co., Ltd., Matsui Securities Co., Ltd., Monex Group, Inc., GMO CLICK Securities, Inc. and au Kabucom Securities Co., Ltd. as well as full-service securities firms in Japan. We believe we compete with other firms on the basis of price, brand recognition, breadth of services and reliability of services.

Traditional securities firms typically charge higher commissions, even for online trades, and rely on long-standing relationships cultivated through large sales forces, personalized investment advice, the convenience of their branch networks and broader service offerings to appeal to customers. Firms relying primarily on the Internet to interact with customers tend to focus more heavily on pricing, ease of use, technological reliability and building brand awareness.

Other FinTech Businesses

Overview

We also operate insurance businesses through our *Rakuten Life Insurance* and *Rakuten General Insurance* businesses, offer e-money services through our *Rakuten Edy* and *Rakuten Pay* businesses, offer a service for converting a smartphone or tablet into a credit card reader through our *Rakuten Pay* business (previously called *Rakuten Smartpay*), and offer cryptocurrency trading services through *Rakuten Wallet*.

In the year ended December 31, 2020, revenue of our other FinTech businesses contributed 25.2% of our FinTech segment revenue.

Insurance

In June 2019, we established a comprehensive insurance desk which centralized the customer support functions for *Rakuten Life Insurance*, *Rakuten General Insurance* and *Rakuten Pet Insurance*, allowing us to efficiently and effectively respond to our customers' needs across our insurance offerings. Additionally, we have taken steps to consolidate our insurance-related functions for marketing, system infrastructure and related operations.

Rakuten Life Insurance

We operate our life insurance business through Rakuten Life Insurance Co., Ltd., a wholly-owned subsidiary of Rakuten Insurance Holdings Co., Ltd., which was granted its life insurance license in August 2008 as AIRIO Life Insurance Co., Ltd. but was rebranded in April 2013 following our acquisition of the company in October 2012. *Rakuten Life Insurance* is a hybrid insurance company in that it offers services to customers both through the Internet and via insurance agencies to customers.

Rakuten Life Insurance offers individual insurance products, including death-protection insurance and medical care and cancer insurance products. We generate revenue in our *Rakuten Life Insurance* business primarily through premiums paid by policyholders. *Rakuten Life Insurance*'s annualized premiums (including mutual aid associations) for the year ended December 31, 2020 were ¥30,951 million, a decrease of 0.3% compared to one year earlier. *Rakuten Life Insurance*'s number of policies for the year ended December 31, 2020 were 827,432, a decrease of 2.7% compared to one year earlier.

Rakuten General Insurance

In March 2018, we acquired Asahi Fire and Marine Insurance Co., Ltd., a provider of non-life insurance, which we then renamed *Rakuten General Insurance*. *Rakuten General Insurance* sells mainly automobile insurance and fire insurance, and its main source of revenue comes from insurance premiums paid by policyholders and earnings from asset management.

Rakuten Pet Insurance

In March 2018, we acquired MottoGyutto Small Amount & Short Term Insurance (MottoGyutto), which specializes in pet insurance, and made it a wholly owned subsidiary that we have branded as *Rakuten Small Amount & Short Term Insurance*.

Payments Business

In April 2018, METI announced its "cashless vision" to promote the use of cashless payment methods in Japan with the objective of doubling the cashless payment ratio of transactions in Japan to 40% by 2025. According to METI, the total value of cashless transactions in Japan in 2016 was approximately ¥60 trillion, but is expected to grow to ¥120 trillion for 2025. In April 2019, we created an integrated organizational structure to advance our payments business under our subsidiary Rakuten Payment, Inc. We operate a number of electronic payment services within our payments business that are designed to target different segments of the payment marketplace and each have distinctive features. As of December 31, 2020, over 2 trillion Rakuten Super Points have been issued since 2002 and over 110 million members have registered since 1997 (defined as members who logged in one or more times after registration and excluding membership withdrawals). *Rakuten Pay* is currently accepted at over 5 million payment terminals (some locations contain multiple payment terminals), and approximately 1 million stores accept payment methods such as the "Suica" electronic commuter card or other transportation-related forms of e-money.

Rakuten Edy

Rakuten Edy is an e-money service provided by Rakuten Edy, Inc., a wholly-owned subsidiary of *Rakuten Payment*. *Rakuten Edy* can be used at participating online merchants or at various retail stores and restaurants nationwide in Japan with an Edy Card, a smartphone app linked to an Edy Card or through the *Osaifu Keitai* ("mobile phone wallet") service available on certain models of mobile phones. *Rakuten Edy* cards can be charged online or through the *Rakuten Edy* smartphone app using a credit card or in cash at ATMs throughout Japan. We generate revenue from *Rakuten Edy* from transaction fees.

Rakuten Pay

Rakuten Pay is a payment service that allows users to make payments at participating online merchants and brick-and-mortar stores via a dedicated smartphone app. Payments can also be made using a combination of Rakuten Super Points and payment with the credit card registered to the user's

Rakuten ID. Depending on the form of payment (e.g., *Rakuten Card*, Rakuten Super Points or other credit cards), users can earn 1% or 1.5% of the transaction value in Rakuten Super Points (or 0.5% in the case of using a “Suica” electronic commuter card). In addition to “QR Pay,” where the user scans a QR code displayed on a smartphone or tablet in the store, or “Self Pay,” where the user inputs the amount themselves, a new “Barcode Pay” payment method has been added to the *Rakuten Pay* app which allows users to present a barcode displayed on the app to make payment at the cash register.

We currently have agreements with Lawson, Inc., FamilyMart Co., Ltd., MINISTOP Co., Ltd. and Seven-Eleven Japan Co., Ltd. to allow customers to use *Rakuten Pay* to make payments at all of these companies’ convenience stores in Japan. In June 2019 we reached an agreement with East Japan Railway Company, or JR East, that will allow *Rakuten Pay* users to charge and use the Suica e-money service offered by JR East at approximately 5,000 train stations and on approximately 50,000 buses, in addition to approximately 600,000 stores around Japan.

Rakuten Pay also offers a service that pairs with a smartphone or tablet over a Bluetooth wireless connection to convert the smartphone or tablet into a credit card reader (previously called *Rakuten Smartpay*). This function is targeted at small business owners and the self-employed who might otherwise not sign up with a credit card company, providing them with a low-cost credit card reader, a speedy credit cycle where payments can be received in a designated *Rakuten Bank* account the next day, and a flat 3.24% or 3.74% transaction fee. We generate revenue from these transaction fees and sales of the credit card readers.

Rakuten Wallet

In August 2018 we acquired everybody’s bitcoin Inc., a cryptocurrency exchange service. We subsequently renamed the company Rakuten Wallet, Inc. and relaunched as a cryptocurrency exchange service provider in April 2019. Since December 2019, users of *Rakuten Wallet* have been able to exchange Rakuten Super Points for a selection of cryptocurrency assets, and in March 2020 we launched a cryptocurrency asset margin trading service following our registration as a Type 1 Financial Instruments Business under the Financial Instruments and Exchange Act.

Mobile Segment

Overview

In addition to our two main segments, we added a third “Mobile” segment starting in the three-month period ended March 31, 2019. Our Mobile segment comprises business operations primarily engaged in communication and messaging services, including our mobile messaging and VoIP and telecommunications businesses, as well as our digital contents businesses and our energy business. Additionally, in April 2020, *Rakuten Mobile* launched commercial services on its MNO network with a single service plan structure. We previously also offered an MVNO service that allowed users to purchase a SIM card and access the wireless network infrastructures of third-party MNOs, NTT DOCOMO, INC. and KDDI CORPORATION, but we no longer offer this service to new customers and are in the process of migrating our existing MVNO customers to the *Rakuten Mobile* network that is used for our MNO business.

The Mobile segment contributed 10.7%, 12.1% and 14.0% of our consolidated revenue before intersegment eliminations for the years ended December 31, 2018, 2019 and 2020, respectively. Its revenue before intersegment eliminations was ¥127,777 million, ¥169,054 million and ¥227,142 million for the years ended December 31, 2018, 2019 and 2020, respectively.

Telecommunications Business

Overview

Rakuten Mobile launched commercial services for its MNO network in April 2020 with a single service plan structure. We also operate an MVNO business, but this business is no longer accepting new service activations and we are in the process of migrating customers to our own MNO network.

Our Products and Services

MNO Business

Over the past few years we have invested heavily in creating an MNO business that directly competes with the established MNOs in Japan. In April 2018, we received approval from the Japanese Minister of Internal Affairs and Communications for 4G base station deployment for the 1.7 GHz frequency band, in January 2019, we received blanket licenses that allow *Rakuten Mobile* to transmit radio waves from its base stations and in April 2019 *Rakuten Mobile* received approval for its 5G radio station deployment plan for the 3.7 GHz frequency band. *Rakuten Mobile's* MNO network is the world's first end-to-end, fully virtualized, cloud-native mobile network capable of edge computing that processes data closer to the users rather than sending data across long distances which results in latency delays.

Rakuten Mobile launched small-scale services through a free supporter program on its MNO network in October 2019, commenced commercial operations in April 2020 and launched 5G service in September 2020. Following the launch, the number of applications for new subscribers increased from an accumulated total of approximately 1 million as of the end of June 2020 to over 3 million as of March 9, 2021 and over 3.9 million as of April 8, 2021. Beginning on April 1, 2021, *Rakuten Mobile* began offering a service plan called Rakuten UN-LIMIT VI, which offers data plans of 0-1GB, 1-3GB and 3-20GB at prices of ¥0, ¥980 and ¥1,980 per month, respectively, as well as an unlimited data plan for ¥2,980 per month for unlimited data within our network coverage area. *Rakuten Mobile's* previous service plan, UN-LIMIT V, was based on a single service plan structure that provided unlimited data and unlimited domestic voice over IP calls through the *Rakuten Link* app for a monthly fee of ¥2,980. The data allowances for the UN-LIMIT VI plan apply for usage within the network areas covered by *Rakuten Mobile* base stations (including 5G access for compatible devices in available service areas). Data usage within our MNO network coverage area is available at high-speeds, while monthly high-speed data usage is limited to 5GB for domestic roaming usage on KDDI CORPORATION's *au* 4G mobile network and 2GB on international partner networks, with data usage over these thresholds subject to lower speeds. Our primary competitors, NTT DOCOMO, INC., KDDI CORPORATION and SoftBank Corp. offer 20GB data plans at ¥2,700 (including free talk time or up to five minutes per domestic voice call), ¥2,480 (or ¥2,980 if including an option to add up to five minutes of free talk time per domestic voice call) and ¥2,480 (or ¥2,980 if including an option to add up to five minutes of free talk time per domestic voice call) per month, respectively, with unlimited plans for each competitor exceeding ¥6,500 per month. Until April 7, 2021, for the first three million customers for our UN-LIMIT service, we offered an introductory campaign that waived the monthly fee for the first year of service. In part due to the success of this campaign, we were able to increase the number of applications for new subscribers from an accumulated total of approximately 1 million as of the end of June 2020 to over 3 million as of March 9, 2021 and over 3.9 million as of April 8, 2021. On April 8, 2021, we announced a new campaign that waives the first three months of UN-LIMIT VI fees for new *Rakuten Mobile* subscribers. We offer our MNO service through an untied contract under which users' devices are SIM-lock free with no minimum subscription periods or cancellation charges. As of December 2020, our *Rakuten Mobile* base stations provided 4G network coverage for approximately 70% of the Japanese population.

When *Rakuten Mobile* customers are outside of our base station coverage area, they are able to connect to KDDI CORPORATION's *au* 4G mobile network. Under the partnership that we began with KDDI CORPORATION in November 2018, Rakuten provides KDDI with payments and logistics infrastructure through *Rakuten Pay*, *Rakuten Super Logistics* and *Rakuten EXPRESS*, and KDDI provides Rakuten's MNO business with nationwide 4G mobile network roaming services through the *au* telecommunications network for areas outside of our network coverage.

We also have agreements with various infrastructure partners to support *Rakuten Mobile*'s MNO network. In March 2018, we entered into an agreement with TEPCO to allow Rakuten to utilize TEPCO's existing infrastructure rental program, which covers transmission towers, utility poles, telecommunication towers, rooftop facilities and other equipment, in establishing a network of base stations for our MNO business. That same month, we also announced that we would utilize the transmission towers, utility poles, telecommunication towers, rooftop facilities and other infrastructure of Chubu Electric Power Company, Incorporated and The Kansai Electric Power Company, Incorporated in establishing our network of base stations for our MNO business.

In addition to our MNO service, we also sell a selection of smartphones, and in October 2020 we released the *Rakuten BIG*, a 5G-compatible smartphone with a 6.9-inch OLED display, Mobile FeliCa support and a display-embedded front camera that allows for a seamless, notch-free design.

In order to support continued innovation and the strength of our network, we have made a series of research and development investments. In February 2019, we opened the Rakuten Cloud Innovation Laboratory, a next generation 4G and 5G network lab in Tokyo, in order to further enhance the development of our mobile technology, and in May 2019, we made an investment in Altiostar Networks, Inc., a U.S.-based company that provides a 5G-ready virtualized software solution. In March 2020, we invested together with Vodafone Group in AST & Science, LLC, a Texas-based company that is developing SpaceMobile, a space-based low-Earth-orbit and low-latency satellite network that aims to connect directly to 4G and 5G smartphones without additional specialized hardware. In 2020, we completed our planned acquisition of Innoeye, LLC and Innoeye Technologies Pvt. Ltd., which together form an engineering technology company that developed an end-to-end platform process automation solution that we have already deployed to support our 4G and 5G platform. In June 2020, we established an international headquarters in Singapore to serve as a central hub for global sales and marketing to support the expansion of our Rakuten Communications Platform business in international markets. We also have established a United States entity in California to serve as a hub for expansion of our business in North and South America.

J-TripGateway

In January 2018, Rakuten Communications Corp. (which is now a subsidiary of *Rakuten Mobile* following the group reorganization in April 2019) launched J-TripGateway, a prepaid SIM card and smartphone app service for international visitors to Japan. Users are able to "earn" additional mobile data credits by viewing advertising content on their smartphones before and during their stay in Japan.

Competition

Rakuten Mobile competes with traditional telecommunications operators SoftBank Corp., NTT DOCOMO, INC., and KDDI CORPORATION as well as MVNOs.

Mobile Messaging and VoIP Business

Overview

Rakuten Viber provides messaging and VoIP services through its smartphone applications.

Our Products and Services

Rakuten Viber

In March 2014, we acquired 100% of the shares of VIBER MEDIA LTD. (currently Viber Media S.a.r.l.), the operator of *Viber*, a global mobile messaging and VoIP application. Using the *Rakuten Viber* smartphone application, *Rakuten Viber* users can send free text messages, photo messages and video messages, share locations with other users, make free high-quality calls to other users on 3G/4G or WiFi connections and call landlines and non-*Viber* users for a fee under the *Viber* Out service. *Rakuten Viber*'s principal sources of revenue are fees from the *Viber* Out call service, the sale of virtual stickers, games and other services. As of December 31, 2020, *Rakuten Viber* had over 1.2 billion IDs, defined as unique phone numbers excluding deactivations globally.

Sales and Marketing

Our sales and marketing efforts include the following:

- Public chats. A social space where one or a group of celebrities can send messages that anyone can see, but to which viewers cannot reply or send messages.
- Marketing events. *Rakuten Viber* holds offline marketing events such as concerts, and also utilizes social promotions to attract young users.
- Providing links between *Rakuten Viber* and Rakuten IDs in Japan. Users can earn Rakuten Super Points through usage of *Rakuten Viber.*

Competition

Rakuten Viber competes with a variety of instant messaging, voice and video communication providers, including WhatsApp, WeChat, LINE, Kakao Talk, Facebook Messenger and Skype.

Digital Contents Businesses

From the three-month period ended December 31, 2020, in order to enhance collaboration and synergy between digital contents services and mobile services, our digital contents businesses were transferred from the Internet Services segment to the Mobile segment. We acquired Canadian e-book company Kobo, Inc. (currently Rakuten Kobo, Inc.) in January 2012, Spanish video streaming company Wuaki.TV, S.L. (currently Rakuten TV Europe, S.L.U.) in June 2012 (which currently operates *Rakuten TV*) and Singapore-based video streaming company VIKI, Inc. in September 2013 (which currently operates *Rakuten Sports*) as part of our strategy to expand our digital contents businesses.

In addition to selling e-books on its North American Japanese and international websites, *Rakuten Kobo* operates an e-book store within *Rakuten Books*, which sells physical books in Japan. *Rakuten Kobo* also sells e-readers manufactured under license by a third party through its website as well as in physical stores internationally. *Rakuten Kobo*'s principal source of revenue is sales of e-books as well as e-readers. In September 2019, *Rakuten Kobo* released its latest offering, the *Kobo Libra H2O*, a lightweight, waterproof, 7" e-reader. In the United States, we have an exclusive retail alliance with Walmart that enables Walmart to sell e-books and audiobooks, as well as offer *Rakuten Kobo* eReaders, in Walmart stores and online at Walmart.com. *Rakuten Music* is a music service we launched in August 2016 that offers music streaming for a fixed rate through a smartphone app. *Rakuten Music* was designed as a "one-stop music service" allowing users to listen to and buy music seamlessly. The app also contains community functions allowing users to recommend their favorite songs, and playlists will automatically optimize to each user's tastes based on listening habits. *Rakuten Music* offers a Standard Plan with unlimited streaming for ¥980 per month.

Rakuten Viki is a global video-on-demand service providing popular subtitled television dramas and movies from more than 160 countries and other premium programs streaming free of charge. *Rakuten Viki*'s principal source of revenue is fees from advertising sold against its video content, though it also syndicates select content to partners such as Hulu and Netflix. In June 2019 we launched *Rakuten Sports*, a live streaming and video-on-demand service operated by VIKI, Inc. that allows users outside of Japan to watch Japan Professional Football League, or J.League, soccer matches, and we plan to expand offerings to include other sports in the future.

Rakuten TV is a video-on-demand streaming service that offers movies and television series for subscription, rental and purchase. Although the content portfolio for *Rakuten TV* varies according to region, the service can be accessed in Japan, the United States and a selection of other countries across Europe and Southeast Asia. As part of its content portfolio, *Rakuten TV* includes a selection of original content developed by our filmmaking business that is intended to further reinforce synergies among our offerings, such as a documentary about Andres Iniesta, a player on our Vissel Kobe professional soccer team. Additionally, in June 2020 we announced support for offline/online hybrid live events through a collaboration between *Rakuten TV* and *Rakuten Ticket* in order to respond to changes in customer demand during the ongoing COVID-19 pandemic.

Rakuten Live is a live video streaming service launched in May 2019 that allows artists, celebrities and general users to live stream videos and communicate with viewers in real-time. The service also offers a live commerce function that allows viewers to easily access sites to purchase products featured in streaming videos, enabling shoppers to make purchases while watching. Artists, celebrities and other streamers can effectively promote products through the service by highlighting the appeal of products and engaging in interactive communication with viewers.

Retail Electricity Supply Business

We operate in the electricity supply business through Rakuten Energy, which provides power plans to retail customers based on a unit cost fee structure. Rakuten Energy procures power from the wholesale power trading market, subject to fixed rate power procurement contracts where appropriate.

Alliances and Investments

We have entered into alliances and collaborations with and made minority investments in other companies that we believe will help us increase our corporate value. For example, we have a 50% interest in Rakuten ANA Travel Online Co., Ltd., a joint venture company we established in 2006 with All Nippon Airways Co., Ltd. (ANA) to provide travel packages combining ANA flights with hotel, car rental and other services provided by *Rakuten Travel* and ANA Sales Co. Ltd. Additionally, we hold other diversified assets in various sectors, including Internet (Carousell Pte. Ltd.; Ecommerce Enablers Pte. Ltd., or Shopback; Epic! Creations Inc.; from scratch Co., Ltd.; OneSignal, Inc.), FinTech (Bluevine Capital Inc.; Upstart Network, Inc.; Folio Co., Ltd.; TORANOTEC Ltd.), ride sharing (Careem Network FZ LLC; Aplikasi Karya Anak Bangsa PT, or Gojek; Maxi Mobility S.L., or Cabify; Glovoapp23, S.L., or Glovo) and healthcare (airweave Inc.; Genesis Healthcare Co.). We seek to maintain a balanced strategy according to which we sell assets when appropriate in order to use our funds in an efficient manner, as demonstrated by the sale of *Rakuten O-net*, a marriage planning and counseling service, to Polaris Capital Group Co., Ltd. in 2018.

Japan Post

In March 2021, Japan Post acquired 8.32% of our shares (based on the number of outstanding shares as of December 31, 2020) and we entered into a business alliance agreement with Japan Post and its subsidiary, Japan Post Co. As part of the business alliance, we seek to partner across multiple fields, with the final form and content of these partnerships to be negotiated. For logistics, we will consider initiatives such as the creation of shared logistics centers and delivery and pick-up systems, data sharing, joint commercialization of a digital transformation platform for logistics (including the establishment of a new company) and initiatives to expand usage of Rakuten fulfillment centers and Japan Post's "Yu-Pack" parcels, among other initiatives. With respect to our Mobile business, we plan to utilize Japan Post Co.'s delivery network for marketing initiatives and accept new signup applications for our MNO network at Japan Post Co.'s post nationwide offices. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments—Capital Raised Through Third-Party Allotments of Shares."

Gurunavi

In July 2018 we announced a capital alliance with Gurunavi Inc., which operates Gurunavi, a restaurant search website that allows users to leave reviews and make reservations at participating restaurants, whereby we acquired a 9.6% stake in Gurunavi Inc. We subsequently decided to strengthen the capital alliance by acquiring an additional 4.8% stake in May 2019.

Venture Capital

We also hold minority equity interests in other companies primarily for investment purposes. We seek to develop a portfolio of high-performing companies that can achieve consistent returns on investment.

We launched our early-stage corporate venture internal investment framework *Rakuten Capital* in 2013 and have established multiple other venture funds, including the $200 million Global Investment Fund to target startups and companies in Israel, the Asia Pacific region, and the United States in June 2014 (which was subsequently increased in 2016), the $100 million global Rakuten FinTech Fund in November 2015 to focus on investments in disruptive early- to mid-stage FinTech startups and growth companies primarily in the United States and Europe, and the ¥10 billion Rakuten Ventures Japan Fund in January 2016 to target the expanding community of Japanese startups with advanced technology and business models.

Strategic Investments

We have also made strategic investments over our history with the objective of gaining a foothold in technology areas that we deem to be of strategic importance. For example, as of December 31, 2020, we held a minority equity interest in Lyft, Inc., a ride-sharing company based in the United States. In addition, we have also made strategic investments in the following industries:

Healthcare and Biotechnology

In August 2017 we made an investment in Genesis Healthcare Co., a genetic health testing pioneer that manages one of the largest genetic databases in Asia and Japan. To broaden our expertise, we also established a gene laboratory as part of the Rakuten Institute of Technology in April 2018. Our gene laboratory collaborates with Genesis Healthcare Co. on research into marketing based on genetic data analysis, with the aim of contributing to resolution of social issues such as reducing medical costs and further raising health awareness in Japan.

In December 2018 we invested in the Series C financing round of *Rakuten Aspyrian*, a company developing precision-targeted cancer therapies based on its proprietary Photoimmunotherapy (PIT) platform. In March 2019 we rebranded *Rakuten Aspyrian* by changing its name to Rakuten Medical, Inc. as an indicator of its objective to become a clinical-stage, global biotechnology company, and in July 2019 we invested an additional $100 million.

Drones

In March 2016 we announced an investment in Autonomous Control Systems Laboratory, a university-originated venture in the research and development of drones as well as their manufacture and sale. We followed up this investment with the announcement in April 2016 of “Sora Raku,” a delivery service for general consumers which utilizes drones, initially targeting the delivery of golf equipment, snacks, beverages and other items to players at pickup points on participating golf courses. In October 2017 we began a trial initiative with Lawson’s convenience stores to begin drone deliveries of selected items in Fukushima, Japan, and in February 2019 we signed an agreement with JD.com, China’s largest retailer, to use JD.com’s drones and unmanned ground vehicles as part of Rakuten’s unmanned delivery solutions in Japan.

In March 2018, the Rakuten Institute of Technology, the dedicated research and development organization of the Rakuten group, entered into a collaboration agreement with Maritime Robotics AS, a leading provider of unmanned solutions for maritime operations. Through this partnership, we plan to explore the use of unmanned ocean surface vehicle technology as a logistics solution.

Artificial Intelligence

The Rakuten Institute of Technology has dedicated research centers in Tokyo, Paris, Boston, Singapore, San Mateo, California and Bengaluru, India. The San Mateo, California research center is focused on the emerging field of Creative AI with the goal of realizing innovative services using advanced technologies such as deep learning and natural language processing.

In April 2017 we began a collaboration with IBM Japan, Ltd. to build the Rakuten AI Platform, an internal Rakuten system with the objective of developing customer service chat algorithms that can introduce automatic response functions into our customer support. By developing natural language processing and conversation control algorithms, we are now able to provide a level of automated customer service through the chat systems and smartphone apps provided by the various services of the Rakuten group.

Blockchain

In August 2016 we opened the Rakuten Blockchain Lab in the United Kingdom, a dedicated research and development organization within Rakuten focused on blockchain technology and its potential applications in the FinTech and e-commerce sectors.

In December 2017, we launched the Rakuten Energy Trading System, a J-Credit trading system built using blockchain technology in cooperation with CARBON VALUE CREATING & CONSULTING Co., Ltd. and GLOBAL ENGINEERING Co., Ltd. J-Credits are carbon offset credits certified by the Japanese government that can be earned when corporations reduce emissions or increase absorption of greenhouse gases by saving energy, managing forests and other activities. The Rakuten Energy Trading System brings greater transparency to the J-Credit trading process by enabling traders to clarify J-Credit value and trade volume in real time.

Mobile

In May 2019, we completed our investment in Altiostar Networks, Inc., a U.S.-based company that provides a 5G-ready virtualized software solution. In March 2020, we invested together with Vodafone Group in AST & Science, LLC, a Texas-based company that is developing SpaceMobile, a space-based low-Earth-orbit and low-latency satellite network that aims to connect directly to 4G and 5G smartphones without additional specialized hardware. In 2020, we completed our acquisition of

Innoeye, LLC and Innoeye Technologies Pvt. Ltd., which together form an engineering technology company that developed an end-to-end platform process automation solution that we have already deployed to support our 4G and 5G platform.

Retail

On March 1, 2021, we completed our acquisition of a 20% stake in Seiyu GK from Walmart Inc. Seiyu GK operates supermarkets, shopping centers and department stores in Japan. We were also joined by KKR & Co. Inc., which acquired a 65% stake in Seiyu GK from Walmart Inc. Through this acquisition, the three companies intend to bring complementary strengths to support Seiyu's growth in Japan.

Information Technology

As an Internet service company, we rely heavily on information technology and communication systems to operate our businesses and to create a secure environment in order to attract and maintain customers and suppliers for our products and services.

Our network system consists of a variety of servers, including Internet servers, application servers, database servers, network file system servers and cache servers. In general, we purchase servers from suppliers and integrate them internally through our system integration team. Our technology development team is in charge of standardizing our systems to make subsequent expansion more cost efficient. Our servers are located at multiple data centers. Although we regularly back up the information maintained in our servers, our data centers may not be fully redundant, and so there is a risk that we may lose some data in the event of a natural or other disaster.

We continue to manage our server capacity to be able to handle our peak traffic. Peak traffic is typically recorded in the evenings on the days we conduct sales campaigns such as our Rakuten Super Sales. Despite our continuous efforts to expand our server capacity, customers may feel that access speed to our Internet sites on the day of a campaign is slow and may not purchase our products and service as much as they initially planned. We make every effort to maintain system security. We conduct monitoring for signs of hacking or other attacks. We make frequent security inspections and conduct security tests for new services and applications. We also communicate with industry groups, security venders and government agencies to exchange information about the latest trends and cases in cyberattacks and cybercrimes so that we can take precautions and countermeasures. See "Risk Factors—Interruption or failure of our information technology and communications systems due to natural disasters, human error or malicious acts could impair our ability to effectively provide our products and services, which could damage our brand and reputation and adversely affect our operating results."

Intellectual Property

Rakuten Group, Inc. is the registered owner of the "Rakuten" trademark and related logos. Rakuten permits group companies to use the trademark as part of our strategy of unifying our brand.

In addition, our group companies have various registered trademarks, copyrights and other intellectual property, including Internet domain names in countries in which we do business or may do business in the future, and patented Internet and communications technologies.

In 2015, we received the "Commissioner of the Japan Patent Office Award" at the "FY2015 Intellectual Property Achievement Awards" ceremony hosted by METI and the Japan Patent Office. The Intellectual Property Achievement Awards are presented by METI and the Japan Patent Office to individuals and companies in recognition of their contributions to the expansion and development of the intellectual property rights system in Japan. Rakuten received the award as a "Good-standing Company Utilizing the Intellectual Property Rights System," and was the first company in the e-commerce field to receive this award.

We also license certain intellectual property rights, such as rights to use the Internet search engine technology owned by Google LLC, which we license pursuant to one-year agreements that we have renewed with Google on a regular basis.

In March 2020, we announced that we had become a member of the Open Invention Network, an open source patent cross-licensing organization. By becoming a member of the Open Invention Network, certain patents related to Linux software held by us will become available for cross-licensing. Because the MNO network operated by Rakuten Mobile is based in part on open source software, we believe that our participation in the open source community will support our efforts to streamline operations and deploy new services.

Properties

Our current head office in Setagaya-ku, Tokyo occupies approximately 63,450 square meters of office space (as well as an approximately 999 square meter annex). We generally lease all of our offices and other facilities.

Employees

As of December 31, 2020, we had 23,841 full-time employees. The following table shows the aggregate number of employees by segment:

	As of December 31, 2020
Internet Services[(1)]	9,478
FinTech	5,064
Mobile	5,327
Company-wide (common)	3,972
Total	23,841

Notes:

(1) Number of employees in the Internet Services segment includes corporate staff and development engineers at Rakuten Group, Inc.

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

(3) Company-wide (common) figure primarily represents the number of employees in the Administrative Department that cannot be classified into any segment.

We have not experienced any material strikes or labor disputes since our establishment, and we consider our relations with our employees to be good.

Employee Stock Options

We have designed our compensation system so that, as a general rule, the higher the rank of and the larger the role played by an individual, the larger part of their total compensation is comprised of the bonus linked to the performance of the individual, each Rakuten group company, business segment or division as well as stock options that are linked to stock prices. However, a major feature of our compensation system is to deliver stock options to a wide range of personnel starting with second-year employees up to the directors of the company. This reflects our belief that by making the majority of our executives and employees potential shareholders, we will further raise the awareness of each executive and employee towards enhancing corporate and shareholder value, as well as reinforce the sense of unity among Rakuten group staff, which is thought to be an indispensable element in expanding and fostering the Rakuten Ecosystem both in Japan and abroad. In particular, with respect to our overseas subsidiaries, we view stock-based compensation as an important retention tool and are considering further expanding the scope of our stock option program.

Because the value of such stock options is linked with our stock price, we consider such personnel expenditures to be an important way to motivate employees to enhance corporate and shareholder value. In addition, certain of our stock options are exercisable in stages in order to further encourage our employees towards higher performance and retain talented staff as well as a way of offering an attractive compensation package towards prospective recruits. In the determination of the total amount of compensation, including the granting of stock options, factors such as the degree to which our operating income targets were achieved; the business performance of each Rakuten group company, business segment or division; and the personnel evaluation of each individual are taken into account.

There are a total of 7,847,100 shares issuable upon exercise of outstanding stock options as of December 31, 2020 which represents 0.55% of our 1,434,573,900 outstanding shares of common stock as of December 31, 2020. The exercise periods of the outstanding stock options ranges from March 30, 2016 to May 1, 2060 depending on the series of options. For more details regarding our stock options, see Note 36 to our consolidated financial statements included elsewhere in this offering circular.

At our board of directors meeting held on January 14, 2021, a stock option plan permitting the grant of additional stock options to directors and employees of Rakuten Group, Inc. and its subsidiaries was authorized. The maximum amount of shares issuable under stock options granted pursuant to such plan is 3,965,200. At our board of directors meeting held on February 12, 2021, two stock option plans permitting the grant of additional stock options to executive officers and employees of Rakuten Group, Inc. and its subsidiaries were authorized. The maximum amount of shares issuable under stock options granted pursuant to such plans are 385,000 and 863,500, respectively. We have started granting stock options using the authorized plan and intend to continue to grant stock options on an ongoing basis to eligible directors, executive officers and employees of Rakuten Group, Inc. and its Japanese and overseas subsidiaries. We generally intend to issue stock options as part of bonus compensation for eligible members of management and employees and as compensation for employees of newly acquired businesses.

Legal Proceedings

The Rakuten group is involved from time to time in claims, proceedings, and litigation in the ordinary course of our business. The outcomes of our legal proceedings are inherently unpredictable, subject to significant uncertainties, and could be material to our operating results and cash flows for a particular period. In addition, for some matters for which a loss is probable or reasonably possible, an estimate of the amount of loss or range of loss is not possible and we may be unable to estimate the possible loss or range of losses that could potentially result from the application of nonmonetary remedies.

MANAGEMENT

Directors and Audit and Supervisory Board Members

Our board of directors has the ultimate responsibility for the administration and supervision of our affairs. Our articles of incorporation provide for a board of directors consisting of not more than sixteen members. Currently, we have nine directors, all of whom were elected by our general meeting of shareholders. The normal term of office for directors expires at the close of the ordinary general meeting of shareholders held with respect to the last settlement of accounts within one year after such director's assumption of office, although directors may serve any number of consecutive terms. Our board of directors may elect, from among its members, a Chairman, a President and several Vice Chairmen, several Executive Vice Presidents, several Senior Vice Presidents and several Managing Directors. Our board of directors also elects one or more Representative Directors from among its members. Each of the Representative Directors has the authority to represent us in the conduct of our affairs. Currently, we have two Representative Directors. We also appoint outside directors in order to strengthen oversight functions and enhance management transparency. Currently, we have five outside directors.

Our articles of incorporation provide for not more than four audit and supervisory board members. Currently, we have four audit and supervisory board members. Under the Companies Act, the audit and supervisory board members are not required to be certified public accountants. The audit and supervisory board members may not at the same time be directors, managers, any other type of employees or accounting advisors (*kaikei sanyo*) of us or any of our subsidiaries or officers of any of our subsidiaries, and at least one-half of them must satisfy the requirements for an outside audit and supervisory board member under the Companies Act (currently, we have three outside audit and supervisory board members), and at least one of the audit and supervisory board members must be a full-time audit and supervisory board member. The audit and supervisory board members are elected at our general meeting of shareholders. The normal term of office for audit and supervisory board members expires at the close of the ordinary general meeting of shareholders held with respect to the last settlement of accounts within four years after such audit and supervisory board member's assumption of office, although audit and supervisory board members may serve any number of consecutive terms.

Each audit and supervisory board member has a statutory duty of supervising the administration of our affairs by the directors, examining the financial statements and business reports to be submitted by a Representative Director to the general meetings of shareholders and preparing an audit report. They are obligated to participate in meetings of the board of directors and, if necessary, to express their opinion at such meeting, but are not entitled to vote.

The audit and supervisory board members form the audit and supervisory board. The audit and supervisory board has a statutory duty to prepare an audit report based on the audit reports issued by the individual audit and supervisory board member and submit such audit reports to the relevant director and (only with regard to the audit report related to financial statements) independent auditor. An audit and supervisory board member may note his opinion in the audit report if his opinion is different from the opinion expressed in the audit report issued by the audit and supervisory board. The audit and supervisory board is empowered to establish audit principles, the method of examination by the audit and supervisory board members of our affairs and financial position and any other matters relating to the performance of the audit and supervisory board members' duties.

We have entered into an audit agreement with our independent auditor, Ernst & Young ShinNihon LLC, who has the statutory duties of examining our financial statements.

The following table provides information regarding directors and audit and supervisory board members of the Company as of the date of this offering circular:

Name	Title	Director/Audit and Supervisory Board Member Since
Hiroshi Mikitani	Representative Director, Chairman, President and Chief Executive Officer	February 1997
Masayuki Hosaka	Representative Director and Vice Chairman	March 2014
Charles B. Baxter	Director	March 2011
Kentaro Hyakuno	Director	March 2021
Ken Kutaragi[1, 2]	Director	March 2010
Takashi Mitachi[1, 2]	Director	March 2016
Jun Murai[1, 2]	Director	March 2012
Sarah J. M. Whitley[1, 2]	Director	March 2019
John V. Roos[1, 2]	Director	March 2021
Yoshiaki Nishikawa	Audit and Supervisory Board Member (Full-time)	March 2020
Takeo Hirata[2, 3]	Audit and Supervisory Board Member	March 2007
Masahide Hiramoto[2, 3]	Audit and Supervisory Board Member (Full-time)	March 2018
Katsuyuki Yamaguchi[2, 3]	Audit and Supervisory Board Member	March 2001

Notes:
(1) Outside directors stipulated under Companies Act of Japan.
(2) Independent director or audit and supervisory board member specified by the regulations of Tokyo Stock Exchange, Inc.
(3) Outside audit and supervisory board members stipulated under Companies Act of Japan.

Hiroshi Mikitani

April 1988	Joined The Industrial Bank of Japan, Limited (currently Mizuho Bank, Ltd.)
May 1993	Received MBA from Harvard Business School
February 1996	President and Representative Director (currently Representative Partner) of Crimson Group, Inc. (currently Crimson Group, LLC) (current position)
February 1997	Founder and President and Representative Director of the Company
February 2001	Chairman and President and Representative Director of the Company (current position)
March 2004	Chief Executive Officer of the Company (current position)
April 2006	Chairman and Representative Director of Crimson Football Club, Inc. (currently Rakuten Vissel Kobe, Inc.) (current position)
January 2008	Chairman and 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 and Representative Director and team owner of Rakuten Baseball, Inc. (current position)
August 2016	Chairman and Director of Aspyrian Therapeutics, Inc. (currently Rakuten Medical, Inc.) (current position)
July 2017	Chairman of the Board and CEO of Rakuten Aspyrian Japan, Inc. (currently Rakuten Medical, Inc.) (current position)
January 2018	Chairman & Representative Director of Rakuten Mobile Network, Inc. (currently Rakuten Mobile, Inc.) (current position)
November 2018	Chairman & CEO of Rakuten Aspyrian, Inc. (currently Rakuten Medical, Inc.) (current position)
January 2020	Representative Director, Chairman and CEO of Rakuten Mobile, Inc. (current position)
February 2020	Director of AST & Science, LLC (current position)

Masayuki Hosaka

April 1980	Joined ORIX Credit Corporation
December 2003	General Manager of Personal Finance Department of the Company
May 2005	Executive Officer of the Company
February 2006	President and Representative Director of Rakuten Credit, Inc. (currently Rakuten Card Co., Ltd.)
March 2007	Vice Chairman and Director of Rakuten Credit, Inc.
April 2009	President and Representative Director of Rakuten Credit, Inc. (current position)
February 2013	Managing Executive Officer of the Company
January 2014	Executive Vice President of the Company
March 2014	Representative Director of the Company (current position)
April 2016	Vice Chairman of the Company (current position)
July 2016	President of Card & Payments Company (currently Fintech Group Company) (current position)

Charles B. Baxter

March 2001	Director of the Company
March 2003	Retired as Director of the Company
July 2004	Chairman of Wineshipping.com LLC (current position)
March 2011	Director of the Company (current position)
February 2012	Chairman and Director of Rakuten USA, Inc. (current position)
January 2015	Chairman of Reyns Holdco, Inc. (current position)

Kentaro Hyakuno

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

Ken Kutaragi

April 1975	Joined Sony Corporation
November 1993	Director of Sony Computer Entertainment Inc. (currently Sony Interactive Entertainment Inc.)
April 1999	President and Representative Director of Sony Computer Entertainment Inc. (currently Sony Interactive Entertainment Inc.)
June 2000	Director of Sony Corporation
November 2003	Director, Executive Vice President and COO of Sony Corporation
December 2006	Chairman, Representative Director and Group CEO of Sony Computer Entertainment Inc. (currently Sony Interactive Entertainment Inc.)
June 2007	Honorary Chairman of Sony Computer Entertainment Inc.
June 2007	Senior Technology Advisory of Sony Corporation

October 2009.	Representative Director and CEO of Cyber AI Entertainment Inc. (current position)
March 2010	Outside Director of the Company (current position)
January 2018.	Outside Director of GA technologies Co., Ltd (current position)
April 2019	Outside Director of SmartNews, Inc. (current position)
August 2020.	Representative Director and Chief Executive Officer of Ascent Robotics Inc. (current position)

Takeshi Mitachi

April 1979	Joined Japan Airlines Co., Ltd.
June 1992.	Received MBA from Harvard Business School
October 1993.	Joined The Boston Consulting Group
January 1999.	Vice President of The Boston Consulting Group
January 2005.	Japan Co-chair of The Boston Consulting Group
April 2011	Board Member of Japan Association for the World Food Programme
April 2013	Adjunct Professor of the Graduate School of Management, Kyoto University
January 2016.	Senior Partner & Managing Director of The Boston Consulting Group
March 2016	Outside Director of the Company (current position)
June 2016.	Outside Director of Lotte Holdings Co., Ltd. (current position)
March 2017	Outside Director of DMG MORI CO., LTD. (current position)
March 2017	Outside Director of FiNC Inc. (current FiNC Technologies Inc.)
March 2017	Outside Director of Unicharm Corporation (current position)
April 2017	Board Member of Ohara Museum of Art (current position)
June 2017.	Outside Director of Tokio Marine Holdings, Inc. (current position)
October 2017.	Senior Advisor of The Boston Consulting Group (current position)
March 2018	Chief Executive Director of Ronald McDonald House Charities Japan (current position)
April 2019	Professor of the Graduate School of Management, Kyoto University (current position)

Jun Murai

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
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 (current position)
June 2018.	Outside Director of LAC Co., Ltd. (current position)
November 2019	Outside Director of HAPSMobile Inc. (current position)
April 2020	Professor of Keio University (current position)
April 2020	Dean of the Asia Pacific Initiative Institute of Geoeconomic Studies and Senior Fellow of Asia Pacific Initiative (current position)
October 2020.	Special Advisor to the Cabinet of the Government of Japan (current position)

Sarah J. M. Whitley

September 1980	Joined Baillie Gifford & Co.
May 1986	Partner of Baillie Gifford & Co.
April 2018	Retired from Baillie Gifford & Co.
March 2019	Outside Director of the Company (current position)
May 2019	Trustee of Foundation Scotland (current position)
May 2019	Chair of Edinburgh International Festival Endowment Fund (current position)
June 2019.	Trustee of The Royal Scottish Academy Foundation (current position)

John V. Roos

October 1980.	Associate of O'Melveny & Myers LLP
February 1985.	Associate of Wilson Sonsini Goodrich & Rosati
February 1988.	Partner of Wilson Sonsini Goodrich & Rosati
February 2000.	Managing Director of Professional Services of Wilson Sonsini Goodrich & Rosati
February 2005.	CEO of Wilson Sonsini Goodrich & Rosati
August 2009.	U.S. Ambassador to Japan
September 2013	Outside Director of Salesforce.com, Inc. (current position)
October 2013.	CEO of The Roos Group, LLC (current position)
December 2013	Global Advisory Board Member of Mitsubishi UFJ Financial Group, Inc. (current position)
April 2014	Senior Advisor of Centerview Partners LLC (current position)
June 2014.	Outside Director of Sony Corporation
May 2015	Co-Founding Partner of Geodesic Capital (current position)
December 2015	Advisor of Toyota Research Institute, Inc. (current position)
July 2016	Member of the Board of Directors of The Maureen and Mike Mansfield Foundation (current position)
October 2018.	Advisory Board Member of Stanford Center for Asian Health Research and Education (current position)

Yoshiaki Nishikawa

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 and Supervisory Board Member of Rakuten Card Co., Ltd.
June 2014.	Audit and Supervisory Board Member of Rakuten Securities, Inc.
June 2015.	Audit and Supervisory Board Member of Rakuten Life Insurance Co., Ltd.
May 2016	Audit and Supervisory Board Member of Rakuten Edy Operation, Inc. (currently Rakuten Edy, Inc.) (current position)
July 2018	Full-time Audit and Supervisory Board Member of Rakuten Insurance Holdings Co., Ltd. (current position)
January 2019.	Audit and Supervisory Board Member of Rakuten Insurance Planning Co., Ltd.
March 2020	Audit and Supervisory Board Member of Rakuten Card Co., Ltd. (current position)
March 2020	Audit and Supervisory Board Member of Rakuten Payment, Inc. (current position)
March 2020	Audit and Supervisory Board Member (Full-time) of the Company (current position)

Takeo Hirata

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

Masahide Hiramoto

April 1978	Joined The Nippon Credit Bank, Ltd. (currently Aozora Bank, Ltd.)
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.
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)
March 2018	Outside Audit and Supervisory Board Member (Full-time) of the Company (current position)
April 2019	Audit and Supervisory Board Member of Rakuten Card Co., Ltd.
April 2019	Audit and Supervisory Board Member of Rakuten Payment, Inc.
March 2020	Audit and Supervisory Board Member of Rakuten Mobile, Inc. (current position)

Katsuyuki Yamaguchi

April 1991	Registered with Dai-ichi Tokyo Bar Association 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 & Associes in Paris
July 1999	Reinstated at Nishimura & Partners (currently Nishimura & Asahi)
August 2000.	Attorney and Partner of Nishimura & Partners (currently Nishimura & Asahi) (current position)
March 2001	Outside Audit and Supervisory Board Member of the Company (current position)
July 2007	Outside Audit and Supervisory Board Member of FreeBit Co., Ltd. (current position)
September 2013	Outside Audit and Supervisory Board Member of BrainPad Inc. (current position)
June 2015.	Outside Audit and Supervisory Board Member of HAKUHODO DY HOLDINGS INCORPORATED (current position)
April 2016	Director of Lex Mundi
June 2018.	Managing Partner of Nishimura & Asahi NY LLP (current position)

Agreements with our Directors and Audit and Supervisory Board Members

Our articles of incorporation provide that we may enter into agreements with our directors (excluding executive directors) and audit and supervisory board members to limit their respective liabilities to us in accordance with the Companies Act. We have entered into such agreements with each of our outside directors, Messrs. Ken Kutaragi, Takashi Mitachi, Jun Murai and John V. Roos and Ms. Sarah J. M. Whitley and our outside audit and supervisory board members, Messrs. Takeo Hirata, Masahide Hiramoto and Katsuyuki Yamaguchi to limit their respective liabilities to us to the total amount stipulated in Article 425, paragraph (1) of the Companies Act, so long as those outside directors or outside audit and supervisory board members act in good faith and without gross negligence in performing their duties.

SUBSIDIARIES AND AFFILIATES

We had 174 consolidated subsidiaries and 64 affiliates accounted for under the equity method as of December 31, 2020. The following table provides information with respect to our principal consolidated subsidiaries and affiliates accounted for under the equity method as of December 31, 2020.

Name	Country of Organization	Issued capital	Percentage of voting interest held directly or indirectly by Rakuten	Main business
Consolidated Subsidiaries				
Ebates Inc.	United States	$ 0.1	100.0%	Cash-back site operator
Rakuten MARKETING LLC.	United States	$ 1	100.0%	Performance marketing
Rakuten Card Co., Ltd.	Japan	¥ 19,324 million	100.0%	Credit card services
Rakuten Bank, Ltd.	Japan	¥ 25,954 million	100.0%	Online banking
Rakuten Securities, Inc.	Japan	¥ 7,496 million	100.0%	Online securities
Rakuten General Insurance Co., Ltd.	Japan	¥ 5,153 million	100.0%	General insurance
Rakuten Life Insurance Co., Ltd.	Japan	¥ 7,500 million	100.0%	Life insurance
Rakuten Payment, Inc.	Japan	¥ 100 million	100.0%	Credit card settlement service on smartphones and tablets
Rakuten Mobile, Inc.	Japan	¥ 100 million	100.0%	Mobile telecommunication service
Rakuten Kobo Inc.	Canada	C$ 901 million	100.0%	E-reading service
Rakuten Communications Corp.	Japan	¥ 110 million	100.0%	Telecommunications
Viber Media S.a.r.l.	Luxemburg	$ 20 thousand	100.0%	Messaging and VoIP
Equity-Method Affiliates				
Rakuten Medical Inc.	United States	$ 273 thousand	22.3%	Biotechnology

SUPERVISION AND REGULATION

Reflecting the broad range of our business, we are subject to a number of Japanese, U.S. federal and state, and other foreign laws and regulations that affect Rakuten and its group companies conducting business. These may involve online marketing, user privacy, rights of publicity, data protection, telecommunications, liability of providers of online services for activities of their users and other third parties, protection of minors, travel agency, used goods trading, financial services, content, intellectual property, distribution, electronic contracts and other communications, competition, consumer protection, and taxation. The following is a summary of the key Japanese, U.S. federal and state, and other foreign laws and regulations with which our operations are required to comply.

Japanese Laws and Regulations

Overview

Our operations are divided into three segments: "Internet Services," "FinTech" and "Mobile." Each segment is subject to various laws and regulations of Japan. This section includes a summary of significant Japanese laws and regulations applicable to the operations in each of our three segments.

Internet Services Segment

Operations in our Internet Services segment have been subject to increasing regulation focusing principally on customer protection, as the use of the Internet has become more common. Current key laws and regulations applicable to this segment include the following:

The Act against Unjustifiable Premiums and Misleading Representations

The Act against Unjustifiable Premiums and Misleading Representations (Act No. 134 of 1962, as amended) stipulates the restricted methods and means of various advertisements, representations and sales promotions, in a broad sense. When we advertise our products or services on the Internet, we must provide appropriate information under this Act, so as not to mislead our users. In addition, we must appropriately provide premiums, such as Rakuten Super Points, in compliance with the regulations under this Act.

The Act on Specified Commercial Transactions

The Act on Specified Commercial Transactions (Act No. 57 of 1976, as amended) regulates certain commercial transactions, including a commercial transaction for which a contract is entered into through the Internet, or a Specified Internet Transaction. When a seller or a service provider of a Specified Internet Transaction, including us, or the Specified Internet Transaction Provider, advertises its products or services, it must appropriately indicate certain information related to its products or services designated in this Act, including, in general, information of prices, shipping charges, timing and methods of payment, timing of delivery and termination, in the advertisement. In addition, this Act requires advertisement of a Specified Internet Transaction through e-mails to be, in general, provided with the express consent of a receiver of the e-mails.

The Act on Regulation of Transmission of Specified Electronic Mail

The Act on Regulation of Transmission of Specified Electronic Mail (Act No. 26 of 2002, as amended) regulates advertisement through e-mails. Under this Act, advertisement through e-mails must be, in general, provided with the express consent of a receiver of the e-mails, and with certain descriptions designated in this Act in the e-mails, including a contact address to which the receiver may withdraw its consent by sending a notice, and may bring a complaint or ask a question regarding the advertisement.

The Act Concerning the Prohibition of Unauthorized Computer Access

The Act Concerning the Prohibition of Unauthorized Computer Access (Act No. 128 of 1999, as amended) regulates persons who administer operations of computers which are connected to telecommunication lines. Since we maintain our own servers in Japan, we are subject to this Act. This Act requires us to make efforts to properly manage, verify, and promptly take necessary measures to protect computers from unauthorized access.

The Act on the Limitation of Liability for Damages of Specified Telecommunications Service Providers and the Right to Demand Disclosure of Identification Information of the Senders

The Act on the Limitation of Liability for Damages of Specified Telecommunications Service Providers and the Right to Demand Disclosure of Identification Information of the Senders (Act No. 137 of 2001, as amended) regulates a provider of telecommunications services that circulates electronic information publicly through the Internet, or a specified telecommunications services provider, and our certain portal services are subject to such regulations. While this Act limits the scope of liability of a specified telecommunications services provider that will be incurred when anyone's rights are infringed upon as a result of the circulation of electronic information in connection with its telecommunications services, it requires a specified telecommunications services provider to disclose certain information related to those who engage in such infringement.

The Act Concerning the Creation of Conditions, for the Safe and Secure Use of the Internet by Young People

The Act Concerning the Creation of Conditions, for the Safe and Secure Use of the Internet by Young People (Act No. 79 of 2008, as amended) regulates an administrator of servers publicly accessible through the Internet, including us, or a specified server administrator, aiming to protect youths under the age of eighteen. If the specified server administrator learns of any situation where harmful information that materially impairs the sound growth of youths has been provided, or it makes such information available to the public through the Internet by the use of its servers, it will be required under this Act to make efforts to take measures to prevent youths from accessing such information. The specified server administrator is also required to make efforts to establish a system to receive information or inquiries from the public regarding any harmful information provided by the use of its servers, and to prepare and keep records of any measures that it has taken to prevent underage access to harmful information.

The Travel Agency Act

Our travel agency services are subject to, among other laws and regulations, the Travel Agency Act (Act No. 239 of 1952, as amended). This Act generally requires that those who engage in travel agency services, including those regarding overseas travel, be registered as travel business operators with the Commissioner of the JTA. Rakuten is registered as a Type 1 Travel Business Operator, or a Type 1 TBO, and supervised by the JTA. In order to secure possible claims against travel agents by travelers, the Type 1 TBO is required to, directly or indirectly through a travel agency association designated in this Act, deposit a certain amount of funds with the relevant depositary office, and keep the amount of funds at the level designated in this Act and the regulations thereunder. If a Type 1 TBO does not satisfy certain requirements under this Act, or its business operation is otherwise inappropriate or unreasonable, such Type 1 TBO may be subject to administrative or criminal sanctions.

The Secondhand Articles Dealer Act

The Secondhand Articles Dealer Act (Act No. 108 of 1949, as amended) regulates the business of the sale, purchase or exchange of used goods, such as used mobile phones. Among other things, this Act requires that those who engage in such business be licensed as secondhand articles dealers by the prefectural Public Safety Commission.

FinTech Segment

Operations in our FinTech segment are comprised of five main businesses: issuance of credit cards and money lending business, Internet banking business, online securities and commodity derivatives trading business, insurance business, payments business and cryptocurrency exchange service business. The FSA is generally the principal governmental authority supervising financial business in Japan, while METI is a principal governmental authority for credit card business. Each of these businesses is subject to its respective laws and regulations as described below.

Issuance of Credit Cards and Money Lending Business

Our issuance of credit cards and money lending business conducted by *Rakuten Card* is subject to, among other laws and regulations, the following key laws and regulations:

The Installment Sales Act

The Installment Sales Act (Act No. 159 of 1961, as amended) applies to mediators of installment sales transactions, including credit card companies who pay the purchase price for goods and services to merchants on behalf of their cardholders, and collect such amounts from the cardholders via installment payments. Our credit card business (in Japan) is subject to the provisions of this Act.

Rakuten Card has been registered as a mediator of installment sales transactions with METI in order to conduct its credit card business in Japan. Under this Act, *Rakuten Card* is supervised by METI, which has the authority to issue business improvement orders, to cancel its registration and to issue an order for Rakuten Card to suspend all or part of its business operations as a mediator of installment sales transactions when it deems that *Rakuten Card* has violated this Act.

In addition, registered mediators are generally prohibited from issuing credit cards or increasing the limits on credit cards in excess of a certain amount, calculated based on factors such as the annual income of the relevant cardholder.

Under this Act, cardholders have a right to reject payments to registered mediators (such as *Rakuten Card*) by exercising legal defense claims which they may invoke against merchants under certain conditions.

Also, *Rakuten Card* has been registered as a business operator concluding contracts handling credit card numbers, which was introduced by the amended Installment Sales Act in June 2018.

The Money Lending Business Act

The Money Lending Business Act (Act No. 32 of 1983, as amended) governs operators of money lending businesses, requiring them to register and adhere to certain strict business regulations.

In accordance with this Act, *Rakuten Card* has registered as a moneylender with the FSA. The FSA has the authority under this Act to issue business improvement orders when it deems necessary, and to suspend *Rakuten Card*'s businesses and to cancel *Rakuten Card*'s registration as a moneylender upon substantial non-compliance with this Act and failure to comply with certain administrative orders. *Rakuten Card*'s operations are regularly inspected by the FSA.

In respect of *Rakuten Card*'s lending activities, this Act requires registered moneylenders to deliver a written notice of: (a) the terms and conditions of the loan agreement to borrowers and guarantors at the time of, or promptly after, execution of the loan agreement or any guarantee agreement; and (b) repayment amounts received by the lender and the application of those amounts to the principal and interest owed, as well as the borrower's remaining balance immediately after each repayment, to a person who has made such repayment.

In addition, prior to exercise of a loan, registered moneylenders are required to investigate the ability of borrowers to repay. In case of execution of a loan to individual borrowers, registered money lenders are required to use credit information held by third-party information providers for the abovementioned investigation. Execution of a loan by *Rakuten Card* to an individual borrowers is generally not permitted, if after the execution of such loan, the aggregate amount of outstanding loans of the borrower (excluding the amount of loans contracts for funds necessary for building, or purchasing or improving residential housing) from all registered moneylenders will exceed one-third of the borrower's annual income, provided however that this restriction does not apply in certain cases, including execution of a loan for funds necessary for building, purchasing or improving residential housing.

Certain provisions of this Act also apply to certain loans held by *Rakuten Bank*, which *Rakuten Card* transferred to *Rakuten Bank* on April 1, 2009 in connection with the reorganization of our money lending business.

The Interest Rate Restriction Act

The Interest Rate Restriction Act (Act No. 100 of 1954, as amended) sets limits on the maximum interest rates permissible on loans. Any agreement providing for payment of interest at a rate exceeding the statutory limits is void with respect to the portion of any interest in excess of such limits. This Act also applies to our Internet banking business.

The Act on Prevention of Transfer of Criminal Proceeds

Under the Act on Prevention of Transfer of Criminal Proceeds (Act No. 22 of 2007, as amended), financial institutions and other entities such as credit card companies are required to perform customer identification procedure and keep records of customer identifications and transactions with customers as prescribed by a ministerial ordinance. This Act also requires to report to a competent authority if they suspect that any property accepted from a customer has been obtained illegally or the customer conducts certain criminal acts.

This Act also applies to our Internet banking business, online securities and commodity derivatives trading business, insurance business, fund transfer service business and cryptocurrency exchange service business.

Internet Banking Business

Our Internet banking business conducted by *Rakuten Bank* is subject to various laws and regulations including the following key laws and regulations:

The Banking Act

A bank must be licensed by the Prime Minister of Japan pursuant to the Banking Act (Act No. 59 of 1981, as amended) and is subject to regulation by the FSA under this Act, including the capital adequacy requirement that was adopted by the FSA based on the Basel III agreement and has been applied incrementally since March 31, 2014. The FSA has broad regulatory powers over banking businesses in Japan, including the authority to issue an order to suspend all or part of its business operations, and to request information and conduct onsite inspections of books and records. This Act also requires *Rakuten Bank* to maintain its financial credibility, and to secure protection for depositors in view of the public importance of banking services.

Under this Act, a person who intends to hold 20% (or 15%, if the person meets certain criteria raising a presumption that it will have a material effect on the financial and business policy decisions of the company) or more of the voting rights of a bank is required to obtain the advance approval of the Commissioner of the FSA for any acquisition. Further, the FSA may request the submission of reports or materials from, or may conduct inspections of, any shareholder who holds 20% (or 15%, in the circumstances outlined above) or more of the voting rights of a bank in certain circumstances, and may order such principal shareholder to take such measures as the FSA deems necessary under certain limited circumstances. Rakuten and *Rakuten Card* have received such approval.

The Financial Instruments and Exchange Act

Under the FIEA, registered financial institutions, or RFIs, such as *Rakuten Bank*, are required to provide customers with detailed disclosure regarding the financial products they offer, and take other measures to protect investors, including the delivery of explanatory documents to such customers prior to and upon the conclusion of transactional agreements. RFIs are subject to the supervision of the FSA. Some of the supervisory authority of the FSA is further delegated to the Securities and Exchange Surveillance Commission, or the SESC, which exercises its supervisory power over RFIs by conducting site inspections, and requesting information necessary for such inspections. Non-compliance or interference with such inspections may result in the RFI being subject to administrative sanctions or criminal penalties under the FIEA.

The Act on Sales, etc. of Financial Products

The Act on Sales, etc. of Financial Products (Act No. 101 of 2000, as amended) provides for measures to protect financial services customers, by requiring financial services providers, including *Rakuten Bank*, to explain adequately to customers certain material matters such as risks of losses incurred by customers, and the mechanisms of financial products causing losses; requiring financial service providers to ensure that their solicitation of customers to purchase financial products are made in a fair manner, taking into account the customer's knowledge, experience, financial condition, and purpose; and prohibiting financial services providers from providing deceptive or misleading information in respect of uncertain matters in connection with the sale of financial products. Further, this Act holds financial services providers liable for damages caused by a failure to follow these requirements. The amount of damages is refutably presumed by this Act to be the loss of principal.

This Act also applies to our online securities and commodity derivatives trading business, and insurance business.

Others

In addition to the foregoing, our Internet banking business is subject to the Interest Rate Restriction Act and the Act on Prevention of Transfer of Criminal Proceeds. For details, see "—Issuance of credit cards and money lending business—The Interest Rate Restriction Act" and "—Issuance of credit cards and money lending business—The Act on Prevention of Transfer of Criminal Proceeds." Moreover, the Bank of Japan also has supervisory authority over banks in Japan including *Rakuten Bank*, based primarily on its contractual agreements and transactions with the banks.

Online Securities and Commodity Derivatives Trading Business and Cryptocurrency Asset Margin Trading Business

Our online securities and commodity derivatives trading business conducted by Rakuten Securities and cryptocurrency asset margin trading business conducted by *Rakuten Wallet* are each subject to various laws and regulations including the following key laws and regulations:

The Financial Instruments and Exchange Act

The FIEA regulates most aspects of transactions and businesses that relate to financial instruments in Japan, including public offerings, private placements, and the secondary trading of securities; ongoing disclosure by securities issuers; tender offers for securities; the organization and operation of securities exchanges and self-regulatory associations; and the registration of financial instruments business operators, or FIBOs, such as *Rakuten Securities* and *Rakuten Wallet*. The Commissioner of the FSA has the authority to regulate financial instruments businesses. The SESC is vested with the authority to conduct day-to-day monitoring of the securities markets, and to investigate irregular activities that hinder the fair trading of securities, including the authority to inspect FIBOs. Furthermore, the Commissioner of the FSA delegates certain authority to the Directors General of Local Finance Bureaus, to inspect local FIBOs and branches. A violation of the applicable laws and regulations may result in various administrative sanctions, including the revocation of a registration or authorization, a suspension of business operations, or an order to discharge any director or audit and supervisory board member who has failed to comply with applicable laws and regulations. In addition, *Rakuten Securities* is subject to the rules and regulations of the Japanese stock exchanges, and *Rakuten Securities* and *Rakuten Wallet* are also subject to the rules and regulations of self-regulatory associations in which each company participates, including the Japan Securities Dealers Association, the Financial Futures Association of Japan, and Japan Virtual and Crypto Assets Exchange Association.

A Type I FIBO, as defined in the FIEA, such as *Rakuten Securities* and *Rakuten Wallet*, is required to maintain adjusted capital at specified levels, as compared with the quantified total of its business risks, on a non-consolidated basis. If a Type I FIBO's capital adequacy ratio falls below 120%, the Commissioner of the FSA may order it to take certain measures to rectify the situation. A Type I FIBO whose ratio falls below 100% may be subject to additional proceedings, including, in certain circumstances, the temporary suspension of its business, or the revocation of its registration as a Type I FIBO.

A shareholder who has acquired 20% (or 15%, if there are certain facts indicative of material influence over the decisions of the company in relation to its financial and operational policies) or more of the voting rights of a Type I FIBO, or a Type I FIBO Principal Shareholder, such as Rakuten and *Rakuten Card*, is required to submit a notification describing, among other things, the ownership of the shares and the purpose of the acquisition, to the Commissioner of the FSA. In addition, the FSA may request the submission of reports or materials from, or may conduct inspections of, any Type I FIBO Principal Shareholder. In limited circumstances, the FSA may also order a Type I FIBO Principal

Shareholder to take actions to resign from the position as a Type I FIBO Principal Shareholder, including requiring the disposition of such shares as are held by the Type I FIBO Principal Shareholder. A prompt filing with the FSA is also required when a person or entity ceases to be a Type I FIBO Principal Shareholder.

The Commodity Futures and Exchange Act

Our online commodity derivatives trading business conducted by *Rakuten Securities* is subject to, among other laws and regulations, the Commodity Futures and Exchange Act (Act No. 239 of 1950, as amended). This Act generally requires those who plan to provide commodity derivatives brokerage business to obtain a license from the relevant authorities for a commodity futures business operator. *Rakuten Securities* has obtained a license for a commodity futures business operator, and is supervised by METI and the Minister of Agriculture, Forestry and Fisheries of Japan. If a commodity futures business operator does not satisfy certain requirements under this Act, or its business operation is otherwise inappropriate or unreasonable, such commodity futures business operator may be subject to administrative or criminal sanctions.

Others

In addition to the foregoing, our online securities and commodity derivatives trading business is subject to the Act on Prevention of Transfer of Criminal Proceeds and the Act on Sales, etc. of Financial Products. For the details, please see "—Issuance of credit cards and money lending—The Act on Prevention of Transfer of Criminal Proceeds" and "—Internet banking business—The Act on Sales, etc. of Financial Products."

Insurance Business

Our insurance business, conducted by *Rakuten Life Insurance* and *Rakuten General Insurance*, is subject to certain laws and regulations including the following key laws and regulations:

The Insurance Business Act

Rakuten Life Insurance is engaged in the life insurance business, and has a license from the Prime Minister of Japan under the Insurance Business Act (Act No. 105 of 1995, as amended). *Rakuten General Insurance* is engaged in the general insurance business, and has a license from the Prime Minister of Japan under the Insurance Business Act. The FSA has broad regulatory powers over the insurance business of *Rakuten Life Insurance* and *Rakuten General Insurance*, including the authority to issue an order to suspend all or part of its business operations, to request information regarding its business or financial condition, and to conduct onsite inspections. *Rakuten Life Insurance* and *Rakuten General Insurance* generally must also receive FSA approval for the sale of new products, and to set new pricing terms. This Act requires an insurance company to maintain specified reserves. Solvency margin ratio is one of the indicators by which the FSA monitors financial soundness of insurance company. Insurance companies with solvency margin ratios of 200% or higher are generally considered sound and not requiring prompt corrective action.

Under this Act, a person who intends to hold 20% (or 15%, if the person meets certain criteria raising a presumption that it will have a material effect on the financial and business policy decisions of the company) or more of the voting rights of an insurance company is required to obtain the advance approval of the Commissioner of the FSA for any acquisition. Further, the FSA may request the submission of reports or materials from, or may conduct onsite inspections of, any shareholder who holds 20% (or 15%, in the circumstances outlined above) or more of the voting rights of an insurance company in certain circumstances, and may order such principal shareholder to take such measures as the FSA deems necessary under certain limited circumstances. Rakuten and *Rakuten Card* have received such approval.

Others

In addition to the foregoing, our insurance business is subject to the Act on Prevention of Transfer of Criminal Proceeds and the Act on Sales, etc. of Financial Products. For the details, please see "—Issuance of credit cards and money lending—The Act on Prevention of Transfer of Criminal Proceeds" and "—Internet banking business—The Act on Sales, etc. of Financial Products."

Payments Business and Cryptocurrency Exchange Service Business

As part of our payments business, our prepaid payment instruments business, which supplies prepaid e-money, conducted by *Rakuten Bank*, *Rakuten Edy* and *Rakuten Card*, the fund transfer service business conducted by *Rakuten Edy*, and our cryptocurrency exchange service conducted by *Rakuten Wallet*, are subject to the following laws and regulations:

The Payment Services Act

The Payment Services Act regulates prepaid payment instruments such as prepaid cards and e-money that we sell in Japan. Because we issue such prepaid instruments, we must comply with certain requirements, including an obligation to deposit or enter into certain guarantee contracts for at least 50% of the total amount of the unused amounts represented by the instruments issued as of the end of either the first or third quarter of any year, if such total amount is more than ¥10 million; an obligation to refund any remaining amount of money if we stop selling prepaid cards or e-money, and general restrictions on refunds in other situations; and an obligation to secure any private information obtained in connection with our prepaid cards. We may be subject to administrative or criminal sanctions if we fail to fulfill such obligations. We must also register with the FSA if our prepaid payment instruments can be used to purchase goods or services that are offered not only by ourselves or other closely related parties, including our affiliates, but also by third parties. We issue such instruments, and Rakuten, *Rakuten Bank*, *Rakuten Edy* and *Rakuten Card* are registered with the FSA. The FSA is authorized to issue a business improvement order or business suspension order, or cancel our registration, if we fail to comply with such regulations.

The fund transfer service business conducted by *Rakuten Edy* is also subject to, among other laws and regulations, this Act. *Rakuten Edy* is registered with the FSA as a fund transfer operator and is supervised by the FSA. We must also comply with certain other requirements, including an obligation to deposit or enter into certain credit guarantee or trust agreements for amounts greater than ¥10 million or the full amount of our outstanding obligations as a service provider payable to transferees in Japan, plus the costs associated with the exercise of their rights as creditors of our fund transfer service. The FSA is authorized to issue a business improvement order or business suspension order or cancel *Rakuten Edy*'s registration if *Rakuten Edy* fails to comply with such regulations.

The cryptocurrency exchange service business conducted by *Rakuten Wallet* is also subject to this Act. *Rakuten Wallet* is registered with the FSA as a cryptocurrency exchange service provider. The FSA is authorized to issue a business improvement order or business suspension order, or cancel *Rakuten Wallet*'s registration, if *Rakuten Wallet* fails to comply with such regulations.

Others

In addition to the foregoing, our fund transfer service business is subject to the Act on Prevention of Transfer of Criminal Proceeds. For the details, please see "—Issuance of credit cards and money lending business—The Act on Prevention of Transfer of Criminal Proceeds."

Mobile Segment

Telecommunications Business Act of Japan

General

The Telecommunications Business Act of Japan (Act No. 86 of 1984, as amended) (the "TBA") applies to entities that conduct telecommunications activities such as mobile telecommunications services, fixed-line telecommunications services, DSL access services, internet and FTTH access services. Pursuant to the TBA, companies that conduct such activities are subject to registration and notification requirements, interconnection requirements, as well as various other regulations.

The following summarizes certain material requirements under the TBA:

Notification or registration of telecommunications business operations

A carrier that installs cable facilities across more than one administrative region, such as terminal facilities installed in multiple municipalities, or relay facilities installed in multiple prefectures (a "Registration Carrier"), is required to register with the Minister for Internal Affairs and Communication (the "Minister for MIC") prior to providing telecommunications services. A carrier that does not install terminal and/or relay facilities in multiple administrative regions is only required to notify the Minister for MIC prior to providing telecommunications services.

Registration Carriers, including Rakuten Mobile, Inc., must file a detailed application for registration with the Minister for MIC. Such application must include information on the facilities and equipment, and the target service areas. The Minister for MIC will generally approve the applicant's registration if the Minister for MIC finds that commencement of the applicant's business is not likely to impede fair competition within the telecommunications market or is otherwise appropriate for the sound development of the telecommunications industry of Japan.

Once registration is granted, the Minister for MIC has the authority to rescind a registration in certain cases, including, among others, where the Registered Carrier has breached the TBA or any order or disposition issued under the TBA, and the Minister for MIC considers such breach damaging to the public interest. If a telecommunications carrier violates certain provisions under the TBA, such as by providing telecommunications services without necessary registration or notification or by failing to comply with orders issued by the Minister for MIC, such carrier may be subject to penalty. In addition, the registration must be renewed when telecommunication facilities of a Registration Carrier are newly designated, based on the number of relay facilities installed in service areas and certain other criteria for local fixed-line systems, as Category I-designated telecommunications facilities or, for mobile telecommunications systems, as Category II-designated telecommunications facilities (excluding the cases where any other telecommunication facilities of the Registration Carrier have already received the same designation). Such renewal must be made within three months of the date of such designation, and if the Registration Carrier fails to renew, the registration becomes void.

Interconnection

Subject to certain exceptions, the TBA requires telecommunications carriers to allow other telecommunications carriers to interconnect with their telecommunications facilities. If operators of Category I-designated telecommunications facilities or Category II-designated telecommunications facilities enter into an agreement with other telecommunications carriers to interconnect with their telecommunications facilities, such agreement must contain the terms of interconnection, including interconnection fees and conditions of interconnection, which have been notified to or approved by the Minister for MIC.

Upon an application by a carrier or both carriers, the Minister for MIC has the power, directly or through its dispute settlement commission, to require negotiation, mediation and arbitration of disputes between telecommunications carriers, to order telecommunications carriers to modify the proposed terms of interconnection.

Universal services

Under the TBA, certain types of calls—calls to public facilities, calls to home telephones and emergency calls to police or fire stations—are considered “Universal Services” (i.e., telecommunications services deemed to be indispensable for daily life). As of the date hereof, the only “qualified carriers” that shall provide Universal Services are NTT East and NTT West. Other carriers that enjoy benefit by interconnecting to the qualified carriers and satisfy certain requirements must share the cost of such services pursuant to a prescribed formula for allocating costs.

Land use privilege

The Minister for MIC may designate a certain carrier as “Approved Carrier”—a carrier who enjoys certain privileges specified in the TBA, such as the ability to obtain rights-of-way to use other parties’ land under certain specified circumstances. Rakuten Mobile, Inc. is an Approved Carrier.

In order to become an Approved Carrier, the carrier must submit a detailed application to the Minister for MIC describing matters such as target service areas, planned facilities and equipment, its business plan (containing five-year revenue and expenditure projections), and the identity and qualifications of chief engineers. Review by the Minister for MIC focuses on the applicant’s financial and technical capacity and the soundness and reasonableness of its business plan.

This approval is in addition to those required as a registration carrier or a notification carrier, as discussed above.

An Approved Carrier may not refuse to provide telecommunications services relating to its Approved Carrier status without justifiable reason. If the Approved Carrier refuses to provide such services without justifiable reason, the Minister for MIC may order the Approved Carrier to improve its business activities or take other measures to the extent deemed necessary to protect the interests of end users or the public. Further, the Minister for MIC has the authority to rescind the approval in certain cases, including, among others, where the Approved Carrier has breached the TBA or any order or disposition issued under the TBA, and the Minister for MIC considers such breach damaging to the public interest.

Other regulations under the TBA

Protection of end users

The TBA requires telecommunications carriers to explain to end users the terms and conditions (including service charges) of a contract relating to certain telecommunications services prior to execution thereof, to promptly and properly process any customer complaints or inquiries, and to generally notify end users before ceasing or terminating all or part of telecommunications services. The “Guidelines Regarding Protection Rules for Consumers of Telecommunication Business Act,” issued by the MIC contain detailed explanations of the above requirements and other consumer protection guidelines, such as the requirement that in soliciting or entering into a telecommunications service contract with an end user, the operator must provide sufficient explanation of such contract to the end user, taking into consideration such end user’s knowledge and experiences relating to telecommunications services.

On October 1, 2019, the revised TBA became effective to promote competition in the mobile phone market. The revision of TBA included the provisions to ensure the complete separation of usage fees and the purchase price of mobile phones and to correct excessive customer lock-ups by restraint periods.

Business improvement order

The Minister for MIC may order telecommunications carriers to improve business activities in order to protect the interests of end users or the public. In particular, the Minister for MIC may order telecommunications carriers to improve business activities for reasons such as protecting the privacy of communications, avoiding discriminatory treatment, and giving due consideration to important communications.

Maintenance of facilities

Telecommunications carriers that install telecommunications circuit facilities must maintain their facilities in compliance with specified technical standards and must confirm compliance with such standards and notify to the Minister for MIC before commencing operation of such facilities. If the Minister for MIC determines that such facilities fail to meet the relevant technical standards, the Minister for MIC may order the carrier to improve or repair the facilities or restrict operation of such facilities.

Radio Act of Japan

General

The Radio Act of Japan (Act No. 131 of 1950, as amended) (the "Radio Act") regulates licenses for radio transmission stations, radio equipment, radio operators, radio operations and the transmission of radio waves. The Radio Act impacts our mobile telecommunications business, due to the fact that radio waves are used by transmitters to communicate with mobile phones.

License requirement

Any person who intends to establish radio transmission stations must first obtain a license from the Minister for MIC. In particular, mobile telecommunications service providers must obtain a license for each base station and for mobile phones.

The Minister for MIC has introduced a technical standards verification system and a blanket licensing system (which can be used for mobile phones) in order to expedite the licensing process. With certain exceptions, a license under the Radio Act has a term of five years, and is thereafter renewable for additional five-year terms pursuant to the Radio Act. A license holder must generally obtain approval of the Minister for MIC in advance of any operational changes relating to the licensed activities, such as modifications to wireless facilities, changes to the location of wireless facilities or changes to the recipients of wireless communications services, and is subject to periodic inspection of its facilities.

The Minister for MIC has the authority to rescind a license under certain circumstances, and may order cessation for not more than three months, or restriction for a certain period, on the operation of radio stations if the license holder has breached the Radio Act or the Broadcasting Act of Japan (Act No. 132 of 1950, as amended) or any order or disposition under such laws. If a license-holder violates certain provisions under the Radio Act, such as operating a radio transmission station in violation of the terms of its license, such carrier may be subject to penalties.

Allocation of radio frequency spectrum

Use of radio frequency spectrum in Japan is allocated at the discretion of the Minister for MIC after consultation with the Radio Regulatory Council and consideration of plans submitted by operators.

The Radio Act gives the Minister for MIC the authority to allocate frequency spectrum to private telecommunications providers for the establishment of radio transmission stations. When the Minister for MIC determines that it will allocate frequency spectrum, it must publicly announce the frequency spectrum ranges to be allocated, the planned timeline for allocation and establishment of radio transmission stations, and other matters (the "Allocation Proposal").

The Minister for MIC first submits a draft of the Allocation Proposal to the Radio Regulatory Council for approval. Once the council gives its response, the Minister for MIC publicly announces the Allocation Proposal, together with details of the application deadlines for carriers.

Any application submitted to the Minister for MIC in connection with an Allocation Proposal must contain, among other matters, evidence of the necessity of establishing radio transmission stations, purposes, a technique for utilization of the applicable frequency spectrum, the proposed number of radio transmission stations and their proposed locations, the timeframe for establishing stations and the service area.

Protection of personal information and other data

In addition to specific regulations described above, appropriate protection of personal information is key for all of our business segments. The Act on the Protection of Personal Information (Act No. 57 of 2003, as amended) generally governs the protection of personal information in Japan. This Act provides a comprehensive set of personal information protection, which contains provisions imposing obligations on certain business operators, including us, that utilize or maintain databases containing personal information. Pursuant to this Act, such business operators are required to (i) specify the purpose of the use of the personal information, (ii) refrain from using the personal information beyond such purpose, except in cases permitted under this Act, (iii) refrain from disclosing the personal information to a third party without obtaining the prior consent of the person to whom such information relates, except in cases permitted under this Act, and (iv) take necessary and appropriate measures to securely manage and prevent leakage, damage, and loss of the personal information. Under a promulgated amendment to the act, which will enter into effect by June 12, 2022, business operators will, among other prohibitions, be prohibited from disclosing individual-related information (*kojin-kanren-jouho*), including certain types of cookies, to any third parties who can identify such information as personal information, without confirming the prior consent of the person to be identified by such disclosure.

Further, the Personal Information Protection Commission ("PPC") and governmental authorities, such as the FSA and MIC publish guidelines for personal information protection, and each entity handling personal information is subject to the guidelines that apply to it. For example, certain businesses in our FinTech segment are required to handle personal information in accordance with the "Guidelines on Personal Information Protection in the Financial Industry" published by the FSA. Noncompliance with an order issued by the PPC to take necessary measures to comply with this Act will subject to administrative or criminal sanctions. In addition, the MIC published "Guidelines Regarding Protection of Personal Information for Telecommunication Business" for the protection of personal information acquired by telecommunications carriers. It allows telecommunications carriers to maintain records of communications to the extent necessary for billing, invoicing, the processing of customer complaints, avoiding wrongful use or to the extent otherwise necessary in the performance of their telecommunications business.

Additionally, on August 29, 2019, the Japan Fair Trade Commission published "Draft Guidelines Concerning Abuse of a Superior Bargaining Position in Transactions between Digital Platform Operators and Consumers that Provide Personal Information," which states types of abuses of a superior bargaining position by a digital platform operator acquiring personal information and other data from consumers.

DESCRIPTION OF THE NOTES

The following description of the notes is a summary of the detailed provisions of the notes and the Indenture (as defined below). It does not purport to be complete. This summary is subject to and is qualified in its entirety by reference to all the provisions of the notes and the Indenture, including the definitions of certain terms used therein. We urge you to read those documents in their entirety prior to making an investment decision because they, and not this description, define the rights of holders of the notes. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. You may request copies of those documents upon written request from the Trustee, Citicorp International Limited, located at 20/F, Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong. The Indenture is not required to be nor will it be qualified under and will not be subject to the U.S. Trust Indenture Act of 1939, as amended.

We will issue €1,000,000,000 aggregate principal amount of 4.250% Undated Subordinated NC6 Fixed Rate Reset Notes (the “notes”) pursuant to an indenture to be dated on or around April 22, 2021 (the “Indenture”) between us and Citicorp International Limited as trustee (the “Trustee”).

Form and Denomination

The notes will be issued only in fully registered form without interest coupons. We will issue the notes in minimum denominations of €200,000 and integral multiples of €1,000 in excess thereof. The notes will be represented by one or more registered notes in global form without coupons and in certain circumstances may be represented by registered notes in definitive form.

The notes have not been and will not be registered with the U.S. Securities and Exchange Commission (the “SEC”), and are being offered and sold by the initial purchasers or their affiliates (i) outside the United States in offshore transactions only to non-U.S. persons in reliance on Regulation S and (ii) to “qualified institutional buyers” in reliance on Rule 144A.

Status and Subordination of the Notes

The notes will be our direct, unsecured and subordinated obligations and will rank *pari passu* and without any preference among themselves. The rights and claims of the holders are subordinated as described in “—Subordination.”

Subordination

General

Upon the occurrence of a Subordination Event, our obligations pursuant to the notes will be subordinated in right of payment (except as otherwise provided by mandatory provisions of law) to all Senior Obligations, rank substantially *pari passu* with all Parity Obligations and rank senior to all Junior Obligations. So long as such Subordination Event continues, no such payment will be made with respect to such note unless and until the relevant Subordinate Payment Conditions have been satisfied, and to the extent any Senior Preference Shares are then outstanding, the holder of such note will only become entitled to the Subordination Claim Amount. We will, as soon as practicable after the occurrence of any Subordination Event, cause notice of its occurrence to be given to the Trustee, the Paying Agent, any stock exchange on which the notes are for the time being listed or admitted to trading and the holders.

No amendment or modification to the subordination provisions contained in the Indenture that is prejudicial to any creditor in respect of any of our present or future Senior Obligations shall be made in any respect. No such amendment or modification shall in any event be effective against any such creditor.

Nothing contained under "—Subordination—General" will affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the Agents or the rights and remedies of the Trustee or the Agents in respect thereof.

Accordingly, and without prejudice to the rights of the Trustee or the Agents, the claims of holders of all Senior Obligations will first have to be satisfied in any winding-up or administration before the holders may expect to obtain any recovery in respect of their notes and prior thereto holders will have only limited ability to influence the conduct of such winding-up or administration. See "Risk Factors—Risks Relating to the Notes—Our obligations under the notes are subordinated, and will be terminated completely upon the occurrence of a Claim Rights Termination Event."

Set-off

Subject to applicable law, no holder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by us in respect of, or arising under or in connection with the notes and each holder will, by virtue of his holding of any note, be deemed to have waived all such rights of set-off, compensation or retention.

Interest Payments

Interest Rate

The notes will bear interest on their principal amount at the applicable Interest Rate from (and including) April 22, 2021 (the "Issue Date") as described below.

Accrual of Interest

The notes will cease to bear interest from (and including) the date of redemption thereof as provided under "—Maturity and Redemption," unless, upon due presentation, payment of all amounts due in respect of the notes is not made, in which event interest will continue to accrue in respect of unpaid amounts on the notes, both before and after judgment, and will be payable, as provided herein up to (but excluding) the Relevant Date.

Interest on the notes will be computed on the basis of the actual number of days in the period for which interest is being calculated and the number of days from and including the last date on which interest was paid on the notes to, but excluding, the next Interest Payment Date.

Where it is necessary to calculate an amount of interest in respect of any note for a period of more than one Interest Period, such interest will be the aggregate of the interest payable in respect of a full Interest Period plus the interest payable in respect of the remaining period calculated in the manner above.

Interest in respect of any note will be calculated per €1,000 in principal amount thereof (the "Calculation Amount"). The amount of interest payable per Calculation Amount for any period will be equal to the product of the relevant Interest Rate, the Calculation Amount and the day count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards). The amount of interest payable in respect of each note will be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the denomination of such note without any further rounding.

Initial Interest Rate

For each Interest Period ending on or before the First Reset Date, the notes will bear interest at the rate of 4.250 percent per annum. Interest will be payable annually in arrears on the Interest Payment Date in each year.

Reset Interest Rate

For each Interest Period which commences on or after the First Reset Date, the notes will bear interest at the relevant Reset Interest Rate. Such interest rate will be calculated as follows:

Reset Interest Rate = *5 Year Swap Rate* + *Margin*

as determined by the Calculation Agent and where:

"5 Year Swap Rate" means the mid-swap rate as displayed on Reuter's page "ICESWAP2" as at 11:00 a.m. (Central European time) (the "Reset Screen Page") on the day falling two business days prior to the first day of the relevant Reset Period (a "Reset Interest Determination Date");

If the 5 Year Swap Rate does not appear on the Reset Screen Page on the Reset Interest Determination Date, the 5 Year Swap Rate will be the Reset Reference Bank Rate on such Reset Interest Determination Date;

"Reset Reference Bank Rate" means the percentage rate determined on the basis of the 5 Year Swap Rate Quotations provided by five leading swap dealers in the interbank market (the "Reset Reference Banks"), selected and appointed by us, to the Calculation Agent at approximately 11:00 a.m. (Central European time) on such Reset Interest Determination Date. If at least three quotations are provided, the 5 year Swap Rate will be the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest);

The "5 Year Swap Rate Quotations" means, in respect of each Interest Period falling within a Reset Period, the arithmetic mean of the bid and offered rates for the semi-annual fixed leg (calculated on a 30/360 day count basis) of a fixed-for-floating euro interest rate swap which (i) has a term of 5 years commencing on the relevant Reset Interest Determination Date, (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market, and (iii) has a floating leg based on the 6-month EURIBOR rate (calculated on an Actual/360 day count basis);

"Margin" means (i) in respect of each Reset Period which falls in the period beginning on the First Reset Date and ending on (but excluding) the Second Step-up Date, the Initial Credit Spread plus the First Step-up Margin; and (ii) each Reset Period which falls in the period commencing on (and including) Second Step-up Date, the Initial Credit Spread plus the Second Step-up Margin;

"Second Step-up Date" means April 22, 2047 (for the avoidance of doubt, date to be 20 years after the First Reset Date for the notes);

"Initial Credit Spread" means 4.490 percent;

"First Step-up Margin" means 0.25 percent; and

"Second Step-up Margin" means 1.0 percent.

The applicable Reset Interest Rate will be determined as provided above in respect of each Reset Period and, as so determined, such rate will apply to each Interest Period falling within that Reset Period.

The Calculation Agent will not be responsible to us or to any third party as a result of the Calculation Agent having relied upon or acted on any quotation or information given to it for the purposes of calculating the Reset Interest Rates or the Reset Reference Bank Rate which subsequently may be found to be incorrect or inaccurate in any way or for any losses whatsoever resulting from acting in accordance therewith.

Benchmark Replacement

Any other provisions under "—Reset Interest Rate" notwithstanding, if we determine that a Benchmark Event has occurred in relation to any Original Reference Rate when any Interest Rate (or any component part thereof) remains to be determined by reference to such Original Reference Rate, then the following provisions will apply:

(i) We will use reasonable best efforts to appoint, as soon as reasonably practicable, an Independent Adviser to determine (acting in good faith and in a commercially reasonable manner), no later than three business days prior to the relevant Reset Interest Determination Date relating to the next succeeding Reset Period (the "IA Determination Cut-off Date"), a Successor Rate, or alternatively, if there is no Successor Rate, an Alternative Reference Rate and, in either case, an Adjustment Spread and any Benchmark Amendments for purposes of determining the Original Reference Rate.

(ii) If (A) we fail to appoint an Independent Adviser pursuant to paragraph (i) above, or (B) the Independent Adviser appointed by us fails to determine a Successor Rate or, failing which, an Alternative Reference Rate prior to the IA Determination Cut-off Date, we (acting in good faith and in a commercially reasonable manner) may determine a Successor Rate or, if there is no Successor Rate, an Alternative Reference Rate.

(iii) If a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) and, in each case, an Adjustment Spread, is determined in accordance with the preceding provisions, such Successor Rate or, failing which, an Alternative Reference Rate (as applicable) and, in each case, any Adjustment Spread, shall be the Original Reference Rate for each of the future Interest Periods (subject to the subsequent operation of, and to adjustment as provided in, "—Benchmark Replacement"); provided, however, that if sub-paragraph (ii) above applies and we are unable to or do not determine a Successor Rate or an Alternative Reference Rate, prior to the relevant Reset Interest Determination Date, the Original Reference Rate applicable to the next succeeding Reset Period will be equal to the Original Reference Rate applicable to the then-current Reset Period. If there has not been a First Reset Date, the interest rate shall be 4.250 percent; for the avoidance of doubt, the proviso in this sub-paragraph (iii) shall apply to the relevant Reset Period only and any subsequent Reset Periods are subject to the subsequent operation of, and to adjustment as provided in, "—Benchmark Replacement."

(iv) if the Independent Adviser or we, as applicable, determine a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) and, in each case, an Adjustment Spread, in accordance with the above provisions, the Independent Adviser or we (as applicable) may also specify changes to the terms of the notes and the Indenture, including but not limited to the applicable day count convention, the definitions of "Reset Screen Page," "business day," "Reset Interest Determination Date," and/or "5 Year Swap Rate" and the method for determining the fallback rate in relation to the notes, in order to follow market practice in relation to the Successor Rate or the Alternative Reference Rate (as applicable).

(v) If a Successor Rate or Alternative Reference Rate (as applicable) is determined in accordance with "—Benchmark Replacement," the Independent Adviser (in consultation with the us) or we (as applicable) will determine an Adjustment Spread (which may be expressed as a specified quantum or a formula or methodology for determining the applicable Adjustment Spread). The Adjustment Spread will apply to the Successor Rate or the Alternative Reference Rate (as applicable), subject to any further operation and adjustment as provided under "—Benchmark Replacement."

(vi) For the avoidance of doubt, the Trustee will, at our written direction and expense, effect such consequential amendments to the Indenture and the terms of the notes as may be required in order to ensure the proper operation of such Successor Rate, Alternative Reference Rate (as applicable) and/or Adjustment Spread and to give effect to "—Benchmark Replacement" (such amendments, the "Benchmark Amendments"). Consent of the holders of the notes shall not be required in connection with effecting the Successor Rate, Alternative Reference Rate (as applicable) or Adjustment Spread or such other changes set out in "—Benchmark Replacement," including for the execution of any documents or other steps by the Trustee (if required).

(vii) We will promptly, following the determination of any Successor Rate or Alternative Reference Rate (as applicable) and, in each case, an Adjustment Spread, give notice thereof to the Trustee, the Calculation Agent, the Paying Agent and the holders, which will specify the effective date(s) for such Successor Rate or Alternative Reference Rate (as applicable) and any consequential changes made to the terms of the Indenture or the notes.

(viii) No later than notifying the Trustee of the same, we will deliver to the Trustee and the Calculation Agent an officer's certificate:

(A) confirming (x) that a Benchmark Event has occurred, (y) the relevant Successor Rate, or, as the case may be, the relevant Alternative Reference Rate and, (z) in each case, the relevant Adjustment Spread and/or the specific terms of any relevant Benchmark Amendments, in each case as determined in accordance with the provisions of "—Benchmark Replacement,"; and

(B) certifying that the relevant Benchmark Amendments are necessary to ensure the proper operation of such relevant Successor Rate or Alternative Reference Rate and Adjustment Spread.

(ix) The Successor Rate or Alternative Reference Rate (as applicable) and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of such Successor Rate or Alternative Reference Rate (as applicable) and such Adjustment Spread and such Benchmark Amendments (if any)) be binding on us, the Trustee, the Calculation Agent, the Paying Agent and the holders.

(x) Notwithstanding any other provision of this "—Benchmark Replacement," no Successor Rate or Alternative Rate (as applicable) will be adopted, nor will the applicable Adjustment Spread be applied, nor will any Benchmark Amendments be made, if and to the extent that, in our determination, the same could reasonably be expected to cause a Rating Methodology Event to occur.

Determination of Reset Interest Rate

The Calculation Agent will, as soon as practicable after 11.00 a.m. (Central European time) on each Reset Interest Determination Date, determine the relevant Reset Interest Rate in respect of each Interest Period falling within the relevant Reset Period.

Publication of Reset Interest Rate

The Calculation Agent will cause notice of each Reset Interest Rate determined in respect of each relevant Interest Period to be given to the Trustee, the Paying Agent and us, and we will cause notice to be given to the holders and any stock exchange on which the notes are for the time being listed or admitted to trading and the holders, in each case as soon as practicable after its determination but in any event not later than the fourth business day thereafter.

Calculation Agent

The initial Calculation Agent will be Citibank, N.A., London Branch, a banking corporation organized and existing under the laws of the State of New York with limited liability, with its initial specified office located at c/o Citibank, N.A., Dublin Branch, 1 North Wall Quay, Dublin 1, Ireland.

We may, from time to time replace the Calculation Agent with another leading financial institution in London. If the Calculation Agent is unable or unwilling to continue to act as the Calculation Agent or fails duly to determine the relevant Reset Interest Rate in respect of any Reset Period as provided in "—Reset Interest Rate," we will promptly appoint another leading financial institution in London to act as such in its place. The Calculation Agent may not resign its duties or be removed without such successor having been appointed.

Determinations of Calculation Agent Binding

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the calculation of interest payments by the Calculation Agent will (in the absence of willful misconduct, manifest error or gross negligence) be binding on us, the Calculation Agent, the Trustee, the Paying Agent and all holders and (in the absence of willful misconduct, manifest error or gross negligence) no liability to the holders or us will attach to the Calculation Agent in connection with the exercise or non-exercise by it of any of its powers, duties and discretions.

Optional Interest Deferral

Deferral of Interest Payments

We may, subject to provisions set forth under "—Optional Settlement of Arrears of Interest" and "—Mandatory Settlement of Arrears of Interest" below, elect in our sole discretion to defer (in whole or in part) any interest payment that is otherwise scheduled to be paid on an Interest Payment Date by giving notice (a "Deferral Notice") of such election to the holders, the Trustee, the Calculation Agent and the Paying Agent not more than 30 business days and not less than 5 business days prior to the relevant Interest Payment Date. Any interest payment that we have elected to defer hereby and that has not been satisfied is referred to as a "Deferred Interest Payment."

If any interest payment is deferred hereby, then such Deferred Interest Payment will itself bear interest (such further interest together with the Deferred Interest Payment, "Arrears of Interest"), at the relevant Interest Rate applicable from time to time, from (and including) the date on which (but for such deferral) the Deferred Interest Payment would otherwise have been due to be made to (but excluding) the date on which such Deferred Interest Payment is paid in accordance with "—Optional Settlement of Arrears of Interest" or "—Mandatory Settlement of Arrears of Interest" (as applicable), in each case such further interest being compounded on each Interest Payment Date.

Non-payment of interest deferred pursuant to this section will not constitute a default by us under the notes or the Indenture or for any other purpose.

Optional Settlement of Arrears of Interest

Arrears of Interest may be satisfied at our option, in whole or in part, at any given time (the "Optional Deferred Interest Settlement Date") following delivery of a notice to such effect given by us to the holders, the Trustee, the Calculation Agent and the Paying Agent not more than 30 business days and no less than 5 business days prior to the relevant Optional Deferred Interest Settlement Date informing them of our election so to satisfy such Arrears of Interest (or part thereof) and specifying the relevant Optional Deferred Interest Settlement Date.

Mandatory Settlement of Arrears of Interest

Notwithstanding the provisions of "—Optional Settlement of Arrears of Interest," we will pay any outstanding Arrears of Interest in whole, but not in part, on the first occurring Mandatory Settlement Date following the Interest Payment Date on which any outstanding Deferred Interest Payment was first deferred.

Notice of the occurrence of any Mandatory Settlement Date will be given to the holders, the Trustee and the Paying Agent not more than 30 business days and no less than 5 business days prior to the relevant Mandatory Settlement Date.

Maturity and Redemption

No Maturity Date

The notes are perpetual securities in respect of which there is no fixed maturity date. We will only have the right to repay the notes as described in the following provisions of this section.

Optional Redemption

We may, by giving not fewer than 30 nor more than 60 days' notice to the holders (which notice will be irrevocable), the Trustee and the Paying Agent, redeem the notes in whole, but not in part, on the First Reset Date or any Interest Payment Date thereafter at their principal amount together with premium, if any, any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest.

Redemption for Certain Taxation Reasons

If, immediately prior to the giving of the notice referred to below, a Tax Deduction Event or a Withholding Tax Event has occurred and is continuing, then we may, subject to having given not fewer than 30 nor more than 60 days' notice to the holders (which notice will be irrevocable), the Trustee and the Paying Agent and subject to "—Preconditions to Special Event Redemption," redeem as described herein, the notes in whole, but not in part, at any time at (i) 101 percent of their principal amount (in the case of a Tax Deduction Event where such redemption occurs prior to the First Reset Date) or (ii) 100 percent of their principal amount (in the case of a Tax Deduction Event where such redemption occurs on or after the First Reset Date or in the case of a Withholding Tax Event where such redemption occurs at any time), together, in each case, with premium, if any, any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. The due date for redemption of which notice hereunder may be given will be no earlier than the latest practicable date prior to the date on which the relevant Tax Law Change giving rise to the Withholding Tax Event or Tax Deduction Event comes into effect.

Redemption for Rating Reasons

If, immediately prior to the giving of the notice referred to below, a Rating Methodology Event has occurred and is continuing, then we may, subject to having given not fewer than 30 nor more than 60 days' notice to the holders (which notice will be irrevocable), the Trustee and the Paying Agent and subject to "—Preconditions to Special Event Redemption," redeem as described herein the notes in whole, but not in part, at any time at (i) 101 percent of their principal amount (where such redemption occurs prior to the First Reset Date) or (ii) 100 percent of their principal amount (where such redemption occurs on or after the First Reset Date), together, in each case, with premium, if any, any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. The due date for redemption of which notice hereunder may be given will be no earlier than the last day before the date on which the notes will no longer be eligible for the same, or a higher amount of, "equity credit" (or such other nomenclature that the relevant Rating Agency may then use to describe the degree to which an instrument exhibits the characteristics of an ordinary share).

Redemption for Accounting Reasons

If, immediately prior to the giving of the notice referred to below, an Accounting Event has occurred and is continuing, then we may, subject to having given not fewer than 30 nor more than 60 days' notice to the holders (which notice will be irrevocable), the Trustee and the Paying Agent and subject to "—Preconditions to Special Event Redemption," redeem as described herein the notes in whole, but not in part, at any time at (i) 101 percent of their principal amount (where such redemption occurs prior to the First Reset Date) or (ii) 100 percent of their principal amount (where such redemption occurs on or after the First Reset Date), together, in each case, with premium, if any, any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. The due date for redemption of which notice hereunder may be given will be no earlier than the last day before the date on which our obligations under the notes must not or may no longer be recorded as "equity" in our audited annual consolidated financial statements prepared in accordance with IFRS or any other accounting standards that we may duly adopt in the future for the preparation of our audited annual consolidated financial statements in accordance with the law of Japan.

Redemption for Substantial Repurchase

If, immediately prior to the giving of the notice referred to below, a Substantial Repurchase Event has occurred, then we may, subject to having given not fewer than 30 nor more than 60 days' notice to the Holders (which notice will be irrevocable), the Trustee and the Paying Agent and subject to "—Preconditions to Special Event Redemption," redeem as described herein the notes in whole, but not in part, at any time at (i) 101 percent of their principal amount (where such redemption occurs prior to the First Reset Date) or (ii) 100 percent of their principal amount (where such redemption occurs on or after the First Reset Date), together, in each case, with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest.

Optional Redemption at the Make-Whole Redemption Amount

On any date after April 22, 2026 but prior to the First Reset Date, we may, by giving not less than 15 nor more than 60 days' notice to the holders (which notice shall be irrevocable and shall specify the date fixed for redemption (the "Make-whole Redemption Date")), the Trustee and the Paying Agent redeem the notes in whole, but not in part, at the Make-whole Redemption Amount. Neither the Trustee nor the Paying Agent shall be responsible for calculating or verifying the Make-whole Redemption Amount.

Preconditions to Special Event Redemption

Prior to the dissemination of any notice of redemption (other than redemption at our option as described under "—Optional Redemption" or "—Optional Redemption at the Make-Whole Redemption Amount") we will deliver to the Trustee an officer's certificate stating that the relevant requirement or circumstance giving rise to the right to redeem is satisfied, and where the relevant Special Event, if applicable, requires measures reasonably available to us to be taken, the relevant Special Event cannot be avoided by our taking such measures. Prior to the publication of any notice of redemption for the events described under "—Redemption for Certain Taxation Reasons", "—Redemption for Ratings Reasons" or "—Redemption for Accounting Reasons," we will also deliver to the Trustee:

(a) in the case of a Tax Deduction Event, an opinion of independent legal advisors of recognized standing to the effect that, as a result of the relevant Tax Law Change, (i) in respect of our obligation to make any interest payment on the next following Interest Payment Date, we would not be entitled to claim a deduction in respect of computing our taxation liabilities in Japan, or such entitlement is reduced compared to such entitlement as at the Issue Date or (ii) in respect of our obligation to make any interest payment on the next following Interest Payment Date, we would not be entitled to have such deduction set against the profits of companies with which we are grouped for applicable Japanese tax purposes;

(b) in the case of a Withholding Tax Event, an opinion of independent legal advisors of recognized standing to the effect that we have or will become obliged to pay Additional Amounts (as defined herein) on the notes as a result of the relevant Tax Law Change;

(c) in the case of a Ratings Methodology Event, a copy of the relevant confirmation from or publication by the relevant Rating Agency;

(d) in the case of an Accounting Event, an opinion of our statutory independent auditors at the time, or of other independent accountants of recognized standing, to the effect that our obligations under the notes must not or may no longer, as a result of a change in accounting principles which becomes effective on or after the Issue Date, be recorded as "equity" in our audited annual consolidated financial statements prepared in accordance with IFRS or any other accounting standards that we may duly adopt in the future for the preparation of our audited annual consolidated financial statements in accordance with the law of Japan; and

The Trustee may rely conclusively upon and will be entitled to accept such officer's certificates and, where relevant, opinion without any liability to any person for so doing and without any further inquiry as sufficient evidence of the satisfaction of the conditions precedent set out in such paragraphs in which event it will be conclusive and binding on the holders.

The Trustee is under no obligation to ascertain whether any Special Event or any event which could lead to the occurrence of, or could constitute, any such Special Event has occurred and, until it receives express written notice pursuant to the Indenture to the contrary, the Trustee may assume that no such Special Event or such other event has occurred.

Arrears of Interest and Accrued and Unpaid Interest

For the avoidance of doubt, any redemption of the notes will be conditional on all outstanding Arrears of Interest being paid in full as described in the provisions of "—Optional Interest Deferral" on or prior to the date thereof, together with any accrued and unpaid interest up to (but excluding) such redemption.

Repurchase

We, or any subsidiary of ours, may at any time repurchase any or all of the notes in the open market or otherwise at any price. Subject to applicable law, neither we nor any subsidiary of ours shall have any obligation to offer to repurchase any notes held by any holder as a result of our or such holder's repurchase or offer to repurchase notes held by any other holder in the open market or otherwise.

Any notes so repurchased by us or any subsidiary of ours will be cancelled.

Payments

Method of Payment

Payments of principal, premium and interest in respect of each note will be made by wire transfer to the registered account of the holder. Interest on the notes due on an Interest Payment Date will be paid to the holder shown on the Register on one Clearing System Business prior to the due date for the payment of interest, where "Clearing System Business Day" means Monday to Friday inclusive except January 1 and December 25.

A holder's registered account means an euro account maintained by or on behalf of it with a bank in city in which banks have access to the TARGET System. A holder's registered address means its address appearing on the Register at that time.

Notwithstanding the foregoing, so long as the global certificate in respect of the notes is held on behalf of Euroclear, Clearstream or any other clearing system, payments will be made in the manner described under "—Book Entry, Delivery and Form—Payments on Global Notes."

Payments Subject to Fiscal Laws

Without prejudice to the provisions of "—Taxation and Additional Amounts," all payments made as described herein will be made subject to any fiscal or other laws and regulations applicable in the place of payment. No commissions or expenses will be charged to the holders in respect of such payments.

Payments on Business Days

If any date for any payment in respect of any note is not a business day, the holder will not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment.

Partial Payments

If the amount of principal, premium (if any) or interest (including, for the avoidance of doubt, Arrears of Interest) which is due on the notes is not paid in full, the Registrar will annotate the Register with a record of the amount of principal, premium (if any) or interest (including, for the avoidance of doubt, Arrears of Interest) in fact paid.

Termination of Rights for Claims upon Certain Events

If a Claim Rights Termination Event occurs, the notes will be subject to a "Claim Rights Termination," automatically and without any additional action by us, the Trustee, the Paying Agent and the holders of the notes.

Upon a Claim Rights Termination the holders of the notes will be deemed to have irrevocably waived their right to claim or receive, and will not have any rights against us, the Trustee or the Paying Agent with respect to, payment of principal, any interest, Arrears of Interest or Additional Amounts, except for any payments of any interest, Arrears of Interest or Additional Amounts that have become due and payable prior to the occurrence of the Claim Rights Termination Event.

Except for claims with respect to payments of any interest, Arrears of Interest or Additional Amounts that have become due and payable prior to the occurrence of the Claim Rights Termination Event, as described above, upon the occurrence of a Claim Rights Termination Event, (a) the holders of the notes shall have no rights whatsoever under the Indenture or the notes to take any action or enforce any rights or to instruct the Trustee to take any action or enforce any rights whatsoever, (b) except for any indemnity or security provided by any holder in such instruction or related to such instruction, any instruction previously given to the Trustee by any holders shall cease automatically and shall be deemed null and void and of no further effect, (c) no holder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by us arising under, or in connection with, the notes and each holder of notes shall, by virtue of its holding of any notes, be deemed to have irrevocably waived all such rights of set-off, compensation or retention and (d) no holder will be entitled to make any claim in any reorganization proceedings, rehabilitation proceedings or any proceedings analogous thereto involving us or have any ability to initiate or participate in any such proceedings or do so through a representative.

We will, as soon as practicable after the occurrence of any Claim Rights Termination Event, cause notice (the "Claim Rights Termination Notice") of its occurrence to be given to the Trustee, the Paying Agent, any stock exchange on which the notes are for the time being listed or admitted to trading and the holders. Any failure or delay by us to provide a Claim Rights Termination Notice shall not change or delay the effect of the occurrence of the Claim Rights Termination Event on our payment obligations under the notes.

"Claim Rights Termination Event" means any one of the following events:

(i) a Japanese court with jurisdiction decides to commence corporate reorganization proceedings (*kaisha kousei tetsuzuki*) against us pursuant to the provisions of the Corporate Reorganization Act;

(ii) a Japanese court with jurisdiction decides to commence rehabilitation proceedings (*minji saisei tetsuzuki*) against us pursuant to the provisions of the Civil Rehabilitation Act; or

(iii) any analogous event relating to us to those described in (i) or (ii) above under any insolvency, bankruptcy or similar law outside of Japan which is applicable to us (including any other order being made, or an effective resolution being passed, for the purposes of our reorganization, reconstruction or amalgamation).

If any payment on a note is made to the holder of a note with respect to a payment obligation that did not become due and payable prior to the occurrence of the Claim Rights Termination Event, then the payment of such amount shall be deemed null and void and the holder shall be obliged to return the amount of such payment within ten days after receiving notice of the payment.

Event of Acceleration

Proceedings

There are no events of default with respect to the notes. An "Event of Acceleration" with respect to the notes means the occurrence of a Subordination Event. In case an Event of Acceleration set forth above shall occur and be continuing, then interest on the notes shall cease to accrue and the Trustee or the holders of not less than 25% in aggregate principal amount of the notes may, and the Trustee at the written request of holders of not less than 25% in aggregate principal amount of the notes then outstanding and subject to the Trustee being secured and/or indemnified and/or prefunded to its satisfaction, shall, by written notice to us declare the principal of, premium, if any, and all interest then accrued on the notes to be forthwith due and payable, subject to the subordination provisions described under "—Subordination," upon receipt of such notice by us. Immediately upon delivery of such notice, the notes shall become immediately due and payable, subject to the subordination provisions described under "—Subordination."

If (i) a liquidation proceeding with respect to us shall be rescinded or terminated without distribution of assets pursuant to the Companies Act, (ii) a court of competent jurisdiction shall rescind or terminate a bankruptcy action with respect to us without a distribution of assets pursuant to the Bankruptcy Act, or (iii) a court of competent jurisdiction shall rescind or terminate any proceedings giving rise to an Event of Acceleration due to the occurrence of a Subordination Event under clause (iii) of the definition of "Subordination Event," such rescission, termination or other event having an equivalent effect to that set forth in the foregoing clause (i) or (ii), as applicable, or (iii), if an Event of Acceleration with respect to the notes is otherwise rescinded or terminated, then the Event of Acceleration will have the same effect as if it had not occurred. Neither the Trustee nor any holder of the notes shall have any rights to accelerate the repayment of the notes upon a default in the payment of principal of or interest on the notes, upon the non-performance of any covenant of ours in relation to the notes or upon the happening of any other event in relation to the notes other than a Subordination Event, and in such cases, payments on the notes will remain subject to subordination.

The Trustee need not take any action to ascertain whether an Event of Acceleration has occurred or is continuing and will not be responsible to holders or any other person for any loss arising from any failure by it to do so. The Trustee may assume that no Event of Acceleration has occurred and that we are performing our obligations under the Indenture and the notes unless the Trustee has received written notice of the occurrence of an Event of Acceleration or facts establishing that we are not performing our obligations under the Indenture or the notes or an Event of Acceleration has occurred. The Trustee shall not be required to verify any information in such notice.

Enforcement

The Trustee may at its sole and absolute discretion (subject to "—Entitlement of Trustee") and without further notice institute such proceedings or take such steps or actions against us as it may think fit to enforce any term or condition binding on us under the Indenture or the notes but in no event will we, by virtue of the institution of any such proceedings, steps or actions, be obliged to pay any amount sooner than the same would otherwise have been payable by us.

Entitlement of Trustee

The Trustee will not be bound to take any of the actions referred to in "—Proceedings" or "—Enforcement" above against us to enforce the terms of the Indenture or the notes or take any other action or step unless (i) it will have been so requested in writing by the holders of at least one-quarter in principal amount of the notes then outstanding and (ii) it will have been indemnified and/or secured and/or prefunded to its satisfaction.

Right of Holders

No holder will be entitled to proceed directly against us or to institute proceedings for the winding-up or claim in our liquidation or to prove in such winding-up unless the Trustee, having become so bound to proceed, institute, prove or claim, fails to do so within a reasonable period of time and such failure will be continuing or a Japanese court or any other court of competent jurisdiction determines that only holders are entitled to bring such claim, in which case the holder will have only such rights against us as those which the Trustee is entitled to exercise as set out in this section.

Extent of Holders' Remedy

No remedy against us, other than as referred to in this section, will be available to the Trustee or the holders, whether for the recovery of amounts owing in respect of the notes or under the Indenture or in respect of any breach by us of any of our other obligations under or in respect of the notes or under the Indenture.

Replacement Intention

We intend (without thereby assuming a legal obligation) at any time that we will redeem or repurchase the notes only to the extent that the aggregate principal amount of the notes to be redeemed or repurchased does not exceed such part of the net proceeds received by us during the 12 months prior to the date of such redemption or repurchase from the sale, disposal or issuance ("Issue") by us to third-party purchasers (other than our subsidiaries or affiliates) of securities which are assigned by S&P, R&I or JCR, at the time of such Issuance, an aggregate "equity credit" (or such similar nomenclature used by S&P, R&I or JCR from time to time) that is equal to or greater than the "equity credit" assigned to the notes to be redeemed or repurchased at the time of their issuance (but taking into account any changes in hybrid capital methodology or another relevant methodology or the interpretation thereof since the issuance of the notes) ("Replacement Securities"), unless, on or after the First Reset Date:

(1) both of (i) and (ii) below are true:

(i) the ICR assigned to us by S&P is Investment Grade and we are satisfied that such ICR would not fall below such level as a result of such redemption or repurchase; and

(ii) on the last date of any fiscal year or fiscal quarter falling within the 12 months prior to the date of such redemption or repurchase, (a) the amount of our Consolidated Adjusted Net Worth (as defined below) is equal to or greater than the amount of our Consolidated Adjusted Net Worth as of December 31, 2020 plus the aggregate principal amount of our Series 1 JPY Hybrid Bonds, our Series 2 JPY Hybrid Bonds, our Series 4 JPY Hybrid Bonds, the notes and the NC5 USD notes, which is expected to be ¥431 billion, and (b) our Consolidated Adjusted Equity Ratio (as defined below) is greater than or equal to 12%; or

(2) even if (1) is not satisfied, if trading is suspended or halted on the Tokyo Stock Exchange; provided, however, that, if, at the time that such suspension or halt is lifted, if (1) remains unsatisfied, we intend to promptly Issue Replacement Securities in the relevant aggregate principal amount.

For the purposes of the above, "Replacement Securities" will consist of securities meeting the following that we announce we are Issuing as "Replacement Securities" for such purpose:

(a) shares of our common stock (in which case, we may treat any shares of common stock issued as "Replacement Securities" for these purposes as having an "equity credit" of 100%);

(b) shares of other series of our capital stock;

(c) Parity Obligations; or

(d) any other securities issued by us;

provided that, in the case of (b) through (d), such Replacement Securities must have received an equity credit from S&P, R&I and JCR equal to or greater than the notes.

"Consolidated Adjusted Net Worth" as of any date is defined as the amount arrived at by subtracting from (i) "Total equity" (as shown on our consolidated statements of financial position) less the aggregate amount of (a) "Exchange differences on translation of foreign operations" contained within "Other components of equity" (as shown on our consolidated statements of financial position) and (b) the aggregate principal amount then outstanding of the USD notes and the notes (ii) "Total equity" (as shown on the consolidated statements of financial position of Rakuten Card Co., Ltd.) less the amount of "Exchange differences on translation of foreign operations" contained within "Other components of equity" (as shown on the consolidated statements of financial position of Rakuten Card Co., Ltd.), in each case as of such date, rounded to the nearest ¥100 million.

"Consolidated Adjusted Equity Ratio" as of any date is defined as our Consolidated Adjusted Net Worth divided by the amount arrived at by subtracting from (i) "Total liabilities and equity" less

"Exchange differences on translation of foreign operations" contained within "Other components of equity," in each case as shown on our consolidated statements of financial position (ii) "Total liabilities and equity" less "Exchange differences on translation of foreign operations" contained within "Other components of equity," in each case as shown on the consolidated statements of financial position of Rakuten Card Co., Ltd., as of such date, shown as a percentage and rounded to the nearest 0.01%.

Taxation and Additional Amounts

All payments of principal and interest in respect of the notes shall be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Japan, or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law or by the authority. In such event, we shall pay such additional amounts ("Additional Amounts") as will result in the receipt by the holders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable with respect to any notes under any of the following circumstances:

(i) the holder or beneficial owner of the notes is an individual non-resident of Japan or a non-Japanese corporation and is liable for such taxes in respect of such notes by reason of its (A) having some present or former connection with Japan other than the mere holding of such notes or (B) being a specially-related person of ours as described in Article 6, Paragraph (4) of the Special Taxation Measures Act;

(ii) the holder or beneficial owner of the notes would otherwise be exempt from any such withholding or deduction but fails to comply with any applicable requirement to provide certification, information, documents or other evidence concerning its nationality, residence, identity or connection with Japan, including any requirement to provide Interest Recipient Information (as defined below) or to submit a Written Application for Tax Exemption (as defined below) to the Paying Agent to whom the notes are presented (where presentation is required), or whose Interest Recipient Information is not duly communicated through the relevant Participant (as defined below) and the relevant international clearing organization to such Paying Agent;

(iii) the holder or beneficial owner of the notes is for Japanese tax purposes treated as an individual resident of Japan or a Japanese corporation (except for (A) a Designated Financial Institution (as defined below) that complies with the requirement to provide Interest Recipient Information or to submit a Written Application for Tax Exemption and (B) an individual resident of Japan or a Japanese corporation that duly notifies (directly, through the relevant Participant or otherwise) the Paying Agent of its status as not being subject to taxes to be withheld or deducted by us by reason of receipt by such individual resident of Japan or Japanese corporation of interest on such notes through a payment handling agent in Japan appointed by it);

(iv) the note is presented for payment (where presentation is required) more than 30 days after the day on which such payment on the notes became due or after the full payment was provided for, whichever occurs later, except to the extent the holder thereof would have been entitled to Additional Amounts on presenting the same for payment on the last day of such period of 30 days;

(v) the withholding or deduction is imposed on a holder or beneficial owner that could have avoided such withholding or deduction by presenting its notes (where presentation is required) to another paying agent maintained by us;

(vi) the holder is a fiduciary or partnership or is not the sole beneficial owner of the payment of the principal of, or any interest on, any note, and Japanese law requires the payment to be included for tax purposes in the income of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner, in each case, who would not have been entitled to such Additional Amounts had it been the holder of such note; or

(vii) any combination of (i) through (vi) above.

For the avoidance of doubt, none of us, the Trustee, the Paying Agent or any other person shall be required to pay any Additional Amounts with respect to any withholding or deduction imposed on or in respect of any note pursuant to Sections 1471 to 1474 of the Internal Revenue Code of 1986, as amended, commonly referred to as FATCA, any treaty, law, regulation or other official guidance implementing FATCA, any intergovernmental agreement in relation thereto, or any agreement between us, the Trustee, the Paying Agent or any other person and the United States, any other jurisdiction, or any authority of any of the foregoing implementing FATCA.

Where the notes are held through a participant of an international clearing organization or a financial intermediary (referred to in this section as a “Participant”), in order to receive payments free of withholding or deduction by us for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Japan, or any authority thereof or therein having power to tax, if the relevant beneficial owner is (a) an individual non-resident of Japan or a non-Japanese corporation (other than a specially-related person of ours) or (b) a Japanese financial institution (referred to in this section as a “Designated Financial Institution”) falling under certain categories prescribed by the Special Taxation Measures Act, all in accordance with the Special Taxation Measures Act, such beneficial owner must, at the time of entrusting a Participant with the custody of the relevant notes, provide certain information prescribed by the Special Taxation Measures Act (referred to in this section as “Interest Recipient Information”) to enable the Participant to establish that such beneficial owner is exempted from the requirement for taxes to be withheld or deducted, and advise the Participant if the beneficial owner ceases to be so exempted (including the case where a beneficial owner that is an individual non-resident of Japan or a non-Japanese corporation becomes a specially- related person of ours).

Where notes are not held by a Participant, in order to receive payments free of withholding or deduction by us for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Japan, or any authority thereof or therein having power to tax, if the relevant beneficial owner is (a) an individual non-resident of Japan or a non-Japanese corporation (other than a specially-related person of ours) or (b) a Designated Financial Institution, all in accordance with the Special Taxation Measures Act, such beneficial owner must, prior to each time at which it receives interest, submit to the Paying Agent a written application for tax exemption (*hikazei tekiyo shinkokusho*) (referred to in this section as a “Written Application for Tax Exemption”) in a form obtainable from the Paying Agent stating, inter alia, the name and address of the beneficial owner, the title of the notes, the relevant interest payment date, the amount of interest and the fact that the beneficial owner is qualified to submit the Written Application for Tax Exemption, together with documentary evidence regarding its identity and residence.

By subscribing for the notes, an investor will be deemed to have represented that it is a “Gross Recipient” for Japanese tax purposes. For more details regarding Japanese withholding tax, see “Japanese Taxation”.

We will make any required withholding or deduction and remit the full amount withheld or deducted to the Japanese taxing authority in accordance with applicable law. We will use reasonable efforts to obtain certified copies of tax receipts evidencing the payment of any tax, duty, assessment, fee or other governmental charge so withheld or deducted from the Japanese taxing authority imposing such tax, duty, assessment, fee or other governmental charge, and if certified copies are not available, we will use reasonable efforts to obtain other evidence satisfactory to the Paying Agent, and the Paying Agent shall make such certified copies or other evidence available to the holders or the beneficial owners of the notes upon prior written request to the Paying Agent.

The obligation to pay Additional Amounts with respect to any taxes, duties, assessments and other governmental charges shall not apply to (A) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, duty, assessment, fee or other governmental charge or (B) any tax, duty, assessment, fee or other governmental charge which is payable otherwise than by withholding or deduction from payments of principal or interest on the notes; provided that, except as otherwise set forth in the notes and in the Indenture, we will pay all stamp, court or documentary taxes or any excise or property taxes, charges or similar levies and other duties, if any, which may be imposed by Japan, the United States or any political subdivision or any taxing authority thereof or therein, with respect to the Indenture or as a consequence of the initial issuance, execution, delivery, registration or enforcement of the notes.

References to principal or interest in respect of the notes shall be deemed to include any Additional Amounts due which may be payable as set forth in the notes and the Indenture.

Modification and Waiver

Modification and amendment of the notes and the Indenture may be made by us and the Trustee with the written consent of the holders of at least a majority in aggregate principal amount of the outstanding notes; provided, however, that no such modification or amendment may, without the consent of the holder of each outstanding note affected thereby:

(i) change the payment date of any interest or change any obligation of ours to pay any Additional Amounts,

(ii) reduce the principal amount of, or rate of interest on, any note;

(iii) affect the rights of holders of less than all the outstanding notes;

(iv) change the place of payment where, or the coin or currency in which, any note or interest thereon is payable; or

(v) impair the right of a holder to institute suit for the enforcement of any payment on or with respect to any note on or after the date when due;

provided, further, that no such modification may, without the consent of the holders of all notes outstanding at the time, alter the respective percentages of outstanding notes necessary, pursuant to the Indenture, to modify the terms of the notes, waive past defaults or accelerate the payment of the principal amount of the notes.

It shall not be necessary for any act of holders under the relevant section of the Indenture to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such act shall approve the substance thereof.

Notwithstanding the foregoing, without the consent of any holders of the notes, we and the Trustee, at any time and from time to time, may enter into one or more supplemental Indenture, in form reasonably satisfactory to the Trustee, for any of the following purposes:

(i) to evidence the succession of another corporation, entity or person to us and the assumption by any such successor of our covenants in the Indenture and the notes;

(ii) to add to our covenants or to surrender any right or power in the Indenture conferred upon us for the benefit of the holders of the notes;

(iii) to evidence and provide for the acceptance of appointment under the Indenture by a successor Trustee or Agents;

(iv) to cure any ambiguity, to correct or supplement any provision in the Indenture which may be defective or inconsistent with any other provision in the Indenture or applicable laws, or to make any other provisions with respect to matters or questions arising under the Indenture, provided that such action shall not adversely affect the interests of the holders of the notes in any material respect; or

(v) to make any other change that does not adversely affect the interests of the holders of the notes in any material respect.

Replacement of Certificates

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Registrar or such Paying Agent as may from time to time be designated by us for the purpose and notice of whose designation is given to holders, on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, inter alia, that if the allegedly lost, stolen or destroyed Certificate is subsequently presented for payment, there will be paid to us on demand the amount payable by us in respect of such Certificate) and otherwise as we may require. Mutilated or defaced Certificates must be surrendered before any replacement Certificates will be issued.

Indemnification of the Trustee

The Indenture contains provisions for the indemnification of, and/or provision of security and/or prefunding for, the Trustee and for its relief from responsibility, including provisions relieving it from taking any actions or steps or instituting any proceedings unless indemnified and/or secured and/or prefunded to its satisfaction. The Trustee is entitled to enter into business transactions with us and any entity related to us without accounting for any profit. The Trustee may conclusively rely without liability to holders on a report, confirmation or certificate or any advice of any accountants, financial advisors, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and will be entitled to conclusively rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice will be binding on us, the Trustee and the holders.

Further Issuances

We reserve the right, from time to time, without the consent of the holders of the notes, to issue additional notes on terms and conditions identical to those of the notes offered hereby (other than the issue date, the issue price and, in some cases, the first interest payment date), which additional notes will increase the aggregate principal amount of, and will be consolidated and form a single series with the notes.

Indemnification of Judgment Currency

We will indemnify each holder of a note and the Trustee to the full extent permitted by applicable law against any loss incurred by the holder as a result of any judgment or order being given or made for any amount due under the note and the judgment or order being expressed and paid in a currency, referred to as judgment currency, other than euros, and as a result of any variation as between (a) the rate of exchange at which the euro is converted into the judgment currency for the purpose of the judgment or order and (b) the spot rate of exchange in The City of New York at which the holder on the date that payment is made pursuant to the judgment or order is able to purchase euros with the amount of the judgment currency actually received by the holder, or as the case may be, the Trustee.

Agents

The initial Paying Agent, Transfer Agent and Registrar will be Citibank, N.A., London Branch, a banking corporation organized and existing under the laws of the State of New York with limited liability, with its specified office located at c/o Citibank, N.A., Dublin Branch, 1 North Wall Quay, Dublin 1, Ireland. We reserve the right, subject to the approval of the Trustee, at any time to vary or terminate the appointment of the Paying Agent, the Transfer Agent and the Registrar and to appoint additional or other Paying Agent, Transfer Agent and Registrar, provided that we will:

(a) at all times maintain a Paying Agent, Transfer Agent and a Registrar;

(b) so long as the notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent and/or Transfer Agent and/or Registrar with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and

(c) whenever a function expressed herein to be performed by the Calculation Agent is to be performed, appoint and (for so long as such function is required to be performed) maintain an Calculation Agent.

Notice of any such termination or appointment and of any change in the specified office of the Paying Agent, the Transfer Agents of the Registrar will be given to the holders by us. If any of the Calculation Agent, the Transfer Agent, the Registrar or the Paying Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under the Indenture, we will appoint an independent financial institution to act as such in its place. All calculations and determinations made by the Calculation Agent or the Paying Agent in relation to the notes will (save in the case of manifest error) be final and binding on us, the Trustee, the Paying Agent and the holders.

For so long as the notes are listed on the Singapore Exchange and the rules of the Singapore Exchange so require, we will appoint and maintain a paying agent in Singapore, where the notes may be presented or surrendered for payment or redemption in the event that the global notes are exchanged for definitive notes. In addition, in the event that the global notes are exchanged for definitive notes, an announcement of such exchange will be made by or on behalf of us through the Singapore Exchange and such announcement will include all material information with respect to the delivery of the definitive notes, including details of the paying agent in Singapore.

Repayment of Funds

Any money deposited by us with the Trustee or a Paying Agent in trust for payment of principal of or interest and any Additional Amounts on any note which remains unclaimed for two years after such principal, interest or Additional Amounts have become due and payable and paid to the Trustee shall, upon our written request, be repaid to us and all liability of the Trustee or such Paying Agent with respect to such payments will cease, and to the extent permitted by law, the holder of that note shall thereafter look only to us for payment thereof.

Reporting Requirements

For as long as any notes are outstanding, we will promptly furnish to the Trustee (for the benefit of the holders of the notes):

(i) (x) within three months after the end of each fiscal year, our consolidated statements of financial position and consolidated statements of income, comprehensive income, changes in equity and cash flows in English prepared in accordance with IFRS and (y) within nine months after the end of each fiscal year, an annual report in English including our consolidated statements of financial position and consolidated statements of income, comprehensive income, changes in equity and cash flows prepared in accordance with IFRS and audited by independent auditors; and

(ii) as soon as practicable after the end of each interim period (other than the last interim period of a fiscal year), our interim consolidated statements of financial position and consolidated statements of income, comprehensive income, changes in equity and cash flows in English prepared in accordance with IFRS, provided that interim consolidated statements of cash flows will not be required if disclosure of interim consolidated statements of cash flows is not required for such corresponding interim period for companies listed on the main board of the Tokyo Stock Exchange pursuant to the listing rules or other regulations generally applicable to such companies.

To the extent any reports or other documents are published by us on our investor relations website for such reports or documents or any other publicly available electronic medium, such reports or other documents shall be deemed to have been furnished to the holders of the notes. The Trustee shall have no obligation or responsibility to determine whether or if and when such documents are publically available and/or assessable electronically. Delivery of such reports, information and documents to the Trustee under the Indenture is for informational purposes only and the information and the Trustee's receipt of the foregoing shall not constitute actual or constructive notice or knowledge of any information contained therein, or determinable from information contained therein including our compliance with any of our covenants thereunder (as to which the Trustee is entitled to rely exclusively on an officer's certificate).

The Trustee

The Trustee, Citicorp International Limited, is organized under the laws of Hong Kong, with its corporate trust office located at 20/F, Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong. In the absence of an Event of Acceleration with respect to the notes, the Trustee need only perform the duties specifically set forth in the Indenture. The Indenture provides that during the existence of an Event of Acceleration with respect to the notes, the Trustee will exercise the rights and powers vested in it by the Indenture, and use the same degree of care and skill in the exercise thereof as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

The Indenture does not contain limitations on the rights of the Trustee, should it be or become a creditor of ours, to obtain payment of claims. The Trustee is not precluded from engaging in other transactions and would not be obliged to account for profit, and if it has or acquires any conflicting interest, it is not required to eliminate the conflict or resign.

The Trustee will be under no obligation to exercise any rights or powers vested in it by the Indenture at the written request or direction of any holder, unless the requisite number of holders have instructed the Trustee in writing and offered to the Trustee security and/or indemnity and/or prefunding satisfactory to it against the costs, expenses (including the fees and properly incurred expenses of its counsel) and liabilities which might be incurred by it in compliance with such request or direction.

Furthermore, each holder, by accepting the notes agrees, for the benefit of the Trustee, that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the offering of the notes and has not relied on and will not at any time rely on the Trustee in respect of such risks.

Successor Trustee

Any successor trustee appointed pursuant to the terms of the Indenture shall have a combined capital and surplus of not less than $50,000,000.

Limitation on Suits

Other than the right to institute a suit for the enforcement of the payment of principal of, or interest on (including, in each case, any Additional Amounts, if applicable), any notes after the applicable due date specified in the notes, no holder of any note shall have any right to institute any proceeding with respect to the Indenture, or for the appointment of a receiver or trustee, or for any other remedy thereunder, unless (i) such holder has previously given written notice to the Trustee of either (a) a continuing Event of Acceleration or (b) default made by us in the performance of any other obligation under the Indenture or the notes which continues for 60 days after notice of such default is given to us by the Trustee or the holders of not less than 10% in principal amount of the notes; (ii) the holders of not less than 25% in aggregate principal amount of the notes shall have made written request to the Trustee to institute proceedings in respect of such event or default in its own name as Trustee; (iii) such holder or holders have offered to the Trustee indemnity and/or security and/or prefunding satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; (iv) the Trustee for 60 days after its receipt of such written notice, request and offer of indemnity and/or security and/or prefunding satisfactory to the Trustee has failed to institute any such proceeding; and (v) no direction inconsistent with such written request has been given to the Trustee during such 60 day period by the holders of a majority in aggregate principal amount of the notes.

No one or more of such holders shall have any right in any manner whatsoever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the rights of any other of such holders, or to obtain or to seek to obtain priority or preference over any other of such holders or to enforce any right under the Indenture, except in the manner therein provided and for the equal and ratable benefit of all of such holders.

Undertaking for Costs

In any suit for the enforcement of any right or remedy under the Indenture or against the Trustee for any action taken, suffered or omitted by it as Trustee, other than a suit instituted by the Trustee, a holder or group of holders holding more than 10% in aggregate principal amount of the outstanding notes, or by any holder for the enforcement of the payment of the principal of or interest on any outstanding note on or after the due date expressed in such note, a court may require any party litigant in such suit to file an undertaking to pay the costs of such suit, and may assess costs, including attorneys' fees, against any party litigant in such suit.

Governing Law; Consent to Jurisdiction and Service of Process; Communications

The Indenture and the notes will be governed by, and construed as described in, the laws of the State of New York.

We have irrevocably submitted to the non-exclusive jurisdiction of the courts of any New York State or United States federal court sitting in the Borough of Manhattan, The City of New York with respect to any action that may be brought in connection with the Indenture or the notes. As long as any of the notes remain outstanding, we will at all times have an authorized agent with an office in the Borough of Manhattan, The City of New York upon whom process may be served in any action arising out of or relating to the Indenture or the notes. We have appointed Cogency Global Inc. with offices located at 10 E. 40th Street, 10th Floor, New York, NY 10016 as our initial agent for such purpose.

Book Entry, Delivery and Form

Global Clearance and Settlement

The notes will initially be issued to investors only in book-entry form. The notes sold in reliance on Regulation S under the Securities Act will be initially in the form of one or more fully-registered global notes, or the Regulation S global notes, and the notes sold in reliance on Rule 144A under the Securities Act will initially be in the form of one or more fully-registered global notes, or the Rule 144A global notes. The notes will be deposited with, or on behalf of, a common depositary, and registered in the name of the nominee of the common depositary, for, and in respect of interests held through, Euroclear and Clearstream. Except as described herein, certificates will not be issued in exchange for beneficial interests in the global notes representing the notes.

The notes (including beneficial interests in the global notes) will be subject to certain restrictions on transfer set forth in the notes and the Indenture and will bear a legend regarding the restrictions as set forth under "Transfer Restrictions." Under certain circumstances, transfers may be made only upon receipt by the Paying Agent of a written certification (in the form provided in the Indenture).

Prior to the 40th day after the later of the commencement of the offering and the closing date, a beneficial interest in a Regulation S global note may be transferred to a person who takes delivery in the form of an interest in a Rule 144A global note upon receipt by the Paying Agent of a written certification (in the form provided in the Indenture) from the transferor to the effect that the transferor (i) reasonably believes that the transferee is a QIB purchasing for its own account (or for the account of one or more QIBs over which account it exercises sole investment discretion) and (ii) has notified the transferee of the restrictions on transfer set forth under "Transfer Restrictions."

Beneficial interests in a Rule 144A global note may be transferred to a person who takes delivery in the form of an interest in a Rule 144A global note without any written certification from the transferor or the transferee. Beneficial interests in a Rule 144A global note may be transferred to a person who takes delivery in the form of an interest in a Regulation S global note only upon receipt by the Paying Agent of a written certification (in the form provided in the Indenture) from the transferor to the effect that such transfer is being made in compliance the restrictions on transfer set forth under "Transfer Restrictions" and pursuant to and in accordance with Rule 903 or 904 of Regulation S under the Securities Act.

Any beneficial interest in one of the global notes that is transferred to an entity that takes delivery in the form of an interest in another global note will, upon transfer, cease to be an interest in such global note and become an interest in the other global note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to beneficial interest in such other global note for as long as it remains such an interest.

Except as set forth below, the global notes representing the notes may be transferred, in whole and not in part, only to Euroclear or Clearstream or their respective nominees.

Depositary Procedures

As long as the common depositary (or its nominee) for Euroclear and Clearstream is the registered holder of the global notes, the common depositary (or its nominee) will be considered the sole owner and holder of the notes represented by the global notes for all purposes under the Indenture and the notes, and, accordingly, our obligations under the notes represented by the global notes are to the common depositary (or its nominee) as the registered holder of such notes, and not to the holders of beneficial interests in such notes.

Transfer of beneficial interests in the global notes will be subject to the applicable rules and procedures of the depositaries and their respective direct or indirect participants, which may change from time to time.

Euroclear and Clearstream Procedures

Distributions of interest and other payments with respect to book-entry interests in the notes held through Euroclear and Clearstream will be credited, to the extent received by any paying agent, to the cash accounts of Euroclear and Clearstream or any other securities intermediary that holds a book-entry interest in the notes through one or more securities intermediaries standing between such other securities intermediary and Euroclear or Clearstream.

As Euroclear and Clearstream act on behalf of their respective account holders only, who in turn may act on behalf of their respective clients, the ability of beneficial owners who are not account holders with Euroclear and Clearstream to pledge interests in the global notes to persons or entities that are not account holders with Euroclear or Clearstream, or otherwise take action in respect of interests in the global notes, may be limited.

Euroclear was created in 1968 to hold securities for its participants and to clear and settle transactions among its participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear provides various other services, including securities lending and borrowing, and interfaces with domestic markets in several countries. The Euroclear system is operated by Euroclear Bank SA/NV, a bank incorporated under the laws of the Kingdom of Belgium as the “Euroclear operator.” All operations are conducted by the Euroclear operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear operator. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the initial purchasers or their affiliates. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

Securities clearance accounts and cash accounts with the Euroclear operator are governed by the Terms and Conditions Governing Use of Euroclear and the related operating procedures of the Euroclear system and applicable Belgian law. The Euroclear terms and conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear operator acts under the Euroclear terms and conditions only on behalf of Euroclear participants, and has no record of or relationship with persons holding through Euroclear participants.

Clearstream is incorporated under the laws of Luxembourg as a professional depositary. Clearstream holds securities for its participating organizations and facilitates the clearance and settlement of securities transactions between its participants through electronic book-entry changes in accounts of its participants, eliminating the need for physical movement of certificates. Clearstream provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. As a professional depositary, Clearstream is subject to regulation by the Luxembourg Monetary Institute. Clearstream participants are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the initial purchasers or their affiliates. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream participant, either directly or indirectly.

Limitations on Responsibilities

Euroclear and Clearstream have no knowledge of the actual beneficial owners of interests in a global note. The records of Euroclear and Clearstream reflect only the identity of the Euroclear or Clearstream participants to whose accounts those notes are credited, which also may or may not be the beneficial owners of interests in a global note. Euroclear and Clearstream participants and indirect participants will remain responsible for keeping account of their holdings on behalf of their customers.

Exchange of Global Notes for Definitive Notes

No definitive notes will be issued in exchange for the global notes unless (i) Euroclear or Clearstream or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease business or does in fact do so; (ii) the depositary or any successor to the common depositary, as the case may be, is at any time unwilling or unable to continue as a common depositary for the global notes or has ceased to be qualified to act as such as required by the Indenture and a successor common depositary is not appointed within 90 days; or (iii) there shall have occurred and be continuing an Event of Acceleration with respect to the notes and a holder has requested us for definitive notes. Definitive notes delivered in exchange for beneficial interests in any global note will be registered in such names, and issued in such approved denominations, as directed by Euroclear or Clearstream, as the case may be, or the successor depositary, in accordance with its customary procedures, and will be issued without coupons.

The laws of some states require that certain persons take physical delivery of certificates evidencing securities they own. Consequently, the ability to transfer beneficial interests in a global note to such persons will be limited to that extent. Because Euroclear and Clearstream can act only on behalf of participants, which in turn act on behalf of indirect participants, the ability of beneficial owners of interests in a global note to pledge such interests to persons or entities that do not participate in the Euroclear and Clearstream systems, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests.

Trustee's and Agents' Powers

In considering the interests of the holders of the notes, while title to the notes is registered in the name of a nominee of a clearing system, the Trustee and the Agents may have regard to, and conclusively rely on, any information provided to it by that clearing system as to the identity (either individually or by category) of its accountholders with entitlements to notes and may consider such interests as if such accountholders were the holders of the notes.

Enforcement

For the purposes of enforcement of the provisions of the Indenture by the Trustee, the persons named in a certificate of the holder of the notes in respect of which a Global Note is issued will be recognized as the beneficiaries of the Indenture to the extent of the principal amounts of their interests in the notes set out in the certificate of the holder, as if they were themselves the holders of the notes in such principal amounts.

Clearance and Settlement

The notes have been accepted for clearance through Euroclear and Clearstream.

Minimum Board Lot Size on the Singapore Exchange

The notes will be traded on the Singapore Exchange in a minimum board lot size of €200,000 for so long as any of the notes are listed on the Singapore Exchange.

Certain Definitions

"Adjustment Spread" means a spread (which may be positive, negative or zero) or formula or methodology for calculating a spread, which the Independent Adviser (in consultation with us) or we (as applicable) determine is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

(i) in the case of a Successor Rate, is formally recommended or formally provided as an option for parties to adopt, in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or

(ii) in the case of a Successor Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the Independent Adviser (in consultation with us) or we (as applicable) determine is customarily applied to the relevant Successor Rate or Alternative Reference Rate (as applicable) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or

(iii) in the case of a Successor Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the Independent Adviser (in consultation with us) or we (as applicable) determine is recognized or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as applicable).

An ''Accounting Event" will be deemed to occur if as a result of (i) a change in accounting principles which has been officially adopted after the Issue Date or (ii) a change in the interpretation thereof (such change an "Accounting Event Change"), but not otherwise, our obligations under the notes following the official adoption or change in interpretation, as applicable, representing such Accounting Event Change, which may fall before the date on which the Accounting Event Change comes into effect, must not, or may no longer, be recorded as "equity" in our audited annual consolidated financial statements prepared in accordance with IFRS or any other accounting standards that we may duly adopt in the future for the preparation of our audited annual consolidated financial statements in accordance with the law of Japan.

"Agents" means the Calculation Agent, the Registrar, the Paying Agent and the Transfer Agent or any of them.

"Alternative Reference Rate" means the rate that the Independent Adviser or us (as applicable) determines has replaced the Original Reference Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest in respect of bonds denominated in euro and of a comparable duration to the relevant Interest Period, or, if the Independent Adviser or we (as applicable) determine that there is no such rate, such other rate as the Independent Adviser or we (as applicable) determine in its discretion (acting in good faith and in a commercially reasonable manner) is most comparable to the Original Reference Rate.

"Benchmark Event" means:

(i) the Original Reference Rate has ceased to be published on the Reset Screen Page (as applicable) as a result of such Original Reference Rate ceasing to be calculated or administered; or

(ii) a public statement by the administrator of the Original Reference Rate that (in circumstances where no successor administrator has been or will be appointed that will continue publication of the Original Reference Rate) it has ceased or will cease, by a specified future date (the "Specified Future Date"), publishing the Original Reference Rate permanently or indefinitely; or

(iii) a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been or will, by a specified future date (the "Specified Future Date"), be permanently or indefinitely discontinued; or

(iv) a public statement by the supervisor of the administrator of the Original Reference Rate that means the Original Reference Rate will, by a specified future date (the "Specified Future Date"), be prohibited from being used or that its use will be subject to restrictions or adverse consequences; or

(v) a public statement by the supervisor of the administrator of the Original Reference Rate (as applicable) that, in the view of such supervisor, (i) such Original Reference Rate is no longer representative of an underlying market or (ii) the methodology to calculate such Original Reference Rate has materially changed; or

(vi) it has or will become unlawful for the Calculation Agent, us or any other party to calculate any payments due to be made to any holder using the Original Reference Rate (including without limitation, under the Benchmark Regulation (EU) 2016/1011, if applicable).

Notwithstanding the sub-paragraphs above, where the relevant Benchmark Event is a public statement within sub-paragraphs (ii), (iii) or (iv) above and the Specified Future Date in the public statement is more than six months after the date of that public statement, the Benchmark Event shall not be deemed occur until the date falling six months prior to such Specified Future Date.

"Board of Directors" means:

(1) with respect to a corporation, the board of directors (or analogous governing body) of the corporation or any committee thereof duly authorized to act on behalf of such board;

(2) with respect to a partnership, the board of directors of the general partner of the partnership;

(3) with respect to a limited-liability company, the managing member or members or any controlling committee of managing members thereof (or analogous governing body); and

(4) with respect to any other person, the board or committee (or analogous governing body) of such person serving a similar function.

"Business day" means a day that is both (i) a day on which the TARGET2 System is open and (ii) a day, other than a Saturday, Sunday or public holiday, on which commercial banks and foreign exchange markets are open for general business in Tokyo, Hong Kong, London and New York.

"Calculation Date" means the third business day preceding the Make-whole Redemption Date.

"Capital Stock" means:

(i) in the case of a corporation, corporate stock;

(ii) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;

(iii) in the case of a partnership or limited-liability company, partnership interests (whether general or limited) or membership interests; and

(iv) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person,

but excluding from all of the foregoing any debt securities convertible into any of (i) to (iv) above, whether or not such debt securities include any right of participation with any of (i) to (iv) above.

A "Compulsory Arrears of Interest Settlement Event" shall have occurred if:

(i) we have resolved to carry out, or has paid, a dividend of surplus (*jyouyo kin no haitou*) in respect of any Junior Obligations;

(ii) we or any of our subsidiary purchase or acquire any Junior Obligations, save in any of the following cases:

(I) pursuant to Article 155(viii) to (xiii) (inclusive) of the Companies Act;

(II) the exercise of appraisal rights from a dissenting shareholder pursuant to Article 469(1), Article 785(1), Article 797(1), or Article 806(1) of the Companies Act;

(III) the exercise of appraisal rights from a dissenting shareholder pursuant to Article 116(1) of the Companies Act;

(IV) an acquisition from a Subsidiary pursuant to Article 163 of the Companies Act in order to comply with Article 135(3) of the Companies Act; or

(V) other purchases of Junior Obligations by us when we are legally obliged to do so;

(iii) a distribution or payment was validly resolved on, declared, paid or made in respect of any Parity Obligations (excluding a distribution or payment resolved on, declared, paid or made in respect of any Parity Obligations concurrently with the redemption, repurchase or acquisition of such Parity Obligations on or after their legal or effective maturity date); or

(iv) we or any of our subsidiary has redeemed, repurchased or otherwise acquired any Parity Obligations (excluding redemption, repurchase or acquisition of such Parity Obligations on or after their legal or effective maturity date).

"Designated Financial Institution" means a Japanese financial institution or financial instruments business operator falling under certain categories prescribed by the cabinet order under Article 6, Paragraph 9 of the Special Taxation Measures Act.

"Dividend Declaration" means the authorization by resolution of our general meeting of shareholders or board of directors or other competent corporate body (as the case may be) of the payment, or the making of, a dividend or other distribution or payment (or, if no such authorization is required, the payment, or the making of, a dividend or other distribution or payment).

"First Reset Date" means April 22, 2027.

"ICR" means "Issuer credit rating" as used in the ratings methodology of S&P (or such other nomenclature that S&P may then use to describe such rating).

"Independent Adviser" means an independent financial institution of international repute or other independent financial adviser experienced in the international debt capital markets, in each case appointed by us at our own expense.

"Interest Payment Date" means April 22 in each year, commencing on April 22, 2022.

"Interest Period" means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

"Investment Grade" means a rating equal to or greater than BBB- by S&P or the equivalent thereof under any new ratings system if the ratings systems of S&P will be modified after the Issue Date, or, in the case of another Rating Agency, the equivalent then in use by such Rating Agency.

"JCR" means Japan Credit Rating Agency, Ltd.

"Junior Obligations" means (i) any class of our share capital which ranks junior to the Parity Obligations (including our common shares (*futsuu kabushiki*) which ranks junior to the Parity Obligations or (ii) all of our obligations issued or incurred directly, which rank or are expressed to rank pari passu with any class of our share capital which ranks junior to the Parity Obligations.

"Make-whole Redemption Amount" means the sum of: (a) the greater of (x) the principal amount of the notes to be redeemed as described under "—Maturity and Redemption—Optional Redemption at the Make-Whole Redemption Amount" and (y) the sum of the then present values of the principal and the remaining scheduled payments of interest on such notes to be redeemed (exclusive of interest accrued to the Make-Whole Redemption Date) that would be due if the notes were redeemed on the relevant First Reset Date discounted to the Make-whole Redemption Date on an annual basis at the Make-whole Redemption Rate plus a Make-whole Redemption Margin, and (b) any interest accrued but not paid on the notes to, but excluding, the Make-whole Redemption Date plus any outstanding Arrears of Interest, as determined by the Quotation Agent and as notified on the Calculation Date by the Quotation Agent to us and the Paying Agent.

"Make-whole Redemption Date" has the meaning given to under "—Maturity and Redemption—Optional Redemption at the Make-Whole Redemption Amount."

"Make-whole Redemption Margin" means 0.50 percent.

"Make-whole Redemption Rate" means (i) the mid-market yield to maturity of the Reference Security which appears on the Relevant Make-whole Screen Page on the third business day preceding the Make-whole Redemption Date at 11:00 a.m. (Central European time) or (ii) to the extent that the mid-market yield to maturity does not appear on the Relevant Make-Whole Screen Page at such time, the average of the number of quotations given by the Reference Dealers of the mid-market yield to maturity of the Reference Security on the third business day preceding the Make-whole Redemption Date at or around 11:00 a.m. (Central European time).

"Mandatory Settlement Date" means the earliest of:

(i) as soon as reasonably practicable (but not later than the tenth business day) following the date on which a Compulsory Arrears of Interest Settlement Event occurs;

(ii) following any Deferred Interest Payment, on the next scheduled Interest Payment Date on which we do not elect to defer (in whole or in part) the interest accrued in respect of the relevant Interest Period; and

(iii) the date on which the notes are redeemed or repaid as described under "—Maturity and Redemption" or become due and payable as described under "—Event of Acceleration."

"Parity Obligations" means (if any) (i) the Senior Preference Shares and (ii) any other obligations of us, issued or incurred directly by us, which rank, or are expressed to rank, *pari passu* with the notes, which are those: (a) having substantially the same conditions and particulars as the Subordinate Payment Conditions of the notes with respect to liquidation or bankruptcy in Japan or under any insolvency, bankruptcy or similar law outside of Japan which is applicable to us; and (b) which are either (y) obligations having rights with respect to interest of which are effectively same as the notes (and the inclusion of provisions which allow for the optional deferral of interest at our election will satisfy this condition); or (z) any of our obligations (other than Junior Obligations), the payment of interest and principal on which is subject to the satisfaction of financial conditions and/or our financial performance.

Parity Obligations will include, but will not be limited to the USD notes, our 1st Unsecured Subordinated Bonds (with subordination provision) (ISIN: JP396720AJC6) (our "Series 1 JPY Hybrid Bonds"), 2nd Unsecured Subordinated Bonds (with subordination provision) (ISIN: JP396720BJC4) (our "Series 2 JPY Hybrid Bonds"), 3rd Unsecured Subordinated Bonds (with subordination provision) (ISIN: JP396720CJC2) (our "Series 3 JPY Hybrid Bonds"), 4th Unsecured Subordinated Bonds (with subordination provision) (ISIN: JP396720ALB4) (our "Series 4 JPY Hybrid Bonds"), 5th Unsecured Subordinated Bonds (with subordination provision) (ISIN: JP396720BLB2) (our "Series 5 JPY Hybrid Bonds") and 6th Unsecured Subordinated Bonds (with subordination provision) (ISIN: JP396720CLB0) (our "Series 6 JPY Hybrid Bonds").

"Quotation Agent" means the agent to be appointed by us if required for the determination of the Make-whole Redemption Amount;

"R&I" means Rating and Investment Information, Inc.

"Rating Agency" means S&P, R&I, JCR or any rating agency substituted for them (or any permitted substitute of them) by us from time to time with the prior written approval of the Trustee.

A "Rating Methodology Event" will be deemed to occur if we have received (or if the relevant Rating Agency has published), and notified the holders of the notes that it has so received, confirmation from any Rating Agency of an amendment to, clarification of or change in its assessment criteria or a change in the interpretation thereof which becomes effective on or after the Issue Date (or, if later, effective after the date on which the notes are assigned "equity credit" by a Rating Agency for the first time) and as a result of which, but not otherwise, the notes will no longer be eligible for the same, or a higher amount of, "equity credit" (or such other nomenclature that the Rating Agency may then use to describe the degree to which an instrument exhibits the characteristics of an ordinary share) as was attributed to the notes at the Issue Date (or if "equity credit" is not assigned to the notes by the relevant Rating Agency on the Issue Date, at the date on which "equity credit" is assigned by such Rating Agency for the first time).

"Reference Dealers" means (a) each of Goldman Sachs International and Morgan Stanley & Co. International plc (or their respective affiliates that are primary European government security dealers) and their respective successors, and (b) other primary European government security dealers selected by us in good faith; provided, however, that if any of the foregoing ceases to be a primary European government security dealer, we shall substitute therefor another primary European government security dealer.

"Reference Security" means DBR 0.25 percent due 15 February 2027 (ISIN: DE0001102416). If a Reference Security is no longer outstanding, a Similar Security will be chosen by the Quotation Agent at 11:00 a.m. (Central European time) on the Calculation Date, quoted in writing by the Quotation Agent to us.

"Relevant Nominating Body" means, in respect of a reference rate:

(i) the central bank for the currency to which the reference rate relates, any central bank which is responsible for supervising the administrator of the reference rate, or any other relevant supervisory or regulatory authority or national legislative body of the country for the currency to which the reference rate relates; or

(ii) any working group or committee sponsored by, chaired or co-chaired by, or constituted at the request of (a) the central bank for the currency to which the reference rate relates, (b) any central bank which is responsible for supervising the administrator of the reference rate, (c) any other relevant supervisory or regulatory authority or national legislative body of the country for the currency to which the reference rate relates, (d) a group of the aforementioned central banks or other authorities, or (e) the Financial Stability Board or any part thereof.

"Relevant Date" means (i) in respect of any payment other than a sum to be paid by us on a Subordination Event, the date on which such payment first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Paying Agent or the Trustee on or prior to such date, the Relevant Date means the date on which such moneys will have been so received and notice to that effect will have been given to the holders, and (ii) in respect of a sum to be paid by us on a Subordination Event, the date which is one day prior to the date on which the relevant Subordination Event occurs.

"Relevant Make-whole Screen Page" means the relevant Bloomberg screen page (or any successor or replacement page, section or other part of the information service), or such other page, section or other part as may replace it on the information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying the mid-market yield to maturity for the Reference Security.

"Reset Date" means the First Reset Date and each date falling on the fifth anniversary of the First Reset Date.

"Reset Period" means each period from and including the First Reset Date to but excluding the next following Reset Date and thereafter from and including each Reset Date to but excluding the next following Reset Date.

"S&P" means S&P Global, Inc.

"Senior Obligations" means all our obligations, issued directly by us, other than Parity Obligations and Junior Obligations.

"Senior Preference Share(s)" means the most senior class of preference shares in our capital (*sai yuusen kabushiki*), to the extent such preference shares are in issue.

"Similar Security" means a reference security or reference securities issued by the same issuer as the Reference Security that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term until the First Reset Date.

"Special Event" means any of a Tax Deduction Event, a Withholding Tax Event, a Rating Methodology Event, an Accounting Event or a Substantial Purchase Event or any combination of the foregoing.

"Subordination Claim Amount" means, after satisfaction of the relevant Subordinate Payment Conditions, subject to adjustment as described in "—Subordination—General," the amount payable by us in respect of each note (in lieu of any other payment by us), which will be the amount, if any, as would have been payable to the holder of such note if, on the day prior to the commencement of the relevant Subordination Event, and thereafter, such holder were the holder of a Senior Preference Share having an equal right to a return of assets on the occurrence of the relevant Subordination Event, and so ranking *pari passu* with, the holders of Parity Obligations, but ranking junior to the claims of holders of all Senior Obligations (except as otherwise provided by mandatory provisions of law), on the assumption that the amount that such holder was entitled to receive in respect of each Senior Preference Share on a return of assets on the occurrence of such Subordination Event, was an amount equal to the principal amount of the relevant note and any accrued and unpaid interest and any outstanding Arrears of Interest. The claim of any holder of a note with respect to such Subordination Claim Amount will rank senior to the claims of holders of all Junior Obligations.

"Subordination Event" means any one of the following events:

(i) liquidation proceedings (including ordinary or special liquidation proceedings under the Companies Act) (*seisan tetsuzuki*) have been commenced in respect of us, or any other order or resolution for the liquidation, dissolution or our winding up has been made (except, in any such case, a solvent winding-up solely for the purposes of a reorganization, reconstruction or amalgamation of us, the terms of which reorganization, reconstruction or amalgamation (x) have previously been approved in writing by the Trustee (acting in accordance with instruction of holders) and (y) do not provide that the notes will thereby become redeemable or repayable as described herein);

(ii) a Japanese court with jurisdiction decides to commence bankruptcy proceedings (*hasan tetsuzuki*) against us pursuant to the provisions of the Bankruptcy Act; or

(iii) any analogous event relating to us to those described in (i) or (ii) above under any insolvency, bankruptcy or similar law outside of Japan which is applicable to us (including any other order being made, or an effective resolution being passed, for the winding-up and/or liquidation of us (except, in any such case, a solvent winding-up solely for the purposes of a reorganization, reconstruction or amalgamation of us, the terms of which reorganization, reconstruction or amalgamation (x) have previously been approved in writing by the Trustee and (y) do not provide that the notes will thereby become redeemable or repayable as described herein)).

"Subordinate Payment Conditions" means:

(i) in a liquidation, our winding up or dissolution in the manner contemplated under paragraph (i) of the definition of "Subordination Event", all of the Senior Obligations then outstanding (and required to be repaid in connection with such Subordination Event) having been paid in full pursuant to the provisions of the Companies Act, or satisfaction thereof has been received in full through another means;

(ii) in our bankruptcy proceedings in the manner contemplated under paragraph (ii) of the definition of "Subordination Event", all the Senior Obligations stated in the dividend table (*haitou hyou*) prepared by the bankruptcy administrator (*hasan kanzainin*) for making a final distribution have been paid in full pursuant to the provisions of the Bankruptcy Act, or satisfaction thereof has been received in full through another means (including by deposit (*kyotaku*)); or

(iii) in the circumstances contemplated under paragraph (iii) of the definition of "Subordination Event", all Senior Obligations have first been paid in full in a manner analogous to those described under (i) and (ii) above (in accordance, where applicable, with an order, plan, scheme or other structure under the relevant insolvency, bankruptcy or similar law) or satisfaction thereof has been received in full through another means.

A “Substantial Repurchase Event” will be deemed to occur if prior to the giving of the relevant notice of redemption we have repurchased (and effect corresponding cancellations) or redeemed notes in respect of 75 percent or more in the aggregate principal amount of the notes initially issued and any further notes issued pursuant to “—Further Issuances”);

“Successor Rate” means the rate that the Independent Adviser or us (as applicable) determines is a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

A “Tax Deduction Event” will be deemed to have occurred if as a result of a Tax Law Change:

(i) in respect of our obligation to make any interest payment on the next following Interest Payment Date, we would not be entitled to claim a deduction in respect of computing our taxation liabilities in Japan, or such entitlement is reduced compared to such entitlement as at the Issue Date; or

(ii) in respect of our obligation to make any interest payment on the next following Interest Payment Date, we would not be entitled to have such deduction set against the profits of companies with which we are grouped for applicable Japanese tax purposes,

and, in each case, we cannot avoid the foregoing in connection with the notes by taking measures reasonably available to us.

“Tax Law Change” means a change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority thereof or therein having the power to tax, including any treaty to which Japan is a party, or any change in the official or generally published interpretation of such laws or regulations, including a decision of any court or tribunal, or any official interpretation or published pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations or interpretation thereof that differs from the previously generally accepted official position in relation to similar transactions, which change, official interpretation, published pronouncement, or amendment has not been publicly announced as formally proposed before, and becomes, or would become, effective on or after the Issue Date.

“Voting Stock” of any specified person as of any date means the Capital Stock of such person that is at the time entitled to vote in the election of the Board of Directors of such person.

A “Withholding Tax Event” will be deemed to occur if as a result of a Tax Law Change, in making any payments on the notes, we have paid or will or would on the next Interest Payment Date be required to pay Additional Amounts on the notes and we cannot avoid the foregoing in connection with the notes by taking measures reasonably available to us.

TAXATION

The following summaries are not intended to be a complete analysis of the tax consequences under Japanese or United States law as a result of the acquisition, ownership and sale of the notes by investors. Potential investors should consult their own tax advisors as to the tax consequences of the acquisition, ownership, sale and other relevant circumstances concerning the notes, including specifically the applicable tax consequences under Japanese or United States law, the law of the jurisdiction of their country of residence (if different) and any tax treaty between Japan and their country of residence.

Japanese Taxation

The following is a general description of certain aspects of Japanese taxation applicable to the notes. It does not purport to be a comprehensive description of the tax aspects of the notes. Prospective purchasers should note that, although the general tax information on Japanese taxation is described hereunder for convenience, the statements below are general in nature and not exhaustive.

Prospective purchasers are advised to consult their own legal, tax, accountancy or other professional advisers in order to ascertain their particular circumstances regarding taxation. The statements below are based on current tax laws and regulations in Japan and current income tax treaties executed by Japan all as in effect on the date hereof and all of which are subject to change or differing interpretations (possibly with retroactive effect). Neither such statements nor any other statements in this offering circular are to be regarded as advice on the tax position of any beneficial owner of the notes or any person purchasing, selling or otherwise dealing in the notes or any tax implication arising from the purchase, sale or other dealings in respect of the notes.

The Notes

The notes do not fall under the concept of so-called “taxable linked notes” as described in Article 6, Paragraph (4) of the Special Taxation Measures Act, i.e., notes of which the amount of interest is to be calculated by reference to certain indexes (as prescribed by the Cabinet Order relating to the Special Taxation Measures Act) regarding the issuer of the notes or a person who has a special relationship with the issuer of the notes (that is, in general terms, a person who directly or indirectly controls or is directly or indirectly controlled by, or is under direct or indirect common control with, the issuer of the notes) within the meaning prescribed by the Cabinet Order (such person is referred to as a specially-related person of the issuer).

Representation of Gross Recipient Status upon Initial Distribution

By subscribing to the notes, an investor will be deemed to have represented it is a “Gross Recipient,” i.e., (i) a beneficial owner that is, for Japanese tax purposes, neither an individual resident of Japan or a Japanese corporation, nor an individual non-resident of Japan or a non-Japanese corporation that in either case is a specially-related person of the issuer, (ii) a Japanese financial institution or a Japanese financial instruments business operator, designated in Article 3-2-2, Paragraph (29) of the Cabinet Order, each, a Designated Financial Institution, that will hold notes for its own proprietary account or (iii) an individual resident of Japan or a Japanese corporation whose receipt of interest on the notes will be made through a payment handling agent in Japan as defined in Article 2-2, Paragraph (2) of the Cabinet Order, or a Japanese Payment Handling Agent. Among other restrictions, the notes are not, as part of the initial distribution by the initial purchasers at any time, to be directly or indirectly offered or sold to, or for the benefit of, any person other than a Gross Recipient or to others for re-offering or resale, directly or indirectly, to, or for the benefit of, any person other than a Gross Recipient, except as specifically permitted under the Special Taxation Measures Act.

Interest Payments on Notes and Redemption Gain

The following description of Japanese taxation (limited to national taxes) applies exclusively to interest on the notes and the redemption gain, meaning any positive difference between the acquisition price of the interest-bearing notes of the holder and the amount which the holder receives upon redemption of such interest-bearing notes, or the Redemption Gain. In addition, the following description assumes that only global notes are issued for the notes and no definitive notes and coupons that are independently traded are issued, in which case different tax consequences may apply. It is not intended to be exhaustive and prospective purchasers are recommended to consult their tax advisers as to their exact tax position.

1. Non-resident Investors

If the recipient of interest on the notes or of the Redemption Gain with respect to interest-bearing notes is an individual non-resident of Japan or a non-Japanese corporation for Japanese tax purposes, as described below, the Japanese tax consequences for such individual non-resident of Japan or non-Japanese corporation are significantly different depending upon whether such individual non-resident of Japan or non-Japanese corporation is a specially-related person of the issuer. Most importantly, if such individual non-resident of Japan or non-Japanese corporation is a specially-related person of the issuer, income tax at the rate of 15.315% of the amount of such interest will be withheld by the issuer of the notes under Japanese tax law.

1.1. Interest

(1) If the recipient of interest on the notes is an individual non-resident of Japan or a non-Japanese corporation having no permanent establishment within Japan or having a permanent establishment within Japan but where the receipt of the interest on the notes is not attributable to such permanent establishment, no Japanese income tax or corporate tax is payable with respect to such interest whether by way of withholding or otherwise, if such recipient complies with certain requirements, *inter alia*:

(i) if the relevant notes are held through certain participants in an international clearing organization such as Euroclear and Clearstream or certain financial intermediaries prescribed by the Special Taxation Measures Act and the Cabinet Order, or together with the Special Taxation Measures Act and the ministerial ordinance and other regulations thereunder, the Law (each such participant or financial intermediary, a Participant), the requirement to provide, at the time of entrusting a Participant with the custody of the relevant notes, certain information prescribed by the Law to enable the Participant to establish that the recipient is exempt from the requirement for Japanese tax to be withheld or deducted, or the Interest Recipient Information, and to advise the Participant if such individual non-resident of Japan or non-Japanese corporation ceases to be so exempted (including the case where it became a specially-related person of the issuer); and

(ii) if the relevant notes are not held by a Participant, the requirement to submit to the relevant paying agent a written application for tax exemption (*Hikazei Tekiyo Shinkokusho*), or the Written Application for Tax Exemption, together with certain documentary evidence.

Failure to comply with such requirements described above (including the case where the Interest Recipient Information is not duly communicated as required under the Law) will result in the withholding by the issuer of the notes of income tax at the rate of 15.315% of the amount of such interest.

(2) If the recipient of interest on the notes is an individual non-resident of Japan or a non-Japanese corporation having a permanent establishment within Japan and the receipt of interest is attributable to

such permanent establishment, such interest will not be subject to a 15.315% withholding tax by the issuer of the notes, if the recipient provides the Interest Recipient Information or submits the Written Application for Tax Exemption as set out in paragraph 1.1(1) above. Failure to do so will result in the withholding by the issuer of the notes of income tax at the rate of 15.315% of the amount of such interest. The amount of such interest will be aggregated with the recipient's other Japanese source income and will be subject to regular income tax or corporate tax, as appropriate.

(3) Notwithstanding paragraphs 1.1(1) and (2) above, if an individual non-resident of Japan or a non-Japanese corporation mentioned above is a specially-related person of the issuer as of the beginning of the year of the issuer of the notes in which the relevant interest payment date falls, the exemption from Japanese withholding tax on interest mentioned above will not apply, and income tax at the rate of 15.315% of the amount of such interest will be withheld by the issuer of the notes. If such individual non-resident of Japan or non-Japanese corporation has a permanent establishment within Japan and the receipt of interest is attributable to such permanent establishment, regular income tax or corporate tax, as appropriate, collected otherwise by way of withholding, will apply to such interest under Japanese tax law.

(4) If an individual non-resident of Japan or a non-Japanese corporation (regardless of whether it is a specially-related person of the issuer) is subject to Japanese withholding tax with respect to interest on the notes under Japanese tax law, a reduced rate of withholding tax or exemption from such withholding tax may be available under the relevant income tax treaty between Japan and the country of tax residence of such individual non-resident of Japan or non-Japanese corporation. As of the date of this offering circular, Japan has income tax treaties, conventions or agreements whereby the above-mentioned withholding tax rate is reduced, generally to 10% with, inter alia, Australia, Canada, Finland, France, Hong Kong, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Qatar, Singapore, Spain, and Switzerland. Under the income tax treaties with Sweden, the United Kingdom, Austria, Denmark, Germany, the United States and Belgium, interest paid to qualified Swedish, United Kingdom, Austrian, Danish, German, United States or Belgian residents is, subject to compliance with certain procedural requirements under Japanese law, generally exempt from Japanese withholding tax (for Belgium, only for a Belgian enterprise). Japan has also signed amendments to the existing tax treaty with Spain generally exempting interest from Japanese withholding tax. However, this amendment has not entered into force. Under the income tax treaties with France, Australia, the Netherlands, New Zealand and Qatar, certain limited categories of qualified residents receiving interest on the notes may, subject to compliance with certain procedural requirements under Japanese law, be fully exempt from Japanese withholding tax for interest on the notes (provided that no exemption will apply to pension funds in the case of Australia and New Zealand). In order to avail themselves of such reduced rate of, or exemption from, Japanese withholding tax under any applicable income tax treaty, individual non-residents of Japan or non-Japanese corporations which are entitled, under any applicable income tax treaty, to a reduced rate of, or exemption from, Japanese withholding tax on payment of interest by the issuer of the notes are required to submit an Application Form for Income Tax Convention regarding Relief from Japanese Income Tax and Special Income Tax for Reconstruction on Interest (as well as any other required forms and documents) in advance through the issuer of the notes to the relevant tax authority before payment of interest.

(5) Under the Law, if an individual non-resident of Japan or a non-Japanese corporation that is a beneficial owner of the notes becomes a specially-related person of the issuer, or an individual non-resident of Japan or a non-Japanese corporation that is a specially-related person of the issuer becomes a beneficial owner of the notes, and if such notes are held through a Participant, then such individual non-resident of Japan or non-Japanese corporation should notify the Participant of such change in status by the immediately following interest payment date of the notes. As described in paragraph 1.1(3) above, as the status of such individual non-resident of Japan or non-Japanese

corporation as a specially-related person of the issuer for Japanese withholding tax purposes is determined based on the status as of the beginning of the year of the issuer in which the relevant interest payment date falls, such individual non-resident of Japan or non-Japanese corporation should, by such notification, identify and advise the Participant of the specific interest payment date on which Japanese withholding tax starts to apply with respect to such individual non-resident of Japan or non-Japanese corporation as being a specially-related person of the issuer.

1.2. Redemption Gain

(1) If the recipient of the Redemption Gain is an individual non-resident of Japan or a non-Japanese corporation having no permanent establishment within Japan or having a permanent establishment within Japan but the receipt of such Redemption Gain is not attributable to such permanent establishment, no income tax or corporate tax is payable with respect to such Redemption Gain.

(2) If the recipient of the Redemption Gain is an individual non-resident of Japan or a non-Japanese corporation having a permanent establishment within Japan and the receipt of such Redemption Gain is attributable to such permanent establishment, such Redemption Gain will not be subject to any withholding tax but will be aggregated with the recipient's other Japanese source income which is subject to Japanese taxation and subject to regular income tax or corporate tax, as appropriate.

(3) Notwithstanding paragraphs 1.2(1) and (2) above, if an individual non-resident of Japan or a non-Japanese corporation mentioned above is a specially-related person of the issuer as of the beginning of the year of the issuer of the notes in which such individual non-resident of Japan or non-Japanese corporation acquired such notes, the Redemption Gain will not be subject to withholding tax but will be subject to regular income tax or corporate tax, as appropriate, under Japanese tax law, regardless of whether such individual non-resident of Japan or non-Japanese corporation has a permanent establishment within Japan; provided that an exemption may be available under the relevant income tax treaty.

2. Resident Investors

If the recipient of interest on the notes is an individual resident of Japan or a Japanese corporation for Japanese tax purposes, as described below, regardless of whether such recipient is a specially-related person of the issuer, income tax will be withheld at the rate of 15.315% of the amount of such interest, if such interest is paid to an individual resident of Japan or a Japanese corporation (except for (i) a Designated Financial Institution which complies with the requirement for tax exemption under Article 6, Paragraph (9) of the Special Taxation Measures Act or (ii) a Japanese public corporation or a Japanese public-interest corporation designated by the relevant law, each, a Public Corporation etc., or a Japanese bank, a Japanese insurance company, a Japanese financial instruments business operator or other Japanese financial institution falling under certain categories prescribed by Article 3-3, Paragraph (6) of the Special Taxation Measures Act, each, a Specified Financial Institution, to which such interest is paid through a Japanese Payment Handling Agent with custody of the notes, or the Japanese Custodian, in compliance with the requirement for tax exemption under Article 3-3, Paragraph (6) of the Special Taxation Measures Act). In addition to the withholding tax consequences upon resident investors as explained in this section 2, resident investors should consult their own tax advisors regarding their regular income tax or corporate tax consequences other than by way of withholding.

2.1. Interest

(1) If an individual resident of Japan or a Japanese corporation (other than a Specified Financial Institution or a Public Corporation etc., who complies with the requirement as referred to in

paragraph 2.1(2) below) receives payments of interest on the notes through Japanese Payment Handling Agents, income tax at the rate of 15.315% of the amount of such interest will be withheld by the Japanese Payment Handling Agent rather than by the issuer of the notes. As the issuer of the notes is not in a position to know in advance the recipient's status, the recipient of interest falling within this category should inform the issuer of the notes through a paying agent of its status in a timely manner. Failure to so inform may result in double withholding. In addition, interest on the notes received by an individual resident of Japan through a Japanese Payment Handling Agent will be subject to 15.315% separate net basis taxation in Japan by filing a separate tax return, and if any withholding tax stated above is to be withheld by the Japanese Payment Handling Agent, the amount of such withholding tax would be credited to Japanese individual income tax upon filing of such separate tax return; provided, however, that an individual noteholder being an individual resident of Japan may choose not to include the interest on the notes to be paid each time in his or her tax return, in which case the above-stated withholding tax would be the final Japanese tax for such individual noteholder being an individual resident of Japan. On the other hand, in the case of other recipients who are Japanese corporations referred to in the beginning of this paragraph, the amount of interest received by any such recipient will be included in such recipient's other taxable income and subject to regular corporate tax.

(2) If the recipient of interest on the notes is a Public Corporation etc. or a Specified Financial Institution that keeps its notes deposited with, and receives the interest through, the Japanese Custodian, and such recipient submits through such Japanese Custodian to the competent tax authority the report prescribed by the Law, no withholding tax is levied on the amount of interest, provided that a Specified Financial Institution will be subject to regular corporate tax with respect to such interest. However, since the issuer of the notes is not in a position to know in advance the recipient's tax exemption status, the recipient of interest falling within this category should inform the issuer of the notes through a paying agent of its status in a timely manner. Failure to so notify the issuer of the notes may result in the withholding by the issuer of the notes of a 15.315% income tax.

(3) If an individual resident of Japan or a Japanese corporation (except for a Designated Financial Institution which complies with the requirements described in paragraph 2.1(4) below) receives interest on the notes not through a Japanese Payment Handling Agent, income tax at the rate of 15.315% of the amount of such interest will be withheld by the issuer of the notes, and the amount of such interest will be aggregated with the recipient's other taxable income and subject to income tax or corporate tax, as appropriate.

(4) If a Designated Financial Institution receives interest on the notes not through a Japanese Payment Handling Agent and such recipient complies with the requirement, inter alia, to provide the Interest Recipient Information or to submit the Written Application for Tax Exemption as referred to in paragraph 1.1(1) above, no withholding tax will be imposed, while the Designated Financial Institution will be subject to regular corporate tax with respect to such interest.

2.2. Redemption Gain

If the recipient of the Redemption Gain is an individual resident of Japan or a Japanese corporation, such Redemption Gain will not be subject to any withholding tax. In addition, if the recipient of the Redemption Gain is an individual resident of Japan, such Redemption Gain will be subject to 15.315% separate net basis taxation in Japan by filing a separate tax return. If the recipient of the Redemption Gain is a Japanese corporation, such Redemption Gain will be included in the recipient's other taxable income and subject to regular corporate tax with some limited exceptions.

3. Special Additional Withholding Tax for Reconstruction from the Great East Japan Earthquake

Due to the imposition of a special additional withholding tax of 0.315% (or 2.1% of 15%) to secure funds for reconstruction from the Great East Japan Earthquake, the withholding tax rate has been effectively increased to 15.315% during the period beginning on January 1, 2013 and ending on December 31, 2037.

Capital Gains, Stamp Tax and Other Similar Taxes, Inheritance Tax and Gift Tax

Gains derived from the sale of notes outside Japan by an individual non-resident of Japan or a non-Japanese corporation having no permanent establishment within Japan are, in general, not subject to Japanese income tax or corporate tax.

No stamp, issue, registration or similar taxes or duties will, under current Japanese law, be payable in Japan by holders of the notes in connection with the issue of the notes, nor will such taxes will be payable by holders of the notes in connection with their transfer if such transfer takes place outside Japan.

Japanese inheritance tax or gift tax at progressive rates may be payable by an individual, wherever resident, who has acquired notes from another individual as legatee, heir or donee.

United States Federal Income Taxation

The following is a summary of certain United States federal income tax consequences, as of the date of this offering circular, of the purchase, ownership and disposition of the notes. Except where noted, this summary deals only with notes that are held as capital assets by a U.S. holder (as defined below) who acquires the notes upon original issuance at their initial offering price.

A "U.S. holder" means a person that is for United States federal income tax purposes a beneficial owner of the notes and any of the following:

- an individual who is a citizen or resident of the United States;
- a corporation (or any other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This summary is based upon provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and regulations, rulings and judicial decisions as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in United States federal income tax consequences different from those summarized below. This summary does not address all of the United States federal income tax consequences that may be relevant to U.S. holders in light of their personal circumstances, nor does it address the Medicare tax on net investment income, United States federal estate and gift taxes or the effects of any state, local or non-United States tax laws. In addition, it does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws. For example, this summary does not address:

- tax consequences to holders who may be subject to special tax treatment, such as dealers in securities or currencies, traders in securities that elect to use the mark-to-market method of accounting for their securities, financial institutions, regulated investment companies, real estate investment trusts, partnerships or other pass-through entities for United States federal income tax purposes, tax-exempt entities or insurance companies;

- tax consequences to persons holding the notes as part of a hedging, integrated, constructive sale or conversion transaction or a straddle;
- tax consequences to holders of the notes who own or are deemed to own 10% or more (by vote or value) of our equity (including bonds treated as equity for United States federal income tax purposes);
- tax consequences to holders of the notes whose "functional currency" is not the U.S. dollar;
- tax consequences attributable to persons being required to accelerate the recognition of any item of gross income with respect to the notes as a result of such income being recognized on an applicable financial statement; or
- alternative minimum tax consequences, if any.

If a partnership (or other entity or arrangement treated as a partnership for United States federal income tax purposes) holds the notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partnership or a partner of a partnership considering an investment in the notes, you should consult your tax advisors.

If you are considering the purchase of notes, you should consult your tax advisors concerning the particular United States federal income tax consequences to you of the purchase, ownership and disposition of the notes, as well as the consequences to you arising under other United States federal tax laws and the laws of any other taxing jurisdiction.

Treatment of the Notes

For United States federal income tax purposes, one of the primary characteristics used to distinguish the treatment of an instrument as indebtedness from an instrument treated as equity is whether the instrument, according to its terms, provides an unconditional promise to pay a fixed sum certain on a particular date in the future. We believe that the notes, due to their perpetual term, should be treated as equity for United States federal income tax purposes, and the following discussion assumes such treatment. However, no assurance can be given that the Internal Revenue Service (the "IRS") will not assert that the notes should be treated in some other manner for United States federal income tax purposes or that a court would not sustain such an assertion. Prospective investors should consult their tax advisors regarding the proper treatment of the notes for United States federal income tax purposes.

Payments of Interest

Under the United States federal income tax laws, the interest payments with respect to the notes (including any Japanese tax withheld and additional amounts paid in respect thereof) will, notwithstanding being denominated as "interest," be treated as dividends to the extent paid out of Rakuten Group, Inc.'s current or accumulated earnings and profits, as determined under United States federal income tax principles. To the extent that the amount of any interest payment exceeds Rakuten Group, Inc.'s current and accumulated earnings and profits for a taxable year, the payment will first be treated as a tax-free return of capital, causing a reduction in the tax basis of the notes, and to the extent the amount of the payment exceeds your tax basis, the excess will be taxed as gain recognized on a sale of the notes (as discussed below). Rakuten Group, Inc. does not, however, expect to determine earnings and profits in accordance with United States federal income tax principles.

Therefore, you should expect that an interest payment on the notes will generally be reported as a dividend. All references to “dividends” or “distributions” below refer to amounts payable on the notes as “interest” (including any additional amounts).

Any dividends that you receive will be includable in your gross income as ordinary income on the day actually or constructively received by you, subject to the application of the PFIC rules discussed below under the heading “—Passive Foreign Investment Company Rules.” Such dividends will not be eligible for the dividends received deduction allowed to corporations under the Code.

Subject to certain conditions and limitations (including a minimum holding period requirement), dividends received by a non-corporate U.S. holder from a “qualified foreign corporation” may be subject to reduced rates of taxation. A foreign corporation is treated as a qualified foreign corporation for these purposes if the corporation is not a PFIC (as discussed below) in the taxable year in which such dividends are paid or in the preceding taxable year and (i) the shares on which the dividends are paid are readily tradable on an established securities market in the United States or (ii) the foreign corporation is eligible for the benefits of a comprehensive income tax treaty with the United States which the United States Treasury Department determines to be satisfactory for these purposes and which includes an exchange of information provision. The United States Treasury Department has determined that the income tax treaty between the United States and Japan (the “Treaty”) meets these requirements. You should consult your tax advisors regarding the application of these rules to your particular circumstances, in particular in regard to your holding period in the notes.

Dividends that exceed certain thresholds in relation to your tax basis in the notes could be characterized as “extraordinary dividends” under the Code. A non-corporate U.S. holder will be required to treat any loss on the sale or other taxable disposition of the notes as a long-term capital loss (regardless of its holding period) to the extent of any extraordinary dividends such U.S. holder receives that are subject to the reduced rates of taxation discussed above.

The amount of any dividend paid in euro will equal the U.S. dollar value of the euro received calculated by reference to the exchange rate in effect on the date the dividend is actually or constructively received by you, regardless of whether the euro are converted into U.S. dollars at such time. If the euro received as a dividend are converted into U.S. dollars on the date of receipt, you generally will not be required to recognize foreign currency gain or loss in respect of the dividend income. If the euro received as a dividend are not converted into U.S. dollars on the date of receipt, you will have a tax basis in the euro equal to their U.S. dollar value at the date of receipt. Any gain or loss realized on a subsequent conversion or other disposition of the euro will be treated as United States source ordinary income or loss.

Dividends generally will be treated as income from sources outside the United States and generally will constitute passive category income for foreign tax credit purposes. Subject to certain conditions and limitations (including a minimum holding period requirement), Japanese withholding taxes, if any, imposed with respect to dividends may be treated as foreign taxes eligible for credit against your United States federal income tax liability. However, any Japanese withholding taxes will not be eligible for a foreign tax credit to the extent that such taxes could have been eliminated by timely providing the Interest Recipient Information or the Written Application for Tax Exemption (as described in “—Japanese Taxation” above), or if the dividends are exempt from Japanese withholding tax pursuant to the Treaty. Because dividends generally are exempt from Japanese withholding tax pursuant to the Treaty (as described in “—Japanese Taxation” above), if you are eligible for Treaty benefits, you generally will not be entitled to a foreign tax credit for any Japanese tax withheld from dividends. If you do not elect to claim a foreign tax credit, you may instead claim a deduction for any Japanese withholding taxes, but only for a taxable year in which you elect to do so with respect to all foreign income taxes paid or accrued in such taxable year and subject to generally applicable limitations under

United States tax law. The rules governing the foreign tax credit and foreign tax deductions are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit or any foreign tax deduction under your particular circumstances.

Sale, Exchange or Other Taxable Disposition of Notes

Upon the sale, exchange or other taxable disposition of the notes, you will recognize taxable gain or loss in an amount equal to the difference between the amount realized for the notes and your tax basis in the notes both as determined in U.S. dollars. Subject to the discussion under "—Passive Foreign Investment Company Rules" below, such gain or loss will generally be capital gain or loss and will generally be long-term capital gain or loss if you have held the notes for more than one year. Long-term capital gains of non-corporate U.S. holders (including individuals) are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by you will generally be treated as United States source gain or loss. Consequently, you may not be able to use the foreign tax credit arising from any Japanese tax imposed on the disposition of the notes unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources.

Passive Foreign Investment Company Rules

Special United States federal income tax rules apply to U.S. holders owning equity in a passive foreign investment company (a "PFIC"). A non-United States corporation generally is classified as a PFIC for United States federal income tax purposes in any taxable year in which either: (1) at least 75% of its gross income is "passive income" or (2) 50% or more of the value (generally determined on the basis of a quarterly average) of its assets is attributable to assets that produce, or are held for the production of, passive income. For this purpose, if the non-United States corporation owns at least 25% (by value) of the stock of another corporation, the non-United States corporation will be treated as owning its proportionate share of the other corporation's gross assets and receiving its proportionate share of the other corporation's gross income.

Passive income generally includes, among other things, dividends, interest, rents and royalties (in each case, subject to certain exceptions), and gains from the disposition of passive assets. In addition, cash is generally considered a passive asset, and we currently hold a significant amount of cash.

Based on our financial statements and our income, assets and activities (in particular, our significant cash balances), we believe there is a material risk that we will be classified as a PFIC for 2021, and we may be classified as a PFIC in future taxable years. The determination of whether we are a PFIC is made annually after the close of each taxable year and will depend on the composition of our income and assets and the value of our assets from time to time. Accordingly, it is possible that our PFIC status may change due to changes in our income or asset composition or the value of our assets.

In the event that we are treated as a PFIC for any taxable year during which you hold notes, you will be subject to special tax rules with respect to any "excess distribution" received and any gain realized from a sale or other disposition, including a pledge, of the notes. Distributions received in a taxable year will be treated as excess distributions to the extent that they are greater than 125% of the average distributions received during the shorter of the three preceding taxable years or your holding period for the notes. Thus, in the event that there is a deferral of interest on the notes, subsequent payments of interest may be treated as excess distributions. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the notes,
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income, and

- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year for individuals or corporations, as applicable, and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

Although the determination of whether we are a PFIC is made annually, if we are a PFIC for any taxable year in which you hold notes, you will generally be subject to the special tax rules described above for that year and for each subsequent year in which you hold the notes (even if we do not qualify as a PFIC in such subsequent years). However, if we cease to be a PFIC, you can avoid the continuing impact of the PFIC rules by making a special election to recognize gain as if your notes had been sold on the last day of the last taxable year during which we were a PFIC. You are urged to consult your tax advisors about this election.

Non-corporate U.S. holders will not be eligible for reduced rates of taxation on any dividends if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year. You will also generally be required to file IRS Form 8621 if you hold notes in any year in which we are classified as a PFIC.

If we are a PFIC for any taxable year during which you hold notes and any of our non-United States subsidiaries is also a PFIC, you will be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of the PFIC rules. You are urged to consult your tax advisors about the application of the PFIC rules to any of our subsidiaries.

Current law provides for certain elections that would result in alternative treatments of any gain and excess distributions, including a “mark-to-market” election (the availability of which would depend on, among other factors, whether the notes are considered to be regularly traded on a “qualified exchange or other market”) and a “qualified electing fund” election (for which we do not currently intend to comply with the requirements necessary for holders to be able to make this election).

You are urged to consult your tax advisors concerning the United States federal income tax consequences of holding notes if we are considered a PFIC in any taxable year.

Backup Withholding and Information Reporting

Generally, information reporting requirements will apply to all payments on the notes and the proceeds from a sale, exchange or other disposition of a note paid to you, unless you are an exempt recipient. You may also be subject to backup withholding on any such payments or proceeds if you fail to provide your taxpayer identification number or a certification that you are not subject to backup withholding, or if you fail to report in full dividend and interest income. Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability, provided the required information is timely furnished to the IRS.

Certain U.S. holders are required to report information relating to an interest in the notes, subject to certain exceptions (including an exception for notes held in accounts maintained by certain financial institutions), by attaching a complete IRS Form 8938, Statement of Specified Foreign Financial Assets, with their tax return for each year in which they hold an interest in the notes. You are urged to consult your tax advisors regarding information reporting requirements relating to your ownership of the notes.

FATCA

Under Sections 1471 through 1474 of the Code (such Sections commonly referred to as “FATCA”), a “foreign financial institution” (as specifically defined under FATCA) that enters into an agreement with the United States Treasury Department may be required to withhold 30% from certain "foreign passthru payments" made to holders that fail to comply with certain certification and/or information reporting requirements. Although the definition of a "foreign passthru payment" is still reserved under current regulations, the term generally refers to payments that are from non-United States sources but that are "attributable to" certain United States payments. Pursuant to proposed United States Treasury regulations (upon which taxpayers may rely until final regulations are issued), withholding on foreign passthru payments, if applicable, would not be required with respect to payments made before the date which is two years after the publication of final regulations defining the term foreign passthru payment. It is unclear whether or to what extent payments on the notes would be considered foreign passthru payments that may be subject to withholding under FATCA. The United States and Japan have entered into an intergovernmental agreement to facilitate the implementation of FATCA, but this agreement does not indicate how the United States and Japan will address foreign passthru payments. We will not pay additional amounts to holders of the notes on account of any withholding that may be imposed pursuant to FATCA. Prospective investors should consult their tax advisors regarding the application of the FATCA rules to an investment in the notes.

BENEFIT PLAN INVESTOR CONSIDERATIONS

The following is a summary of certain considerations associated with the purchase of the notes by (i) employee benefit plans that are subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), (ii) plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the Code or provisions under any other U.S. or non-U.S. federal, state, local or other laws or regulations that are similar to such provisions of ERISA or the Code (collectively, "Similar Laws"), and (iii) entities whose underlying assets are considered to include "plan assets" of any such plan, account or arrangement (each of the foregoing described in clauses (i), (ii) and (iii) referred to herein as, a "Plan").

General Fiduciary Matters

ERISA and the Code impose certain duties on persons who are fiduciaries of a Plan subject to Title I of ERISA or Section 4975 of the Code (a "Covered Plan"), and prohibit certain transactions involving the assets of a Covered Plan and its fiduciaries or other interested parties. Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of such a Covered Plan or the management or disposition of the assets of such a Covered Plan, or who renders investment advice for a fee or other compensation to such a Covered Plan, is generally considered to be a fiduciary of the Covered Plan.

In considering an investment in the notes of a portion of the assets of any Plan, a fiduciary should determine whether the investment is in accordance with the documents and instruments governing the Plan and the applicable provisions of ERISA, the Code or any Similar Law relating to a fiduciary's duties to the Plan including, without limitation, the prudence, diversification, delegation of control, conflicts of interest and prohibited transaction provisions of ERISA, the Code and any other applicable Similar Laws. A fiduciary of a Plan should consider the Plan's particular circumstances and all of the facts and circumstances of the investment, including, but not limited to, the matters discussed above under "Risk Factors," in determining whether an investment in the notes satisfies these requirements.

Prohibited Transaction Issues

Section 406 of ERISA and Section 4975 of the Code prohibit Covered Plans from engaging in specified transactions involving plan assets with persons or entities who are "parties in interest," within the meaning of ERISA, or disqualified persons, within the meaning of Section 4975 of the Code, unless an exemption is available. A party in interest or disqualified person who engaged in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the Covered Plan that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code.

The acquisition and/or holding of the notes by a Covered Plan with respect to which we, an initial purchaser or any of our or their respective affiliates (collectively, the "Relevant Parties") are considered a party in interest or a disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited transaction exemption. In this regard, the U.S. Department of Labor has issued prohibited transaction class exemptions ("PTCEs") that may apply to the acquisition and holding of the notes. These class exemptions include, without limitation, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting insurance company pooled separate accounts, PTCE 91-38 respecting bank collective investment funds, PTCE 95-60 respecting life insurance company general accounts and PTCE 96-23 respecting transactions determined by in-house asset managers. In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide relief from the prohibited transaction provisions of ERISA and Section 4975 of the Code for certain transactions, provided that neither the issuer of the securities nor any of its affiliates (directly or indirectly) have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any Covered Plan involved in the transaction and provided further that the Covered Plan pays no more than, and receives no less than, adequate consideration in connection with the transaction. Each of the above-noted exemptions contains conditions and limitations on its application. Each fiduciary of a Covered Plan considering acquiring and/or holdings the notes in reliance on these or any other exemption should carefully review the exemption to assure it is applicable. There can be no assurance that all of the conditions of any such exemptions will be satisfied.

Plans and entities that are (or whose assets constitute the assets of) governmental plans (as defined in Section 3(32) of ERISA), church plans (as defined in section 3(33) of ERISA) that have not made an election under section 410(d) of the Code and non-United States plans, while not subject to the fiduciary responsibility provisions of Title I of ERISA or the prohibited transaction provisions of Title I of ERISA or Section 4975 of the Code may nevertheless be subject to Similar Laws that include similar requirements. Fiduciaries of any such Plans should consult with their counsel before purchasing any notes.

Because of the foregoing, the notes should not be purchased or held by any person investing plan assets of any Plan, unless such purchase and holding will not constitute or result in a non-exempt prohibited transaction under ERISA and the Code or similar violation of any applicable Similar Laws.

Representation

By acceptance of the notes, each purchaser and subsequent transferee of the notes will be deemed to have represented and warranted that either (i) no portion of the assets used by such purchaser or transferee to acquire or hold the notes constitutes assets of any Plan or (ii) the purchase and holding of the notes by such purchaser or transferee will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or similar violation under any applicable Similar Laws.

The foregoing discussion is general in nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the notes on behalf of, or with the assets of, any Plan, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such investment and whether an exemption would be applicable to the purchase and holding of the notes.

The sale of notes to a Plan is in no respect a representation or recommendation by us, the initial purchasers or any other person that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan or that such an investment is appropriate or advisable for Plans generally or any particular Plan.

Purchasers of the notes have the exclusive responsibility for ensuring that their purchase and holding of the notes complies with the fiduciary responsibility rules of ERISA and does not violate the prohibited transaction rules of ERISA, the Code or applicable Similar Laws. Neither this discussion nor anything provided in this offering circular is or is intended to be investment advice directed at any potential Plan purchasers or at Plan purchasers generally and such purchasers of any notes (or beneficial interests therein) should consult and rely on their own counsel and advisers as to whether an investment in the notes is suitable for the Plan.

TRANSFER RESTRICTIONS

Because of the following restrictions, investors are advised to consult legal counsel prior to making any reoffering, resale, pledge or transfer of the notes.

The offering is being made in accordance with Rule 144A and Regulation S under the Securities Act. The notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction and, accordingly, may not be offered, sold, pledged or otherwise transferred or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except as set forth below.

Rule 144A Notes

Each purchaser of the notes offered hereby in reliance on Rule 144A (the "Rule 144A Notes") will be deemed to have represented and agreed as follows:

(1) It (A) is a QIB, (B) is aware that the sale of the notes to it is being made in reliance on Rule 144A, and (C) is acquiring the notes for its own account or for the account of a QIB, as the case may be.

(2) It understands that the notes have not been and will not be registered under the Securities Act and may not be offered, resold, pledged or otherwise transferred except as permitted by the legend set forth in paragraph (3) below.

(3) It understands that the notes will bear a legend to the following effect, unless Rakuten determines otherwise in compliance with applicable law:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THE HOLDER HEREOF AGREES FOR THE BENEFIT OF RAKUTEN GROUP, INC. (THE "COMPANY") THAT THIS NOTE MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE COMPANY, (2) TO A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT ("RULE 144A")) OR A PERSON WHO THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER IN ACCORDANCE WITH RULE 144A, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, PROVIDED THAT, AS A CONDITION TO THE REGISTRATION OF THE TRANSFER THEREOF, THE COMPANY OR THE TRANSFER AGENT MAY REQUIRE THE DELIVERY OF ANY DOCUMENTS, INCLUDING AN OPINION OF COUNSEL, THAT IT, IN ITS SOLE DISCRETION, MAY DEEM NECESSARY OR APPROPRIATE TO EVIDENCE COMPLIANCE WITH SUCH EXEMPTION (IF AVAILABLE), OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND OTHER JURISDICTIONS. THE HOLDER HEREOF, BY PURCHASING OR ACCEPTING THIS NOTE, REPRESENTS AND AGREES FOR THE BENEFIT OF THE COMPANY THAT IT WILL NOTIFY ANY PURCHASER OF THIS NOTE FROM THE HOLDER OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THIS LEGEND WILL BE REMOVED ONLY AT THE OPTION OF THE COMPANY."

Regulation S Notes

Each purchaser of notes other than the Rule 144A Notes (the "Regulation S Notes") will be deemed to have represented and agreed as follows:

(1) It is a non-U.S. person who is acquiring such Regulation S Notes in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act.

(2) It understands that such Regulation S Notes have not been and will not be registered under the Securities Act and may not be offered, resold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons except as permitted by the legend set forth in paragraph (3) below.

(3) It understands that the Regulation S Notes will bear a legend to the following effect, unless Rakuten determines otherwise in compliance with applicable law:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY JURISDICTION AND MAY NOT BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. RAKUTEN GROUP, INC. HAS AGREED THAT THIS LEGEND SHALL BE DEEMED TO HAVE BEEN REMOVED ON THE 41ST DAY FOLLOWING THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE NOTES AND THE FINAL DELIVERY DATE WITH RESPECT THERETO."

Each purchaser and transferee of the notes offered hereby will be deemed to have represented and agreed that either (i) no portion of the assets used by such purchaser or transferee, as applicable, constitute the assets of (a) an "employee benefit plan" subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), (b) a plan, individual retirement account or other arrangement that is subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), or provisions under any other U.S. or non-U.S. federal, state, local or other laws or regulations that are similar to such provisions of ERISA or the Code (collectively, "Similar Laws"), or (c) an entity whose underlying assets are considered to include the "plan assets" of any such plan, account or arrangement (each of the foregoing described in clauses (a), (b) and (c) referred to herein as a "Plan") or (ii) its purchase of such note will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a similar violation of any applicable Similar Laws.

PLAN OF DISTRIBUTION

Under the terms and subject to the conditions set forth in a purchase agreement, dated April 15, 2021, or the purchase agreement, between us and the initial purchasers named below, for whom Goldman Sachs International and Morgan Stanley & Co. International plc are acting as representatives, the initial purchasers have severally, and not jointly, agreed to purchase, and we have agreed to sell to the initial purchasers, the respective principal amount of the notes listed opposite their names below.

Initial Purchasers	Principal amount of the notes
Goldman Sachs International	€400,000,000
Morgan Stanley & Co. International plc	270,000,000
Daiwa Capital Markets Europe Limited	100,000,000
Merrill Lynch International	100,000,000
Mizuho International plc	50,000,000
SMBC Nikko Capital Markets Limited	50,000,000
Citigroup Global Markets Limited	30,000,000
Total	€1,000,000,000

The initial purchasers have advised us that they propose initially to offer the notes at the offering price listed on the cover page of this offering circular. After the initial offering, the price to investors may be changed. The initial purchasers have agreed to purchase the notes from us at a purchase price that reflects a discount from the offering price, and the initial purchasers will retain the difference between such purchase price and offering price as compensation.

The initial purchasers are entitled to be released and discharged from their obligations under, and to terminate, the purchase agreement in certain circumstances prior to paying us for the notes. If an initial purchaser defaults, the purchase agreement provides that the purchase commitments of the non-defaulting initial purchasers may be increased. The initial purchasers are offering the notes subject to their acceptance of the notes from us and subject to prior sale. The purchase agreement provides that the obligations of the several initial purchasers to pay for and accept delivery of the notes are subject to approval of certain legal matters by their counsel and to certain other conditions. Subject to the terms and conditions set forth in the purchase agreement, the initial purchasers have agreed, severally and not jointly, to purchase all of the notes sold under the purchase agreement if any of these notes are purchased.

The purchase agreement provides that we will indemnify the initial purchasers and their affiliates against specified liabilities, in connection with the offer and sale of the notes, and will contribute to payments the initial purchasers and their affiliates may be required to make in respect of those liabilities.

The notes are being offered and sold (i) by the initial purchasers or the affiliates of certain of the initial purchasers directly or indirectly to non-US persons in offshore transactions outside the United States and Japan in accordance with Rule 903 of Regulation S under the Securities Act, and (ii) in the United States by the initial purchasers or U.S. broker-dealer affiliates of the initial purchasers in the United States to institutions that are QIBs, as defined in Rule 144A, and, in each case, in accordance with applicable laws.

Price Stabilization

In connection with the issue and offering of the notes, Goldman Sachs International, or the stabilization manager (or persons acting on behalf of the stabilization manager), may over-allot or effect transactions with a view to supporting the market price of the notes at levels higher than those which might otherwise prevail. However, stabilization action may not necessarily occur. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the notes and 60 days after the date of the allotment of the notes. Such stabilization action or over-allotment shall be conducted in accordance with all applicable laws and rules.

No Sale of Similar Securities

We have agreed that, during a period of 30 days from the date of this offering circular, we will not, without the prior written consent of the representatives of the initial purchasers, directly or indirectly, issue, sell, offer or agree to sell, or otherwise dispose of, any other U.S. dollar-denominated or Euro-denominated debt securities or securities exchangeable for or convertible into debt similar to the notes or the USD notes (other than as contemplated by the purchase agreement with respect to the notes or the USD notes).

New Issues of the Notes

The notes are new issues of securities with no established trading market. In addition, the notes are subject to certain restrictions on resale and transfer as described under “Transfer Restrictions”. Approval in-principle has been received for the listing of the notes on the Singapore Exchange. For so long as the notes are listed on the Singapore Exchange, the notes will be traded on the Singapore Exchange in a minimum board lot size of €200,000. The initial purchasers have advised us that they presently intend to make a market in the notes after completion of this offering. Such market-making activity will be subject to the limits imposed by applicable laws. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. A liquid or active public trading market for any of the notes may not develop. If an active trading market for the notes does not develop, the market price and liquidity of the notes may be adversely affected. If such notes are traded, they may trade at a discount from the initial offering price, depending on the market for similar securities, our performance and other factors. See “Risk Factors—Risks Relating to the Notes—The market for the notes may have limited liquidity.”

Selling Restrictions

General

No action has been or will be taken by us that would permit a public offering of the notes, or possession or distribution of this offering circular, any amendment or supplement thereto, or any other offering or publicity material relating to the notes in any country or jurisdiction where, or in any circumstances in which, action for that purpose is required. Accordingly, the notes may not be offered or sold, directly or indirectly, and neither this offering circular nor any other offering or publicity material relating to the notes may be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with applicable laws and regulations.

United States

The notes offered by this offering circular have not been and will not be registered under the Securities Act and may not be offered or sold within the United States (as defined in Regulation S), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The initial purchasers or U.S. affiliates of the initial purchasers may arrange for the sale of a portion of the notes in the United States exclusively to persons reasonably believed by them to be qualified institutional buyers (as defined in Rule 144A) in reliance on the exemption from registration provided by Rule 144A. Each United States purchaser of notes is hereby notified that the offer and sale of notes to it is being made in reliance upon such exemption. The offering of the notes outside the United States will be made in compliance with Regulation S.

In addition, until 40 days after the commencement of the offering, an offer or sale of notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A or pursuant to another exemption from registration under the Securities Act.

Japan

The notes have not been and will not be registered under the FIEA, and are subject to the Special Taxation Measures Act. The notes may not be offered or sold in Japan or to, or for the benefit of, any person resident in Japan, or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a person resident in Japan, for Japanese securities law purposes (including any corporation or other entity organized under the laws of Japan) except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and governmental guidelines of Japan. In addition, the notes are not, as part of the initial distribution by the initial purchasers at any time, to be directly or indirectly offered or sold to, or for the benefit of, any person other than a Gross Recipient or to others for re-offering or resale, directly or indirectly, to, or for the benefit of, any person other than a Gross Recipient, except as specifically permitted under the Special Taxation Measures Act. A Gross Recipient for this purpose is (i) a beneficial owner that is, for Japanese tax purposes, neither an individual resident of Japan or a Japanese corporation, nor an individual non-resident of Japan or a non-Japanese corporation that in either case is a specially-related person of the issuer, (ii) a Japanese financial institution or a Japanese financial instruments business operator, designated in Article 3-2-2, Paragraph (29) of the Cabinet Order, relating to the Special Taxation Measures Act that will hold the notes for its own proprietary account or (iii) an individual resident of Japan or a Japanese corporation whose receipt of interest on the notes will be made through a payment handling agent in Japan as defined in Article 2-2, Paragraph (2) of the Cabinet Order.

Prohibition of Sales to EEA Retail Investors

The notes which are the subject of the offering contemplated by this offering circular, as supplemented by any applicable supplement or pricing term sheet in relation thereto, have not been offered, sold or otherwise made available and will not be offered, sold or otherwise made available to any retail investor in the EEA. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

   (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

   (ii) a customer within the meaning of the Insurance Distribution Directive where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United Kingdom

The notes which are the subject of the offering contemplated by this offering circular, as supplemented by any applicable supplement or pricing term sheet in relation thereto, have not been offered, sold or otherwise made available and will not be offered, sold or otherwise made available to any retail investor in the United Kingdom. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or

(ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

Each initial purchaser has represented and agreed that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the notes in circumstances in which Section 21(1) of the FSMA does not apply to us; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

Hong Kong

The contents of this offering circular have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this offering circular, you should obtain independent professional advice.

Each initial purchaser (i) has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any notes other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “SFO”), and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the “C(WUMP)O”) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and (ii) has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

Singapore

This offering circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) under Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

the securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Any reference to any term as defined in the SFA or any provision in the SFA is a reference to that term as modified or amended from time to time including by such of its subsidiary legislation as may be applicable at the relevant time.

By accepting this offering circular and (where applicable) the notes, the person into whose possession this offering circular comes agree to be bound by the limitations and restrictions set out above. The offer or intended offer of sale, or invitation for subscription or purchase, of the notes does not relate to a collective investment scheme which is authorized under Section 286 of the SFA or recognized under Section 287 of the SFA.

Section 309B(1) Notification—We have determined, and hereby notify all persons (including relevant persons (as defined in Section 309A(1) of the SFA)) that the notes are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Switzerland

This offering circular is not intended to constitute an offer or solicitation to purchase or invest in the notes described herein. The notes may not be publicly offered, directly or indirectly, in Switzerland within the meaning of the Swiss Financial Services Act ("FinSA") and no application has or will be made to admit the notes to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this offering circular nor any other offering or marketing material relating to the notes constitutes a prospectus pursuant to the FinSA, and neither this offering circular nor any other offering or marketing material relating to the notes may be publicly distributed or otherwise made publicly available in Switzerland.

Canada

The notes may be sold in Canada only to purchasers purchasing, or deemed to be purchasing, as principal that are both accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable Canadian securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus supplement (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts ("NI 33-105"), the initial purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

> **Upon receipt of this document, each Canadian purchaser hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the notes (including for greater certainty, any purchase confirmation and all notices) be drawn up in the English language only. *Par la réception de ce document, chaque acheteur canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.***

Stamp Taxes and Other Charges

We have agreed that the purchasers of the notes offered by this offering circular are not required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase and in addition to the offering price on the cover page of this offering circular.

Other Relationships

The initial purchasers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the initial purchasers and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for us or our subsidiaries and affiliates, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the initial purchasers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities), financial instruments (including bank loans), currencies and commodities for their own account (including purchasing the notes for their own account) and for the accounts of their customers, and such investment and securities activities may involve securities, instruments or assets of ours or related to our business. If any of the initial purchasers or their affiliates has a lending relationship with us, certain of those initial purchasers or their affiliates routinely hedge, and certain other of those initial purchasers or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these initial purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the notes offered hereby. The initial purchasers and their respective affiliates may also make investment recommendations and may publish or express independent research views in respect of such securities or instruments or in respect of assets, currencies or commodities that may be related to our business, and may at any time hold, or recommend to clients that they acquire, long or short positions in such securities, instruments, currencies or commodities.

Mizuho Bank, Ltd. is one of our principal bank lenders and is an affiliate of Mizuho International plc, an initial purchaser in respect of the offering of the notes. Sumitomo Mitsui Banking Corporation is one of our principal bank lenders and is an affiliate of SMBC Nikko Capital Markets Limited, an initial purchaser in respect of the offering of the notes.

Settlement

We expect delivery of the notes will be made against payment therefor on or about April 22, 2021, London time, which will be the fifth London business day following the date of this offering circular (such settlement being referred to as “T+5”). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes prior to the delivery of the notes hereunder may be required, by virtue of the fact that the notes initially settle in T+5, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the notes who wish to trade the notes prior to their date of delivery hereunder should consult their advisors.

LEGAL MATTERS

Certain Japanese legal matters will be passed upon for us by Nishimura & Asahi. The validity of the notes and certain U.S. legal matters will be passed upon for us by Simpson Thacher & Bartlett LLP and for the initial purchasers by Sullivan & Cromwell LLP, in each case in respect of New York state and U.S. federal securities law.

INDEPENDENT AUDITORS

Our consolidated financial statements as of and for the years ended December 31, 2020 and 2019 (including comparative information thereto) included in this offering circular have been audited by Ernst & Young ShinNihon LLC, an independent auditor, as stated in their reports appearing herein.

LISTING

Approval in-principle has been received for the listing of the notes on the Official List of the Singapore Exchange. For so long as the notes are listed on the Singapore Exchange and the rules of the Singapore Exchange so require, in the event that the global note is exchanged for definitive notes, we will appoint and maintain a paying agent in Singapore, where the definitive notes in respect of such notes may be presented or surrendered for payment or redemption. In addition, in the event that the global note is exchanged for definitive notes, an announcement of such exchange will be made by us or on our behalf through the Singapore Exchange and such announcement will include all material information with respect to the delivery of the definitive notes, including details of the paying agent in Singapore.

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS OF RAKUTEN GROUP, INC.

Consolidated Financial Statements of Rakuten Group, Inc. and its Subsidiaries

As of and for the year ended December 31, 2020:

As of and for the year ended December 31, 2019:

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Independent Auditors' Report

March 30, 2021

The Board of Directors
Rakuten, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Rakuten, Inc. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board as provided for in, pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Rakuten, Inc. resolved to issue new shares and dispose of treasury stock through a third-party allotment in the Meeting of the Board of Directors held on March 12, 2021.

Responsibilities of Management, the Audit & Supervisory Board Member and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by IFRSs, matters related to going concern.

The Audit & Supervisory Board Member and the Audit & Supervisory Board are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with IFRSs.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit & Supervisory Board Member and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit & Supervisory Board Member and the Audit & Supervisory Board with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Ernst & Young ShinNihon LLC
Tokyo, Japan
March 30, 2021

/s/ Takeshi Saida

Takeshi Saida
Designated Engagement Partner
Certified Public Accountant

/s/ Isamu Ando

Isamu Ando
Designated Engagement Partner
Certified Public Accountant

/s/ Kenji Kuroki

Kenji Kuroki
Designated Engagement Partner
Certified Public Accountant

1. Consolidated Financial Statements

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

1) Consolidated Statements of Financial Position

(Millions of Yen)

	Note	December 31, 2019	December 31, 2020
Assets			
Cash and cash equivalents	5	¥1,478,557	¥3,021,306
Accounts receivable — trade	6, 15	222,485	243,886
Financial assets for securities business	7, 15	1,976,009	2,673,229
Loans for credit card business	8, 15	1,828,216	2,033,013
Investment securities for banking business	9, 15	272,711	266,227
Loans for banking business	10, 15	1,049,993	1,436,513
Investment securities for insurance business	11, 15	287,200	283,969
Derivative assets	12	28,050	32,644
Investment securities	13	163,259	275,236
Other financial assets	14, 15	390,234	492,686
Investments in associates and joint ventures	16	177,199	58,072
Property, plant and equipment	17	376,424	684,110
Intangible assets	18	609,450	639,589
Deferred tax assets	26	80,153	126,203
Other assets		225,757	257,755
Total assets		9,165,697	12,524,438
Liabilities			
Accounts payable — trade		329,483	337,427
Deposits for banking business	19	3,160,748	4,716,162
Financial liabilities for securities business	20	1,860,645	2,587,227
Derivative liabilities	12	10,172	78,318
Bonds and borrowings	21	1,727,096	2,487,457
Other financial liabilities	22	820,440	1,131,505
Income taxes payable		12,952	8,700
Provisions	23	109,845	162,579
Insurance business policy reserves	24	318,090	285,336
Employee retirement benefit liabilities	25	11,374	19,272
Deferred tax liabilities	26	2,049	1,920
Other liabilities		65,603	79,521
Total liabilities		8,428,497	11,895,424

	Note	December 31, 2019	December 31, 2020
			(Millions of Yen)
Equity			
Equity attributable to owners of the Company			
Common stock	27	205,924	205,924
Capital surplus	27	224,379	227,844
Retained earnings	27	413,603	290,449
Treasury stock	27	(92,305)	(84,941)
Other components of equity		(15,929)	(30,538)
Total equity attributable to owners of the Company		735,672	608,738
Non-controlling interests		1,528	20,276
Total equity		737,200	629,014
Total liabilities and equity		9,165,697	12,524,438

2) Consolidated Statements of Income

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

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

3) Consolidated Statements of Comprehensive Income

(Millions of Yen)

	Note	Year ended December 31, 2019	Year ended December 31, 2020
Net loss		¥(33,068)	¥(115,838)
Other comprehensive income			
Items that will not be reclassified to net income:			
Gains (losses) on equity instruments measured at fair value through other comprehensive income	39	16,505	(18,898)
Income tax effect of gains or losses on equity instruments measured at fair value through other comprehensive income	26,39	(4,061)	4,680
Remeasurement of insurance business policy reserves based on current market interest rates	24	(4,582)	2,684
Income tax effect of remeasurement of insurance business policy reserves based on current market interest rates	24,26	1,283	(752)
Remeasurement of defined benefit plans	25	(1,257)	(1,434)
Income tax effect of remeasurement of defined benefit plans	25,26	376	439
Other comprehensive income of investments in associates and joint ventures	16	25	(57)
Total items that will not be reclassified to net income (loss)		8,289	(13,338)
Items that may be reclassified to net income:			
Foreign currency translation adjustments		(11,211)	(18,415)
Foreign currency translation adjustments reclassified from other comprehensive income to net income		154	7,578
Corporate income tax on foreign currency translation adjustments	26	1,166	(1,166)
Gains on debt instruments measured at fair value through other comprehensive income	39	1,560	1,616
Allowances for doubtful debts on debt instruments measured at fair value through other comprehensive income	39	(123)	34
Losses on debt instruments measured at fair value through other comprehensive income reclassified from other comprehensive income to net income	39	(1,420)	(254)
Income tax effect of gains or losses on debt instruments measured at fair value through other comprehensive income	26, 39	7	(403)
Losses on cash flow hedges recognized in other comprehensive income	34	(1,652)	(766)
Income tax effect of gains on cash flow hedges recognized in other comprehensive income	26, 34	431	239
Gains on cash flow hedges reclassified from other comprehensive income to net income	34	649	3,893
Income tax effect of gains or losses on cash flow hedges reclassified from other comprehensive income to net income	26, 34	(136)	(1,208)
Other comprehensive income of investments in associates and joint ventures	16	(7,464)	(2,015)
Reclassified from other comprehensive income to net income for the investments in associates and joint ventures	16	—	7,642
Total items that will be reclassified to net income		(18,039)	(3,225)
Other comprehensive income, net of tax		(9,750)	(16,563)
Comprehensive income		(42,818)	(132,401)
Comprehensive income attributable to:			
Owners of the Company		(41,643)	(131,130)
Non-controlling interests		(1,175)	(1,271)
Comprehensive income		(42,818)	(132,401)

4) Consolidated Statements of Changes in Equity

(Millions of Yen)

						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	Remeasurement of insurance business policy reserves based on current market interest rates	Remeasurement of retirement benefit plans	Total other components of equity	Total equity attributable to owners of the 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 impact from change in accounting policies		–	–	(2,087)	–	–	–	–	–	–	–	(2,087)	–	(2,087)
Adjusted balance reflecting change in accounting policy		205,924	218,856	422,481	(97,300)	1,462	25,781	(511)	(4,260)	(47)	22,425	772,386	1,734	774,120
Comprehensive income														
Net loss		–	–	(31,888)	–	–	–	–	–	–	–	(31,888)	(1,180)	(33,068)
Other comprehensive income, net of tax		–	–	–	–	(17,354)	12,487	(708)	(3,299)	(881)	(9,755)	(9,755)	5	(9,750)
Total comprehensive income		–	–	(31,888)	–	(17,354)	12,487	(708)	(3,299)	(881)	(9,755)	(41,643)	(1,175)	(42,818)
Transactions with owners														
Contributions by and distributions to owners														
Cash dividends paid	27, 37	–	–	(6,084)	–	–	–	–	–	–	–	(6,084)	–	(6,084)
Reclassified from other components of equity to retained earnings	38	–	–	28,599	–	–	(28,599)	–	–	–	(28,599)	–	–	–
Disposal of treasury stock with the exercise of share options	27	–	(4,927)	–	4,995	–	–	–	–	–	–	68	–	68
Issuance of share acquisition rights		–	10,584	–	–	–	–	–	–	–	–	10,584	–	10,584
Forfeiture of share acquisition rights		–	(93)	93	–	–	–	–	–	–	–	–	–	–
Others		–	–	153	–	–	–	–	–	–	–	153	–	153
Total contributions by and distributions to owners		–	5,564	22,761	4,995	–	(28,599)	–	–	–	(28,599)	4,721	–	4,721

(Millions of Yen)

	Note	Common stock	Capital surplus	Retained earnings	Treasury stock	Other components of equity: Foreign currency translation adjustments	Other components of equity: Financial instruments measured at fair value through other comprehensive income	Other components of equity: Cash flow hedges	Other components of equity: Remeasurement of insurance business policy reserves based on current market interest rates	Other components of equity: Remeasurement of retirement benefit plans	Other components of equity: Total other components of equity	Total equity attributable to owners of the Company	Non-controlling interests	Total equity
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
As of January 1, 2020		¥205,924	¥224,379	¥413,603	¥(92,305)	¥(15,892)	¥9,669	¥(1,219)	¥(7,559)	¥(928)	¥(15,929)	¥735,672	¥1,528	¥737,200
Comprehensive income														
Net loss		–	–	(114,199)	–	–	–	–	–	–	–	(114,199)	(1,639)	(115,838)
Other comprehensive income, net of tax		–	–	–	–	(6,806)	(13,221)	2,158	1,933	(995)	(16,931)	(16,931)	368	(16,563)
Total comprehensive income		–	–	(114,199)	–	(6,806)	(13,221)	2,158	1,933	(995)	(16,931)	(131,130)	(1,271)	(132,401)
Transactions with owners														
Contributions by and distributions to owners														
Cash dividends paid	27, 37	–	–	(6,103)	–	–	–	–	–	–	–	(6,103)	–	(6,103)
Reclassified from other components of equity to retained earnings	38	–	–	(2,322)	–	–	2,322	–	–	–	2,322	–	–	–
Disposal of treasury stock with the exercise of share options	27	–	(7,364)	–	7,364	–	–	–	–	–	–	0	–	0
Issuance of share acquisition rights		–	11,014	–	–	–	–	–	–	–	–	11,014	–	11,014
Forfeiture of share acquisition rights		–	(187)	187	–	–	–	–	–	–	–	–	–	–
Others		–	–	(717)	–	–	–	–	–	–	–	(717)	–	(717)
Total contributions by and distributions to owners		–	3,463	(8,955)	7,364	–	2,322	–	–	–	2,322	4,194	–	4,194

(Millions of Yen)

	Note	Common stock	Capital surplus	Retained earnings	Treasury stock	Other components of equity: Foreign currency translation adjustments	Financial instruments measured at fair value through other comprehensive income	Cash flow hedges	Remeasurement of insurance business policy reserves based on current market interest rates	Remeasurement of retirement benefit plans	Total other components of equity	Total equity attributable to owners of the Company	Non-controlling interests	Total equity
Changes in ownership interests in subsidiaries														
Issuance of common stock		–	–	–	–	–	–	–	–	–	–	–	309	309
Acquisitions and disposals of non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	18,840	18,840
Others		–	2	–	–	–	–	–	–	–	–	2	870	872
Total changes in ownership interests in subsidiaries		–	2	–	–	–	–	–	–	–	–	2	20,019	20,021
Total transactions with owners		–	3,465	(8,955)	7,364	–	2,322	–	–	–	2,322	4,196	20,019	24,215
As of December 31, 2020		¥205,924	¥227,844	¥290,449	¥(84,941)	¥(22,698)	¥(1,230)	¥939	¥(5,626)	¥(1,923)	¥(30,538)	¥608,738	¥20,276	¥629,014

5) Consolidated Statements of Cash Flows

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

			(Millions of Yen)
	Note	Year ended December 31, 2019	Year ended December 31, 2020
Proceeds from sales and redemption of investment securities		53,740	38,036
Proceeds from sales and redemption of other financial assets		831	14,081
Other payments		(42,077)	(15,314)
Other proceeds		10,919	35,339
Net cash flows from investing activities		(286,290)	(303,347)
Cash flows from financing activities			
Net increase (decrease) in short-term debts	21	107,701	411,279
Net increase in commercial papers	21	18,500	135,500
Proceeds from long-term debts	21	490,805	424,590
Repayments of long-term debts	21	(324,166)	(324,141)
Proceeds from issuance of bonds	21	215,516	148,900
Redemptions of bonds	21	(20,000)	(40,000)
Proceeds from sale of shares by forward contract	22	—	75,348
Repayments of lease liabilities	42	(17,577)	(34,476)
Cash dividends paid		(6,113)	(6,103)
Others		(6,326)	17,211
Net cash flows from financing activities		458,340	808,108
Effect of change in exchange rates on cash and cash equivalents		(2,055)	(3,403)
Net increase in cash and cash equivalents		488,315	1,542,749
Cash and cash equivalents at the beginning of the year	5	990,242	1,478,557
Cash and cash equivalents at the end of the year	5	1,478,557	3,021,306

[Notes to the Consolidated Financial Statements]

1. General Information

(1) Reporting Entity

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

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

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

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

The “Mobile” segment comprises businesses engaged in communication and messaging services, as well as businesses providing digital content sites.

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

(2) Basis of Presentation

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

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

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

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

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

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

(4) Functional Currency and Presentation Currency

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

(5) Basis of Measurement

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

(6) Use of Estimates and Judgments

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

(7) Early Adoption of Standards and Interpretations

Not applicable.

(8) New Standards and Interpretations Not Yet Applied

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

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

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

2. Accounting Policies

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

(1) Basis of Consolidation

1) Subsidiaries

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

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

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

2) Associates and Joint Arrangements

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

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

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

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

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

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

(2) Business Combinations

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

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

– Deferred tax assets or liabilities and liabilities (or assets) related to employee benefit arrangements are recognized and measured in accordance with IAS 12 "Income taxes" and IAS 19 "Employee benefits," respectively; and liabilities related to share-based payments are recognized and measured in accordance with IFRS 2 "Share-based Payment;" and

– Non-current assets and operations classified as held for sale are measured in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations.”

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

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

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

(3) Foreign Currencies

1) Foreign Currency Transactions

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

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

2) Foreign Operations

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

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

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

(4) Cash and Cash Equivalents

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

(5) Financial Instruments

1) Non-derivative Financial Assets

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

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

Financial Assets Measured at Amortized Cost

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

– The asset is held within the Group Companies’ business model with the objective of holding assets in order to collect contractual cash flows; and

– The contractual terms of the instrument give rise on a specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

– The financial instruments are held for the purpose of both the collection of contractual cash flows and eventual sale of cash flows, under the business model of Rakuten Group.

– The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments measured at FVTOCI are initially based on fair value plus directly attributable transaction costs. After initial recognition, subsequent changes are recognized as other comprehensive income. At the time of derecognition, the accumulated amount recognized as other comprehensive income is reclassified to net income.

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

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

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

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

Equity Instruments Measured at FVTOCI

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

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

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

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

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

Notwithstanding the above, with respect to operating receivables and contractual assets that do not contain critical financial elements, such as accounts receivables – trade (hereinafter "operating receivables, etc."), the amount of allowance for doubtful accounts is invariably calculated based on the estimated credit loss over the entire period. As a general rule, estimated credit loss is collectively measured after considering the available rational data for predictive analysis, such as historical loan loss ratios, that are based on operating receivables, etc. grouped by client attribute types. For financial assets with overdue periods above a certain threshold, those considered to pose significant concern for recoverability due to factors such as serious financial distress at the obligor shall be deemed to be credit-impaired.

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

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

Derecognition of Financial Assets

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

2) Non-derivative Financial Liabilities

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

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

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

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

3) Derivatives

Derivatives Qualifying for Hedge Accounting

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

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

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

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

– Fair Value Hedges

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

– Cash Flow Hedges

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

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

Derivatives Not Qualifying for Hedge Accounting

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

Embedded Derivatives

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

4) Presentation of Financial Instruments

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

5) Financial Guarantee Contracts

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

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

(6) Property, Plant and Equipment

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

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

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

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

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

– Buildings and accompanying facilities 10–50 years

– Tools, furniture and fixtures 5–10 years

– Machinery facilities 9 years

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

(7) Intangible Assets

1) Goodwill

Initial Recognition

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

Subsequent Measurement

Goodwill is based on cost less accumulated impairment losses.

2) Capitalized Software Costs

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

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

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

3) Intangible Assets Acquired in Business Combinations

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

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

4) Other Intangible Assets

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

5) Amortization

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

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

– Software mainly 5 years

– Value of the insurance business and its acquired customer relationships 30 years

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

(8) Lease Transactions (as Lessee)

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

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

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

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

(9) Real estate for sale

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

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

(10)Impairment of Non-financial Assets

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

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

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

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

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

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

(11) Provisions

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

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

(12) Insurance

General Insurance Accounting

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

Insurance Business Policy Reserves

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

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

(13) Equity

Common Stock

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

Treasury Stock

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

(14) Share-based Payments

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

(15) Revenue

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

Step 1: Identify the contracts with customers

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

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

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

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

(16) Financial Income and Expenses

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

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

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

(17) Government Grants

The Group Companies account for grants for expenses required to return points to operators and consumers using cashless payments based on the “Point Reward Project for Consumers using Cashless Payment” announced by the Payments Japan Association as government grants.

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

(18) Employee Benefits

1) Short-term Employee Benefits

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

2) Retirement Benefits

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

Defined Benefit System

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

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

(19) Current and Deferred Income Tax

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

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

Deferred tax assets and liabilities are recognized on temporary differences between the carrying amounts of assets and liabilities in the Consolidated Statements of Financial Position and their corresponding tax bases. Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of an asset or liability in a transaction, which is not a business combination and, at the time of the transaction, affects neither income in the Consolidated Statements of Income nor taxable income.

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

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

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

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

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

(20) Earnings Per Share

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

(21) Operating Segments

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

[Changes in Presentation]

(Consolidated Statements of Cash Flows)

Proceeds from sales and redemption of other financial assets, which were included in other proceeds in cash flows from investing activities in the previous fiscal year, have been presented separately from the current fiscal year due to its increased materiality. In order to reflect this change in presentation method, the corresponding amounts from the Consolidated Financial Statements for the previous fiscal year have been reclassified.

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

3. Significant Accounting Estimates and Judgments

(1) Significant Accounting Estimates and Assumptions

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

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

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

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

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

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

Financial assets and financial liabilities including derivatives, held by the Group Companies are based on the following fair values:

– Quoted prices in active markets for identical assets or liabilities;

– Fair value calculated using observable inputs other than quoted prices for the assets or liability, either directly or indirectly; and

– Fair value calculated using valuation techniques incorporating unobservable inputs.

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

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

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

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

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

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

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

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

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

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

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

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

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

(2) Significant Judgment in Applying the Accounting Policies of the Group Companies

In the process of applying the accounting policies, management of the Group Companies has made certain decisions which significantly impact the amounts recognized in the Consolidated Financial Statements.

The Group Companies, mainly in the banking business and the credit card business, transact with structured entities, which are designed so that voting rights or similar rights are not the dominant factor in deciding who controls the entities. Management of the Group Companies decide whether the Group Companies are controlling the entities or not. All related facts and circumstances on the involvement with the structured entity are considered in deciding whether control over such an entity exists.

(3) Significant Accounting Estimates in Conjunction with the Spread of COVID-19

Estimates and judgments that have significant impact on the amounts in the Consolidated Financial Statements for the current fiscal year remain the same in principle as those for the previous fiscal year.

We face uncertainties stemming from deteriorating economic conditions caused by the COVID-19 pandemic, including sluggish consumer spending and increases in the unemployment rate and corporate bankruptcies. But their impact on the Company has been limited, which is evident from the actual business results since the first quarter ended March 31, 2020 when signs of worsening economic activity began to appear following the spread of the pandemic, as the Group Companies provide more than 70 services in a wide range of fields.

The spread of COVID-19 will continue to be a business risk for the Company. However, the Group Companies are studying strategies to flexibly change the business models of each service, while encouraging growth. Therefore, the aforementioned pandemic has not resulted in changes in accounting estimates and judgments that would have an overall material impact on the Consolidated Financial Statements for the current fiscal year, except for the accounting estimate for the allowance for doubtful accounts related to the credit card business loans as mentioned below.

Although there has been no significant deterioration in collection of loans provided as part of credit card business until the end of the current fiscal year, the accounting estimate of allowance for doubtful accounts has been adjusted as necessary to prepare for deteriorating credit risk and possible incurrence of losses in light of uncertainties based on the future spread of COVID-19.

If the COVID-19 expansion radically changes and uncertainty further increases, it could affect significant accounting estimates and judgments, such as the recoverability of goodwill, the recoverability of deferred tax assets, the impairment of debt instruments, and investments in affiliates.

4. Segment Information

(1) General Information

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

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

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

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

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

(2) Measurement of Segment Profit and Loss

The operating segment information is prepared in accordance with IFRS, and operating segment revenue and segment profit (loss) is that before intercompany eliminations without consideration of consolidation adjustments, except for certain consolidated subsidiaries. The internal measures management uses in making decisions are Non-GAAP operating income. accounting principles generally accepted in Japan (JGAAP), the accounting framework under which the Group prepared its consolidated financial statements prior to its adoption of IFRS. Non-GAAP operating income is calculated by adjusting the nonrecurring items and other adjustment items prescribed by the Group Companies from the operating income recorded in accordance with IFRS.

Management believes that the disclosure of Non-GAAP financial measures facilitates comparison between the Group Companies and peer companies in the same industry or comparison of their business results with those of prior fiscal years by stakeholders, and can provide useful information in understanding the underlying business results of the Group Companies and their future outlook. Nonrecurring items refer to one-off items that the Group Companies believe should be excluded in preparing a future outlook based on certain parameters. Other adjustment items are those that tend to differ depending on the standards; therefore are less comparable between companies. Examples of such items are stock-based compensation expense and amortization of acquisition-related intangible assets.

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

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

(Millions of Yen)

	Internet Services	FinTech	Mobile	Total
Segment Revenue	¥743,266	¥486,372	¥169,054	¥1,398,692
Segment Profit (Loss)	107,211	69,306	(76,524)	99,993
Other items				
Depreciation and amortization	19,352	38,018	21,003	78,373

For the year ended December 31, 2020 (January 1 to December 31, 2020)

(Millions of Yen)

	Internet Services	FinTech	Mobile	Total
Segment Revenue	¥820,115	¥576,195	¥227,142	¥1,623,452
Segment Profit (Loss)	40,114	81,291	(226,976)	(105,571)
Other items				
Depreciation and amortization	31,546	46,625	52,620	130,791

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

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

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Segment Revenue	¥1,398,692	¥1,623,452
Intercompany transactions, etc.	(134,760)	(167,914)
Consolidated revenue	1,263,932	1,455,538

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

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Segment Profit (Loss)	¥99,993	¥(105,571)
Intercompany transactions, etc.	(4,864)	2,904
Non-GAAP operating income (loss)	95,129	(102,667)
Amortization of intangible assets	(8,764)	(9,502)
Stock-based compensation expense	(10,137)	(10,612)
One-off items (losses) (Note)	(3,483)	28,932
Operating income (loss)	72,745	(93,849)
Financial income and expenses	(5,385)	(19,457)
Share of losses of associates and joint ventures	(111,918)	(37,710)
Loss before income tax	(44,558)	(151,016)

Note: For the previous fiscal year, one-off items including an impairment loss on fixed assets in the U.S. etc., of ¥3,483 million were recorded. One-off items listed for the fiscal year ended December 31, 2020 include a gain on sales of all shares in OverDrive Holdings, Inc. of ¥40,926 million, losses on investments in the filmmaking business of ¥3,277 million, and mainly impairment of fixed assets due to the closure of a U.S. based business.

(3) Products and Services

Revenue from external customers by major products and services of the Group Companies is as follows:

(Millions of Yen)

	Rakuten Ichiba and Rakuten Travel	Rakuten Card	Rakuten Bank	Rakuten Mobile	Others	Revenue from external customers
Year ended December 31, 2019	¥270,674	¥168,085	¥72,045	¥80,462	¥672,666	¥1,263,932
Year ended December 31, 2020	310,940	183,480	76,855	125,306	758,957	1,455,538

(4) Geographic Information

For the year ended December 31, 2019

(Millions of Yen)

	Japan	Americas	Europe	Asia	Others	Total
Revenue from external customers	¥1,006,394	197,798	28,509	30,447	784	1,263,932
Property, plant and equipment and intangible assets	638,234	233,304	100,718	13,434	184	985,874

For the year ended December 31, 2020

(Millions of Yen)

	Japan	Americas	Europe	Asia	Others	Total
Revenue from external customers	¥1,199,807	178,807	33,877	42,284	763	1,455,538
Property, plant and equipment and intangible assets	1,006,602	180,891	96,733	36,500	2,973	1,323,699

(5) Major Customers

For the year ended December 31, 2019

There are no major customers disclosed because the proportion of revenue from an individual external customer does not exceed 10% of consolidated revenue.

For the year ended December 31, 2020

There are no major customers disclosed because the proportion of revenue from an individual external customer does not exceed 10% of consolidated revenue.

5. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows.

(Millions of Yen)

	December 31, 2019	December 31, 2020
Cash and deposits	¥1,478,557	¥3,021,306
Cash and cash equivalents	1,478,557	3,021,306

Funds (cash and cash equivalents) stated in the Group Companies' Consolidated Statements of Cash Flows include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less and insignificant risk of changes in value. However, short-term highly liquid investments in the banking business are excluded.

6. Accounts Receivable — Trade

The breakdown of accounts receivable — trade is as follows.

(Millions of Yen)

	December 31, 2019	December 31, 2020
Accounts receivable — trade measured at amortized cost		
Notes and accounts receivable — trade	¥230,388	¥252,834
Gross amount of accounts receivable — trade measured at amortized cost	230,388	252,834
Allowance for doubtful accounts	(8,024)	(8,950)
Net amount of accounts receivable — trade measured at amortized cost	222,364	243,884
Accounts receivable — trade measured at FVTPL	121	2
Total accounts receivable — trade	222,485	243,886

Accounts receivable — trade is mainly generated from sales related to the Internet Services business. Accounts receivables — trade classified as "measured at amortized cost" are limited to those accounts receivables — trade held as part of the Group Companies' business model with, the objective of collecting contractual cash flows and a date of receipt of principal as specified in the contract conditions. All other accounts receivables — trade are classified as "measured at FVTPL."

7. Financial Assets for Securities Business

The breakdown of financial assets for securities business is as follows.

(Millions of Yen)

	December 31, 2019	December 31, 2020
Financial assets measured at amortized cost		
Cash segregated as deposits	¥1,241,980	¥1,563,586
Accounts receivable relating to investment securities transactions	236,130	478,503
Margin transactions assets	406,325	503,798
Short-term guarantee deposits	76,092	105,795
Others	16,636	22,582
Gross amount of financial assets measured at amortized cost	1,977,163	2,674,264
Allowance for doubtful accounts	(2,102)	(1,884)
Net amount of financial assets measured at amortized cost	1,975,061	2,672,380
Financial assets measured at FVTPL	948	849
Total financial assets for securities business	1,976,009	2,673,229

Investment securities held for trading purposes are included in financial assets measured at FVTPL.

Derivative assets held for trading purposes are included in "Derivative assets," while operating investment securities are included in "Investment securities."

8. Loans for Credit Card Business

The breakdown of loans for credit card business is as follows.

(Millions of Yen)

	December 31, 2019	December 31, 2020
Gross amount of loans for credit card business	¥1,910,840	¥2,117,358
Allowance for doubtful accounts	(82,624)	(84,345)
Net amount of loans for credit card business	1,828,216	2,033,013

Loans for credit card business mainly comprise accounts receivable arising from the use of credit cards by customers based on installment contracts and similar.

Loans for credit card business are measured at amortized cost because they are classified as financial assets held as part of the Group Companies' business model with the objective of collecting contractual cash flows, and such cash flows are limited to solely repayments of principal including interest on the principal balance outstanding.

9. Investment Securities for Banking Business

The breakdown of investment securities for banking business is as follows.

(Millions of Yen)

	December 31, 2019	December 31, 2020
Financial assets measured at amortized cost		
Foreign bonds	¥13,304	¥13,061
Others	673	46
Gross amount of financial assets measured at amortized cost	13,977	13,107
Allowance for doubtful accounts	(99)	(12)
Net amount of financial assets measured at amortized cost	13,878	13,095
Financial assets measured at FVTPL		
Trust beneficiary rights	1,137	1,061
Foreign bonds	220	192
Total financial assets measured at FVTPL	1,357	1,253
Debt instruments measured at FVTOCI		
Trust beneficiary rights	105,649	154,430
Domestic bonds	151,827	97,449
Total debt instruments measured at FVTOCI (Note)	257,476	251,879
Equity instruments measured at FVTOCI	0	0
Total investment securities for banking business	272,711	266,227

(Note) Loss allowance on debt instruments measured at fair value through comprehensive income amounted to ¥40 million for the year ended December 31, 2019 and ¥38 million for the year ended December 31, 2020, and are included in Other Comprehensive Income respectively.

Within investment securities for banking business, investment securities held with the objective of collecting contractual cash flows limited to solely payments of principal and interest on the principal balance outstanding on a specified date in accordance with the contractual terms, are classified as financial assets measured at amortized cost, while all other investment securities are classified as financial assets measured at fair value. Within financial assets measured at fair value, investments in equity instruments are designated as financial assets measured at FVTOCI. Additionally, investment securities held for the objective of both collecting contractual cash flows and selling financial assets and whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding are classified as debt instruments measured at fair value through other comprehensive income. All other investment securities are classified as financial assets measured at fair value through net income. However, investments in equity instruments, for which an irrevocable election had been made to present subsequent changes in fair value in other comprehensive income, are classified as equity instruments measured at fair value through other comprehensive income.

10. Loans for Banking Business

The breakdown of loans for banking business is as follows.

(Millions of Yen)

	December 31, 2019	December 31, 2020
Gross amount of loans for banking business	¥1,062,947	¥1,448,697
Allowance for doubtful accounts	(12,954)	(12,184)
Net amount of loans for banking business	1,049,993	1,436,513

Loans for banking business mainly comprise loan receivables from individual customers.

Loans for banking business are measured at amortized cost because they are defined as financial assets held as part of the Group Companies' business model with the objective of collecting contractual cash flows, and such cash flows are limited to repayments of principal including interest on the principal balance outstanding.

11. Investment Securities for Insurance Business

The breakdown of investment securities for insurance business is as follows.

(Millions of Yen)

	December 31, 2019	December 31, 2020
Financial assets measured at FVTPL		
Domestic bonds	2,699	2,796
Beneficiary investment trust securities		
Unlisted	513	519
Others	2,216	2,169
Total financial assets measured at FVTPL	5,428	5,484
Debt instruments measured at FVTOCI		
Trust beneficiary rights	4,839	5,470
Domestic bonds	44,680	77,639
Foreign bonds	25,598	46,446
Total debt instruments measured at FVTOCI (Note)	75,117	129,555
Equity instruments measured at FVTOCI		
Domestic bonds	5,803	8,572
Stock		
Listed	48,034	27,913
Unlisted	5,037	4,807
Beneficiary investment trust securities		
Listed	146,779	107,638
Others	1,002	0
Total equity instruments measured at FVTOCI	206,655	148,930
Total investment securities for insurance business	287,200	283,969

(Note) Loss allowance on debt instruments measured at fair value through comprehensive income amounted to ¥6 million for the year ended December 31, 2019 and ¥42 million for the year ended December 31, 2020, and are included in other comprehensive income respectively.

Within investment securities for insurance business, investment securities held as part of the Group Companies' business model with the objective of collecting contractual cash flows limited to solely payments of principal and interest on the principal balance outstanding on a specified date in accordance with the contractual terms, are classified as financial assets measured at amortized cost, while all other investment securities are classified as financial assets measured at fair value. Within financial assets measured at fair value, investments in equity instruments are designated as financial assets measured at FVTOCI.

12. Derivative Assets and Derivative Liabilities

The fair values and notional principal amounts of derivatives qualifying for hedge accounting and derivatives not qualifying for hedge accounting are as follows:

Derivatives Qualifying for Hedge Accounting

(Millions of Yen)

	December 31, 2019					
	Notional principal amount by due date			Fair value		Average rate
	One year or less	Over one year	Total	Assets	Liabilities	
Fair value hedges						
Value fluctuation risk						
Interest rate swap contracts	¥—	¥12,500	¥12,500	¥—	¥277	Floating interest rate 0.431% Fixed interest rate 1.637%
Over-the-counter forward contracts	67,888	—	67,888	996	—	
Option contracts	157,099	—	157,099	—	3,302	
Cash flow hedges						
Exchange rate risk						
Foreign exchange forward contracts	4,436	93,715	98,151	33	903	1 U.S. dollar=¥99.44 1 U.S. dollar=1.31 Canadian dollars 1 Euro=1.48 Canadian dollars
Currency swap contracts	—	12,423	12,423	67	13	1 U.S. dollar=¥109.16
Interest rate risk						
Interest rate swap contracts	2,205	111,259	113,464	—	896	Floating interest rate 0.511% Fixed interest rate 0.917%
Total	231,628	229,897	461,525	1,096	5,391	

(Millions of Yen)

	December 31, 2020					
	Notional principal amount by due date			Fair value		Average rate
	One year or less	Over one year	Total	Assets	Liabilities	
Fair value hedges						
Value fluctuation risk						
Interest rate swap contracts	¥8,200	¥4,300	¥12,500	¥—	¥141	Floating interest rate 0.431% Fixed interest rate 1.637%
Over-the-counter forward contracts	106,183	—	106,183	—	5,581	
Option contracts	—	—	—	—	—	
Cash flow hedges						
Exchange rate risk						
Foreign exchange forward contracts	10,568	6,808	17,376	123	391	1 U.S. dollar = ¥99.40 1 U.S. dollar = 1.30 Canadian dollars 1 Euro = 1.58 Canadian dollars 1 Canadian dollar dollar = ¥79.02
Currency swap contracts	—	99,279	99,279	297	654	1 U.S. dollar = ¥109.16
Interest rate risk						
Interest rate swap contracts	3,502	129,683	133,185	—	1,223	Floating interest rate 0.508% Fixed interest rate 0.896%
Total	128,453	240,070	368,523	420	7,990	

Derivatives Not Qualifying for Hedge Accounting

(Millions of Yen)

	December 31, 2019			December 31, 2020		
	Notional principal amount	Fair value		Notional principal amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign currency contracts						
Foreign exchange forward contracts	¥95,676	¥2,621	¥314	¥104,931	¥3,324	¥422
Foreign exchange margin contracts	2,510,664	21,504	3,830	4,316,850	27,501	3,906
Currency option contracts	139	0	0	—	—	—
Total of foreign currency contracts	2,606,479	24,125	4,144	4,421,781	30,825	4,328
Interest rate contracts						
Interest rate swap contracts	138,936	735	637	116,279	510	416
Share price contracts						
Option contracts (Note)	1,403	2,085	—	93,552	869	65,513
Total of share price contracts	1,403	2,085	—	93,552	869	65,513
Others						
Forward contracts	761	—	0	—	—	—
Others	29	9	—	1,485	20	71
Total of others	790	9	0	1,485	20	71
Total	2,747,608	26,954	4,781	4,633,097	32,224	70,328

(Note) In the fiscal year ended December 31, 2020, the Company used a cap-and-floor-model collar transaction for the Prepaid Variable Share Forward Transactions of Lyft shares, and recorded a notional principal amount and fair value of ¥92,149 million and ¥65,513 million, respectively, for option contracts under share price contracts as derivative liabilities. Derivatives arising from the Prepaid Variable Share Forward Transactions of Lyft shares are segregated as embedded derivatives. Details of the transaction are stated in Note 22. Other Financial Liabilities "(Note) Sale of Lyft shares by forward contract."

13. Investment Securities

The breakdown of investment securities is as follows.

(Millions of Yen)

	December 31, 2019	December 31, 2020
Financial assets measured at amortized cost		
Trust beneficiary rights	¥1,400	¥800
Domestic bonds	5,209	5,205
Others	1,804	2,004
Total financial assets measured at amortized cost	8,413	8,009
Financial assets measured at FVTPL		
Share		
Listed (Note)	1,702	173,515
Unlisted	143,218	78,994
Stock investment trust beneficiary securities		
Unlisted	4,249	8,343
Total financial assets measured at FVTPL	149,169	260,852
Equity instruments measured at FVTOCI		
Stock		
Listed	3,480	4,003
Unlisted	2,191	2,367
Others	6	5
Total equity instruments measured at FVTOCI	5,677	6,375
Total investment securities	163,259	275,236

(Note) Effective from the third quarter ended September 30, 2020, the Lyft shares held by the Company have been classified as financial assets measured at FVTPL, and ¥159,183 million has been recorded under investment securities. The details of this change of classification are stated in Note 1. General Information, (3) Significant Changes in the Scope of Consolidation and the Scope of Equity Method Application. As the Lyft shares held by the Company are classified as financial assets held for the purpose of financing, Rakuten Group recorded ¥56,980 million in financial income for valuation differences of fair values incurred through the fair value measurement of the Lyft shares.

14. Other Financial Assets

The breakdown of other financial assets is as follows.

(Millions of Yen)

	December 31, 2019	December 31, 2020
Financial assets measured at amortized cost		
Accounts receivable — other	¥113,324	¥181,043
Call loans for banking business	15,000	—
Security deposits	98,225	114,528
Others	101,942	134,001
Gross amount of financial assets measured at amortized cost	328,491	429,572
Allowance for doubtful accounts	(860)	(4,566)
Net amount of financial assets measured at amortized cost	327,631	425,006
Financial assets measured at FVTPL	7,616	11,348
Policy reserves (for reinsured portion)	54,987	56,332
Total other financial assets	390,234	492,686

15. Allowance for Doubtful Accounts

Changes in the allowance for doubtful accounts by type of debt instruments measured at amortized cost and fair value through other comprehensive income are as follows:

For the year ended December 31, 2019

(Millions of Yen)

	Accounts receivable — trade	Financial assets for securities business	Loans for credit card business	Investment securities for banking business	Loans for banking business	Investment securities for insurance business	Other financial assets	Total
January 1, 2019	¥7,462	¥1,604	¥76,146	¥274	¥14,389	¥33	¥573	¥100,481
Increase for the period (provision)	1,673	606	40,562	—	240	—	453	43,534
Increase for the period (others)	1,486	0	—	28	—	—	—	1,514
Decrease for the period (intended use)	(2,597)	(108)	(33,176)	(14)	(1,675)	—	(24)	(37,594)
Decrease for the period (reversal)	—	—	—	(149)	—	(27)	—	(176)
Decrease for the period (others)	—	—	(908)	—	—	—	(142)	(1,050)
December 31, 2019	8,024	2,102	82,624	139	12,954	6	860	106,709

The above table includes the allowance for doubtful accounts on debt instruments measured at FVTOCI. Such allowance for doubtful accounts is recognized as other comprehensive income.

For the year ended December 31, 2020

(Millions of Yen)

	Accounts receivable — trade	Financial assets for securities business	Loans for credit card business	Investment securities for banking business	Loans for banking business	Investment securities for insurance business	Other financial assets	Total
January 1, 2020	¥8,024	¥2,102	¥82,624	¥139	¥12,954	¥6	¥860	¥106,709
Increase for the period (provision)	2,797	—	41,701	—	1,173	36	3,413	49,120
Increase for the period (others)	—	0	—	1	—	—	333	334
Decrease for the period (intended use)	(1,753)	(164)	(39,946)	—	(1,943)	—	(40)	(43,846)
Decrease for the period (reversal)	—	(54)	—	(90)	—	—	—	(144)
Decrease for the period (others)	(118)	—	(34)	—	—	—	—	(152)
December 31, 2020	8,950	1,884	84,345	50	12,184	42	4,566	112,021

The above table includes the allowance for doubtful accounts on debt instruments measured at FVTOCI. Such allowance for doubtful accounts is recognized as other comprehensive income.

16. Investments in Associates and Joint Ventures

(1) Investments in Associates

The Group Companies account for investments in associates and joint ventures using equity method with some exceptions.

1) Summarized consolidated financial information, etc. on significant associates

For the year ended December 31, 2019

As of December 31, 2019, the Group Companies' stockholding and voting rights ratios in Lyft, Inc. (hereafter "Lyft") were 10.55% and 6.14%, respectively.

a) General information

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

b) Summarized financial information

Summarized financial information of Lyft is as follows.

Due to an agreement with Lyft, it is not practically feasible to align reporting periods, and consequently the equity method is applied in Rakuten Group's Consolidated Financial Statements with a three-month difference in reporting periods. For the year ended December 31, 2019, necessary adjustments are made where Lyft has material transactions or any occurrence of major events that fall within the stated reporting period difference.

(Millions of Yen)

	September 30, 2019
Current assets	¥382,979
Non-current assets	236,992
Current liabilities	257,364
Non-current liabilities	39,441
Equity	
Equity attributable to owners of the Company	323,166

(Millions of Yen)

	From the moment of becoming an associate to September 30, 2019
Revenue	¥198,692
Net loss	(120,741)
Other comprehensive income (loss), net of tax	266
Total comprehensive income (loss)	(120,475)

(Millions of Yen)

	From the moment of becoming an associate to September 30, 2019
Net loss attributable to owners of the Company	¥(120,741)
Other comprehensive income (loss), net of tax attributable to owners of the Company	266
Total comprehensive income (loss) attributable to owners of the Company	(120,475)

(Note) In the nine months ended September 30, 2019, there was no dividend income received from Lyft.

In addition, the adjustment of the equity attributable to owners of the Company based on the above summarized consolidated financial information and the carrying amount of the equity in Lyft is as follows:

(Millions of Yen)

	December 31, 2019
Equity attributable to owners of the Company	¥323,166
Equity ratio (%)	10.55%
Equity attributable to the Company	34,082
Goodwill and consolidation adjustments (Note)	94,129
Carrying amount of equity in Lyft	128,211

(Note) Impairment loss recorded in the year ended December 31, 2019

The Group judged that there is objective evidence that the investment in Lyft, accounted for using the equity method, was impaired due to a significant decline in the market price of its shares, and the recoverable amount was computed with reference to the market price as of September 30, 2019. As a result, an impairment loss of ¥102,873 million was recorded. The fair value was based on the market price of the securities exchange and is classified as Level 1 in the Fair Value Hierarchy.

c) Fair value of investments

The fair value of investments in Lyft as of December 31, 2019 based on the market price is ¥146,004 million.

For the year ended December 31, 2020

The Lyft shares held by the Company, which were previously accounted for using the equity method, have been accounted for as financial assets measured at FVTPL from the beginning of the third quarter ended September 30, 2020. Details of this change of classification are stated in Note 1. General Information, (3) Significant Changes in the Scope of Consolidation and the Scope of Equity Method Application. As a result, ¥25,017 million was recorded in the Consolidated Statements of Income, as share of losses of investments in associates and joint ventures, which is the sum of loss on our Lyft shareholding from the beginning of the third quarter ended September 30, 2020, to the date of the director’s resignation, and a loss caused by the said change in accounting treatment for Lyft shares.

2) Investments in insignificant associates

The carrying amounts of investments in associates and joint ventures, which are all individually insignificant, are as follows:

(Millions of Yen)

	December 31, 2019	December 31, 2020
Total carrying amount	¥47,754	¥56,777

Financial information on associates and joint ventures, which are all individually insignificant, is as follows. The following amounts represent the Group Companies' portion of ownership interests.

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Net loss	¥(1,409)	¥(4,747)
Other comprehensive income (loss)	(242)	(1,588)
Comprehensive income (loss)	(1,651)	(6,335)

(2) Investments in Joint Ventures

For certain investments in companies, the Group Companies have entered into contracts which require unanimous consent among the counterparties for decisions that significantly affect the returns from the investment. As the Group Companies exercise joint control with such counterparties and have rights to the investee's net assets, such companies are determined to be joint ventures and are accounted for using equity method.

The total carrying amounts of investments in individually insignificant joint ventures are as follows:

(Millions of Yen)

	December 31, 2019	December 31, 2020
Total carrying amount	¥1,234	¥1,295

Aggregate financial information on individually insignificant joint ventures is as follows. The following amounts represent the Group Companies' portion of ownership interests.

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Net income (loss)	¥(113)	¥202
Comprehensive income (loss)	(113)	202

17. Property, Plant and Equipment

(1) Schedule of Changes in Property, Plant and Equipment

(Millions of Yen)

	Buildings and accompanying facilities	Tools, furniture and fixtures	Machinery facilities	Construction in progress	Right-of-use assets	Others	Total
January 1, 2019							
Cost	¥54,311	¥60,151	¥—	¥8,840	¥—	¥21,733	¥145,035
Accumulated depreciation and accumulated impairment losses	(13,788)	(30,838)	—	—	—	(9,074)	(53,700)
Carrying amount	40,523	29,313	—	8,840	—	12,659	91,335
Cumulative impact from change in accounting policies	(9,753)	(7,272)	—	—	104,162	(304)	86,833
Increases	9,315	10,830	51,134	54,570	106,994	14,416	247,259
Acquisition through business combinations	33	21	—	48	63	(35)	130
Disposals and sales	(411)	(121)	—	(22)	(234)	(5)	(793)
Impairment losses	(33)	(797)	—	(29)	(101)	(0)	(960)
Depreciation	(2,975)	(7,312)	(1,561)	—	(20,494)	(939)	(33,281)
Exchange rate differences	(291)	(74)	—	(7)	(183)	(67)	(622)
Other changes	61	(855)	—	(4,591)	(8,212)	120	(13,477)
December 31, 2019							
Cost	48,197	56,859	51,134	58,809	210,507	35,186	460,692
Accumulated depreciation and accumulated impairment losses	(11,728)	(33,126)	(1,561)	—	(28,512)	(9,341)	(84,268)

(Millions of Yen)

	Buildings and accompanying facilities	Tools, furniture and fixtures	Machinery facilities	Construction in progress	Right-of-use assets	Others	Total
Carrying amount	36,469	23,733	49,573	58,809	181,995	25,845	376,424
Increases	16,770	28,080	113,340	88,656	139,328	5,013	391,187
Acquisition through business combinations	328	238	—	199	557	19	1,341
Disposals and sales	(2,170)	(870)	(8)	(12,538)	(4,427)	(443)	(20,456)
Impairment losses	(182)	(381)	—	—	(28)	(155)	(746)
Depreciation	(4,448)	(8,979)	(12,393)	—	(35,718)	(1,305)	(62,843)
Exchange rate differences	(806)	(82)	—	(3)	(273)	(192)	(1,356)
Other changes	(353)	301	187	2,262	(1,758)	(80)	559
December 31, 2020							
Cost	60,884	80,668	164,671	137,385	341,856	38,895	824,359
Accumulated depreciation and accumulated impairment losses	(15,276)	(38,628)	(13,972)	—	(62,180)	(10,193)	(140,249)
Carrying amount	45,608	42,040	150,699	137,385	279,676	28,702	684,110

With respect to construction in progress in the table above, ‘Increases’ includes the increase due to new acquisitions net of the decrease due to reclassification to other classes of property, plant and equipment.

Depreciation is presented within “Operating expenses” and Impairment loss is presented within “Other expenses” in the Consolidated Statements of Income.

(2) Impairment of Property, Plant and Equipment

The Group Companies assess, at each reporting date, whether there are any indications that property, plant and equipment may be impaired. If any indication exists, the Group Companies estimate the recoverable amount of the asset.

In principle, the Group Companies estimate the recoverable amount of individual assets. However if estimation of the recoverable amount of individual assets is not possible, then estimation of the recoverable amount of the CGU to which the asset belongs is made. A CGU is the smallest identifiable group of assets, which generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. In principle, each group company is considered to be a CGU. Idle assets for which no future use is anticipated are considered individually as CGUs.

For the year ended December 31, 2019

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

For the year ended December 31, 2020

In the Internet Services segment and the Mobile segment, impairment losses have been recorded on property, plant and equipment of ¥600 million and ¥146 million, respectively.

18. Intangible Assets

(1) Schedule of Changes in Intangible Assets

(Millions of Yen)

	Goodwill	Software	Others	Total
January 1, 2019				
Cost	¥423,727	¥278,466	¥147,334	¥849,527
Accumulated amortization and accumulated impairment losses	(70,072)	(162,926)	(62,714)	(295,712)
Carrying amount	353,655	115,540	84,620	553,815
Increases	—	83,293	37,318	120,611
Acquisition through business combinations	4,485	906	831	6,222
Disposals and sales	—	(2,263)	(96)	(2,359)
Impairment losses	—	(1,727)	(1,954)	(3,681)
Amortization	—	(35,693)	(23,205)	(58,898)
Exchange rate differences	(3,458)	(151)	(141)	(3,750)
Other changes	719	(3,335)	106	(2,510)
December 31, 2019				
Cost	422,129	350,161	182,776	955,066
Accumulated amortization and accumulated impairment losses	(66,728)	(193,591)	(85,297)	(345,616)
Carrying amount	355,401	156,570	97,479	609,450
Increases	—	101,904	7,487	109,391
Acquisition through business combinations	21,220	9,696	1,900	32,816
Disposals and sales	(9,367)	(2,220)	(6,876)	(18,463)
Impairment losses	—	(4,514)	(427)	(4,941)
Amortization	—	(50,847)	(21,658)	(72,505)
Exchange rate differences	(10,834)	(352)	(652)	(11,838)
Other changes	(61)	(4,306)	46	(4,321)

				(Millions of Yen)
	Goodwill	Software	Others	Total
December 31, 2020				
Cost	422,177	434,671	174,772	1,031,620
Accumulated amortization and accumulated impairment losses	(65,818)	(228,740)	(97,473)	(392,031)
Carrying amount	356,359	205,931	77,299	639,589

Software under intangible assets mainly comprises internally generated software.

Amortization of intangible assets is presented in "Operating expenses" and impairment loss is presented in "Other expenses" in the Consolidated Statements of Income.

Research and development expenses recognized as expenses for the years ended December 31, 2019 and 2020 were ¥9,094 million and ¥10,488 million, respectively.

(2) Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives

The balance of goodwill and intangible assets with indefinite useful lives of each CGU or group of CGUs is as follows.

(Millions of Yen)

Operating segment	CGU or a group of CGUs	December 31, 2019		December 31, 2020	
		Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives
Internet Services	Internet Services segment	¥278,082	¥118	¥255,344	¥1,003
FinTech	Rakuten Bank, Ltd.	32,886	—	32,886	—
	Others	21,475	—	21,406	—
	Total	54,361	—	54,292	—
Mobile	Mobile segment	22,958	491	46,723	1,368
	Total	355,401	609	356,359	2,371

For the year ended December 31, 2019

Not applicable.

For the year ended December 31, 2020

Not applicable.

The Group Companies perform impairment testing of goodwill at least annually, regardless of whether there is any indication of impairment. Intangible assets with indefinite useful lives are not amortized; instead they are tested for impairment annually. The Group Companies individually determine the timing of the impairment test for goodwill and intangible assets with indefinite useful lives taking into consideration the timing of the formulation of the relevant business plan. Indications of impairment are also assessed every quarter; and if any such indication exists, impairment testing is performed.

When conducting an impairment test, the Group Companies, as a general rule, consider each company to be a CGU. A CGU is the smallest identifiable group of assets, which generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill is allocated to CGUs or groups of CGUs expected to benefit from synergies associated with business combinations.

As a result, in the Internet Services segment and the Mobile segment, goodwill was subject to monitoring for internal management purposes, due to the expectations for the segment to benefit from intercompany synergies. Accordingly, impairment testing is conducted for the group of CGUs at the operating segment level. Meanwhile, in the FinTech segment, impairment testing is conducted, as a general rule, with each company as a CGU, in light of the unique business environment of each company.

The recoverable amount of a CGU or a group of CGUs with allocated goodwill is the higher of a value in use and fair value less costs of disposal. On December 31, 2020, the recoverable amounts of all CGUs or groups of CGUs to which goodwill was allocated were determined with reference to their calculated values in use.

Value in use is calculated based on the business plans approved by management of each CGU or group of CGU, using pre-tax, estimated future cash flows for primarily three to five years and other assumptions for a three to five year period. These business plans have been drawn up based primarily on gross merchandise sales in the Internet Services, the number of accounts and the number of registered members in the FinTech segment, and average revenue per user (ARPU) and the number of contracts in the Mobile segment. For periods beyond those covered by the business plans, the terminal value is assessed.

Terminal value is calculated using the estimated growth rate of each CGU or group of CGUs. Also the pre-tax discount rate used in the assessment of value in use is calculated for each CGU or group of CGUs.

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

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

Significant assumptions used in the calculation of the recoverable amount as of December 31, 2019 and 2020 are as follows. The following estimates have been used in the analysis of each CGU or group of CGUs.

Operating segment	CGU or a group of CGUs	December 31, 2019		December 31, 2020	
		Growth rate	Discount rate	Growth rate	Discount rate
Internet Services	Internet Services segment	1.3%	6.5%	0.8%	8.1%
FinTech	Rakuten Bank, Ltd.	1.4%	7.8%	0.8%	5.9%
	Others	1.4%	5.4%-16.3%	0.8%	4.6%-16.3%
Mobile	Mobile segment	1.3%	14.4%	0.8%	12.2%

Sensitivity Analysis

The recoverable amounts of CGUs and groups of CGUs to which goodwill and intangible assets with indefinite useful lives have been allocated significantly exceed their carrying amounts, therefore the Group Companies judge that significant impairment is unlikely to occur for these CGUs and groups of CGUs, even if the major assumptions used in impairment testing were to change within a reasonably predictable range.

(3) Impairment of Intangible Assets (Except for Goodwill and Intangible Assets with Indefinite Useful Lives)

The Group Companies assess, at each reporting date, whether there is an indication that intangible assets (except for goodwill and intangible assets with indefinite useful lives) may be impaired. If any indication exists, the Group Companies estimate the recoverable amount of the asset.

In principle, the Group Companies estimate the recoverable amount for the individual asset, but if estimation of the recoverable amount of individual assets is not possible, an estimation of the recoverable amount of the CGU to which the asset belongs is made. Idle assets for which future use is not anticipated are considered individually.

For the year ended December 31, 2019

In the Internet Services segment and the Mobile segment, impairment losses of ¥2,925 million and ¥756 million relating to intangible assets (except for goodwill and intangible assets with indefinite useful lives) were recorded, respectively.

For the year ended December 31, 2020

In the Internet Services segment and the Mobile segment, impairment losses of ¥4,614 million and ¥327 million relating to intangible assets (except for goodwill and intangible assets with indefinite useful lives) were recorded, respectively.

19. Deposits for Banking Business

The breakdown of deposits for banking business is as follows.

(Millions of Yen)

	December 31, 2019	December 31, 2020
Financial liabilities measured at amortized cost		
Demand deposits	¥2,565,702	¥4,213,787
Time deposits	595,046	502,375
Total financial liabilities measured at amortized cost	3,160,748	4,716,162
Total deposits for banking business	3,160,748	4,716,162

20. Financial Liabilities for Securities Business

The breakdown of Financial Liabilities for Securities Business

(Millions of Yen)

	December 31, 2019	December 31, 2020
Accounts payable relating to securities transactions	¥235,638	¥470,834
Margin transactions liabilities	149,300	143,955
Deposits received	953,951	1,222,263
Borrowings secured by securities	179,008	314,589
Guarantee deposits received	342,621	435,519
Others	127	67
Total financial liabilities for securities business	1,860,645	2,587,227

Financial liabilities for securities business are measured at amortized cost.

Derivative liabilities classified as held for trading are included in “Derivative liabilities.”

21. Bonds and Borrowings

The schedule of bonds is as follows.

(Millions of Yen)

Name	Type	Interest rate	December 31, 2019	December 31, 2020
Rakuten, Inc.	Rakuten, Inc. The 4th unsecured bond Currency: JPY Maturity: 5 years	0.13%	9,983	9,994
Rakuten, Inc.	Rakuten, Inc. The 5th unsecured bond Currency: JPY Maturity: 7 years	0.25%	9,971	9,979
Rakuten, Inc.	Rakuten, Inc. The 6th unsecured bond Currency: JPY Maturity: 3 years	0.09%	39,973	—
Rakuten, Inc.	Rakuten, Inc. The 7th unsecured bond Currency: JPY Maturity: 5 years	0.22%	29,930	29,958
Rakuten, Inc.	Rakuten, Inc. The 8th unsecured bond Currency: JPY Maturity: 7 years	0.32%	19,938	19,952
Rakuten, Inc.	Rakuten, Inc. The 9th unsecured bond Currency: JPY Maturity: 10 years	0.42%	9,956	9,962
Rakuten, Inc.	Rakuten, Inc. The 10th unsecured bond Currency: JPY Maturity: 3 years	0.08%	9,963	9,978
Rakuten, Inc.	Rakuten, Inc. The 11th unsecured bond Currency: JPY Maturity: 5 years	0.25%	9,855	9,865

(Millions of Yen)

Name	Type	Interest rate	December 31, 2019	December 31, 2020
Rakuten, Inc.	Rakuten, Inc. The 12th unsecured bond Currency: JPY Maturity: 7 years	0.35%	19,912	19,925
Rakuten, Inc.	Rakuten, Inc. The 13th unsecured bond Currency: JPY Maturity: 10 years	0.45%	19,899	19,909
Rakuten, Inc.	Rakuten, Inc. The 14th unsecured bond Currency: JPY Maturity: 15 years	0.90%	19,885	19,893
Rakuten, Inc.	Rakuten, Inc. The 1st subordinated bond Currency: JPY Maturity: 35 years	2.35%	139,057	139,298
Rakuten, Inc.	Rakuten, Inc. The 2nd subordinated bond Currency: JPY Maturity: 37 years	2.61%	22,771	28,811
Rakuten, Inc.	Rakuten, Inc. The 3rd subordinated bond Currency: JPY Maturity: 40 years	3.00%	12,882	12,895
Rakuten, Inc.	Rakuten, Inc. The 4th subordinated bond Currency: JPY Maturity: 35 years	1.81%	—	49,579
Rakuten, Inc.	Rakuten, Inc. The 5th subordinated bond Currency: JPY Maturity: 37 years	2.48%	—	19,827
Rakuten, Inc.	Rakuten, Inc. The 6th subordinated bond Currency: JPY Maturity: 40 years	3.00%	—	49,521

(Millions of Yen)

Name	Type	Interest rate	December 31, 2019	December 31, 2020
Rakuten, Inc.	Rakuten, Inc. The November 2024 maturity USD-denominated unsecured bond Currency: USD Maturity: 5 years	3.546%	85,784	82,006
Rakuten Card Co., Ltd.	The 1st unsecured bond Currency: JPY Maturity: 3 years	0.14%	19,918	19,946
Rakuten Card Co., Ltd.	The 2nd unsecured bond Currency: JPY Maturity: 5 years	0.30%	19,808	19,826
Rakuten Card Co., Ltd.	The 3rd unsecured bond Currency: JPY Maturity: 7 years	0.42%	9,952	9,959
Rakuten Card Co., Ltd.	The 4th unsecured bond Currency: JPY Maturity: 5 years	0.49%	—	29,835
	Total bonds	—	509,437	620,918

All bonds are measured at amortized cost.

The nominal interest rates applied for each bond in the year ended December 31, 2019 or 2020 are stated in the “Interest rate” column, and they differ from the effective interest rates. During the year ended December 31, 2020, the Company issued the 4th subordinated bond of ¥50,000 million (interest rate: 1.81%, redemption: November 4, 2055), the 5th subordinated bond of ¥20,000 million (interest rate: 2.48%, redemption: November 4, 2057) and the 6th subordinated bond of ¥50,000 million (interest rate: 3.00%, redemption: November 4, 2060). Rakuten Card Co., Ltd. issued the 4th unsecured bond of ¥30,000 million (interest rate: 0.49%, redemption: December 23, 2025).

During the year ended December 31, 2020, the Company’s 6th unsecured bond of ¥40,000 million (interest rate: 0.09%, redemption: June 25, 2020) was redeemed.

The schedule of borrowings is as follows.

(Millions of Yen)

	December 31, 2019	December 31, 2020
Short-term debts	¥218,755	¥630,262
Long-term debts		
Floating-rate debts	522,068	353,530
Fixed-rate debts	292,336	562,747
Commercial paper	184,500	320,000
Total borrowings	1,217,659	1,866,539

All borrowings are measured at amortized cost.

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

	December 31, 2019		December 31, 2020	
	Maturity	Interest rate	Maturity	Interest rate
Short-term debts	—	0.002% -1.18%	—	0% -1.18%
Long-term debts				
Floating-rate debts	3 years to 10 years	0.39227% -4.88554%	1 year to 10 years	0.39909% -4.90814%
Fixed-rate debts	3 years to 25 years	0% -4%	1 year to 25 years	0% -3%
Commercial paper	—	0.007% -0.125%	—	0.007% -0.350%

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

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

Reconciliation of changes in liabilities relating to cash flows arising from financing activities

For the year ended December 31, 2019

(Millions of Yen)

	Liabilities		
	Borrowings	Bonds	Lease liabilities
January 1, 2019	¥925,110	¥309,033	¥6,456
Changes in cash flows from financing and repayments			
Net increase (decrease) in short-term borrowings	107,701	—	—
Increase (decrease) in commercial papers	18,500	—	—
Proceeds from long-term debts	494,121	—	—
Repayment of long-term debts	(324,166)	—	—
Proceeds from issuance of bonds	—	216,656	—
Redemption of bonds	—	(20,000)	—
Repayment of lease liabilities	—	—	(17,577)
Payment of transaction costs relating to borrowings, etc.	(3,316)	(1,140)	—
Total changes from financing cash flows	292,840	195,516	(17,577)
Cumulative impact from change in accounting policies	—	—	91,420
Non-fund transactions			
Changes as a result of gaining or losing control of a subsidiary or another business	(1,287)	—	6
Changes due to increases in right-of-use assets	—	—	106,721
Impact of changes in foreign currency exchange rates	(70)	(376)	(202)
Interest expenses	1,066	264	—
Other changes	—	5,000	(6,312)
December 31, 2019	1,217,659	509,437	180,512

For the year ended December 31, 2020

(Millions of Yen)

	Liabilities		
	Borrowings	Bonds	Lease liabilities
January 1, 2020	¥1,217,659	¥509,437	¥180,512
Changes in cash flows from financing and repayments			
Net increase (decrease) in short-term borrowings	411,279	—	—
Increase (decrease) in commercial papers	135,500	—	—
Proceeds from long-term debts	424,590	—	—
Repayment of long-term debts	(324,141)	—	—
Proceeds from issuance of bonds	—	150,000	—
Redemption of bonds	—	(40,000)	—
Repayment of lease liabilities	—	—	(34,476)
Payment of transaction costs relating to borrowings, etc.	—	(1,100)	—
Total changes from financing cash flows	647,228	108,900	(34,476)
Non-fund transactions			
Changes as a result of gaining or losing control of a subsidiary or another business	35	—	575
Changes due to increases in right-of-use assets	—	—	140,024
Impact of changes in foreign currency exchange rates	192	(3,920)	(323)
Interest expenses	1,425	501	—
Other changes	—	6,000	(5,552)
December 31, 2020	1,866,539	620,918	280,760

22. Other Financial Liabilities

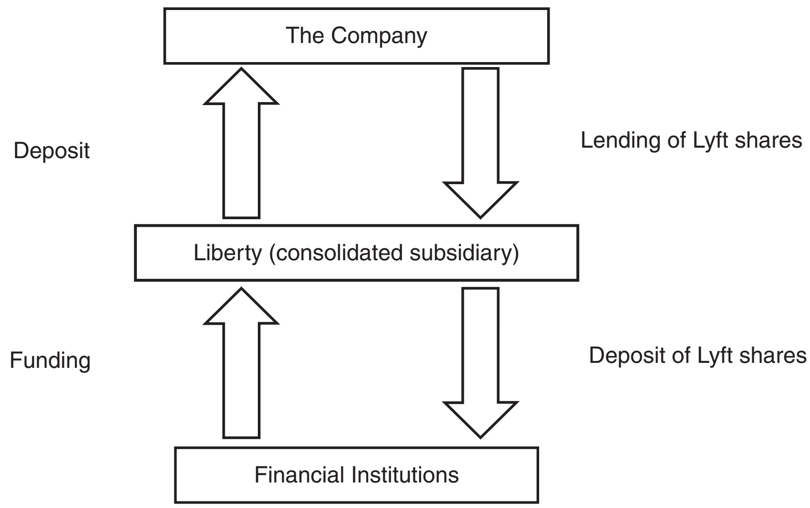
The breakdown of other financial liabilities is as follows.

(Millions of Yen)

	December 31, 2019	December 31, 2020
Financial liabilities measured at amortized cost		
Other payables	¥350,782	¥462,634
Accrued expenses	35,239	43,587
Deposits received	112,016	123,192
Margin deposits received	10,221	13,694
Guarantee deposits received (Note)	115,965	188,828
Lease liabilities	180,512	280,760
Others	12,853	15,748
Total financial liabilities measured at amortized cost	817,588	1,128,443
Financial liabilities measured at fair value through net income		
Securities borrowed	789	—
Other	2,063	3,062
Total financial liabilities measured at fair value through net income	2,852	3,062
Total other financial liabilities	820,440	1,131,505

(Note) Prepaid Variable Share Forward Transactions of Lyft shares

During the year ended December 31, 2020, the Company concluded a master contract with financial institutions through its subsidiary, Liberty Holdco Ltd. (hereinafter "Liberty"), for a forward contract concerning all 31,395,679 of the Lyft shares held by the Company and in return, obtained 714 million U.S. dollars in this financing. When the five-year contract matures, Liberty can choose to settle the deal in either cash or Lyft shares. The Company lent Liberty the Lyft shares and accepted cash from Liberty as a deposit receivable. In addition to the above financing, we have reduced risk associated with price fluctuations of our investments in the share of Lyft by agreeing on a separate collar transaction that sets cap and floor.



During the year ended December 31, 2020, the liabilities associated with the financing using Lyft shares have been recognized as liabilities measured at amortized cost in the amount of ¥72,189 million in other financial liabilities, and the derivative contract of Lyft shares as ¥65,513 million in derivative liabilities.

Additionally, during the year ended December 31, 2020, the difference in fair value valuation arising from the fair value measurement of Lyft shares has been recognized as ¥56,980 million in financial income, the amortized cost incurred from the liabilities associated with the financing using Lyft shares as ¥82 million in financial expenses, and the difference in fair value associated with the derivative contract of Lyft shares as ¥63,903 million in financial expenses.

23. Provisions

(1) Schedule of Changes in Provisions

(Millions of Yen)

	Provision for customer points	Others	Total
January 1, 2019	¥84,242	¥6,274	¥90,516
Increases during the period (provisions made)	104,540	1,600	106,140
Increases during the period (others)	—	2,314	2,314
Decreases during the period (provisions used)	(85,742)	(729)	(86,471)
Decreases during the period (others)	(842)	(1,812)	(2,654)
December 31, 2019	102,198	7,647	109,845
Increases during the period (provisions made)	149,703	9,345	159,048
Increases during the period (others)	53	293	346
Decreases during the period (provisions used)	(103,331)	(308)	(103,639)
Decreases during the period (others)	(1,860)	(1,161)	(3,021)
December 31, 2020	146,763	15,816	162,579

(2) Provision for Customer Points

The Group Companies operate point programs, including the Rakuten Points program, for the purpose of promoting members' transactions within the Group Companies, whereby members are granted points for their purchase of goods at Rakuten Ichiba shops, use of services such as Rakuten Travel, use of Rakuten Card, various membership registrations within the Group Companies and customer referrals. Members are able to exchange accumulated points for products and services, obtain discounts, or transfer their points to point programs of other companies. Points have an expiry date and once they expire a member forfeits the right to use them.

In anticipation of the future use of such points by members, the Group Companies recorded a provision for customer points at an estimated amount based on historical experience. These are estimates and there is an inherent uncertainty regarding the extent of usage of such points by members.

(3) Other Provisions

Other provisions include asset retirement obligations and provision for loss on interest repayments.

These provisions are attributable to transactions in the ordinary course of business, and, are not individually significant.

24. Insurance Business Policy Reserves

(1) The breakdown and changes in policy reserves for insurance business

The breakdown of policy reserves for insurance business is as follows.

(Millions of Yen)

	December 31, 2019	December 31, 2020
Reserve for outstanding claims	¥26,897	¥23,615
Liability reserves	291,193	261,721
Total policy reserves for insurance business	318,090	285,336

Under the funding method for Insurance liabilities reserves, reserve balances reflect the market interest rate. Insurance liability reserves are discounted by the amount of future cash flows which is determined using the market interest rate.

Changes in policy reserves for insurance business are as follows.

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Balance at the beginning of the year	¥334,536	¥318,090
Life insurance business		
Insurance premium (net) (Note 1)	18,361	19,713
Insurance claims and other payments	(9,474)	(9,536)
Market interest rate changes	3,920	(2,891)
Other changes (Note 2)	(8,193)	(8,818)
General insurance business, etc.		
Insurance revenue, etc.	58,416	47,325
Elapsed policy period of insurance	(50,326)	(44,720)
Insured events	39,834	27,305
Insurance claims and other payments	(70,442)	(60,467)
Market interest rate changes	1,203	(821)
Other changes (Note 2)	255	156
Balance at the end of the year	318,090	285,336

(Notes) 1 The amount is calculated by deducting costs allocated to the operation of the insurance business from insurance revenue, etc.

2 The amount includes interest on liability reserves, mortality gain, etc.

Estimated timing of net cash outflows deriving from policy reserves at the end of the current fiscal year are as follows.

(Millions of Yen)

	Total	One year or less	Over one year to three years	Over three years to five years	Over five years
Life insurance business	¥25,682	¥2,655	¥667	¥1,068	¥21,292
General insurance business					
Before risk mitigation through reinsurance	259,654	60,941	81,314	40,604	76,795
After risk mitigation through reinsurance	203,339	48,962	74,321	32,117	47,939

Net cash outflow is calculated based on the remaining insurance period at the end of the current fiscal year.

(2) The breakdown and changes in policy reserves (reinsured portion) for insurance business

The breakdown of policy reserves (reinsured portion) for insurance business is as follows.

(Millions of Yen)

	December 31, 2019	December 31, 2020
Reserve for outstanding claims	¥9,429	¥9,007
Liability reserves	45,558	47,325
Total policy reserves for insurance business	54,987	56,332

Under the funding method for Insurance liabilities reserves, reserve balances reflect the market interest rate. Insurance liability reserves are discounted by the amount of future cash flows which is determined using the market interest rate.

Changes in policy reserves (reinsured portion) for insurance business are as follows.

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Balance at the beginning of the year	¥57,423	¥54,987
General insurance business, etc.		
Insurance revenue, etc.	15,315	18,819
Elapsed policy period of insurance	(16,751)	(16,796)
Insured events	17,480	12,896
Insurance claims and other payments	(19,070)	(13,317)
Market interest rate changes	590	(266)
Other changes	—	9
Balance at the end of the year	54,987	56,332

(3) Gains and losses recognized in net income on buying reinsurance, and deferred amounts

Gains and losses recognized in net income on buying reinsurance, and deferred amounts are as follows.

(Millions of Yen)

	December 31, 2019	December 31, 2020
Reinsurance commission	¥815	¥719
Net reinsurance premium	(15,302)	(17,140)
Deferred reinsurance commission	470	352

(Note) Reinsurance commission, net insurance premium and deferred reinsurance commission are accounted for as operating expense, operating income and intangible asset, respectively.

Changes in deferred gains and losses recognized in net income on buying reinsurance contracts are as follows.

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Balance at the beginning of the year	¥412	¥470
General insurance business		
Recognized during the current fiscal year	1,744	1,602
Amortized	(1,686)	(1,720)
Balance at the end of the year	470	352

(4) Changes in deferred acquisition cost for insurance business

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Balance at the beginning of the year	¥8,035	¥9,664
Life insurance business		
Recognized during the current fiscal year	846	601
Amortized	(251)	(233)
General insurance business, etc.		
Recognized during the current fiscal year	7,519	5,269
Amortized	(6,485)	(5,081)
Balance at the end of the year	9,664	10,220

(5) Liability Adequacy Test for Insurance Contracts

The Group Companies perform a liability adequacy test for insurance contracts taking into consideration estimated present value of cash inflows, such as related insurance premiums and investment income, and cash outflows, such as insurance claims and benefits and operating expenses. As a result of testing, the amount of the liability was considered to be adequate, and no additional recognition of liability and expense was recognized.

(6) Risk Management System Related to Insurance Contracts

For sound and appropriate insurance business operations, it is important to accurately comprehend and adequately manage increasingly diversified and complex risks. Therefore, a cross-organizational risk management framework was developed, and the role and process at departments responsible for risk management were clarified. The Group Companies ensure appropriate business operations by having all employees and officers fully understand the importance of risk management. Specifically, the Group Companies established a cross-organizational "Risk Management Committee," and undertake the following overall risk management activities: appointing departments responsible for risk management according to the type of risk; developing a risk management framework; comprehending, analyzing and assessing risk status; and instructing operational departments.

1) Insurance Risk

Concerning the life insurance business, the Group Companies have identified and analyzed risks through regular monitoring of the frequency of insured events and surrender ratio. In developing new products, risk analysis is carried out in consideration of an appropriate balance with profitability.

Concerning the general insurance business, while monitoring loss ratio and cost ratio, the Group Companies control risks through portfolio management, active review and renewal of products, adopting stringent contract acceptance and establishing effective reinsurance scheme.

In arranging reinsurance, the Group Companies consider the certainty in recovery as the primary factor and select highly creditable insurance firms that meet certain standards as a reinsurance destination.

Under Japanese laws and regulations, insurance companies are required to calculate risks associated with payments of insurance claims and benefits and risks associated with asset management in preparation for the occurrence of various risks to which insurance companies are exposed on a scale beyond a normally predictable level. The amounts equivalent to risks before tax are as follows, which are recognized as representing the impact on the Consolidated Statements of Income in the event of occurrence of such risks. The confidence level of risk quantity is generally assumed to be 95%, with variance depending on the type of risk.

(Millions of Yen)

	December 31, 2019	December 31, 2020
Insurance risk impact amount	¥5,823	¥5,771
Third-sector insurance risk impact amount	975	1,046
Product crediting rate risk impact amount	675	615
Minimum guarantee risk impact amount	—	—
Investment risk impact amount	13,725	8,110
Business risk impact amount	429	430

(a) Sensitivity to insurance risk

In life insurance business, policy reserves are recorded based on the estimated present value of all cash flows derived from insurance contracts by using the assumptions at the initial recognition. Material assumptions in life insurance business include discount rate (interest rate), mortality, morbidity, renewal ratio, operating cost and commissions. In the case where increases in mortality, morbidity, operating cost or commissions are expected, future net income and capital are expected to decrease through an increase in future cash out flows.

In general insurance business, in order to cover future liabilities associated with insurance contracts, policy reserves are recorded based on the assumptions at the initial recognition. Material assumptions in general insurance business include loss ratio, or cost ratio. In the case where increase in loss ratio is predicted, future net income and capital are expected to decrease through an increase in future cash out flows.

There were no changes in the aforementioned assumptions that may have significant impact on the Consolidated Financial Statements for the current fiscal year.

(b) Concentrations of insurance risk

The Group Companies' insurance portfolio is well distributed geographically, thus is not exposed to excessive concentrations of insurance risk.

(c) Actual claims compared with previous estimates (claims development)

Claims development in general insurance business is as follows.

(Millions of Yen)

	Year of contract				
	2016	2017	2018	2019	2020
Cumulative paid insurance and reserve for outstanding claims					
At the end of the year of contract	¥1,293	¥1,091	¥905	¥794	¥703
After one year	4,850	4,304	3,516	2,783	—
After two years	6,317	5,549	4,334	—	—
After three years	6,334	5,377	—	—	—
After four years	6,116	—	—	—	—
Final loss estimation	6,116	5,377	4,334	2,783	703
Cumulative paid insurance	5,796	4,381	2,857	1,102	103
Reserve for outstanding claims	320	996	1,477	1,681	600

Above claims development shows cumulative paid insurance and reserve for outstanding claims of the compulsory automobile liability insurance contracts for which the interval between the accident and the insurance payment is expected to be long.

2) Liquidity risk

For the purpose of liquidity risk management, the Group Companies endeavor to manage cash flows adequately through collecting and analyzing information regarding new policy, cancellation and fund movement at maturity, and to be prepared to provide funds against potential catastrophic loss, while monitoring trading environment at all times to ensure smooth asset liquidation for raising funds when needed.

3) Market risk

Certain subsidiaries operating insurance business under the Group manage their market risks such as foreign exchange risk, interest rate risk and price fluctuation risk, by measuring and managing the risk quantity using VaR as indicator, after establishing specific maximum risk tolerance limits, while closely grasping the outstanding assets under management along with unrealized gain or loss. Calculation of VaR is based on historical simulation method (holding period: six months, confidence interval: 99%), whereby the total market risk is measured at ¥15,106 million as of December 31, 2019. Similarly, the total market risk is measured at ¥6,252 million as of December 31, 2020. VaR is a measurement of market risk assuming certain probability of occurrence of fluctuations calculated statistically based on the past market fluctuations, and may not be able to capture the risks under extreme market volatility beyond normal expectations.

25. Employee benefits

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

The Group Companies have a defined-benefit retirement benefit plan consisting mainly of a lump sum severance payment plan. The Group Companies directly assume payment obligations to the beneficiaries rather having the plan externally funded. There are no legal requirements regarding the funding of the plan. Lump sum severance payments are made in accordance with the retirement benefits provisions of the rules of each company, including the Employment Regulations and on the basis of the employee’s salaries, years of service and other factors.

(1) Amounts recognized in the Consolidated Statements of Financial Position

Amounts recognized in the Consolidated Statements of Financial Position are as follows.

(Millions of Yen)

	December 31, 2019	December 31, 2020
Present value of defined benefit obligations	¥11,643	¥19,558
Fair value of plan assets	269	286
Net amount of employee retirement benefit liabilities recognized in Consolidated Statements of Financial Position	11,374	19,272

(2) Changes in present value of defined benefit obligations

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

(Millions of Yen)

	December 31, 2019	December 31, 2020
Present value of defined benefit obligations (at beginning of period)	¥5,453	¥11,643
Service cost	5,303	7,627
Interest cost	28	39
Remeasurement of defined benefit obligations		
Actuarial gains and losses arising from changes in demographic assumptions	5	193
Actuarial gains and losses arising from changes in financial assumptions	246	(50)
Other revisions	1,006	1,291
Past service cost	—	(377)
Benefit paid	(337)	(864)
Effect of business combination and disposal	(58)	—
Others	(3)	56
Present value of defined benefit obligations (at end of period) (Note)	11,643	19,558

(Note) The weighted average duration of the defined benefit obligation for the fiscal years ended December 31, 2019 and 2020 was 11.3 years and 10.5 years, respectively.

(3) Actuarial assumptions

Significant actuarial assumptions (weighted averages) are as follows.

	December 31, 2019	December 31, 2020
Discount rate	0.38%	0.47%

(4) Sensitivity analysis

The sensitivity analysis of significant actuarial assumptions is as follows.

In the calculation of defined benefit obligations in the sensitivity analysis, the same method of calculation as that used to calculate the defined benefit obligations recognized in the Consolidated Statements of Financial Position was used. Sensitivity analysis is conducted on the reporting date based on changes in the relevant actuarial assumption that were reasonably possible at that date. Additionally, while the sensitivity analysis assumes that all actuarial assumption other than those subject to the sensitivity analysis will remain constant, in actual practice, there is a possibility that it may be affected by changes in other actuarial assumptions.

(Millions of Yen)

		December 31, 2019	December 31, 2020
Discount rate	In the case of 0.5% increase	¥(580)	¥(955)
	In the case of 0.5% decrease	631	1,037

26. Income Tax Expense

The deferred tax assets and liabilities include the following:

(Millions of Yen)

	December 31, 2019	December 31, 2020
Deferred tax assets		
Tax losses carried forward	¥44,895	¥95,472
Allowance for doubtful accounts	22,406	20,552
Provision for customer points	31,152	44,878
Others	44,966	46,232
Total	143,419	207,134
Deferred tax liabilities		
Intangible assets	(16,738)	(26,881)
Assets arising from contract costs	(21,739)	(24,199)
Others	(26,838)	(31,771)
Total	(65,315)	(82,851)
Net amount of deferred tax assets		
Deferred tax assets	80,153	126,203
Deferred tax liabilities	(2,049)	(1,920)
Net	78,104	124,283

In the year ended December 31, 2020, the deferred tax assets recognized for tax losses carried forward were primarily those recognized by the Company's subsidiary, Rakuten Mobile, Inc. Although Rakuten Mobile, Inc. launched voice calling and data transmission services (hereinafter "telephone and telecommunications services") on a full scale as an MNO (Mobile Network Operator) on April 8, 2020, it is expanding its own network ahead of schedule, which has resulted in tax losses carried forward due to an increase in depreciation and other operating expenses.

Because the Group Companies have adopted the consolidated taxation system in Japan, the income of each company in the consolidated taxation group can be used to recover a portion of the tax losses carried forward, and the Group Companies are expected to earn taxable income in the future from telephone and telecommunications services. Based on these assumptions, deferred tax assets were recognized within the scope of estimated future taxable income based on the business plans approved by management.

The deferred tax assets recognized for tax losses carried forward in companies outside the consolidated taxation group were also recognized within the scope of estimated future taxable income based on the business plans approved by management.

The changes in net deferred tax assets and liabilities were as follows:

For the year ended December 31, 2019

(Millions of Yen)

	January 1, 2019	Cumulative impact from change in accounting policies	Recognized in net income	Recognized in other comprehensive income	Changes in scope of consolidation	Others	December 31, 2019
Tax losses carried forward	¥38,168	¥—	¥7,368	¥(641)	¥—	¥—	¥44,895
Allowance for doubtful accounts	22,731	—	(325)	—	—	—	22,406
Provision for customer points	25,649	—	5,503	—	—	—	31,152
Intangible assets	(28,105)	—	11,097	270	—	—	(16,738)
Assets arising from contract costs	(19,823)	—	(1,916)	—	—	—	(21,739)
Others	(1,630)	686	16,525	1,812	(162)	897	18,128
Total	36,990	686	38,252	1,441	(162)	897	78,104

For the year ended December 31, 2020

(Millions of Yen)

	January 1, 2020	Cumulative impact from change in accounting policies	Recognized in net income	Recognized in other comprehensive income	Changes in scope of consolidation	Others	December 31, 2020
Tax losses carried forward	¥44,895	¥—	¥51,498	¥(921)	¥—	¥—	¥95,472
Allowance for doubtful accounts	22,406	—	(1,854)	—	—	—	20,552
Provision for customer points	31,152	—	13,726	—	—	—	44,878
Intangible assets	(16,738)	—	(10,993)	850	—	—	(26,881)
Assets arising from contract costs	(21,739)	—	(2,460)	—	—	—	(24,199)
Others	18,128	—	(5,872)	3,481	(813)	(463)	14,461
Total	78,104	—	44,045	3,410	(813)	(463)	124,283

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

(Millions of Yen)

	December 31, 2019	December 31, 2020
Deductible temporary differences	¥3,020	¥35,393
Unused tax losses carried forward	44,343	92,280
Total	47,363	127,673

Deferred tax assets associated with the above are not recognized, as it is unlikely that future taxable income necessary for the Group Companies to utilize their benefits would be generated.

Tax losses carried forward for which no deferred tax asset is recognized in the Consolidated Statements of Financial Position, if unutilized, will expire as follows. There are no deductible temporary differences with an expiry date.

(Millions of Yen)

	December 31, 2019	December 31, 2020
One year or less	¥213	¥313
Over one year to five years	1,426	1,648
Over five years	42,704	90,319
Total	44,343	92,280

In addition to the above the total amount of deductible temporary differences relating to investments in subsidiaries, associates and joint arrangements that are not recognized as deferred tax assets were ¥493,266 million, as of December 31, 2020 (¥291,882 million as of December 31, 2019).

Additionally, the total amount of taxable temporary differences relating to investments in subsidiaries that are not recognized as deferred tax liabilities were ¥468,630 million, as of December 31, 2020 (¥378,586 million as of December 31, 2019). There will be no significant impact on the Group Companies' tax payment, even if the retained earnings of the subsidiaries or associates are remitted to the Group Companies in the future.

Breakdown of income tax expense recognized through net income is as follows:

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Current tax expense		
Income tax expense for net income	¥26,762	¥8,867
Subtotal	26,762	8,867
Deferred tax expense (Note 2)		
Generation and reversal of temporary difference	(28,438)	7,534
Changes in unused tax losses carried forward	(7,368)	(51,498)
Impact of changes in tax rates, etc. due to tax reform	(2,446)	(81)
Subtotal	(38,252)	(44,045)
Total income tax expense	(11,490)	(35,178)

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

2 Deferred tax expense includes the deferred tax expense incurred as a result of the write-down of deferred tax assets and the reversal of write-downs recognized in prior years. Deferred tax expense as a result of the above was ¥(17,079) million and ¥3,267 million for the previous fiscal year and the current fiscal year, respectively.

Reconciliations between the statutory tax rates in Japan and effective tax rates on income tax expense presented in the Consolidated Statements of Income are as follows:

(%)

	Year ended December 31, 2019	Year ended December 31, 2020
Statutory tax rate in Japan	30.6	30.6
(Reconciliations)		
Permanent non-deductible items	(4.2)	(1.5)
Permanent non-taxable items	6.7	2.9
Impact of changes in tax rates, etc. due to tax reform	5.5	0.1
Effect due to recoverability of deferred tax assets	39.8	(9.3)
Differences due to statutory tax rate of subsidiaries (Note)	17.1	8.1
Effect of temporary differences associated with investments in subsidiaries	7.1	(0.5)
Share of income (loss) of associates and joint ventures	(76.9)	(7.6)
Others	0.1	0.5
Effective tax rate on income tax expense	25.8	23.3

(Note) The difference is due to difference in the statutory tax rate of Japan, where the Company is resident, and that of the other jurisdictions where certain subsidiaries are resident.

27. Common Stock, Capital Surplus, Retained Earnings and Treasury Stock

Common Stock

Schedule of shares authorized to be issued and total number of shares issued.

(Thousands of shares)

	Total number of authorized shares (Common stock with no par value)	Total number of shares issued (Common stock with no par value)
January 1, 2019	3,941,800	1,434,574
Changes during the period: Increase due to issuance of common stock	—	—
December 31, 2019	3,941,800	1,434,574
Changes during the period: Increase due to issuance of common stock	—	—
December 31, 2020	3,941,800	1,434,574

Capital Surplus

The Companies Act of Japan (hereinafter referred to as the "Companies Act") requires that at least 50% of the proceeds of certain issues of common shares be credited to common stock, while the remainder of the proceeds be credited to capital reserve included in capital surplus. The Companies Act permits, upon approval at the General Shareholders' Meeting, the transfer of amounts from capital reserve to common stock.

Retained Earnings

The Companies Act requires that an amount equal to 10% of dividends of retained earnings be appropriated as capital reserve (within capital surplus) or as legal reserve (within retained earnings) until the aggregate amount of the capital reserve and the legal reserve equals to 25% of common stock. The legal reserve may be used to eliminate or reduce a deficit or be transferred to retained earnings upon approval at the General Shareholders' Meeting.

Retained earnings available for dividends under the Companies Act are based on the amount recorded in the Company's general accounting records prepared in accordance with JGAAP.

Treasury Stock

Schedule of Changes in Treasury Stock

(Thousands of shares)

	Year ended December 31, 2019	Year ended December 31, 2020
January 1	82,556	78,319
Acquisition	—	—
Disposal	4,237	6,246
December 31	78,319	72,073

28. Revenue

(1) The Breakdown of Revenue

1) Revenue Arising from Contracts with Customers and Other Sources

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Revenue arising from contracts with customers	¥991,815	¥1,138,292
Revenue arising from other sources	272,117	317,246
Total	1,263,932	1,455,538

(Note) Revenue arising from other sources includes interest and dividend income and other such income recognized in accordance with IFRS 9 and insurance revenues recognized in accordance with IFRS 4.

2) Relationship between Breakdown of Revenue and Segment Revenue

For the year ended December 31, 2019

(Millions of Yen)

		Segment			
		Internet Services	FinTech	Mobile	Total
Main service lines	Rakuten Ichiba and Rakuten Travel	¥270,674	¥—	¥—	¥270,674
	Rakuten 24 (former Soukai Drug and Kenko.com)	73,976	—	—	73,976
	Rakuten Rewards	96,499	—	—	96,499
	Rakuten Books	44,854	—	—	44,854
	OverDrive	29,561	—	—	29,561
	Rakuten Card	—	168,085	—	168,085
	Rakuten Bank	—	72,045	—	72,045
	Rakuten Securities	—	52,906	—	52,906
	Rakuten General Insurance	—	34,505	—	34,505
	Rakuten Life Insurance	—	32,876	—	32,876
	Rakuten Mobile	—	—	80,462	80,462
	Others (Note 2)	195,257	38,017	74,215	307,489
	Total	710,821	398,434	154,677	1,263,932
	Revenue arising from contracts with customers	710,676	126,462	154,677	991,815
	Revenue arising from other sources	145	271,972	—	272,117

(Notes) 1. Amounts are after eliminations of intercompany transactions.
2. To enhance collaboration and synergy between businesses and subsidiaries that operate digital content sites, etc., and “Rakuten Mobile” services, some businesses and subsidiaries have been transferred to other segments from the fiscal year ended December 31, 2020. The main change was made to subsidiaries that operate digital content sites, including Rakuten Kobo Inc. in the Internet Services segment, which were transferred to the Mobile segment. The amount of “Others” for the previous fiscal year has been restated accordingly.

For the year ended December 31, 2020

(Millions of Yen)

		Segment			
		Internet Services	FinTech	Mobile	Total
Main service lines	Rakuten Ichiba and Rakuten Travel	¥310,940	¥—	¥—	¥310,490
	Rakuten 24 (former Soukai Drug and Kenko.com)	85,856	—	—	85,856
	Rakuten Rewards	78,598	—	—	78,598
	Rakuten Books	52,660	—	—	52,660
	OverDrive	17,937	—	—	17,937
	Rakuten Card	—	183,480	—	183,480
	Rakuten Bank	—	76,855	—	76,855
	Rakuten Securities	—	66,197	—	66,197
	Rakuten General Insurance	—	54,801	—	54,801
	Rakuten Life Insurance	—	37,797	—	37,797
	Rakuten Mobile	—	—	125,306	125,306
	Others	246,136	45,625	73,350	365,111
	Total	792,127	464,755	198,656	1,455,538
	Revenue arising from contracts with customers	792,127	147,509	198,656	1,138,292
	Revenue arising from other sources	0	317,246	—	317,246

(Note) Amounts are after eliminations of intercompany transactions.

Interest and dividend income and other such income are recorded as revenue in accordance with IFRS 9, and proceeds from the insurance business are also recorded as revenue in accordance with IFRS 4.

For the year ended December 31, 2019, Rakuten Card, Rakuten Bank and Rakuten Securities recorded revenue of ¥124,728 million, ¥52,508 million and ¥23,735 million, respectively, in accordance with IFRS 9. Rakuten General Insurance and Rakuten Life Insurance recorded revenue of ¥26,187 million and ¥31,252 million, respectively, in accordance with IFRS 4.

For the year ended December 31, 2020, Rakuten Card, Rakuten Bank and Rakuten Securities recorded revenue of ¥137,444 million, ¥53,970 million and ¥24,487 million, respectively, in accordance with IFRS 9. Rakuten General Insurance and Rakuten Life Insurance recorded revenue of ¥45,713 million and ¥37,580 million, respectively, in accordance with IFRS 4.

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

Internet Services

With regard to the Internet Services segment, the Group Companies engage in EC businesses such as Rakuten Ichiba, Rakuten Travel, Rakuten Rewards, Rakuten Books, Rakuten 24 (former Soukai Drug and Kenko.com), OverDrive and a variety of other Internet businesses. The primary revenues in the Internet Services segment are described below.

Rakuten Ichiba and Rakuten Travel

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

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

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

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

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

Rakuten Rewards

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

Rakuten Books, Rakuten 24 (former Soukai Drug and Kenko.com)

In the Internet Services segment, when the Group Companies provide goods mainly for Rakuten users of Internet shopping sites, such as Rakuten Books and Rakuten 24 (former Soukai Drug and Kenko.com), the Group Companies are the principal in the sales contracts. In these direct selling services, revenue is recognized when goods are delivered to the customer. In addition, payments are received approximately within two months after the delivery of goods when performance obligations are satisfied. For Japanese book sales through Rakuten Books, revenues are recognized on a net basis after deducting costs of sales, because the role of the Group Companies in these transactions has the nature of an agent given the resale price maintenance system in Japan.

OverDrive

With regard to OverDrive, the Group Companies provide contents distribution services, including e-books and audio books for libraries and educational institutions. The Group Companies have obligations based on agreements with libraries, which are the main customers, to distribute contents and provide services relating to hosting and customer support. In terms of the distribution of contents, performance obligations are considered to be satisfied at the point of purchase of the contents by the libraries, and thus the revenue is recognized at that point. Payments relating to such performance obligations are received approximately within two months since the invoices are sent. Performance obligations with respect to services relating to hosting and customer support are satisfied over the contract term as time passes, and the revenue is recognized evenly over the contract term in which such performance obligations are satisfied. Furthermore, consideration for a transaction is received each year in the form of advance payment prior to the satisfaction of performance obligations. OverDrive Holdings, Inc. was disposed of due to the transfer of its all shares during the second quarter ended June 30, 2020.

FinTech

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

Rakuten Card

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

Rakuten Bank

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

Rakuten Securities

With regard to Rakuten Securities, the Group Companies engage in financial instruments transaction services and other associated services. Sources of revenue include commissions arising from these transactions, net trading gains, and interest, etc. There is a wide range of financial instruments transactions, including domestic stock transactions, foreign stock transactions, sales of investments, and the commission structure for each transaction differs. For brokerage transactions, margin transactions and sales of investments, performance obligations are satisfied when trades are completed on the trade date or other appropriate date, therefore revenues arising from brokerage transactions are recognized at that point in time. Commissions from spot transactions of shares are received within two business days in principle after the satisfaction of the performance obligations, while commissions from margin transactions and future transactions are received approximately within the period from six months to one year during which open contracts are settled. The Group Companies record net revenue based on fair value on foreign exchange margin transactions, and income received on open contracts of domestic margin transactions, in accordance with IFRS 9.

Rakuten General Insurance

Rakuten General Insurance mainly sells fire insurance and automobile insurance. Its main source of revenue is insurance revenue paid by the policyholders and interest on marketable securities. Revenue from insurance premiums paid by policy holders calculated by using the rate stipulated in the respective contract is recognized in accordance with IFRS 4. Also, interest income is recognized as revenue over the period in accordance with IFRS 9.

Rakuten Life Insurance

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

Mobile

With regard to the Mobile segment, the Group Companies engage in businesses such as Rakuten Mobile, recognizing revenues primarily as follows.

Rakuten Mobile

Rakuten Mobile is an MVNO (Mobile Virtual Network Operator) that uses the networks of an MNO (Mobile Network Operator), as well as an MNO that has launched full-scale services on April 8, 2020. As such, it is mainly engaged in the provision of voice calling and data transmission services (hereinafter “telephone and telecommunications services”) and sales of mobile handsets. For telephone and telecommunications services, maintaining utilizable telephone and telecommunications circuits for users at all times and providing the services using such circuits based on contracts are identified as performance obligations. For the handset sales, a delivery is identified as a performance obligation. When multiple services are provided in a single package, the consideration received from users is divided by the stand-alone selling price and allocated to each performance obligation. The performance obligation for maintaining utilizable telephone and telecommunications circuits is satisfied over the period, and the performance obligation for providing the telephone and telecommunications services is satisfied when the circuits are utilized.

Therefore, revenues arising from providing the circuits are recognized over the contract term. For provision of telephone and telecommunications services, subscriber fees according to the actual usage of the circuits are recognized on a monthly basis. For the handset sales, the performance obligation is satisfied when a mobile handset is delivered to the user and the line is opened, and thus related revenues are recognized at that point. Payments for both performance obligations are received approximately within two months from the billing date.

(2) Accounts arising from contracts

The breakdown of the balance of contracts of the Group Companies is as follows:

For the year ended December 31, 2019

(Millions of Yen)

	January 1, 2019	December 31, 2019
Receivables arising from contracts with customers (Note 1)		
Notes and accounts receivable — trade	¥181,026	¥222,485
Accounts receivable based on installment contracts, etc. (Note 2)	1,327,181	1,655,138
Other financial assets	122,271	154,765
Total	1,630,478	2,032,388
Contract liabilities	19,193	19,234

(Notes) 1. The amount of Impairment loss recognized from “Receivables arising from contracts with customers” are Accounts receivable ¥2,870 million and “Loans for credit card business” ¥11,677 million.

2. This represents accounts receivable arising from the use of credit cards by customers based on installment contracts, etc., which are recorded under “Loans for credit card business” in the Consolidated Statements of Financial Position. Such accounts receivable include commissions received by the Group Companies.

Of the revenues recognized in the previous fiscal year, ¥16,961 million was included in the balance of contract liabilities as of January 1, 2019. In addition, the amount of revenues recognized during the previous fiscal year from the performance obligations satisfied (or partially satisfied) in the past periods was immaterial.

For the year ended December 31, 2020

(Millions of Yen)

	January 1, 2020	December 31, 2020
Receivables arising from contracts with customers (Note 1)		
Notes and accounts receivable — trade	¥222,485	¥243,886
Accounts receivable based on installment contracts, etc. (Note 2)	1,655,138	1,880,374
Other financial assets	154,765	332,222
Total	2,032,388	2,456,482
Contract liabilities	19,234	14,725

(Notes) 1. The amount of Impairment loss recognized from “Receivables arising from contracts with customers” are Accounts receivable of ¥3,079 million and “Loans for credit card business” of ¥12,358 million, respectively.

2. This represents accounts receivable arising from the use of credit cards by customers based on installment contracts, etc., which are recorded under “Loans for credit card business” in the Consolidated Statements of Financial Position. Such accounts receivable include commissions received by the Group Companies.

Of the revenues recognized in the current fiscal year, ¥13,094 million was included in the balance of contract liabilities as of January 1, 2020. In addition, the amount of revenues recognized during the current fiscal year from the performance obligations satisfied (or partially satisfied) in the past periods was immaterial.

(3) Transaction Price Allocated to the Remaining Performance Obligations

The Group Companies retain no significant transactions for which an individual estimated contract period exceeds one year. In addition, consideration arising from contracts with customers do not comprise any significant amount that is not included in transaction price.

(4) Assets Recognized from the Costs to Obtain or Fulfill Contracts with Customers

(Millions of Yen)

	December 31, 2019	December 31, 2020
Assets recognized from costs to obtain a contract	¥60,219	¥67,220
Assets recognized from costs to fulfill a contract	10,624	12,173
Total	70,843	79,393

The Group Companies recognize the incremental costs of obtaining contracts with customers and the costs incurred in fulfilling contracts with customers that are directly associated with the contract as an asset (hereinafter, “assets arising from contract costs”) if those costs are expected to be recoverable, and record them in “Other assets” in the Consolidated Statements of Financial Position. Incremental costs of obtaining contracts are those costs that the Group Companies incur to obtain a contract with a customer that would not have been incurred if the contract had not been obtained.

Incremental costs of obtaining contracts recognized as assets by the Group Companies are mainly the initial costs incurred relating to the new memberships when acquiring customers for Rakuten Card, and the agency commissions and the costs associated with affiliate programs in Rakuten Mobile. Costs incurred in fulfilling contracts with customers mainly comprise issuance costs of Rakuten Card and SIM card costs in Rakuten Mobile. Such costs in Rakuten Card are incurred by the granting of Rakuten Points to new Rakuten Card holders and would not have been incurred unless the contracts had been entered into. These costs are recognized as an asset to the extent they are considered recoverable based on the estimated active card member ratio. The related asset is amortized evenly over five to ten years based on the estimated contract terms, during which performance obligations are satisfied through the provision of settlement services following the members’ use of their Rakuten cards.

The agency commissions and the costs associated with affiliate programs in Rakuten Mobile are paid upon acquiring customers and would not have been incurred unless the contracts had been entered into. The assets relating to the telecommunications services are amortized evenly over four to ten years by estimating the service period consumed by a normal user in which the performance obligations are satisfied to provide services. When a telecommunications service and sales of a mobile handset are provided in a single package, the incremental costs to obtain a service contract is amortized at once after allocating to each performance obligation by stand-alone selling price, and the assets relating to sale of mobile handsets are amortized at once when a mobile handset is delivered to the user and the line is opened.

Also, the Group Companies assess collectability of assets arising from contract costs on recognition and at the end of each quarterly period. In making this assessment for Rakuten Card, the Group Companies consider whether the carrying amounts of such assets exceed the balance of the consideration which the Group Companies expect to be entitled to from the interchange for the relevant credit card related services over the estimated period of the contracts with the card members, less any unrecognized costs directly related to the provision of such services.

In making this assessment for Rakuten Mobile, the Group Companies consider whether the carrying amounts of such assets exceed the balance of the consideration which the Group Companies expect to be entitled to from the interchange for the relevant telephone and telecommunications services over the estimated period of the contracts with the users, less any unrecognized costs directly related to the provision of such services. Such accounting estimates and assumptions could have a significant impact on the amount of assets arising from contract costs recorded through the recognition of impairment losses when circumstances change. Therefore, the Group Companies consider that these accounting estimates and assumptions are significant.

For the years ended December 31, 2019 and 2020, amortization associated with the assets arising from contract costs of the Group Companies was ¥14,251 million and ¥15,968 million, respectively.

29. Operating Expenses

The breakdown of operating expenses is as follows:

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Advertising and promotion expenditures	¥230,842	¥264,063
Employee benefits expenses	206,144	236,092
Depreciation and amortization	106,370	151,506
Communication and maintenance expenses	30,667	40,497
Consignment and subcontract expenses	76,367	91,069
Allowance for doubtful accounts charged to expenses	44,555	45,967
Cost of sales of merchandise and services rendered	383,892	530,977
Interest expense for finance business	7,831	9,477
Commission fee expense for finance business	12,564	14,974
Insurance claims and other payments, and provision of insurance business policy reserves	30,431	54,471
Others	137,239	140,537
Total	1,266,902	1,579,630

Employee expenses (employee benefits expenses) are as follows:

1) The breakdown of Employee Expenses

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Wages and salaries	¥165,696	¥191,273
Retirement benefits	12,119	15,206
Legal welfare expenses	11,875	12,352
Share option expenses relating to directors and employees (Note)	9,943	10,449
Other salaries	6,511	6,812
Total	206,144	236,092

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

2) Number of Employees

	December 31, 2019	December 31, 2020
Number of employees	20,053	23,841

(Note) Number of employees represents the number of persons employed at the Group Companies.

30. Other Income and Other Expenses

(1) The breakdown of Other Income

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Foreign exchange gain	¥7,277	¥—
Gains on sales of subsidiaries (Note 1)	—	40,926
Valuation gains on securities (Note 2)	75,120	7,813
Others	4,504	5,744
Total	86,901	54,483

(Notes) 1 A gain on the sale of OverDrive Holdings, Inc. of ¥40,926 million was recorded for the fiscal year ended December 31, 2020.

2 During the fiscal year ended December 31, 2019, Rakuten Group recorded valuation gains on securities of ¥67,376 million related to investments in the ride-sharing business, and ¥7,744 million related to investments in the healthcare business.

(2) The breakdown of Other Expenses

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Foreign exchange loss	¥—	¥1,847
Disposal of property, plant and equipment, and intangible assets	2,504	2,606
Impairment loss	4,641	7,591
Others (Note)	4,041	12,196
Total	11,186	24,240

(Note) Losses on investments in the filmmaking business of ¥3,277 million were recorded for the fiscal year ended December 31, 2020.

31. Financial Income and Financial Expenses

(1) The breakdown of Financial Income

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Interest income	¥717	¥602
Dividend income	202	299
Gain (loss) on derivatives	1,675	—
Valuation gains on investment securities (Note)	220	57,564
Others	828	1,685
Total	3,642	60,150

(Note) The Lyft shares held by the Company are classified as financial assets held for the purpose of financing. For the year ended December 31, 2020, Rakuten Group recorded ¥56,980 million in valuation gains on investment securities under financial income for the valuation gains (losses) incurred through the fair value measurement of the Lyft shares. Details of the change in the classification of the investment in Lyft are given in Note 1. General Information, (3) Significant Changes in the Scope of Consolidation and the Scope of Equity Method Application.

(2) The breakdown of Financial Expenses

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Interest expense (Note 1)	¥8,745	¥13,866
Gain (loss) on derivatives (Note 2)	—	65,118
Commission fee	282	623
Total	9,027	79,607

(Note) 1. For the years ended December 31, 2019 and 2020, interest expense includes interest expenses associated with lease liabilities of ¥611 million and ¥1,176 million, respectively. Other information on leases is stated in Note 42. Lease Accounting.

2. For the year ended December 31, 2020, Rakuten Group recorded a ¥63,903 million in gain (loss) on derivatives in line with the derivative contract for the Prepaid Variable Share Forward Transactions of Lyft shares. Details of the transaction under the forward contract are given in Note 22. Other Financial Liabilities “(Note) Prepaid Variable Share Forward Transactions of Lyft shares.”

32. Earnings per Share

Basic earnings per share are calculated by dividing the net income attributable to owners of the Company by the weighted average number of common stock outstanding during the year. The weighted average number of common stock outstanding during the year does not include treasury stock.

Diluted earnings per share are calculated on the assumption of full conversion of potentially dilutive common stock, adjusted for the weighted average number of common stock outstanding.

The Company has potential common stock related to share options. The number of shares that may be acquired through these share options is calculated at fair value (average share price of the Company during the period) based on the value of the share acquisition rights that would be granted to unexercised share options.

Per share information and the weighted average number of shares used in the calculation of earnings per share are as follows:

	Year ended December 31, 2019			Year ended December 31, 2020		
	Basic	Adjustments	Diluted	Basic	Adjustments	Diluted
Net loss attributable to owners of the Company (Millions of Yen)	¥(31,888)	¥(0)	¥(31,888)	¥(114,199)	—	¥(114,199)
Weighted average number of shares (Thousands of shares)	1,354,167	—	1,354,167	1,359,478	—	1,359,478
Loss per share (Yen)	¥(23.55)	¥(0)	¥(23.55)	¥(84.00)	—	¥(84.00)

(Note) For the fiscal year ended December 31, 2019, share acquisition rights corresponding to 23,335 thousand shares have been excluded from the calculation of diluted losses per share, as they have reverse dilutive effects.

For the fiscal year ended December 31, 2020, share acquisition rights corresponding to 29,852 thousand shares have been excluded from the calculation of diluted loss per share, as they have reverse dilutive effects.

33. Assets Pledged as Collateral and Assets Received as Collateral

(1) Assets Pledged as Collateral

The Group Companies pledge assets mainly to secure debts from borrowing contracts, e-money deposits, margin trading and security lending transactions conducted under normal terms and conditions, and as monetary deposits in derivative transactions.

The carrying amounts of assets pledged as collateral for liabilities and contingent liabilities by the Group Companies are as follows:

(Millions of Yen)

	December 31, 2019	December 31, 2020
Cash and cash equivalents	¥168,882	¥194,817
Loans for credit card business (Note 1)	122,695	70,559
Investment securities for banking business	—	83,727
Loans for banking business	116,683	407,294
Investment securities for insurance business	—	10,451
Investment securities (Note 2)	5,209	164,388
Buildings and accompanying facilities	—	4,526
Tools, furniture and fixtures	260	4,645
Machinery facilities	11,252	76,744
Other property, plant and equipment	498	6,170
Software	6,931	19,018
Other assets	—	30,205
Total	432,410	1,072,544

(Notes) 1. Loans for credit card business include securitized receivables.

2. Investment securities as of December 31, 2020 include Lyft shares of ¥159,183 million, which Liberty Holdco Ltd. pledged as collateral for other financial liabilities of ¥72,189 million incurred from the Prepaid Variable Share Forward Transactions of Lyft shares. Details of the transaction under the forward contract are stated in Note 22. Other Financial Liabilities "(Note) Prepaid Variable Share Forward Transactions of Lyft shares."

In addition to the above, investment securities for banking business of ¥10,464 million, investment securities for insurance business of ¥111,658 million and other financial assets of ¥90,443 million were pledged as collateral for exchange settlements, derivative trading and other transactions, and for commitment lines as of December 31, 2019. Investment securities for banking business of ¥13,592 million, investment securities for insurance business of ¥113,507 million and other financial assets of ¥104,380 million were pledged as collateral for exchange settlements, derivative trading and other transactions, and for commitment lines as of December 31, 2020.

Furthermore, guarantee deposits for margin transactions and future transactions in the securities business in the amount of ¥76,092 million, guarantee deposits for borrowing of share certificates in margin transactions in the securities business in the amount of ¥85,378 million and guarantee deposits for issuing electronic money in the amount of ¥3,893 million were pledged as of December 31, 2019. Guarantee deposits for margin transactions and future transactions in the securities business in the amount of ¥105,795 million, guarantee deposits for borrowing of share certificates in margin transactions in the securities business in the amount of ¥80,492 million and guarantee deposits for issuing electronic money in the amount of ¥5,905 million were pledged as collateral as of December 31, 2020.

For assets pledged as collateral, the underwriter has no right to sell or to repledge the collateral.

(2) Assets Received as Collateral

The Group Companies receive securities pledged as collateral in lieu of guarantee deposits and collateral for other transactions, which are conducted under normal terms and conditions. The Group Companies hold the rights to sell or repledge the received assets, provided that the securities are returned at the time the relevant transactions are completed. The fair values of securities received by the Group Companies as collateral to which the Group Companies held the right to sell or repledge the collateral as of December 31, 2019 and 2020 were ¥778,415 million and ¥880,366 million, respectively. Within such collateral, fair values of the collateral actually sold or pledged as of December 31, 2019 and 2020 were ¥348,603 million and ¥491,694 million, respectively.

34. Hedge Accounting

(1) Fair Value Hedges

Risk of fair value fluctuation as a result of fluctuations in interest rates

In order to offset the risk of fair value fluctuation on certain fixed rate bonds as a result of fluctuations in interest rates, subsidiaries of the Group Companies have entered into fixed-for-floating interest rate swap contracts with financial institutions as fair value hedges. Accordingly, fluctuations in fair value of interest rates as the hedged item may be offset by the fluctuations in fair value of interest rate swaps as the hedging instrument. The fair values of the interest rate swaps as hedging instruments are stated in Note 12. Derivative Assets and Derivative Liabilities.

As transactions for fixed rate bonds as the hedged item and those for interest rate swaps as the hedging instrument are conducted for the same amount, the hedge ratio is 1:1. Existing hedging relationships are expected to continue to the year ending December 31, 2022. The fair values of interest rate swaps as hedging instruments are stated in Note 12. Derivative Assets and Derivative Liabilities.

Hedged items are as follows.

As of December 31, 2019

(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

As of December 31, 2020

(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	¥12,556	¥(145)	¥56

Risk of fluctuation of fair value of listed investment securities

The Group Companies' subsidiaries engage in options, forwards and short-selling in order to avoid the risk of fluctuation in fair values of their holding of listed investment securities that have initially chosen to recognize the fluctuation in fair values as other comprehensive income. Meanwhile, the fluctuation in fair values related to options, forwards and short-selling is also recognized as other comprehensive income. In other words, the fluctuation of fair value of listed investment securities as the hedged items may be offset by the fluctuation in fair values of the shares in the option, forward or short-selling as the hedging instrument.

As transactions for listed investment securities as the hedged item and those for options and forwards as the hedging instrument are conducted for the same amount, the hedge ratio is 1:1. Existing hedging relationships for forwards are expected to continue to the year ending December 31, 2021, while those for options were terminated in the current fiscal year. In addition, as transactions for listed investment securities as the hedged item and those for short-selling as the hedging instrument are conducted for the same amount, the hedge ratio is 1:1. There is no provision for the termination of the hedging contract.

Hedged items are as follows.

As of December 31, 2019

(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
Listed investment securities	Investment securities for insurance business	¥157,197	¥2,437	¥2,380

In the year ended December 31, 2019, cumulative adjustments of fair value hedge remaining in the Statements of Financial Position related to hedging relationships, for which hedge accounting was terminated, were ¥724 million.

As of December 31, 2020

(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
Listed investment securities	Investment securities for insurance business	¥115,416	¥6,577	¥5,581

In the year ended December 31, 2020, cumulative adjustments of fair value hedge remaining in the Statements of Financial Position related to hedging relationships, for which hedge accounting was terminated, were ¥(204) million.

Fair values of the shares sold short were as follows. Short-selling as hedging instruments was terminated in the current fiscal year. Fair values of shares of the options and forwards as hedging instruments are stated in Note 12. Derivative Assets and Derivative Liabilities.

(Millions of Yen)

Hedging instrument	Presentation on the Consolidated Statements of Financial Position	As of December 31, 2019	As of December 31, 2020
Short-selling	Other financial liabilities	¥789	—

(2) Cash Flow Hedges

Interest rate fluctuation risk

In order to offset the risk of fluctuations on future cash flows relating to the interest payment for floating rate borrowings, the Group Companies have entered into fixed-for-floating interest rate swap contracts with financial institutions as cash flow hedges. As a result of these hedges, it becomes possible to fix the fluctuations of cash flows relating to the interest payment for floating rate borrowings. The fair values of the interest rate swaps as hedging instruments are stated in Note 12. Derivative Assets and Derivative Liabilities.

As transactions for floating rate borrowings as the hedged item and those for interest rate swaps as the hedging instrument are conducted for the same amount, the hedge ratio is 1:1. Existing hedging relationships are expected to continue to the year ending December 31, 2025.

Schedule of changes in the amounts recognized in other comprehensive income

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
January 1	¥(490)	¥(620)
Changes for the period	(434)	(572)
Reclassification to net income (Note)	304	345
Reclassification to initial carrying amount of non-financial assets or non-financial liabilities	—	—
December 31	(620)	(847)

(Note) The amounts reclassified to net income are included in “Operating expenses” in the Consolidated Statements of Income.

Exchange rate risk

In order to offset the cash flow fluctuation risk due to fluctuations of foreign exchange, subsidiaries of the Group have entered into forward exchange contracts with financial institutions as cash flow hedges. As a result of these hedges, it will become possible to fix the fluctuations in cash flows from fluctuations in foreign exchange. When designating hedging instruments, the currency basis spread of currency swaps is excluded as hedging costs. The fair values of the forward exchange contracts and currency swaps as hedging instruments are stated in Note 12. Derivative Assets and Derivative Liabilities.

As transactions for foreign currency denominated monetary claims or liabilities as the hedged item and those for forward exchange contracts and currency swaps as the hedging instrument are conducted for the same amount, the hedge ratio is 1:1. Existing hedging relationships are expected to continue to the year ending December 31, 2024.

Schedule of changes in the amounts recognized in other comprehensive income

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
January 1	¥(21)	¥(599)
Changes for the period	(787)	45
Reclassification to net income (Note)	209	2,339
Reclassification to initial carrying amount of non-financial assets or non-financial liabilities	—	—
December 31	(599)	1,785

(Note) The amounts reclassified to net income are included in “Revenue” and “Operating expenses” in the Consolidated Statements of Income.

35. Contingent Liabilities and Commitments

(1) Commitment Line Lending Contracts and Guarantee Obligations

Certain consolidated subsidiaries are engaged in consumer lending business through cash advances and credit card loans, which are related to the credit cards. With regard to such loans, of the amount established in a loan contract (the contracted limit), the contract allows customers to take out a loan at any time within the amount of credit limit approved by these consolidated subsidiaries (the loan limit).

Since some of these contracts expire without the actual loan being drawn, in addition to the Group Companies having discretion to increase or decrease the loan limit, the unused balance of these loans would not necessarily be drawn in its entirety.

Additionally, certain consolidated subsidiaries provide credit guarantees to general customers who have received loans from business partners of other consolidated subsidiaries.

The balances of the unused lending commitment lines and guarantee obligations given in the credit guarantee business stated above are as follows:

(Millions of Yen)

	December 31, 2019	December 31, 2020
Unused balance of lending commitment lines	¥3,882,138	¥4,390,034
Financial guarantee contracts	6,180	5,024
Total	3,888,318	4,395,058

(2) Commitment Line Borrowing Contracts

The Company and certain consolidated subsidiaries have entered into commitment line borrowing contracts with multiple financial institutions and the balances of the unused portions of such commitment lines available are as follows:

(Millions of Yen)

	December 31, 2019	December 31, 2020
Total commitment line borrowings	¥181,705	¥221,912
Amounts borrowed	10,223	8,782
Unused commitment lines	171,482	213,130

(3) Commitments (Contracts)

As of December 31, 2020, commitments related to acquisition of property, plant and equipment and intangible assets were ¥107,626 million.

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

36. Share-based Payments

Employee expenses relating to share options recognized by the Group Companies during the years ended December 31, 2019 and 2020 were ¥9,943 million and ¥10,449 million, respectively.

The Group Companies have granted equity-settled share options to its executives and employees, its subsidiaries, and associates.

The Company performed a 100-for-one stock split on July 1, 2012. The balance of outstanding options for each year below has been adjusted to reflect the stock split. Details of the share options granted by the Company are as follows:

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 10th Share Options_01	April 20, 2012	April 19, 2014	0.01	—	From April 20, 2014 to April 20, 2022
The 10th Share Options_02	April 20, 2012	April 19, 2015	0.01	—	From April 20, 2015 to April 20, 2022
The 10th Share Options_03	April 20, 2012	April 19, 2016	0.01	—	From April 20, 2016 to April 20, 2022
The 11th Share Options_01	July 1, 2012	March 29, 2016	0.01	40,000	From March 30, 2016 to March 28, 2022
The 12th Share Options_01	August 1, 2012	March 29, 2016	0.01	18,900	From March 30, 2016 to March 28, 2022
The 13th Share Options_01	August 20, 2012	March 29, 2016	0.01	—	From March 30, 2016 to March 28, 2022
The 14th Share Options_01	November 21, 2012	November 20, 2014	0.01	—	From November 21, 2014 to November 21, 2022
The 14th Share Options_02	November 21, 2012	November 20, 2015	0.01	—	From November 21, 2015 to November 21, 2022
The 14th Share Options_03	November 21, 2012	November 20, 2016	0.01	—	From November 21, 2016 to November 21, 2022
The 15th Share Options_01	February 1, 2013	March 29, 2016	0.01	206,800	From March 30, 2016 to March 28, 2022
The 16th Share Options_01	March 1, 2013	March 29, 2016	0.01	—	From March 30, 2016 to March 28, 2022
The 17th Share Options_01	March 1, 2013	March 29, 2016	0.01	36,900	From March 30, 2016 to March 28, 2022
The 18th Share Options_01	March 1, 2013	March 29, 2016	0.01	—	From March 30, 2016 to March 28, 2022
The 19th Share Options_01	July 1, 2013	March 28, 2017	0.01	175,200	From March 29, 2017 to March 27, 2023
The 20th Share Options_01	December 1, 2013	March 28, 2017	0.01	—	From March 29, 2017 to March 27, 2023
The 21st Share Options_01	February 1, 2014	March 28, 2017	0.01	143,800	From March 29, 2017 to March 27, 2023

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 22nd Share Options_01	March 1, 2014	March 28, 2017	0.01	33,900	From March 29, 2017 to March 27, 2023
The 23rd Share Options_01	March 19, 2014	March 28, 2017	0.01	14,900	From March 29, 2017 to March 27, 2023
The 24th Share Options_01	May 1, 2014	March 28, 2018	0.01	15,000	From March 29, 2018 to March 27, 2024
The 25th Share Options_01	July 1, 2014	March 28, 2018	0.01	210,900	From March 29, 2018 to March 27, 2024
The 26th Share Options_01	September 1, 2014	March 28, 2018	0.01	1,000	From March 29, 2018 to March 27, 2024
The 27th Share Options_01	September 1, 2014	March 28, 2018	0.01	—	From March 29, 2018 to March 27, 2024
The 28th Share Options_01	October 1, 2014	March 28, 2018	0.01	—	From March 29, 2018 to March 27, 2024
The 29th Share Options_01	October 1, 2014	March 28, 2018	0.01	—	From March 29, 2018 to March 27, 2024
The 30th Share Options_01	November 1, 2014	March 28, 2018	0.01	95,500	From March 29, 2018 to March 27, 2024
The 31st Share Options_01	November 1, 2014	March 28, 2018	0.01	2,600	From March 29, 2018 to March 27, 2024
The 32nd Share Options_01	November 1, 2014	March 28, 2018	0.01	—	From March 29, 2018 to March 27, 2024
The 33rd Share Options_01	February 1, 2015	March 28, 2018	0.01	193,700	From March 29, 2018 to March 27, 2024
The 34th Share Options_01	March 1, 2015	March 28, 2018	0.01	—	From March 29, 2018 to March 27, 2024
The 35th Share Options_01	March 1, 2015	March 28, 2018	0.01	—	From March 29, 2018 to March 27, 2024
The 36th Share Options_01	March 1, 2015	March 28, 2018	0.01	60,800	From March 29, 2018 to March 27, 2024
The 37th Share Options_01	June 1, 2015	May 31, 2016	0.01	—	From June 1, 2016 to June 1, 2025
The 37th Share Options_02	June 1, 2015	May 31, 2017	0.01	—	From June 1, 2017 to June 1, 2025

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 37th Share Options_03	June 1, 2015	May 31, 2018	0.01	—	From June 1, 2018 to June 1, 2025
The 37th Share Options_04	June 1, 2015	May 31, 2019	0.01	—	From June 1, 2019 to June 1, 2025
The 38th Share Options_01	July 1, 2015	June 30, 2016	0.01	4,200	From July 1, 2016 to July 1, 2025
The 38th Share Options_02	July 1, 2015	June 30, 2017	0.01	6,500	From July 1, 2017 to July 1, 2025
The 38th Share Options_03	July 1, 2015	June 30, 2018	0.01	8,700	From July 1, 2018 to July 1, 2025
The 38th Share Options_04	July 1, 2015	June 30, 2019	0.01	10,700	From July 1, 2019 to July 1, 2025
The 39th Share Options_01	August 1, 2015	July 31, 2016	0.01	1,700	From August 1, 2016 to August 1, 2025
The 39th Share Options_02	August 1, 2015	July 31, 2017	0.01	15,100	From August 1, 2017 to August 1, 2025
The 39th Share Options_03	August 1, 2015	July 31, 2018	0.01	58,900	From August 1, 2018 to August 1, 2025
The 39th Share Options_04	August 1, 2015	July 31, 2019	0.01	170,800	From August 1, 2019 to August 1, 2025
The 40th Share Options_01	August 1, 2015	March 27, 2019	0.01	100	From March 28, 2019 to March 26, 2025
The 41st Share Options_01	October 1, 2015	September 30, 2016	0.01	—	From October 1, 2016 to October 1, 2025
The 41st Share Options_02	October 1, 2015	September 30, 2017	0.01	—	From October 1, 2017 to October 1, 2025
The 41st Share Options_03	October 1, 2015	September 30, 2018	0.01	—	From October 1, 2018 to October 1, 2025
The 41st Share Options_04	October 1, 2015	September 30, 2019	0.01	—	From October 1, 2019 to October 1, 2025
The 42nd Share Options_01	November 1, 2015	October 31, 2016	0.01	1,500	From November 1, 2016 to October 31, 2025
The 42nd Share Options_02	November 1, 2015	October 31, 2017	0.01	4,100	From November 1, 2017 to October 31, 2025

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 42nd Share Options_03	November 1, 2015	October 31, 2018	0.01	5,700	From November 1, 2018 to October 31, 2025
The 42nd Share Options_04	November 1, 2015	October 31, 2019	0.01	10,000	From November 1, 2019 to October 31, 2025
The 43rd Share Options_01	November 1, 2015	October 31, 2016	0.01	5,600	From November 1, 2016 to October 31, 2025
The 43rd Share Options_02	November 1, 2015	October 31, 2017	0.01	7,500	From November 1, 2017 to October 31, 2025
The 43rd Share Options_03	November 1, 2015	October 31, 2018	0.01	11,900	From November 1, 2018 to October 31, 2025
The 43rd Share Options_04	November 1, 2015	October 31, 2019	0.01	13,800	From November 1, 2019 to October 31, 2025
The 44th Share Options_01	February 1, 2016	January 31, 2017	0.01	13,100	From February 1, 2017 to January 30, 2026
The 44th Share Options_02	February 1, 2016	January 31, 2018	0.01	60,200	From February 1, 2018 to January 30, 2026
The 44th Share Options_03	February 1, 2016	January 31, 2019	0.01	130,600	From February 1, 2019 to January 30, 2026
The 44th Share Options_04	February 1, 2016	January 31, 2020	0.01	289,600	From February 1, 2020 to January 30, 2026
The 45th Share Options_01	February 1, 2016	March 27, 2019	0.01	300	From March 28, 2019 to March 26, 2025
The 46th Share Options_01	March 1, 2016	February 28, 2017	0.01	16,300	From March 1, 2017 to February 27, 2026
The 46th Share Options_02	March 1, 2016	February 28, 2018	0.01	34,500	From March 1, 2018 to February 27, 2026
The 46th Share Options_03	March 1, 2016	February 28, 2019	0.01	61,900	From March 1, 2019 to February 27, 2026
The 46th Share Options_04	March 1, 2016	February 29, 2020	0.01	79,400	From March 1, 2020 to February 27, 2026
The 47th Share Options_01	March 1, 2016	March 27, 2019	0.01	1,500	From March 28, 2019 to March 26, 2025
The 48th Share Options_01	March 1, 2016	March 27, 2019	0.01	1,500	From March 28, 2019 to March 26, 2025

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 49th Share Options_01	May 1, 2016	April 30, 2017	0.01	900	From May 1, 2017 to May 1, 2026
The 49th Share Options_02	May 1, 2016	April 30, 2018	0.01	2,400	From May 1, 2018 to May 1, 2026
The 49th Share Options_03	May 1, 2016	April 30, 2019	0.01	2,700	From May 1, 2019 to May 1, 2026
The 49th Share Options_04	May 1, 2016	April 30, 2020	0.01	5,300	From May 1, 2020 to May 1, 2026
The 50th Share Options_01	August 1, 2016	July 31, 2017	0.01	5,700	From August 1, 2017 to July 31, 2026
The 50th Share Options_02	August 1, 2016	July 31, 2018	0.01	73,000	From August 1, 2018 to July 31, 2026
The 50th Share Options_03	August 1, 2016	July 31, 2019	0.01	152,900	From August 1, 2019 to July 31, 2026
The 50th Share Options_04	August 1, 2016	July 31, 2020	0.01	380,300	From August 1, 2020 to July 31, 2026
The 51st Share Options_01	September 1, 2016	March 30, 2020	0.01	900	From March 31, 2020 to March 29, 2026
The 52nd Share Options_01	November 1, 2016	October 31, 2017	0.01	2,200	From November 1, 2017 to October 30, 2026
The 52nd Share Options_02	November 1, 2016	October 31, 2018	0.01	4,300	From November 1, 2018 to October 30, 2026
The 52nd Share Options_03	November 1, 2016	October 31, 2019	0.01	8,400	From November 1, 2019 to October 30, 2026
The 52nd Share Options_04	November 1, 2016	October 31, 2020	0.01	15,500	From November 1, 2020 to October 30, 2026
The 53rd Share Options_01	November 1, 2016	October 31, 2017	0.01	5,500	From November 1, 2017 to October 30, 2026
The 53rd Share Options_02	November 1, 2016	October 31, 2018	0.01	7,700	From November 1, 2018 to October 30, 2026
The 53rd Share Options_03	November 1, 2016	October 31, 2019	0.01	12,800	From November 1, 2019 to October 30, 2026
The 53rd Share Options_04	November 1, 2016	October 31, 2020	0.01	19,500	From November 1, 2020 to October 30, 2026

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 54th Share Options_01	February 1, 2017	March 30, 2020	0.01	1,100	From March 31, 2020 to March 29, 2026
The 55th Share Options_01	February 1, 2017	January 31, 2018	0.01	8,300	From February 1, 2018 to February 1, 2027
The 55th Share Options_02	February 1, 2017	January 31, 2019	0.01	80,800	From February 1, 2019 to February 1, 2027
The 55th Share Options_03	February 1, 2017	January 31, 2020	0.01	191,800	From February 1, 2020 to February 1, 2027
The 55th Share Options_04	February 1, 2017	January 31, 2021	0.01	795,900	From February 1, 2021 to February 1, 2027
The 56th Share Options_01	March 1, 2017	February 28, 2018	0.01	3,600	From March 1, 2018 to March 1, 2027
The 56th Share Options_02	March 1, 2017	February 28, 2019	0.01	9,300	From March 1, 2019 to March 1, 2027
The 56th Share Options_03	March 1, 2017	February 29, 2020	0.01	18,400	From March 1, 2020 to March 1, 2027
The 56th Share Options_04	March 1, 2017	February 28, 2021	0.01	50,400	From March 1, 2021 to March 1, 2027
The 57th Share Options_01	March 1, 2017	March 30, 2020	0.01	3,600	From March 31, 2020 to March 29, 2026
The 58th Share Options_01	March 1, 2017	March 30, 2020	0.01	1,800	From March 31, 2020 to March 29, 2026
The 59th Share Options_01	March 1, 2017	February 28, 2018	0.01	50,200	From March 1, 2018 to March 1, 2027
The 59th Share Options_02	March 1, 2017	February 28, 2019	0.01	95,600	From March 1, 2019 to March 1, 2027
The 59th Share Options_03	March 1, 2017	February 29, 2020	0.01	160,100	From March 1, 2020 to March 1, 2027
The 59th Share Options_04	March 1, 2017	February 28, 2021	0.01	485,900	From March 1, 2021 to March 1, 2027
The 60th Share Options_01	May 1, 2017	April 30, 2018	0.01	2,900	From May 1, 2018 to April 30, 2027
The 60th Share Options_02	May 1, 2017	April 30, 2019	0.01	6,000	From May 1, 2019 to April 30, 2027
The 60th Share Options_03	May 1, 2017	April 30, 2020	0.01	11,100	From May 1, 2020 to April 30, 2027

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 60th Share Options_04	May 1, 2017	April 30, 2021	0.01	132,500	From May 1, 2021 to April 30, 2027
The 61st Share Options_01	August 1, 2017	March 30, 2021	0.01	900	From March 31, 2021 to March 29, 2027
The 62nd Share Options_01	August 1, 2017	July 31, 2018	0.01	9,800	From August 1, 2018 to July 30, 2027
The 62nd Share Options_02	August 1, 2017	July 31, 2019	0.01	71,500	From August 1, 2019 to July 30, 2027
The 62nd Share Options_03	August 1, 2017	July 31, 2020	0.01	224,400	From August 1, 2020 to July 30, 2027
The 62nd Share Options_04	August 1, 2017	July 31, 2021	0.01	915,800	From August 1, 2021 to July 30, 2027
The 63rd Share Options_01	November 1, 2017	October 31, 2018	0.01	3,600	From November 1, 2018 to November 1, 2027
The 63rd Share Options_02	November 1, 2017	October 31, 2019	0.01	12,600	From November 1, 2019 to November 1, 2027
The 63rd Share Options_03	November 1, 2017	October 31, 2020	0.01	19,600	From November 1, 2020 to November 1, 2027
The 63rd Share Options_04	November 1, 2017	October 31, 2021	0.01	224,900	From November 1, 2021 to November 1, 2027
The 64th Share Options_01	November 1, 2017	October 31, 2018	0.01	4,200	From November 1, 2018 to November 1, 2027
The 64th Share Options_02	November 1, 2017	October 31, 2019	0.01	6,600	From November 1, 2019 to November 1, 2027
The 64th Share Options_03	November 1, 2017	October 31, 2020	0.01	11,400	From November 1, 2020 to November 1, 2027
The 64th Share Options_04	November 1, 2017	October 31, 2021	0.01	19,300	From November 1, 2021 to November 1, 2027
The 65th Share Options_01	January 1, 2018	December 31, 2018	0.01	900	From January 1, 2019 to December 29, 2027
The 65th Share Options_02	January 1, 2018	December 31, 2019	0.01	1,800	From January 1, 2020 to December 29, 2027
The 65th Share Options_03	January 1, 2018	December 31, 2020	0.01	6,600	From January 1, 2021 to December 29, 2027

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	20,000	From January 1, 2022 to December 29, 2027
The 66th Share Options_01	February 1, 2018	March 30, 2021	0.01	1,700	From March 31, 2021 to March 29, 2027
The 67th Share Options_01	February 1, 2018	January 31, 2019	0.01	11,200	From February 1, 2019 to February 1, 2028
The 67th Share Options_02	February 1, 2018	January 31, 2020	0.01	156,100	From February 1, 2020 to February 1, 2028
The 67th Share Options_03	February 1, 2018	January 31, 2021	0.01	531,900	From February 1, 2021 to February 1, 2028
The 67th Share Options_04	February 1, 2018	January 31, 2022	0.01	994,000	From February 1, 2022 to February 1, 2028
The 68th Share Options_01	March 1, 2018	February 28, 2019	0.01	9,200	From March 1, 2019 to March 1, 2028
The 68th Share Options_02	March 1, 2018	February 29, 2020	0.01	23,900	From March 1, 2020 to March 1, 2028
The 68th Share Options_03	March 1, 2018	February 28, 2021	0.01	65,800	From March 1, 2021 to March 1, 2028
The 68th Share Options_04	March 1, 2018	February 28, 2022	0.01	86,000	From March 1, 2022 to March 1, 2028
The 69th Share Options_01	March 1, 2018	March 30, 2021	0.01	6,300	From March 31, 2021 to March 29, 2027
The 70th Share Options_01	March 1, 2018	March 30, 2021	0.01	8,400	From March 31, 2021 to March 29, 2027
The 71st Share Options_01	March 1, 2018	February 28, 2019	0.01	110,500	From March 1, 2019 to March 1, 2028
The 71st Share Options_02	March 1, 2018	February 29 2020	0.01	159,900	From March 1, 2020 to March 1, 2028
The 71st Share Options_03	March 1, 2018	February 28, 2021	0.01	401,500	From March 1, 2021 to March 1, 2028
The 71st Share Options_04	March 1, 2018	February 28, 2022	0.01	473,300	From March 1, 2022 to March 1, 2028
The 72nd Share Options_01	May 1, 2018	April 30, 2019	0.01	47,400	From May 1, 2019 to May 1, 2028

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 72nd Share Options_02	May 1, 2018	April 30, 2020	0.01	78,000	From May 1, 2020 to May 1, 2028
The 72nd Share Options_03	May 1, 2018	April 30, 2021	0.01	597,300	From May 1, 2021 to May 1, 2028
The 72nd Share Options_04	May 1, 2018	April 30, 2022	0.01	742,300	From May 1, 2022 to May 1, 2028
The 73rd Share Options_01	August 1, 2018	July 31, 2019	0.01	38,500	From August 1, 2019 to August 1, 2028
The 73rd Share Options_02	August 1, 2018	July 31, 2020	0.01	443,900	From August 1, 2020 to August 1, 2028
The 73rd Share Options_03	August 1, 2018	July 31, 2021	0.01	1,454,600	From August 1, 2021 to August 1, 2028
The 73rd Share Options_04	August 1, 2018	July 31, 2022	0.01	2,284,400	From August 1, 2022 to August 1, 2028
The 74th Share Options_01	November 1, 2018	October 31, 2019	0.01	6,500	From November 1, 2019 to November 1, 2028
The 74th Share Options_02	November 1, 2018	October 31, 2020	0.01	16,800	From November 1, 2020 to November 1, 2028
The 74th Share Options_03	November 1, 2018	October 31, 2021	0.01	101,500	From November 1, 2021 to November 1, 2028
The 74th Share Options_04	November 1, 2018	October 31, 2022	0.01	123,300	From November 1, 2022 to November 1, 2028
The 75th Share Options_01	November 1, 2018	October 31, 2019	0.01	18,100	From November 1, 2019 to November 1, 2028
The 75th Share Options_02	November 1, 2018	October 31, 2020	0.01	26,600	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	74,100	From February 1, 2020 to February 1, 2029
The 76th Share Options_02	February 1, 2019	January 31, 2021	0.01	870,800	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	1,015,100	From February 1, 2022 to February 1, 2029
The 76th Share Options_04	February 1, 2019	January 31, 2023	0.01	1,834,400	From February 1, 2023 to February 1, 2029
The 77th Share Options_01	March 1, 2019	February 29, 2020	0.01	20,300	From March 1, 2020 to March 1, 2029
The 77th Share Options_02	March 1, 2019	February 28, 2021	0.01	64,100	From March 1, 2021 to March 1, 2029
The 77th Share Options_03	March 1, 2019	February 28, 2022	0.01	95,900	From March 1, 2022 to March 1, 2029
The 77th Share Options_04	March 1, 2019	February 28, 2023	0.01	125,100	From March 1, 2023 to March 1, 2029
The 78th Share Options_01	March 1, 2019	February 29, 2020	0.01	5,400	From March 1, 2020 to March 1, 2029
The 78th Share Options_02	March 1, 2019	February 28, 2021	0.01	28,800	From March 1, 2021 to March 1, 2029
The 78th Share Options_03	March 1, 2019	February 28, 2022	0.01	42,900	From March 1, 2022 to March 1, 2029
The 78th Share Options_04	March 1, 2019	February 28, 2023	0.01	51,400	From March 1, 2023 to March 1, 2029
The 79th Share Options_01	May 1, 2019	April 30, 2020	0.01	65,100	From May 1, 2020 to May 1, 2029
The 79th Share Options_02	May 1, 2019	April 30, 2021	0.01	583,800	From May 1, 2021 to May 1, 2029
The 79th Share Options_03	May 1, 2019	April 30, 2022	0.01	889,000	From May 1, 2022 to May 1, 2029
The 79th Share Options_04	May 1, 2019	April 30, 2023	0.01	1,080,500	From May 1, 2023 to May 1, 2029
The 80th Share Options_01	May 1, 2019	April 30, 2020	0.01	14,400	From May 1, 2020 to May 1, 2029
The 80th Share Options_02	May 1, 2019	April 30, 2021	0.01	26,400	From May 1, 2021 to May 1, 2029
The 80th Share Options_03	May 1, 2019	April 30, 2022	0.01	39,600	From May 1, 2022 to May 1, 2029
The 80th Share Options_04	May 1, 2019	April 30, 2023	0.01	46,200	From May 1, 2023 to May 1, 2029

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 81st Share Options_01	May 1, 2019	October 31, 2019	0.01	1,118,900	From November 1, 2019 to May 1, 2059
The 82nd Share Options_01	August 1, 2019	July 31, 2020	0.01	25,500	From August 1, 2020 to August 1, 2029
The 82nd Share Options_02	August 1, 2019	July 31, 2021	0.01	250,400	From August 1, 2021 to August 1, 2029
The 82nd Share Options_03	August 1, 2019	July 31, 2022	0.01	550,500	From August 1, 2022 to August 1, 2029
The 82nd Share Options_04	August 1, 2019	July 31, 2023	0.01	1,026,500	From August 1, 2023 to August 1, 2029
The 83rd Share Options_01	November 1, 2019	October 31, 2020	0.01	178,600	From November 1, 2020 to November 1, 2029
The 83rd Share Options_02	November 1, 2019	October 31, 2021	0.01	678,100	From November 1, 2021 to November 1, 2029
The 83rd Share Options_03	November 1, 2019	October 31, 2022	0.01	1,018,900	From November 1, 2022 to November 1, 2029
The 83rd Share Options_04	November 1, 2019	October 31, 2023	0.01	1,228,500	From November 1, 2023 to November 1, 2029
The 84th Share Options_01	November 1, 2019	October 31, 2020	0.01	17,800	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
The 85th Share Options_01	February 1, 2020	January 31, 2021	0.01	128,000	From February 1, 2021 to February 1, 2030
The 85th Share Options_02	February 1, 2020	January 31, 2022	0.01	653,200	From February 1, 2022 to February 1, 2030
The 85th Share Options_03	February 1, 2020	January 31, 2023	0.01	825,900	From February 1, 2023 to February 1, 2030
The 85th Share Options_04	February 1, 2020	January 31, 2024	0.01	1,709,500	From February 1, 2024 to February 1, 2030
The 86th Share Options_01	March 1, 2020	February 28, 2021	0.01	52,100	From March 1, 2021 to March 1, 2030

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 86th Share Options_02	March 1, 2020	February 28, 2022	0.01	73,300	From March 1, 2022 to March 1, 2030
The 86th Share Options_03	March 1, 2020	February 28, 2023	0.01	101,700	From March 1, 2023 to March 1, 2030
The 86th Share Options_04	March 1, 2020	February 29, 2024	0.01	125,000	From March 1, 2024 to March 1, 2030
The 87th Share Options_01	March 1, 2020	March 1, 2020	0.01	1,016,800	From March 1, 2020 to March 1, 2060
The 88th Share Options_01	May 1, 2020	April 30, 2021	0.01	838,700	From May 1, 2021 to May 1, 2030
The 88h Share Options_02	May 1, 2020	April 30, 2022	0.01	1,181,500	From May 1, 2022 to May 1, 2030
The 88h Share Options_03	May 1, 2020	April 30, 2023	0.01	1,818,900	From May 1, 2023 to May 1, 2030
The 88th Share Options_04	May 1, 2020	April 30, 2024	0.01	2,146,300	From May 1, 2024 to May 1, 2030
The 89th Share Options_01	May 1, 2020	May 1, 2020	0.01	177,000	From May 1, 2020 to May 1, 2060
The 90th Share Options_01	August 1, 2020	July 31, 2021	0.01	102,500	From August 1, 2021 to August 1, 2030
The 90th Share Options_02	August 1, 2020	July 31, 2022	0.01	672,800	From August 1, 2022 to August 1, 2030
The 90th Share Options_03	August 1, 2020	July 31, 2023	0.01	854,900	From August 1, 2023 to August 1, 2030
The 90th Share Options_04	August 1, 2020	July 31, 2024	0.01	1,826,600	From August 1, 2024 to August 1, 2030
The 91st Share Options_01	November 1, 2020	October 31, 2021	0.01	64,200	From November 1, 2021 to November 1, 2030
The 91st Share Options_02	November 1, 2020	October 31, 2022	0.01	91,100	From November 1, 2022 to November 1, 2030
The 91st Share Options_03	November 1, 2020	October 31, 2023	0.01	137,700	From November 1, 2023 to November 1, 2030
The 91st Share Options_04	November 1, 2020	October 31, 2024	0.01	167,300	From November 1, 2024 to November 1, 2030
The 92nd Share Options_01	November 1, 2020	October 31, 2021	0.01	48,900	From November 1, 2021 to November 1, 2030

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 92nd Share Options_02	November 1, 2020	October 31, 2022	0.01	65,400	From November 1, 2022 to November 1, 2030
The 92nd Share Options_03	November 1, 2020	October 31, 2023	0.01	98,100	From November 1, 2023 to November 1, 2030
The 92nd Share Options_04	November 1, 2020	October 31, 2024	0.01	114,600	From November 1, 2024 to November 1, 2030

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

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

	Year ended December 31, 2019		Year ended December 31, 2020	
	Number of options (Note)	Weighted average exercise price (Yen)	Number of options (Note)	Weighted average exercise price (Yen)
Balance at the beginning of the year	29,870,900	¥4.09	39,087,500	¥0.01
Granted	17,698,100	0.01	16,022,000	0.01
Forfeited	4,168,700	0.01	4,696,700	0.01
Exercised	4,236,600	16.18	6,245,800	0.01
Expired	76,200	701.00	—	—
Outstanding balance at the end of the year	39,087,500	0.01	44,167,000	0.01
Exercisable amount at the end of the year	4,993,900	0.01	7,847,100	0.01
Weighted average remaining contract years		9.31 years		9.71 years

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

The weighted average share prices of the Company as of the exercise date were ¥1,033 and ¥987 for the years ended December 31, 2019 and 2020, respectively.

The expiration dates and the exercise prices of the outstanding options related to share options granted by the Company are as follows:

	December 31, 2019		December 31, 2020	
	Exercise price (Yen)	Number of options (Note)	Exercise price (Yen)	Number of options (Note)
2022	0.01	359,600	0.01	302,600
2023	0.01	458,800	0.01	367,800
2024	0.01	729,100	0.01	579,500
2025	0.01	450,400	0.01	340,100
2026	0.01	2,978,000	0.01	1,392,100
2027	0.01	5,567,600	0.01	3,673,100
2028	0.01	12,249,800	0.01	9,202,200
2029	0.01	15,076,300	0.01	12,098,700
2030	—	—	0.01	13,898,200
2059	0.01	1,217,900	0.01	1,118,900
2060	—	—	0.01	1,193,800
Balance at end of the period	—	39,087,500	—	44,167,000

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

The Company granted equity-settled share options to executives and employees of the company, its subsidiaries, and associates during the year ended December 31, 2020. The fair value of the options granted has been calculated using the Black-Scholes model adjusted for dividends. The fair value and assumptions used in the calculation are as follows.

Expected volatility of the Company has been calculated as an annual rate based on the historical period of share prices corresponding to the expected remaining period and weekly data (weekly closing price versus volatility of the previous week), assuming 52 weeks in a year.

	December 31, 2020		
	The Company 2020 85th Share Options_01	The Company 2020 85th Share Options_02	The Company 2020 85th Share Options_03
Weighted average share prices (Yen)	¥856	¥856	¥856
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	28.73	32.23	29.66
Remaining term (Years)	1.01	2.01	3.01
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.15)	(0.16)	(0.18)
Fair value per share (Yen)	¥851	¥847	¥843

	December 31, 2020		
	The Company 2020 85th Share Options_04	The Company 2020 86th Share Options_01	The Company 2020 86th Share Options_02
Weighted average share prices (Yen)	¥856	¥903	¥903
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	32.10	30.34	32.97
Remaining term (Years)	4.01	1.00	2.00
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.18)	(0.23)	(0.26)
Fair value per share (Yen)	¥838	¥898	¥894

	December 31, 2020		
	The Company 2020 86th Share Options_03	The Company 2020 86th Share Options_04	The Company 2020 87th Share Options_01
Weighted average share prices (Yen)	¥903	¥903	¥903
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	30.26	31.52	32.61
Remaining term (Years)	3.00	4.01	5.70
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.27)	(0.27)	(0.28)
Fair value per share (Yen)	¥890	¥885	¥878

	December 31, 2020		
	The Company 2020 88th Share Options_01	The Company 2020 88th Share Options_02	The Company 2020 88th Share Options_03
Weighted average share prices (Yen)	¥914	¥914	¥914
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	43.50	40.48	35.70
Remaining term (Years)	1.00	2.00	3.00
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.17)	(0.16)	(0.17)
Fair value per share (Yen)	¥909	¥905	¥901

	December 31, 2020		
	The Company 2020 88th Share Options_04	The Company 2020 89th Share Options_01	The Company 2020 90th Share Options_01
Weighted average share prices (Yen)	¥914	¥914	¥965
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	34.63	35.57	42.55
Remaining term (Years)	4.01	5.70	1.00
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.17)	(0.15)	(0.16)
Fair value per share (Yen)	¥896	¥889	¥960

	December 31, 2020		
	The Company 2020 90th Share Options_02	The Company 2020 90th Share Options_03	The Company 2020 90th Share Options_04
Weighted average share prices (Yen)	¥965	¥965	¥965
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	40.16	35.61	33.53
Remaining term (Years)	2.00	3.00	4.01
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.14)	(0.15)	(0.14)
Fair value per share (Yen)	¥956	¥952	¥947

	December 31, 2020		
	The Company 2020 91st Share Options_01	The Company 2020 91st Share Options_02	The Company 2020 91st Share Options_03
Weighted average share prices (Yen)	¥1,015	¥1,015	¥1,015
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	48.98	42.64	38.46
Remaining term (Years)	1.00	2.00	3.00
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.14)	(0.13)	(0.13)
Fair value per share (Yen)	¥1,010	¥1,006	¥1,002

	December 31, 2020		
	The Company 2020 91st Share Options_04	The Company 2020 92nd Share Options_01	The Company 2020 92nd Share Options_02
Weighted average share prices (Yen)	¥1,015	¥1,015	¥1,015
Exercise price (Yen)	¥0.01	¥0.01	¥0.01
Expected volatility (%)	35.35	48.98	42.64
Remaining term (Years)	4.01	1.00	2.00
Expected dividend (Yen)	¥4.50	¥4.50	¥4.50
Risk-free rate (%)	(0.12)	(0.14)	(0.13)
Fair value per share (Yen)	¥997	¥1,010	¥1,006

	December 31, 2020	
	The Company 2020 92nd Share Options_03	The Company 2020 92nd Share Options_04
Weighted average share prices (Yen)	¥1,015	¥1,015
Exercise price (Yen)	¥0.01	¥0.01
Expected volatility (%)	38.46	35.35
Remaining term (Years)	3.00	4.01
Expected dividend (Yen)	¥4.50	¥4.50
Risk-free rate (%)	(0.13)	(0.12)
Fair value per share (Yen)	¥1,002	¥997

37. Dividends

	Year ended December 31, 2019		Year ended December 31, 2020	
	Dividends per share (Yen)	Amount of dividends (Millions of Yen)	Dividends per share (Yen)	Amount of dividends (Millions of Yen)
Dividends paid				
Dividends by resolution at the Board of Directors in the previous year	¥4.5	¥6,084	¥4.5	¥6,103
Dividends paid during the current year	—	—	—	—
Total dividends paid applicable to the year	4.5	6,084	4.5	6,103

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

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

(Note) Cash dividends paid with record date during the year ended December 31, 2020 are as follows:

Date of resolution	Total dividends (Millions of Yen)	Dividends per share (Yen)
Resolution at the Board of Directors on February 12, 2021	¥6,131	¥4.5

38. Classification of Financial Instruments

The Group Companies' financial instruments are classified as follows:

As of December 31, 2019

(Financial Assets)

(Millions of Yen)

	Financial assets measured at fair value			Financial assets measured at amortized cost	Total
	Financial assets measured at FVTPL	Debt instruments measured at FVTOCI	Equity instruments measured at FVTOCI		
Cash and cash equivalents	¥—	¥—	¥—	¥1,478,557	¥1,478,557
Accounts receivable — trade	121	—	—	222,364	222,485
Financial assets for securities business	948	—	—	1,975,061	1,976,009
Loans for credit card business	—	—	—	1,828,216	1,828,216
Investment securities for banking business	1,357	257,476	0	13,878	272,711
Loans for banking business	—	—	—	1,049,993	1,049,993
Investment securities for insurance business	5,428	75,117	206,655	—	287,200
Derivative assets	28,050	—	—	—	28,050
Investment securities	149,169	—	5,677	8,413	163,259
Other financial assets (Note)	7,616	—	—	327,631	335,247
Total	192,689	332,593	212,332	6,904,113	7,641,727

(Note) Insurance business policy reserves (reinsured portion) of ¥54,987 million are excluded.

(Financial Liabilities)

(Millions of Yen)

	Financial liabilities measured at fair value		Financial liabilities measured at amortized cost	Total
	Financial liabilities subject to mandatory measurement at fair value	Financial liabilities designated as being measured at FVTPL		
Accounts payable — trade	¥—	¥—	¥329,483	¥329,483
Deposits for banking business	—	—	3,160,748	3,160,748
Financial liabilities for securities business	—	—	1,860,645	1,860,645
Derivative liabilities (Note) 1	10,172	—	—	10,172
Bonds and borrowings	—	—	1,727,096	1,727,096
Other financial liabilities (Note) 2	2,852	—	817,588	820,440
Total	13,024	—	7,895,560	7,908,584

(Notes) 1. Derivatives of ¥3,302 million are included in derivative liabilities for which, as hedges of financial assets measured at FVTOCI, measurement at fair value is mandatory and fair value changes are recognized as other comprehensive income. Details are described in "Note 34 Hedge Accounting."

2. The securities borrowed balance of ¥789 million is included in other financial liabilities for which, as hedges of financial assets measured at FVTOCI, measurement at fair value is mandatory and its fair value change is recognized as other comprehensive income. Details are described in "Note 34 Hedge Accounting."

As of December 31, 2020

(Financial Assets)

(Millions of Yen)

	Financial assets measured at fair value			Financial assets measured at amortized cost	Total
	Financial assets measured at FVTPL	Debt instruments measured at FVTOCI	Equity instruments measured at FVTOCI		
Cash and cash equivalents	¥—	¥—	¥—	¥3,021,306	¥3,021,306
Accounts receivable — trade	2	—	—	243,884	243,886
Financial assets for securities business	849	—	—	2,672,380	2,673,229
Loans for credit card business	—	—	—	2,033,013	2,033,013
Investment securities for banking business	1,253	251,879	0	13,095	266,227
Loans for banking business	—	—	—	1,436,513	1,436,513
Investment securities for insurance business	5,484	129,555	148,930	—	283,969
Derivative assets	32,644	—	—	—	32,644
Investment securities	260,852	—	6,375	8,009	275,236
Other financial assets (Note)	11,348	—	—	425,006	436,354
Total	312,432	381,434	155,305	9,853,206	10,702,377

(Note) Insurance business policy reserves (reinsured portion) of ¥56,332 million are excluded.

(Financial Liabilities)

(Millions of Yen)

	Financial liabilities measured at fair value		Financial liabilities measured at amortized cost	Total
	Financial liabilities subject to mandatory measurement at fair value	Financial liabilities designated as being measured at FVTPL		
Accounts payable — trade	¥—	¥—	¥337,427	¥337,427
Deposits for banking business	—	—	4,716,162	4,716,162
Financial liabilities for securities business	—	—	2,587,227	2,587,227
Derivative liabilities (Note)	78,318	—	—	78,318
Bonds and borrowings	—	—	2,487,457	2,487,457
Other financial liabilities	3,062	—	1,128,443	1,131,505
Total	81,380	—	11,256,716	11,338,096

(Note) Derivatives of ¥5,581 million are included in derivative liabilities for which, as hedges of financial assets measured at FVTOCI, measurement at fair value is mandatory and fair value changes are recognized as other comprehensive income. Details are described in “Note 34 Hedge Accounting.”

(1) Equity Instruments Measured at FVTOCI

Of the shares held by the Group Companies, those held over the long term for the purpose of strengthening business relationships or in anticipation of synergistic effects, etc. in business operations are designated as equity instruments measured at FVTOCI.

Equity instruments measured at FVTOCI as of December 31, 2019 mainly comprise exchange-traded real estate investment trusts, with a fair value of ¥146,779 million. Equity instruments measured at FVTOCI as of December 31, 2020 mainly comprise exchange-traded real estate investment trusts, with a fair value of ¥107,638 million.

During the year ended December 31, 2019, shares of investments from which synergistic effects, etc. could no longer be anticipated were sold. In addition, some shares were sold as part of the companywide financial strategy reconsideration. The fair value of such investments at the time of sales was ¥66,799 million, and cumulative fair value gains within other comprehensive income at the time of sale were ¥29,297 million. During the year ended December 31, 2020, shares of investments which synergistic effects, etc. could no longer be anticipated were sold. In addition, some shares were sold as part of the companywide financial strategies reconsideration. The fair value of such investments at the time of sales was ¥37,301 million, and cumulative fair value losses within other comprehensive income at the time of sale were ¥11,581 million.

Additionally, during the year ended December 31, 2019, dividend income recognized from shares designated as equity instruments measured at FVTOCI was ¥3,432 million, of which, the amount relating to shares held as of December 31, 2019 was ¥3,402 million. Furthermore, during the year ended December 31, 2020, dividend income recognized from shares designated as equity instruments measured at FVTOCI was ¥6,097 million, of which, the amount relating to shares held as of December 31, 2020 was ¥5,997 million.

During the year ended December 31, 2019, the Group Companies reclassified ¥28,599 million of cumulative gains in equity, related to shares designated as equity instruments measured at FVTOCI, to retained earnings on the sale of such shares, etc. During the year ended December 31, 2020, the Group Companies reclassified ¥2,322 million of cumulative losses in equity, related to shares designated as equity instruments measured at FVTOCI, to retained earnings on the sale of such shares, etc.

39. Gains and Losses on Financial Instruments

The analysis of the gains and losses on financial instruments held by the Group Companies is as follows. In the previous fiscal year, there are no gains and losses on derecognition of financial assets measured at amortized cost.

For the year ended December 31, 2019

(1) The breakdown of Net Gains and Losses on Financial Assets by Type of Financial Instruments

(Millions of Yen)

	Financial assets measured at fair value			Financial assets measured at amortized cost	Total
	Financial assets measured at FVTPL	Debt instruments measured at FVTOCI	Equity instruments measured at FVTOCI		
Revenue	¥19,348	¥1,807	¥3,284	¥956	¥25,395
Operating expenses	—	388	—	44,555	44,943
Other income	75,120	—	—	—	75,120
Financial income	2,060	—	865	—	2,925
Amount recognized in other comprehensive income during the year	(1,652)	1,560	16,505	—	16,413
Amount of reclassification adjustment at the time of derecognition	649	(1,420)	—	—	(771)

There are no net gains or losses on financial assets designated as being measured at fair value.

Net gains on financial assets measured at FVTPL include interest income, dividend income and commissions received relating to such assets. Interest income and commission revenue from financial assets measured at FVTOCI and financial assets measured at amortized cost are noted in (3) and (4), respectively.

(2) The breakdown of Net Gains and Losses on Financial Liabilities by Type of Financial Instruments

(Millions of Yen)

	Financial liabilities measured at fair value			
	Financial liabilities subject to mandatory measurement at fair value	Financial liabilities designated as being measured at fair value	Financial liabilities measured at amortized cost	Total
Revenue	¥—	¥11	¥—	¥11
Operating expenses	—	0	—	0

Interest expenses and commission fee expenses from financial liabilities measured at amortized cost are noted in (3) and (4), respectively.

(3) The breakdown of Total Interest Income and Interest Expenses (Calculated Using the Effective Interest Method) from Financial Instruments by Type of Financial Instruments

(Millions of Yen)

	Debt instruments measured at FVTOCI	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost
Revenue	¥15,722	¥168,611	¥—
Operating expenses	—	—	7,572
Financial income	—	717	—
Financial expenses	—	—	8,744
Total	15,722	169,328	16,316

(4) The breakdown of Commission Revenue and Commission Fee Expenses from Financial Instruments by Type of Financial Instruments

(Millions of Yen)

	Debt instruments measured at FVTOCI	Equity instruments measured at FVTOCI	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Trust and other trustee operations
Revenue	¥—	¥—	¥—	¥—	¥209
Financial expenses	—	—	—	283	—

(5) Analysis of Gains and Losses on Derecognition of Financial Assets Measured at Amortized Cost and Reason for Derecognition

(Millions of Yen)

	Gains on derecognition of financial assets measured at amortized cost	Losses on derecognition of financial assets measured at amortized cost
Investment securities for insurance business	1,103	—

Certain investment securities for the insurance business have been derecognized due to the sale of such assets for the purpose of flexibly responding to future changes in the interest rate environment.

For the year ended December 31, 2020

(1) The breakdown of Net Gains and Losses on Financial Assets by Type of Financial Instruments

(Millions of Yen)

	Financial assets measured at fair value			Financial assets measured at amortized cost	Total
	Financial assets measured at FVTPL	Debt instruments measured at FVTOCI	Equity instruments measured at FVTOCI		
Revenue	¥21,445	¥319	¥6,069	¥(145)	¥27,688
Operating expenses	—	68	—	46,089	46,157
Other income	7,813	—	—	40	7,853
Financial income	57,888	—	28	—	57,916
Amount recognized in other comprehensive income during the year	(766)	1,616	(18,898)	—	(18,048)
Amount of reclassification adjustment at the time of derecognition	3,893	(254)	—	—	3,639

There are no net gains or losses on financial assets designated as being measured at fair value.

Net gains on financial assets measured at FVTPL include interest income, dividend income, commissions received and valuation gains on investment securities relating to such assets. Interest income and commission revenue from financial assets measured at FVTOCI and financial assets measured at amortized cost are noted in (3) and (4), respectively.

(2) The breakdown of Net Gains and Losses on Financial Liabilities by Type of Financial Instruments

(Millions of Yen)

	Financial liabilities measured at fair value		Financial liabilities measured at amortized cost	Total
	Financial liabilities subject to mandatory measurement at fair value	Financial liabilities designated as being measured at fair value		
Revenue	¥—	¥—	¥—	¥—
Operating expenses	—	—	—	—
Financial income	—	—	1,631	1,631
Financial expenses	65,118	—	—	65,118

Net losses on financial liabilities subject to mandatory measurement at fair value include loss on valuation of derivatives. Interest expenses and commission fee expenses from financial liabilities measured at amortized cost are noted in (3) and (4), respectively.

(3) The breakdown of Total Interest Income and Interest Expenses (Calculated Using the Effective Interest Method) from Financial Instruments by Type of Financial Instruments

(Millions of Yen)

	Debt instruments measured at FVTOCI	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost
Revenue	¥15,438	¥182,106	¥ —
Operating expenses	—	—	9,321
Financial income	—	602	—
Financial expenses	—	—	13,866
Total	15,438	182,708	23,187

(4) The breakdown of Commission Revenue and Commission Fee Expenses from Financial Instruments by Type of Financial Instruments

(Millions of Yen)

	Debt instruments measured at FVTOCI	Equity instruments measured at FVTOCI	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Trust and other trustee operations
Revenue	¥—	¥—	¥—	¥—	¥218
Financial expenses	—	—	—	623	—

(5) Analysis of Gains and Losses on Derecognition of Financial Assets Measured at Amortized Cost and Reason for Derecognition

(Millions of Yen)

	Gains on derecognition of financial assets measured at amortized cost	Losses on derecognition of financial assets measured at amortized cost
Investment securities for banking business	—	122
Others	40	—

Certain investment securities for the banking business have been derecognized due to the sale of such assets for the purpose of flexibly responding to future changes in the interest rate environment.

40. Fair Value of Financial Instruments

(1) Carrying Amount and Fair Value of Financial Instruments

The following table provides a comparison between carrying amounts and fair values of the financial instruments held by the Group Companies.

(Millions of Yen)

	December 31, 2019		
	Carrying amount	Fair value	Difference
(Financial assets)			
Financial assets for securities business	¥1,976,009	¥1,976,009	¥—
Loans for credit card business	1,828,216	1,878,690	50,474
Investment securities for banking business	272,711	272,826	115
Loans for banking business	1,049,993	1,053,598	3,605
Investment securities for insurance business	287,200	287,200	—
Derivative assets	28,050	28,050	—
Investment securities	163,259	163,377	118
Other financial assets (Note)	335,247	335,247	—
Total	5,940,685	5,994,997	54,312
(Financial liabilities)			
Deposits for banking business	3,160,748	3,160,812	64
Financial liabilities for securities business	1,860,645	1,860,645	—
Derivative liabilities	10,172	10,172	—
Bonds and borrowings	1,727,096	1,741,672	14,576
Total	6,758,661	6,773,301	14,640

(Note) Insurance business policy reserves (reinsured portion) of ¥54,987 million are excluded.

(Millions of Yen)

	December 31, 2020		
	Carrying amount	Fair value	Difference
(Financial assets)			
Financial assets for securities business	¥2,673,229	¥2,673,229	¥—
Loans for credit card business	2,033,013	2,086,898	53,885
Investment securities for banking business	266,227	266,269	42
Loans for banking business	1,436,513	1,440,470	3,957
Investment securities for insurance business	283,969	283,969	—
Derivative assets	32,644	32,644	—
Investment securities	275,236	275,306	70
Other financial assets (Note)	436,354	436,354	—
Total	7,437,185	7,495,139	57,954
(Financial liabilities)			
Deposits for banking business	4,716,162	4,716,216	54
Financial liabilities for securities business	2,587,227	2,587,227	—
Derivative liabilities	78,318	78,318	—
Bonds and borrowings	2,487,457	2,529,926	42,469
Total	9,869,164	9,911,687	42,523

(Note) Insurance business policy reserves (reinsured portion) of ¥56,332 million are excluded.

The measurement method of fair values is as follows.

- Financial assets for securities business

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

- Loans for credit card business and loans for banking business

  The fair value of loans for credit card business and loans for banking business is based on present value calculated by discounting each portion of future cash flows classified by period, for the corresponding remaining maturity using the applicable interest rate considering credit risk.

- Investment securities for banking business, investment securities for insurance business and investment securities

  Of investment securities for banking business, investment securities for insurance business and investment securities, fair value of listed shares is measured using the year-end closing market price, while fair value of unlisted shares is measured using an appropriate valuation technique, mainly by comparison with actual similar transactions. The fair value of bonds is based on reasonable valuation methods using available information, including trading statistics and brokers' quotes.

- Other financial assets

  The fair value of other financial assets is based on present value calculated by discounting each portion of future cash flows classified by period, for the corresponding remaining maturity using the applicable interest rate considering credit risk.

- Derivative assets and liabilities

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

- Deposits for banking business

  For demand deposits of the deposits for banking business, amounts payable on request at the year-end closing date (carrying amount) are considered to represent fair value. Fair value of time deposits is based on present value calculated by discounting each portion of future cash flows classified by period, for the corresponding remaining maturity, using the applicable interest rate considering credit risk. For time deposits with short remaining maturities (one year or less), the carrying amount is deemed as fair value as such fair value approximates the carrying amount.

- Financial liabilities for securities business

  As financial liabilities for securities business are subject to short-term settlement, their fair values approximate their carrying amounts, and thus fair values are based on their carrying amounts.

- Bonds and borrowings

  Within bonds and borrowings, fair values of those with longer remaining maturities is based on present value calculated by discounting each portion of future cash flows classified by period, for the corresponding remaining maturity, using the applicable interest rate considering credit risk.

Cash and cash equivalents, accounts receivable — trade, accounts payable — trade and other financial liabilities are financial instruments routinely based on fair value, or are mainly subject to short-term settlement and their fair values approximate their carrying amounts. Accordingly, they have not been included in the above table.

(2) Fair Value Hierarchy

The following table shows fair value measurement classified into one of three levels from Level 1 to Level 3 based on *the fair value hierarchy.*

[Definition of Each Level of Hierarchy]

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Fair value calculated by using inputs that are directly or indirectly observable for assets or liabilities, other than quoted prices included within Level 1

Level 3: Fair value calculated by using the valuation technique including inputs that are unobservable

The Group Companies recognize transfers between each level in hierarchy at the end of the quarter in which the events causing the transfers occur.

Classification by level of assets and liabilities based on fair value in the Consolidated Statements of Financial Position

For the year ended December 31, 2019

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets for securities business	¥—	¥948	¥—	¥948
Investment securities for banking business	129,286	—	129,547	258,833
Investment securities for insurance business	200,649	52,907	33,644	287,200
Investment securities	8,212	—	146,634	154,846
Other financial assets	—	—	7,616	7,616
Derivative assets/liabilities	8	17,870	—	17,878

There were no significant transfers between Level 1 and Level 2 during the year ended December 31, 2019.

For the year ended December 31, 2020

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets for securities business	¥—	¥849	¥—	¥849
Investment securities for banking business	97,327	—	155,805	253,132
Investment securities for insurance business	142,387	88,497	53,085	283,969
Investment securities	180,745	—	86,482	267,227
Other financial assets	—	—	11,348	11,348
Derivative assets/liabilities	—	(45,674)	—	(45,674)

There were no significant transfers between Level 1 and Level 2 during the year ended December 31, 2020.

Classification by level of assets and liabilities not based on fair value in the Consolidated Statements of Financial Position

For the year ended December 31, 2019

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets for securities business	¥—	¥1,974,986	¥75	¥1,975,061
Loans for credit card business	—	—	1,878,690	1,878,690
Investment securities for banking business	—	—	13,993	13,993
Loans for banking business	—	—	1,053,598	1,053,598
Investment securities	5,327	1,800	1,404	8,531
Other financial assets	—	—	327,631	327,631
Deposits for banking business	—	3,160,812	—	3,160,812
Financial liabilities for securities business	—	1,860,645	—	1,860,645
Bonds and borrowings	—	1,741,672	—	1,741,672

For the year ended December 31, 2020

				(Millions of Yen)
	Level 1	Level 2	Level 3	Total
Financial assets for securities business	¥—	¥2,672,317	¥63	¥2,672,380
Loans for credit card business	—	—	2,086,898	2,086,898
Investment securities for banking business	—	—	13,137	13,137
Loans for banking business	—	—	1,440,470	1,440,470
Investment securities	5,275	2,000	804	8,079
Other financial assets	—	—	425,006	425,006
Deposits for banking business	—	4,716,216	—	4,716,216
Financial liabilities for securities business	—	2,587,227	—	2,587,227
Bonds and borrowings	—	2,529,926	—	2,529,926

(3) Reconciliation of Level 3 of the Hierarchy

The following reconciliation table indicates changes in the balances, from the beginning to the end of each year, of the financial instruments classified as Level 3, with one or more significant inputs not supported by observable market data.

For the year ended December 31, 2019

(Millions of Yen)

	Investment securities for banking business	Investment securities for insurance business	Investment securities	Other financial assets	Total
January 1, 2019	¥90,844	¥114,336	¥363,380	¥5,455	¥574,015
Gains or losses					
Net income (loss)	(23)	(52)	105,048	228	105,201
Other comprehensive income	(1)	1,696	10,443	—	12,138
Acquisition	300,613	6,325	23,453	3,016	333,407
Disposal	—	(75,021)	(10,958)	(72)	(86,051)
Issuance	—	—	—	—	—
Settlement	—	—	—	—	—
Redemption	(261,903)	(13,179)	(0)	(777)	(275,859)
Others (Note) 1	17	(461)	(26,578)	(234)	(27,256)
Transfer to Level 3	—	—	—	—	—
Transfer from Level 3 (Note) 2	—	—	(318,154)	—	(318,154)
December 31, 2019	129,547	33,644	146,634	7,616	317,441
Total net income on financial instruments held at the end of previous fiscal year	(23)	(52)	(4,960)	228	(4,807)

(Notes) 1. Certain investments which had previously been recognized as “investment securities”, were reclassified as “investments in associates and joint ventures” in the third quarter ended September 30, 2019. As a result, “investment securities” decreased by ¥24,432 million.

2. This transfer resulted from the listing of an investee as quoted share prices are now available.

Gains or losses included in net income during the year ended December 31, 2019 are included in “Revenue” and “Other Income”.

The fair value of unlisted shares classified in Level 3 is estimated based on the transaction comparison method. Other valuation methods and inputs are as follows.

Valuation method	Significant unobservable inputs	Range of unobservable inputs
Discounted cash flow method	Discount rate	13.5% - 15.5%
Method of comparison with similar sectors	Revenue multiple	1.75 - 2.10
	EBIT multiple	21 - 30

With regard to unobservable inputs, there is a correlation between the revenue multiple and EBIT multiple and fair value of stocks, in that when the multiples rise fair value of the shares increases. The rise in discount rate correlates with the decrease in fair value of shares.

For the year ended December 31, 2020

(Millions of Yen)

	Investment securities for banking business	Investment securities for insurance business	Investment securities	Other financial assets	Total
January 1, 2020	¥129,547	¥33,644	¥146,634	¥7,616	¥317,441
Gains or losses					
Net income (loss)	(28)	270	8,109	320	8,671
Other comprehensive income	(2)	2,138	512	—	2,648
Acquisition	415,148	23,036	5,106	13,713	457,003
Disposal	—	(1,360)	(52,933)	(252)	(54,545)
Issuance	—	—	—	—	—
Settlement	—	—	—	—	—
Redemption	(388,882)	(1,839)	—	(13,925)	(404,646)
Others	22	(1,817)	(4,209)	3,876	(2,128)
Transfer to Level 3	—	—	—	—	—
Transfer from Level 3 (Note)	—	(987)	(14,296)	—	(15,283)
Increase due to business combination	—	—	473	—	473
Decrease due to exclusion from consolidation	—	—	(2,914)	—	(2,914)
December 31, 2020	155,805	53,085	86,482	11,348	306,720
Total net income on financial instruments held at the end of current fiscal year	(28)	270	7,767	48	8,057

(Note) For “Investment securities,” the transfer resulted from the listing of an investee as quoted share prices are now available. For “Investment securities for insurance business,” the transfer resulted from significant inputs used to measure fair value becoming observable.

Gains or losses included in net income during the year ended December 31, 2020 are included in “Revenue” and “Other Income.”

The fair value of unlisted shares classified in Level 3 is estimated based on the transaction comparison method. Other valuation methods and inputs are as follows.

Valuation method	Significant unobservable inputs	Range of unobservable inputs
Discounted cash flow method	Discount rate	12.0% - 14.0%

With regard to unobservable inputs, the rise in discount rate correlates with the decrease in fair value of shares.

The fair values of unlisted shares, etc. are measured in accordance with rules specified by the administrative department independent of the sales department. In measuring fair value, the Group Companies use different valuation models that most appropriately reflects the property, characteristics, and risks of each asset. The reasons for the use of certain valuation models and fair value measurement processes are reported to department in charge of risk management to ensure the utilization of appropriate fair value measurement policies and procedures.

The fair values of investment securities for banking business are measured by the Risk Management Department in accordance with the official standard of market value calculation. Prices presented by transacting financial institutions and others are categorized by the type of investment securities. To validate the consistency of changes in these prices, movements in key data that may have an impact on changes in the market value of these categories of investment securities are carefully monitored. Validation results are reported to the Risk Management Committee, Management Meetings, and the Board of Directors on a monthly basis.

Operation and management of investment securities for insurance business are conducted in accordance with “Authorization Matrix Table” and “Regulation for Risk Management concerning Investment of Assets”. The major shares are held to enhance relationships with our business partners. To validate the consistency of changes in these prices, the market environment of their business and their financial conditions are monitored.

For investment securities for banking business, investment securities for insurance business and investment securities which are classified as Level 3, if each input were to be changed to reasonable alternative assumptions, any resulting changes in fair value are not expected to be significant. Additionally, for other financial assets classified as Level 3, significant changes in fair value are not anticipated if each input were to be changed to reasonable alternative assumptions.

41. Offsetting of Financial Assets and Financial Liabilities

The Group Companies’ gross amount before the offsetting of recognized financial assets and financial liabilities that are presented on a net basis after offsetting in the Consolidated Statements of Financial Position, the amount and the net balance after offsetting are as follows. Additionally, the potential effect of offsetting legally enforceable master netting arrangements or similar agreements relating to recognized financial assets or financial liabilities are disclosed for amounts that are not presented on a net basis.

As of December 31, 2019

(Financial assets that are presented on a net basis after offsetting in the Consolidated Statements of Financial Position, and legally enforceable master netting arrangements or similar agreements)

(Millions of Yen)

Financial assets	Type of transaction	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offset in the Consolidated Statements of Financial Position	Net amount of financial assets presented in the Consolidated Statements of Financial Position
Derivative assets	Derivatives	¥33,270	¥(5,220)	¥28,050
Financial assets for securities business	Reverse repurchase agreements, investment securities borrowing agreements and similar agreements	406,325	—	406,325
	Accounts receivable, etc. relating to investment securities and other transactions, etc.	445,640	(206,992)	238,648
Other financial assets	Accounts receivable — other, etc.	62,756	(59,219)	3,537

(Millions of Yen)

Type of transaction	Net amount of financial assets presented in the Consolidated Statements of Financial Position	Related amounts that are not presented on a net basis after offsetting in the Consolidated Statements of Financial Position		Net amount
		Financial instruments	Collateral received	
Derivatives	¥28,050	¥(4,488)	¥(16,185)	¥7,377
Reverse repurchase agreements, investment securities borrowing agreements and similar agreements	406,325	(402,533)	—	3,792
Accounts receivable, etc. relating to investment securities and other transactions, etc.	238,648	(238,648)	—	—
Accounts receivable — other, etc.	3,537	—	—	3,537

(Financial liabilities that are presented on a net basis after offsetting in the Consolidated Statements of Financial Position, and legally enforceable master netting arrangements or similar agreements)

(Millions of Yen)

Financial liabilities	Type of transaction	Gross amount of recognized financial liabilities	Gross amount of recognized financial assets offset in the Consolidated Statements of Financial Position	Net amount of financial liabilities presented in the Consolidated Statements of Financial Position
Derivative liabilities	Derivatives	¥15,392	¥(5,220)	¥10,172
Financial liabilities for securities business	Repurchase agreements, investment securities lending agreements and similar agreements	328,308	—	328,308
	Accounts payable, etc. relating to investment securities and other transactions, etc.	1,358,738	(206,992)	1,151,746
Other financial liabilities	Accounts payable — other, etc.	129,557	(59,219)	70,338

(Millions of Yen)

Type of transaction	Net amount of financial liabilities presented in the Consolidated Statements of Financial Position	Related amounts that are not presented on a net basis after offsetting in the Consolidated Statements of Financial Position		Net amount
		Financial instruments	Collateral pledged	
Derivatives	¥10,172	¥(4,488)	¥(4,772)	¥912
Repurchase agreements, investment securities lending agreements and similar agreements	328,308	(321,053)	—	7,255
Accounts payable, etc. relating to investment securities and other transactions, etc.	1,151,746	(299,146)	(6,000)	846,600
Accounts payable — other, etc.	70,338	—	—	70,338

As of December 31, 2020

(Financial assets that are presented on a net basis after offsetting in the Consolidated Statements of Financial Position, and legally enforceable master netting arrangements or similar agreements)

(Millions of Yen)

Financial assets	Type of transaction	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offset in the Consolidated Statements of Financial Position	Net amount of financial assets presented in the Consolidated Statements of Financial Position
Derivative assets	Derivatives	¥41,386	¥(8,742)	¥32,644
Financial assets for securities business	Reverse repurchase agreements, investment securities borrowing agreements and similar agreements	503,798	—	503,798
	Accounts receivable, etc. relating to investment securities and other transactions, etc.	882,073	(406,251)	475,822
Other financial assets	Accounts receivable — other, etc.	67,291	(59,896)	7,395

(Millions of Yen)

Type of transaction	Net amount of financial assets presented in the Consolidated Statements of Financial Position	Related amounts that are not presented on a net basis after offsetting in the Consolidated Statements of Financial Position		Net amount
		Financial instruments	Collateral received	
Derivatives	¥32,644	¥(4,793)	¥(20,683)	¥7,168
Reverse repurchase agreements, investment securities borrowing agreements and similar agreements	503,798	(501,623)	—	2,175
Accounts receivable, etc. relating to investment securities and other transactions, etc.	475,822	(453,710)	—	22,112
Accounts receivable — other, etc.	7,395	—	—	7,395

(Financial liabilities that are presented on a net basis after offsetting in the Consolidated Statements of Financial Position, and legally enforceable master netting arrangements or similar agreements)

(Millions of Yen)

Financial liabilities	Type of transaction	Gross amount of recognized financial liabilities	Gross amount of recognized financial assets offset in the Consolidated Statements of Financial Position	Net amount of financial liabilities presented in the Consolidated Statements of Financial Position
Derivative liabilities	Derivatives	¥87,060	¥(8,742)	¥78,318
Financial liabilities for securities business	Repurchase agreements, investment securities lending agreements and similar agreements	458,545	—	458,545
	Accounts payable, etc. relating to investment securities and other transactions, etc.	2,029,190	(406,251)	1,622,939
Other financial liabilities	Accounts payable — other, etc.	140,449	(59,896)	80,553

(Millions of Yen)

Type of transaction	Net amount of financial liabilities presented in the Consolidated Statements of Financial Position	Related amounts that are not presented on a net basis after offsetting in the Consolidated Statements of Financial Position		Net amount
		Financial instruments	Collateral pledged	
Derivatives	¥78,318	¥(4,783)	¥(6,655)	¥66,880
Repurchase agreements, investment securities lending agreements and similar agreements	458,545	(453,773)	—	4,772
Accounts payable, etc. relating to investment securities and other transactions, etc.	1,622,939	(606,419)	—	1,016,520
Accounts payable — other, etc.	80,553	—	—	80,553

The right to offset financial assets and liabilities subject to legally enforceable master netting agreements or other similar agreements that are not presented on a net basis after offsetting in the statement of financial position becomes enforceable and affects the realization or settlement of individual financial assets and liabilities only following a default or other specified circumstances not expected to arise in the normal course of business.

42. Lease Accounting

The Group Companies, as the lessee, mainly leases offices, warehouses, data centers and telecommunications facilities.

Information on leases, with the Group Companies as the lessee, is as follows.

(1) Amounts recognized in the Consolidated Statements of Financial Position

(Millions of Yen)

	December 31, 2019	December 31, 2020
Right-of-use assets		
Offices as the underlying assets	¥74,437	¥73,026
Warehouses as the underlying assets	41,737	81,998
Data centers as the underlying assets	9,044	15,684
Telecommunications facilities as the underlying assets	39,846	92,287
Other underlying assets	16,931	16,681
Total right-of-use assets (Note) 1	181,995	279,676
Lease liabilities (Note) 2	180,512	280,760

(Notes) 1. Offices, warehouses, data centers and telecommunications facilities are mainly buildings and accompanying facilities.

2. Lease liabilities are included in “Other financial liabilities” in the Consolidated Statements of Financial Position.

(2) Amounts recognized in the Consolidated Statements of Income

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Depreciation associated with right-of-use assets		
Offices as the underlying assets	¥9,422	¥13,636
Warehouses as the underlying assets	6,067	9,477
Data centers as the underlying assets	1,120	2,623
Telecommunications facilities as the underlying assets	1,814	7,601
Other underlying assets	2,071	2,381
Total depreciation associated with right-of-use assets (Note) 1	20,494	35,718
Interest expense associated with lease liabilities (Note) 2	611	1,176

(Notes) 1. Depreciation associated with right-of-use assets is included in “Operating expenses” of the Consolidated Statements of Income.

2. Interest expense associated with lease liabilities are included in “Financial expenses” of the Consolidated Statements of Income.

(3) Cash flows associated with leases

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Total cash outflows associated with leases	¥20,023	¥37,981

(4) Extension options and termination options

Certain lease contracts have extension options and/or termination options, which may be exercised by the Group Companies, and the Group Companies may exercise such options, as necessary. The Group Companies assess whether it is reasonably certain the extension option will be exercised or the termination option will not be exercised at the commencement date of the lease term. Given that the lease term is determined for each lease transaction on the assumption of a reasonably certain contractual period, the lease term includes leases that anticipate the extension option will be exercised and those that anticipate the termination option will not be exercised.

Major extension options and termination options are as follows:

- Office contracts: Automatic extension option (excluding fixed-term lease and rental contracts)
- Certain warehouse contracts: Leases cancellable by opting in the 10th year, within non-cancellable contracts (15-year contracts)

(5) Contracted leases that have not yet commenced

The amount of future cash outflows to which the Group Companies are potentially exposed due to leases that have been contracted but have not yet commenced as of December 31, 2020 is ¥15,306 million.

43. Financial Risk Management

The objective of the Group Companies’ investment activities is to protect the principal and ensure the efficient use of funds by fully taking into account various risks including credit risk, market risk and liquidity risk. In addition, in view of factors such as the current economic environment, the Group Companies’ fund-raising activities are based on the best conceivable choice of the alternative options among direct as well as indirect financing methods.

In the securities business, the Group Companies focus on the brokerage and intermediary services of financial instruments including stocks for individual customers, and under the Financial Instruments and Exchange Act invest the deposits and guarantee deposits received from customers that have been segregated in trusts for customers for separate management. When utilizing funds, importance is placed on the safety of investments, such as bank deposits and financial assets with high liquidity, while fund-raising is conducted mainly by borrowing from financial institutions.

In the credit card business (including the comprehensive credit purchase intermediation business, individual credit purchase intermediation business, credit guarantee business and loan business), the Group Companies restrict their investment of funds to short-term deposits. Meanwhile, funding is obtained through borrowings from banks and other financial institutions and through direct financing by issuance of commercial papers, issuance of corporate bonds and securitization of receivables.

In the banking business, the Group Companies primarily focus on deposit-taking, lending and exchange business, and mainly offer ordinary deposits, time deposits and foreign currency deposits. In addition, using such financial liabilities as major resources, the Group Companies mainly provide guaranteed unsecured card loans, residential mortgages and business loans, as well as engaging in investment activities through investment securities, monetary claims purchased, monetary trusts and call loans, along with derivative transactions and foreign exchange transactions associated with the sales of financial instruments to customers. In asset management, the Group Companies are always aware of the significance of a bank's social responsibility and public mission, which strictly restrains it from entering into investment transactions beyond its management capacity in the undue pursuit of profit, and emphasis is placed on investing deposits entrusted by customers with full consideration of safety. Furthermore, to ensure an optimum asset and liability structure along with appropriate capital adequacy over the entire financial operations from funding to investment, the Group Companies engage in Asset and Liability Management (ALM) focused on interest rate sensitivity, funding liquidity and market liquidity.

In the insurance business, the Group Companies consider ensuring safety and profitability as their priority mission in asset management, in order to honor their commitment to the reliable payment of insurance claims and benefits over the years to come. Their policy in asset management is to invest mainly in public bonds seeking to disperse risks with an aim to receive consistent investment yields over the medium to long-term, in an effort to develop a safety-first liquidity and profitability-oriented sound investment portfolio.

Under the corporate policy, derivative transactions are handled responsibly, never to be entered into as speculative instruments.

(1) Credit Risk

1) Outline of Credit Risk Associated with Financial Instruments

Financial assets held by the Group Companies mainly comprise accounts receivable-trade, financial assets for securities business, loans for credit card business, investment securities for banking business, loans for banking business, investment securities for insurance business and investment securities.

Accounts receivable — trade mainly include accounts receivable relating to sales revenue from individual customers of the internet service business, merchants, hotels and other clients, and are exposed to the credit risk of these clients.

Financial assets for securities business include cash segregated as deposits for securities business and margin transaction assets. Cash segregated as deposits for securities business are primarily trust segregated for customer's money, which are invested in bank deposits, thus exposed to the credit risk of the deposit-taking financial institutions. Margin transaction assets are exposed to customers' credit risk.

Loans for credit card business include credit card receivables, loan receivables, consumer loans and secured loans held by the subsidiaries engaged in the credit card business. These are exposed to credit risk associated with respective debtors.

Investment securities for banking business mainly include securities in domestic bonds and foreign bonds, as well as trust beneficiary rights. Such securities are exposed to credit risk of the issuers as well as underlying assets.

Loans for banking business include unsecured card loans, residential mortgages, real estate mortgages and business loans for individual customers, which are exposed to credit risk of customers.

Investment securities for insurance business include government bonds, municipal bonds and corporate bonds, and are exposed to credit risk related to the financial position of issuers.

Investment securities include debt instruments, etc., which are exposed to credit risk of issuers.

These financial assets are well diversified both in terms of the investees' types of business and their geographical locations, avoiding particular concentration of credit risk.

2) Management System of Credit Risks Associated with Financial Instruments

Specific methods and systems to manage various risks within the Group Companies are set out under risk management regulations established at each Group Company. Additionally, with regard to financial assets for securities business and loans for banking business, the Group Companies engage in activities to reasonably mitigate the credit risk through collateral and debt guarantees.

Credit risks are managed under the group management regulations, through establishing individual credit limits, understanding the credit status of individual customers, and controlling due dates and loan balances on a regular basis, while efforts are made on early detection and mitigation of the risk of default resulting from deterioration of borrowers' financial conditions and other factors. In addition to the customers' financial information obtained through the course of such credit administration, expected credit loss is recognized and measured by considering macroeconomic factors such as the unemployment rate and the number of corporate bankruptcy cases.

With regard to financial assets for securities business and loans for credit card business and banking business, as a general rule, if the repayment or the settlement of the financial assets becomes more than 30 days overdue, the credit risk of the financial instrument is determined to have significantly increased since initial recognition.

With regard to investment securities which are considered to be debt instruments within the investments securities for banking business, the investment securities for insurance business, and investments securities, if the financial instrument, which had been investment grade at initial recognition, is downgraded to below investment grade, the credit risk of the financial instrument is determined to have significantly increased. Additionally, upon referencing third-party ratings, if the credit risk as of the reporting date is deemed to be small, the credit risk of such financial instrument is presumed not to have significantly increased. Ratings information provided by major rating organizations is used for the determination of credit risk.

With regard to these financial assets, as a general rule, if the repayment or the settlement becomes more than 90 days overdue, the contractual conditions have been modified, or recovery has been deemed to be extremely difficult, it is determined that a default has occurred.

Derivative transactions are managed under hedge transaction management rules. While credit risk is deemed to be minimal because the counterparties are mainly financial institutions with high credit ratings, the derivative transactions are exposed to the risk of financial loss resulting from the counterparty's contractual default.

3) Change analysis of allowance for doubtful accounts

As of December 31, 2019

(Millions of Yen)

		Lifetime expected credit loss			
	12-months expected credit losses	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	Total
January 1, 2019	¥19,876	¥4,036	¥68,753	¥7,816	¥100,481
Increase for the period (provision)	843	4,483	36,205	1,921	43,452
Decrease for the period (intended use)	(34)	(168)	(34,818)	(2,574)	(37,594)
Decrease for the period (reversal)	—	(27)	—	(67)	(94)
Reclassification for the period	(354)	(3,416)	3,770	—	—
Other changes for the period	(96)	(3)	(176)	739	464
December 31, 2019	20,235	4,905	73,734	7,835	106,709

The above table includes allowances for doubtful accounts for the debt instruments based on fair value and recognized as other comprehensive income.

As of December 31, 2020

(Millions of Yen)

	12-months expected credit losses	Lifetime expected credit loss: Financial assets with credit risk which has significantly increased since initial recognition	Lifetime expected credit loss: Financial assets impaired	Lifetime expected credit loss: Financial assets with allowance for doubtful accounts measured at an amount equal to lifetime expected credit losses	Total
January 1, 2020	¥20,235	¥4,905	¥73,734	¥7,835	¥106,709
Increase for the period (provision)	524	4,570	41,098	2,955	49,147
Decrease for the period (intended use)	(20)	(299)	(41,777)	(1,750)	(43,846)
Decrease for the period (reversal)	(119)	(52)	—	—	(171)
Reclassification for the period	(206)	(3,895)	4,101	—	—
Other changes for the period	(20)	1	492	(291)	182
December 31, 2020	20,394	5,230	77,648	8,749	112,021

The above table includes the allowances for doubtful accounts for the debt instruments based on fair value and recognized as other comprehensive income.

4) Exposure to Credit Risks

The Group Companies' maximum exposure to credit risk is as follows:

The maximum credit risk exposure represents the maximum exposure to credit risk without taking into account the collateral held by the Group Companies and any other credit enhancement.

The maximum exposure to credit risk associated with financial assets stated as on-balance sheet items recognized in the Statements of Financial Position in the following table, are the same as their carrying amounts. The maximum exposure to credit risk associated with commitment line agreements stated as off-balance sheet items in the following table, is the unused portion of such commitment lines. Meanwhile, the maximum exposure to credit risk associated with financial guarantee agreements is the maximum amount payable in the event that exercise of the guarantee is requested.

Exposure to Credit Risks of Operating Receivables, etc.

As of December 31, 2019

(Millions of Yen)

	Classification by creditworthiness		Total	Allowance for doubtful accounts	Maximum credit risk exposure
	Financial assets not impaired	Financial assets impaired			
On-balance sheet Items:					
Accounts receivable — trade (Note)	¥219,197	¥11,191	¥230,388	¥(8,024)	¥222,364
Other financial assets (Note)	130,808	738	131,546	(826)	130,720
Total:	350,005	11,929	361,934	(8,850)	353,084

(Note) Applies only to financial instruments with allowance for doubtful accounts are always based on amounts equal to lifetime expected credit loss and there are no categories that depend on whether a significant increase in credit risk since initial recognition has taken place, as they do not contain a significant financing component.

As of December 31, 2020

(Millions of Yen)

	Classification by creditworthiness		Total	Allowance for doubtful accounts	Maximum credit risk exposure
	Financial assets not impaired	Financial assets impaired			
On-balance sheet Items:					
Accounts receivable — trade (Note)	¥236,129	¥16,705	¥252,834	¥(8,950)	¥243,884
Other financial assets (Note)	215,329	1,158	216,487	(4,514)	211,973
Total:	451,458	17,863	469,321	(13,464)	455,857

(Note) Applies only to financial instruments with allowance for doubtful accounts are always based on amounts equal to lifetime expected credit loss and there are no categories that depend on whether a significant increase in credit risk since initial recognition has taken place, as they do not contain a significant financing component.

Exposure to Credit Risks of Receivables Other Than Operating Receivables, etc.

As of December 31, 2019

(Millions of Yen)

	Classification by creditworthiness					
	12-months expected credit losses	Financial assets with credit risk which has significantly increased since initial recognition	Financial assets impaired	Total	Allowance for doubtful accounts (Note)	Maximum credit risk exposure
On-balance sheet Items:						
Cash and cash equivalents	¥1,478,557	¥—	¥—	¥1,478,557	¥—	¥1,478,557
Financial assets for securities business	1,975,047	1	2,115	1,977,163	(2,102)	1,975,061
Loans for credit card business	1,793,588	11,451	105,801	1,910,840	(82,624)	1,828,216
Investment securities for banking business	270,178	995	280	271,453	(99)	271,354
Loans for banking business	1,062,275	202	470	1,062,947	(12,954)	1,049,993
Investment securities for insurance business	75,117	—	—	75,117	—	75,117
Investment securities	8,413	—	—	8,413	—	8,413
Other financial assets	196,944	—	0	196,944	(34)	196,910
Total of On-balance sheet items:	6,860,119	12,649	108,666	6,981,434	(97,813)	6,883,621
Off-balance sheet items:						
Commitment lines	—	—	—	—	—	3,882,138
Financial guarantee agreements	—	—	—	—	—	6,180
Total of Off-balance sheet items:	—	—	—	—	—	3,888,318
Total	6,860,119	12,649	108,666	6,981,434	(97,813)	10,771,939

(Note) Allowance for doubtful accounts of debt instruments measured at FVTOCI is not included.

*1 With regard to credit-impaired financial assets, the allowance for doubtful accounts has been reduced by ¥467 million in the fiscal year 2019 as a result of collateral and other credit enhancements.

*2 Regarding the financial assets with terms and conditions modified when customers or clients request modification of payment due dates of financial assets, the Group Companies may change the repayment contract terms and modify the initial contractual cash flows so as to facilitate the recovery of the financial assets. In the fiscal year 2019, with regard to the financial assets whose allowance for doubtful accounts were based on an amount equivalent to estimated credit loss over the entire period, the amortized cost of the financial asset prior to the modification and net losses recognized as a result of the contractual cash flow modification were ¥21,480 million and ¥5,671 million, respectively.

As of December 31, 2020

(Millions of Yen)

	Classification by creditworthiness					
	12-months expected credit losses	Financial assets with credit risk which has significantly increased since initial recognition	Financial assets impaired	Total	Allowance for doubtful accounts (Note)	Maximum credit risk exposure
On-balance sheet Items:						
Cash and cash equivalents	¥3,021,306	¥—	¥—	¥3,021,306	¥—	¥3,021,306
Financial assets for securities business	2,672,199	2	2,063	2,674,264	(1,884)	2,672,380
Loans for credit card business	1,994,971	12,456	109,931	2,117,358	(84,345)	2,033,013
Investment securities for banking business	264,965	9	12	264,986	(12)	264,974
Loans for banking business	1,446,501	82	2,114	1,448,697	(12,184)	1,436,513
Investment securities for insurance business	129,554	—	—	129,554	—	129,554
Investment securities	8,009	—	—	8,009	—	8,009
Other financial assets	207,596	2,165	3,324	213,085	(52)	213,033
Total of On-balance sheet items:	9,745,101	14,714	117,444	9,877,259	(98,477)	9,778,782

(Millions of Yen)

	Classification by creditworthiness					
	12-months expected credit losses	Financial assets with credit risk which has significantly increased since initial recognition	Financial assets impaired	Total	Allowance for doubtful accounts (Note)	Maximum credit risk exposure
Off-balance sheet items:						
Commitment lines	—	—	—	—	—	4,390,034
Financial guarantee agreements	—	—	—	—	—	5,024
Total of Off-balance sheet items:	—	—	—	—	—	4,395,058
Total	9,745,101	14,714	117,444	9,877,259	(98,477)	14,173,840

(Note) Allowance for doubtful accounts of debt instruments measured at FVTOCI is not included.

*1 With regard to credit-impaired financial assets, the allowance for doubtful accounts has been reduced by ¥2,099 million in the fiscal year 2020 as a result of collateral and other credit enhancements.

*2 Regarding the financial assets which terms and conditions are modified when customers or clients request modification of payment due dates of financial assets, the Group Companies may change the repayment contract terms and modify the initial contractual cash flows so as to facilitate the recovery of the financial assets. In the fiscal year 2020, with regard to the financial assets with allowance for doubtful accounts based on an amount equivalent to estimated credit loss over the entire period, the amortized cost of the financial asset prior to the modification and net losses recognized as a result of the contractual cash flow modification were ¥25,041 million and ¥6,607 million, respectively.

5) Past due information of financial assets

Aging analysis of past due financial assets is as follows.

In the following aging analysis, amounts of financial assets, for which the payment terms have been extended or payment has not been made since the contractual due dates, are classified according to the length of the overdue period from the respective due dates for each fiscal year.

Past due information of operating receivables, etc.

As of December 31, 2019

(Millions of Yen)

	Three months or less	Over three months to one year	Over one year
Accounts receivable — trade	¥17,712	¥3,425	¥7,765
Other financial assets	490	635	104
Total	18,202	4,060	7,869

As of December 31, 2020

(Millions of Yen)

	Three months or less	Over three months to one year	Over one year
Accounts receivable — trade	¥17,986	¥6,805	¥9,900
Other financial assets	1,381	771	388
Total	19,367	7,576	10,288

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

As of December 31, 2019

(Millions of Yen)

	30 days or less	Over 30 days to 90 days	Over 90 days
Financial assets for securities business	¥20	¥3	¥2,113
Loans for credit card business	131,107	16,441	40,119
Investment securities for banking business	559	73	428
Loans for banking business	4,368	202	470
Other financial assets	99	—	284
Total	136,153	16,719	43,414

As of December 31, 2020

(Millions of Yen)

	30 days or less	Over 30 days to 90 days	Over 90 days
Financial assets for securities business	¥22	¥2	¥2,063
Loans for credit card business	125,397	17,513	38,197
Investment securities for banking business	20	9	13
Loans for banking business	3,385	82	2,114
Other financial assets	9	2,853	59
Total	128,833	20,459	42,446

(2) Liquidity Risk

1) Outline of Liquidity Risk Associated with Financial Instruments

Within financial liabilities held by the Group Companies, bonds and borrowings and deposits for banking business are mainly exposed to liquidity risks. Bonds and borrowings are exposed to the risk of deteriorating funding conditions as a result of changes in the creditworthiness of the Group Companies against the transacting financial institutions and changes in the market environment.

In addition, certain borrowings of the Group Companies require compliance with covenants clauses such as maintaining equity and earnings.

2) Management of Liquidity Risk Associated with Financial Instruments

Methods to control liquidity risk associated with funding include a cash management plan to ensure adequate liquidity on hand in accordance with regulations established by each Group Company.

3) Analysis of Maturity of Financial Liabilities

The balances by maturity of financial liabilities (including derivatives) are as follows:

As of December 31, 2019

(Millions of Yen)

	One year or less	Over one year to two years	Over two years to three years	Over three years to four years	Over four years to five years	Over five years
Financial liabilities other than derivatives						
Accounts payable — trade	¥329,483	¥—	¥—	¥—	¥—	¥—
Deposits for banking business	3,131,429	18,346	3,115	2,758	3,026	1,427
Financial liabilities for securities business	1,860,645	—	—	—	—	—
Bonds and borrowings	589,379	137,992	232,082	339,218	191,180	250,661
Lease liabilities	25,902	26,812	25,115	24,855	23,246	55,643
Other financial liabilities excluding lease liabilities	495,052	126,336	16,685	963	838	54
Derivative liabilities	10,181	438	624	54	522	—
Off-balance sheet items						
Commitment lines	3,882,138	—	—	—	—	—
Financial guarantee agreements	6,180	—	—	—	—	—

(Note) Financial liabilities payable on demand are classified as "One year or less." "Deposits for banking business" include ¥2,565,702 million of demand deposits.

As of December 31, 2020

(Millions of Yen)

	One year or less	Over one year to two years	Over two years to three years	Over three years to four years	Over four years to five years	Over five years
Financial liabilities other than derivatives						
Accounts payable — trade	¥337,427	¥—	¥—	¥—	¥—	¥—
Deposits for banking business	4,696,311	8,048	4,805	2,639	2,961	1,031
Financial liabilities for securities business	2,587,227	—	—	—	—	—
Bonds and borrowings	1,142,884	208,006	342,297	389,861	170,214	252,824
Lease liabilities	38,969	39,484	37,248	34,316	29,144	102,066
Other financial liabilities excluding lease liabilities	640,131	124,832	6,779	6,453	48,175	24,375
Derivative liabilities	10,890	675	202	741	43,705	21,838
Off-balance sheet items						
Commitment lines	4,390,034	—	—	—	—	—
Financial guarantee agreements	5,024	—	—	—	—	—

(Note) Financial liabilities payable on demand are classified as “One year or less.” “Deposits for banking business” include ¥4,213,787 million of demand deposits.

(3) Market Risk

1) Outline of Market Risk Associated with Financial Instruments

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

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

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

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

Investment securities for insurance business mainly include government bonds, municipal bonds, corporate bonds, shares and investment trust funds, which are exposed to exchange rate risk and price fluctuation risk.

Investment securities include shares that are exposed to price fluctuation risk.

Within the financial liabilities held by the Group Companies, those exposed to market risks are mainly bonds and borrowings and banking business-related liabilities, which are exposed primarily to interest rate risk and exchange rate risk. Risks of bonds and borrowings are hedged by entering into corresponding interest rate swap transactions and currency swap transactions. Banking business-related liabilities include ordinary deposits, general time deposits and new types of time deposits for individual and corporate customers, as well as foreign currency ordinary deposits and foreign currency time deposits. Although new types of time deposits are exposed to interest rate risk, such risk is hedged by entering into corresponding interest rate swap transactions. Although foreign currency ordinary deposits and foreign currency time deposits are exposed to exchange rate risk, such risk is hedged by entering into corresponding forward exchange contracts.

2) Control system of Market Risks Associated with Financial Instruments

To control market risks, investment securities are subject to investment decisions based on discussion upon the Board of Directors, and it is ensured that such investment securities are appropriately evaluated according to internal regulations. With regard to foreign currency-denominated financial instruments, exchange markets are continuously monitored and the Group Companies' own positions are regulated by establishing position limits and maximum allowable losses for the prevention of any loss in excess of certain levels.

With regard to financial assets held by certain subsidiaries engaged in the banking business, such financial assets and liabilities are based on fair value assuming certain fluctuations in interest rates and exchange rates, and the effects on the net balance after offsetting such financial assets and liabilities (hereinafter referred to as the "present value") are used in a quantitative analysis to manage interest rate risk and exchange rate risk.

Financial assets held by certain subsidiaries engaged in the insurance business are measured and managed using such parameters as Value at Risk (hereinafter referred to as the "VaR"), which quantifies the maximum expected loss which could occur during a given holding period and at a given probability, and reported periodically to the Board of Directors through the Asset Management Risk Management Committee.

3) Interest Rate Risk (Excluding the Subsidiaries Engaged in Banking Business)

The Group Companies' main financial liabilities are borrowings from financial institutions, of which borrowings at floating interest rates are exposed to interest rate risk.

Exposures associated with the Group Companies' financial liabilities are as follows:

(Millions of Yen)

	December 31, 2019	December 31, 2020
Bonds and borrowings	¥1,727,096	¥2,487,457
Floating interest rate	750,510	406,662
Fixed interest rate	976,586	2,080,795

In respect of the above exposures, given all the risk variables remaining constant, except for interest rate risk, if all the key interest rates increased by 10 basis points (0.1%) for the year ended December 31, 2019, income and equity would be negatively impacted by ¥637 million. Conversely, in the event a decrease of 0.1%, income and equity would be positively impacted by ¥637 million compared to the amounts reported as of December 31, 2019. Similarly, given all the risk variables remaining constant, except for interest rate risk, if all the key interest rates increased by 10 basis points (0.1%) for the year ended December 31, 2020, income and equity would be negatively impacted by ¥273 million. Conversely, in the event a decrease of 0.1%, income and equity would be positively impacted by ¥273 million compared to the amounts reported as of December 31, 2020.

Within bonds and borrowings with floating interest rates, the Group Companies have implemented interest rate swap transactions to reduce interest rate fluctuation risk, and the balances of fixed interests were ¥113,416 million and ¥133,175 million as of December 31, 2019 and 2020, respectively.

4) Price Fluctuation Risk

Of the equity instruments held by the Group Companies, marketable equity instruments are exposed to share price fluctuation risk. The Group Companies regularly check the market prices of their equity instruments and financial conditions of their issuers.

The Group Companies carried out a sensitivity analysis as follows, based on the price risk of equity instruments at the end of the year.

In the event of a 5% rise in share prices, accumulated net income (before tax effect) would increase by ¥85 million for the year ended December 31, 2019 due to changes in fair value. Conversely, in the event of a 5% fall, it would decrease by ¥85 million. Similarly, in the event of a 5% rise in share prices, accumulated net income (before tax effect) would increase by ¥18 million for the year ended December 31, 2020 due to changes in fair value excluding Lyft shares. Conversely, in the event of a 5% fall, it would decrease by ¥18 million.

In the event of a 5% rise in share prices, accumulated other comprehensive income (before tax effect) would increase by ¥174 million for the year ended December 31, 2019 due to changes in fair value. Conversely, in the event of a 5% fall, it would decrease by ¥174 million. Similarly, in the event of a 5% rise in share prices, accumulated other comprehensive income (before tax effect) would increase by ¥200 million for the year ended December 31, 2020 due to changes in fair value. Conversely, in the event of a 5% fall, it would decrease by ¥200 million.

The Company has concluded a derivative contract related to Lyft shares in accordance with the Prepaid Variable Share Forward Transactions of Lyft shares. The fair value of this derivative transaction is impacted by the share price of Lyft shares. Given all other variables remaining constant, in the event of a 10% rise in the share price of Lyft shares, income before income tax would result in the recording of a loss of ¥14,653 million. As for the fair value of Lyft shares, in the event of a 10% rise in the share price, income before income tax would result in the recording of an income of ¥15,909 million. Details of the transaction under the forward contract are stated in Note 22. Other Financial Liabilities "(Note) Prepaid Variable Share Forward Transactions of Lyft shares."

5) Management of Market Risks for Subsidiaries Engaged in Banking Business

(Management of Interest Rate Risk)

At the Group Companies' certain subsidiaries engaged in the banking business, financial assets exposed to interest rate risk, which is a significant risk variable, are mainly investment securities for banking business, monetary claims purchased and loans for banking business. Financial liabilities exposed to interest rate risk include ordinary deposits, general time deposits and new types of time deposits for individual and corporate customers, as well as foreign currency ordinary deposits, foreign currency time deposits and interest rate swap transactions as part of derivative transactions.

For these subsidiaries, the effect of present value of these financial assets and liabilities, given certain fluctuations in interest rates, is used in quantitative analysis as part of the process to manage interest rate risk.

In calculating the effect of present value, the corresponding financial assets and financial liabilities are classified into a fixed rate group and a floating rate group, and then the balance of each group is allocated to an appropriate period based on maturity with a fluctuation range of the interest rate for the period. Specifically, given all the other risk variables remaining constant, except for the interest rate risk, when all the key interest rates increase 10 basis points (0.1%) for the year ended December 31, 2019, present value as of December 31, 2019 would decrease by ¥681 million. Conversely, in the case of a decrease of 10 basis points (0.1%), it would increase by ¥681 million. Similarly, given all the other risk variables remaining constant, except for the interest rate risk, when all the key interest rates increase 10 basis points (0.1%) for the year ended December 31, 2020, present value as of December 31, 2020 would decrease by ¥1,171 million. Conversely, decrease of 10 basis points (0.1%), it would increase by ¥1,171 million.

These effects do not take into account correlations between interest rates and other risk variables, further foreign currency-denominated assets and liabilities are calculated in Japanese yen as translated by the exchange rates on December 31, 2019 and 2020. Additionally, the effects of a 10 basis point decline leading to negative interest rates in certain periods have not been excluded.

6) Management of Market Risks for Subsidiaries Engaged in Insurance Business

(Management of Market Risk)

At the Group Companies' subsidiaries engaged in the insurance business, financial assets exposed to exchange rate risk, interest rate risk and price fluctuation risk are mainly the investment securities for the insurance business. These risks are managed by measuring their risk volume using VaR.

In the measurement of VaR, the historical simulation method (time period: 6 months, confidence level: 99%) was used, and as of December 31, 2019, total market risk volume was ¥15,106 million. Similarly, as of December 31, 2020, total market risk volume was ¥6,252 million. It should be noted that VaR calculates market risk volume based on historical market fluctuations at a given, statistically calculated rate of probability, and may not be able to quantify risk in situations in which the market environment undergoes drastic changes incomprehensible under normal circumstances.

44. Capital Management

The Group Companies' capital structure is as follows:

(Millions of Yen)

	December 31, 2019	December 31, 2020
Total liabilities	¥8,428,497	¥11,895,424
Less: Cash and cash equivalents	1,478,557	3,021,306
Net liabilities	6,949,940	8,874,118
Total equity	737,200	629,014

Certain subsidiaries of the Group Companies are required to maintain their capital-to-risk ratio and net assets, etc. above a certain level in accordance with the Japanese Financial Instruments and Exchange Act and other laws and regulations of a similar nature in foreign jurisdictions. Principal laws and regulations in each country and region applicable to the major subsidiaries are described in the chart as follows.

Country and region	Company name	Laws and regulations	Requirements
Japan	Rakuten Bank, Ltd.	Banking Law	Maintenance of minimum required equity ratio, etc.
	Rakuten Securities, Inc.	Financial Instruments and Exchange Act	Maintenance of minimum required capital-to-risk ratio, etc.
	Rakuten Life Insurance Co., Ltd.	Insurance Business Act	Maintenance of solvency margin ratio
	Rakuten General Insurance Co., Ltd.	Insurance Business Act	Maintenance of solvency margin ratio
Hong Kong	Rakuten Securities Hong Kong Limited	Securities and Futures Ordinance (Cap. 571)	Maintenance of minimum required capital, etc.
Europe	Rakuten Europe Bank S.A.	Capital Requirements Regulation (EU) No 575/2013	Maintenance of minimum required capital, etc.
Taiwan	Rakuten International Commercial Bank Co., Ltd.	Regulations Governing the Capital Adequacy and Capital Category of Banks	Maintenance of minimum required capital, etc.

Each subsidiary adequately meets the capital requirements under the laws and regulations of each country and region.

45. Related Parties

Related party transactions and their corresponding outstanding balances of receivables and payables between the Group Companies and other related parties are as follows. Although the consolidated subsidiaries are related parties of the Company, such transactions and the corresponding outstanding balances with subsidiaries are not subject to disclosure as they are eliminated for the purpose of Consolidated Financial Statements.

(1) Related Party Transactions

(Millions of Yen)

	Year ended December 31, 2019			Year ended December 31, 2020		
	Associates	Executives	Total	Associates	Executives	Total
Revenue	¥2,239	¥—	¥2,239	¥727	¥—	¥727
Operating expenses	2,667	—	2,667	2,469	—	2,469
Accounts receivable — trade	656	—	656	530	—	530
Other financial assets (Note 1)	2,419	—	2,419	4,959	55	5,014
Investments in associates and joint ventures (Note 2)	982	—	982	8,393	—	8,393
Property, plant and equipment	—	—	—	3,056	—	3,056
Intangible assets	787	—	787	1,933	—	1,933
Deposits for banking business	—	607	607	—	553	553
Financial liabilities for securities business	—	29	29	—	67	67
Other financial liabilities	17,248	—	17,248	16,311	—	16,311
Other liabilities	182	—	182	677	—	677
Capital surplus	—	(4)	(4)	—	(30)	(30)
Disposal of treasury stock on exercise of share options	—	66	66	—	235	235

(Notes) 1. An allowance for doubtful accounts of ¥628 million and ¥647 million has been recorded against other financial assets at December 31, 2019 and 2020, respectively.

2. "Investments in associates and joint ventures" at December 31, 2019 and 2020 mainly refers to increased investments carried out by associate companies.

3. There are no transactions involving collateral and guarantees.

(2) Transactions with Companies in which Majority of Voting Rights are Held by the Group Companies' Executives, Principal Shareholders (Individuals) and their Close Relatives

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Operating expenses (Note 1)	¥157	¥141
Deposits for banking business (Note 2)	—	149
Other financial liabilities (Note 3)	21	33

(Notes) 1. Operating expenses for the years ended December 31, 2019 and 2020 are mainly attorneys' fees and expenses paid to Nishimura & Asahi, which are determined in the same manner as general terms of transactions.

2. Deposits for banking business for the year ended December 31, 2020 are deposits received from Crimson Group, LLC.

3. Other financial liabilities for the years ended December 31, 2019 and 2020 are accounts payable — other related to attorneys' fees and expenses to Nishimura & Asahi.

(3) Executive Compensation

Executive compensation is as follows:

(Millions of Yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Short-term employee benefits (Note)	¥709	¥798
Share-based payments	782	519
Total	1,491	1,317

(Note) Executive compensation comprises compensation to the officers of Rakuten, Inc. and other executives. Short-term employee benefits include bonuses for those employees who serve concurrently as employees and Directors.

46. Major Subsidiaries

(1) Major Subsidiaries

Major subsidiaries of the Group Companies are as follows:

Name	Location	Capital	December 31, 2019		December 31, 2020		Notes
			Voting rights ratio	Ownership	Voting rights ratio	Ownership	
Internet Services Segment:							
Ebates Inc.	U.S.	0.1 U.S. dollar	100%	100%	100%	100%	
RAKUTEN MARKETING LLC	U.S.	1 U.S. dollar	100%	100%	100%	100%	
OverDrive Holdings, Inc.	U.S.	1 U.S. dollar	100%	100%	—	—	(Note)
FinTech Segment:							
Rakuten 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%	
Rakuten Payment, Inc.	Tokyo	¥1,350 million	100%	100%	100%	100%	
Mobile Segment:							
Rakuten Mobile, Inc.	Tokyo	¥100 million	100%	100%	100%	100%	
Rakuten Kobo Inc.	Canada	901 million Canadian dollars	100%	100%	100%	100%	
Rakuten Communications Corp.	Tokyo	¥110 million	100%	100%	100%	100%	
Viber Media S.a.r.l.	Luxembourg	20 thousand U.S. dollars	100%	100%	100%	100%	

(Note) As the Group transferred all its shares in OverDrive Holdings, Inc. to Aragorn Parent Corporation in the second quarter ended June 30, 2020, OverDrive Holdings, Inc. was disposed of.

(2) Changes in Ownership

Fiscal year ended December 31, 2019

There are no special matters to be noted.

Fiscal year ended December 31, 2020

As the Group transferred all its shares in OverDrive Holdings, Inc. to Aragorn Parent Corporation in the second quarter ended June 30, 2020, OverDrive Holdings, Inc. was disposed of. Gain on transfer of stocks of the said subsidiary is described in Note 30. Other Income and Other Expenses.

47. Structured Entities

Consolidated Structured Entities

The Group Companies securitize receivables using trusts, conduct investments through investment funds, and consolidate such structured entities.

These trusts and investment funds, etc. for securitization and other funds are structured entities, which have been designed so that voting or similar rights are not the dominant factor in deciding who controls these entities. Accordingly, it is determined that the Group Companies have control over these structured entities.

In accordance with the contractual arrangements with the structured entities, use of assets and settlement of liabilities of these consolidated structured entities are restricted to the purposes for which they are structured.

The carrying amounts of assets and liabilities of the consolidated structured entities are as follows:

Carrying amounts of assets and liabilities of the consolidated structured entities

(Millions of Yen)

	December 31, 2019	December 31, 2020
Assets		
Loans for credit card business	¥31,726	¥31,588
Investment securities	100,348	90,817
Property, plant and equipment	19,841	24,541
Others	17,578	21,530
Total assets	169,493	168,476
Liabilities		
Bonds and borrowings	18,458	24,500
Others	981	631
Total liabilities	19,439	25,131

Unconsolidated Structured Entities

The Group Companies engage in investment activities involving structured entities as part of their banking business and other businesses as well as insurance business. These structured entities handle securitized products that are set up by third parties and collateralized assets including monetary claims such as auto loans, consumer loans and bonds, various real estates, derivatives, and other bonds. The Group Companies have interests in these structured entities through trust beneficiary interests, etc. The risks of these products are managed regularly on an individual basis under the group management regulations for the banking business and other businesses as well as insurance business, for early recognition and mitigation of the risk of default resulting from deterioration of the debtors' financial conditions and other factors.

The Group Companies do not provide any guarantees or commitments to these structured entities. As a result, the maximum exposure to loss associated with the Group Companies' interests in these unconsolidated structured entities is limited to the carrying amount of the trust beneficiary interests, etc. held therein. The maximum exposure to loss represents the potential maximum loss the Group Companies could incur and does not reflect the likelihood of such a loss being incurred.

The following table shows the summary of the Group Companies' maximum exposure to loss from its interests in these structured entities by class of asset held therein.

Carrying amount of unconsolidated structured entities and maximum exposure to loss from interests in such entities

(Millions of Yen)

Consolidated Statements of Financial Position	Class of asset held by structured entities	December 31, 2019	December 31, 2020
Investment securities for banking business	Securitization products set up by third parties		
	Monetary claims for individual customers	¥62,877	¥91,357
	Lease receivables	28,622	20,693
	Public bonds	—	25,291
	Real estate	—	17,135
	Others	15,946	1,061
Investment securities for insurance business	Securitization products set up by third parties		
	Monetary claims for individual customers	4,025	4,847
	Real estate	156,410	119,982
	Others	5,519	13,732
Total		273,399	294,098

48. Subsequent Events

In the Meeting of the Board of Directors held on March 12, 2021, the Company resolved to issue new shares and dispose of treasury stock through a third-party allotment. On this same date, the Company concluded a share subscription agreement with an allotment to , Japan Post Holdings Co., Ltd., Image Frame Investment (HK) Limited, Walmart Inc., Mikitani Kosan, Inc., and Spirit Inc. From this agreement, payment of 176,643 million yen in relation to 154,273,600 shares was completed on March 29, 2021. Mikitani Kosan, Inc., and Spirit Inc. are considered as related parties, due to these companies being controlled by Group Company executives, major(individual) shareholders and their close relatives.

The overview of the transactions is as follows.

Number of new shares to be issued	Common shares: 211,656,500 shares The number of shares to be issued above represents the total of the 139,737,600 shares offered related to the issue of new shares through third-party allotment and the 71,918,900 shares offered related to the disposal of treasury stock through third-party allotment.
Issue price (Yen)	¥1,145 per share
Amount of proceeds to be raised	¥242,347 million
Amount to be included in capital	¥573 per share
Total amount to be included in capital	¥80,000 million The payment from the disposal of treasury stock through third-party allotment will not be included in capital.
Offering and disposal method (planned allottees)	Through third-party allotment Japan Post Holdings Co., Ltd.: 131,004,000 shares Image Frame Investment (HK) Limited: 57,382,900 shares Walmart Inc.: 14,536,000 shares Mikitani Kosan, Inc.: 4,366,800 shares Spirit Inc.: 4,366,800 shares
Use of proceeds	The proceeds to be raised through the third-party allotment are planned to be used by the end of December 2021 for investment and loan funds to Rakuten Mobile, Inc., a consolidated subsidiary of the Company.
Payment date	From March 29, 2021 to April 30, 2021
Transfer restrictions of the securities, etc.	With regard to the shares to be acquired by the allottees, Japan Post Holdings Co., Ltd., Image Frame Investment (HK) Limited, and Walmart Inc., they have agreed to obtain prior written consent of the Company if the Company's shares held are to be transferred to a third party within 6 months from the payment date of the shares in accordance with the share subscription agreement.

49. Classification of Current and Non-current

As of December 31, 2019

(Millions of Yen)

	Collection or settlement period		Total
	12 months or less	Over 12 months	
Assets			
Cash and cash equivalents	¥1,478,557	¥ —	¥1,478,557
Accounts receivable — trade	217,840	4,645	222,485
Financial assets for securities business	1,975,934	75	1,976,009
Loans for credit card business	1,286,525	541,691	1,828,216
Investment securities for banking business	98,288	174,423	272,711
Loans for banking business	16,160	1,033,833	1,049,993
Investment securities for insurance business	3,025	284,175	287,200
Derivative assets	25,167	2,883	28,050
Investment securities	5,455	157,804	163,259
Other financial assets	209,442	180,792	390,234
Investments in associates and joint ventures	—	177,199	177,199
Property, plant and equipment	—	376,424	376,424
Intangible assets	—	609,450	609,450
Deferred tax assets	—	80,153	80,153
Other assets	121,853	103,904	225,757
Total assets	5,438,246	3,727,451	9,165,697

(Millions of Yen)

	Collection or settlement period		Total
	12 months or less	Over 12 months	
Liabilities			
Accounts payable — trade	329,483	—	329,483
Deposits for banking business	3,132,076	28,672	3,160,748
Financial liabilities for securities business	1,860,645	—	1,860,645
Derivative liabilities	8,489	1,683	10,172
Bonds and borrowings	584,545	1,142,551	1,727,096
Other financial liabilities	634,133	186,307	820,440
Income taxes payable	12,952	—	12,952
Provisions	102,693	7,152	109,845
Insurance business policy reserves	—	318,090	318,090
Employee retirement benefit liabilities	—	11,374	11,374
Deferred tax liabilities	—	2,049	2,049
Other liabilities	65,369	234	65,603
Total liabilities	6,730,385	1,698,112	8,428,497

As of December 31, 2020

(Millions of Yen)

	Collection or settlement period		Total
	12 months or less	Over 12 months	
Assets			
Cash and cash equivalents	¥3,021,306	¥—	¥3,021,306
Accounts receivable — trade	234,318	9,568	243,886
Financial assets for securities business	2,673,041	188	2,673,229
Loans for credit card business	1,482,048	550,965	2,033,013
Investment securities for banking business	31,436	234,791	266,227
Loans for banking business	248,675	1,187,838	1,436,513
Investment securities for insurance business	9,504	274,465	283,969
Derivative assets	30,735	1,909	32,644
Investment securities	25,476	249,760	275,236
Other financial assets	291,432	201,254	492,686
Investments in associates and joint ventures	—	58,072	58,072
Property, plant and equipment	—	684,110	684,110
Intangible assets	—	639,589	639,589
Deferred tax assets	—	126,203	126,203
Other assets	161,434	96,321	257,755
Total assets	8,209,405	4,315,033	12,524,438

(Millions of Yen)

	Collection or settlement period		Total
	12 months or less	Over 12 months	
Liabilities			
Accounts payable — trade	337,427	—	337,427
Deposits for banking business	4,696,678	19,484	4,716,162
Financial liabilities for securities business	2,587,227	—	2,587,227
Derivative liabilities	11,177	67,141	78,318
Bonds and borrowings	1,136,303	1,351,154	2,487,457
Other financial liabilities	794,043	337,462	1,131,505
Income taxes payable	8,700	—	8,700
Provisions	149,747	12,832	162,579
Insurance business policy reserves	—	285,336	285,336
Employee retirement benefit liabilities	—	19,272	19,272
Deferred tax liabilities	—	1,920	1,920
Other liabilities	78,793	728	79,521
Total liabilities	9,800,095	2,095,329	11,895,424

(2) [Others]

Quarterly Information for the current fiscal year

(Millions of Yen, unless otherwise stated)

(Cumulative period)	3months ended March 31, 2020	6months ended June 30, 2020	9months ended September 30, 2020	Year ended December 31, 2020
Revenue	¥331,443	¥678,768	¥1,040,190	¥1,455,538
Income (Loss) before income tax	(35,850)	(40,352)	(119,599)	(151,016)
Net income (loss)	(35,400)	(27,824)	(72,406)	(115,838)
Basic earnings (losses) per share (Yen)	(26.03)	(20.24)	(52.60)	(84.00)

(Each quarter)	1st quarter	2nd quarter	3rd quarter	4th quarter
Basic earnings (losses) per share (Yen)	¥ (26.03)	¥ 5.77	¥ (32.33)	¥ (31.37)

Independent Auditor's Report

March 27, 2020

The Board of Directors
Rakuten, Inc.

We have audited the accompanying consolidated financial statements of Rakuten, Inc. and its consolidated subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended and the notes to the consolidated financial statements.

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

Auditor's Responsibility

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

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

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

Opinion

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

/s/ Ernst & Young ShinNihon LLC

March 27, 2020
Tokyo, Japan

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

(Millions of Yen)

	Note	December 31, 2018	December 31, 2019
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 (loss) income		(4,005)	8,289
Items that may 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)

	Note	Year ended December 31, 2018	Year ended December 31, 2019
			(Millions of Yen)
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 comprehensive income	26, 34	10	431
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		124,452	(42,818)
Comprehensive income attributable to:			
Owners of the Company		124,838	(41,643)
Non-controlling interests		(386)	(1,175)
Comprehensive income		124,452	(42,818)

4) Consolidated Statements of Changes in Equity

(Millions of Yen)

						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	Remeasurement of insurance business policy reserves based on current market interest rates	Remeasurement of retirement benefit plans	Total other components of equity	Total equity attributable to owners of the Company	Non-controlling interests	Total 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 impact from change in accounting policies		—	—	(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
As of January 1, 2019		¥205,924	¥218,856	¥424,568	¥(97,300)	¥1,462	¥25,781	¥(511)	¥(4,260)	¥(47)	¥22,425	¥774,473	¥1,734	¥776,207
Cumulative impact from change in accounting policies	2	—	—	(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)

(Millions of Yen)

	Note	Common stock	Capital surplus	Retained earnings	Treasury stock	Other components of equity						Total equity attributable to owners of the Company	Non-controlling interests	Total equity
						Foreign currency translation adjustments	Financial instruments measured at fair value through other comprehensive income	Cash flow hedges	Remeasurement of insurance business policy reserves based on current market interest rates	Remeasurement of retirement benefit plans	Total other components of equity			
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
Decrease (Increase) in operating receivables		(36,059)	(47,356)
Decrease (Increase) in loans for credit card business		(281,335)	(364,138)
Increase in deposits for banking business		409,403	805,850
Net decrease (increase) in call loans for banking business		25,000	(15,000)
Decrease (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			
Payments in time deposits		(9,943)	(9,708)
Proceeds from time deposits		8,863	10,929
Purchases of property, plant and equipment		(23,442)	(108,065)
Purchases of intangible assets		(64,140)	(99,173)
Acquisitions of subsidiaries		(11,944)	(12,332)
Proceeds from acquisition of subsidiaries, net	46	10,826	—
Proceeds from sale of subsidiaries resulting as a loss of control		26,234	—
Acquisitions of investments in associates and joint ventures		(1,159)	(9,273)
Purchases 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

(Millions of Yen)

	Note	Year ended December 31, 2018	Year ended December 31, 2019
Purchases 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
Purchases of investment securities		(30,432)	(26,057)
Proceeds from sales and redemption of investment securities		18,547	53,740
Other payments		(9,222)	(42,077)
Other proceeds		10,038	11,750
Net cash flows from investing activities		(67,569)	(286,290)
Cash flows from financing activities			
Net increase (decrease) in short-term debts	21	(51,297)	107,701
Net increase in commercial papers	21	80,000	18,500
Proceeds from long-term debts	21	290,976	490,805
Repayments of long-term debts	21	(271,356)	(324,166)
Proceeds from issuance of bonds	21	169,394	215,516
Redemptions of bonds	21	(150)	(20,000)
Repayments 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."

At 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 a company split 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, along with businesses for sales of advertising on these sites, and businesses involving management of professional sports teams.

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

The "Mobile" segment comprises business operations 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 net income, is accounted by 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%, because of factors such as its stockholding and 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 will be made in the cases where the company announces material transactions or for 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 does not have control on a key decision-making body despite the Group's stockholding and voting rights exceeding 50%. The Group determined that it is possible to exert significant impact on Altiostar by holding shares, actively involving in the Board of Directors through appointed directors, and by material transactions with the company.

In addition, the Group's investment in Rakuten Medical, Inc. is accounted for through the adoption of 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 the management of the Group Companies to exercise judgment in the process of applying the accounting policies of the Group Companies. The areas involving a higher degree of judgment or complexity, areas where assumptions and estimates are significant to the Consolidated Financial Statements, or information in respect of uncertainties of assumptions and estimates which have a significant risk of causing material adjustment in the next year are disclosed in "Note 3. Significant Accounting Estimates and Judgments" and other notes.

(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 standard, 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 the equity method, except for such cases as where they are classified as assets held for sale, etc. in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" and accordingly accounted for in accordance with IFRS 5. The Group Companies' share of the operating results of associates and joint ventures is adjusted to conform with the accounting policies of the Group Companies, and is reported in the Consolidated Statements of Income as "Share of income (loss) of associates and joint ventures." The Group Companies' share of investees' gains or losses resulting from intercompany transactions is eliminated on consolidation. Under the equity method of accounting, the investment of the Group Companies in associates and joint ventures are initially recorded at cost, and subsequently increased (or decreased) to reflect both the Group Companies' share of the post-acquisition net income 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 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 its 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 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 have adopted IFRS 16 beginning from the current fiscal year. However, based on the transitional arrangement of IFRS 16, the Group Companies opted not to restate the adjusted 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, a lessee shall measure the lease liabilities at present value of the lease payments that are not paid at that date. Right-of-use assets are measured initially at an amount calculated by adjusting the initially measured amount of the lease liabilities by initial direct cost and lease prepayments, etc. which is then added by the cost of carrying out obligations to restore the property to its original state 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 lessee shall use the lessee's incremental borrowing rate.

Lease payments are allocated into interest cost and the portion of the balance of lease liabilities to be repaid, to ensure that the interest rate remains consistent for the balance of lease liabilities. Financial cost 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 shall be 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 under IFRS 4 “Insurance contracts” based on the accounting policies previously applied in accordance with Japanese accounting standards for insurance companies.

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” by the Payments Japan Association as government grants.

These government grants are recognized when the conditions attached to the issue of the grants are satisfied and there is reasonable assurance that the grants will be received. Government grants related to income are recognized in net income throughout the period in which the expenses backed by the grants are recognized. Government grants related to assets are recognized as deferred income that is recognized in net income on a systematic basis over the useful life of the related assets. Government grants recognized in net income are deducted from the related expenses. The amount of government grants is finalized after the completion of the government assistance project based on an invoice for payment.

(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 apply the following standard from the current fiscal year.

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

Lease transactions (lessee)

The Group Companies have adopted IFRS 16 on a retrospective basis, in accordance with the transitional arrangement, whereby the cumulative effect of adoption is recognized as an adjustment to the opening balance of retained earnings for the fiscal year under review.

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 less 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 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 the 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 the management of the Group Companies considering business and market conditions. The Group Companies consider these assumptions to be significant because, if the assumed conditions change, the estimated recoverable amounts might be significantly different.

(b) Recoverability of Deferred Tax Assets (Note 2 “Accounting Policies” (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 the management of the Group Companies, and is based on management’s subjective judgments and assumptions. The Group Companies consider these assumptions to be significant because changes in the assumed conditions and amendments of tax laws in the future might significantly affect the calculation of the amounts of deferred tax assets and deferred tax liabilities.

(c) Methods of Determining Fair Value for Financial Instruments Measured at Fair Value Including Derivative Instruments (Note 2 “Accounting Policies” (5) and Note 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 the 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 significantly impact 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, the 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. The management of the Group Companies decide whether the Group Companies are controlling the entities or not. All related facts and circumstances on the involvement with the structured entity are considered in deciding whether control over such an entity exists.

4. Segment Information

(1) General Information

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

By 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 a company split 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.

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 business operations 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 unusual 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. Unusual items refer to one-off items that the Group Companies believe should be excluded in preparing a future outlook based on certain parameters. Other adjustment items are those that tend to differ depending on the standards or similar applied; therefore 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, during the previous fiscal year, 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 is included in Other Comprehensive Income.

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 is included in other comprehensive income.

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					
	Notional principal amount by due date			Fair value		Average rate
	One year or less	Over one year	Total	Assets	Liabilities	
Fair value hedges						
Value fluctuation risk						
Interest rate swap contracts	¥—	¥12,500	¥12,500	¥—	¥424	Floating interest rate 0.431% Fixed interest rate 1.637%
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%
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						
Futures 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
Increases 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 by equity method with some exceptions.

1) Condensed consolidated financial information, etc. on significant associates

The Group holds 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.

Condensed consolidated financial information

Condensed consolidated financial information of Lyft is as follows.

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 will be made in the cases where the company announces material transactions or for 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	(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 attributable to owners of the Company	(120,475)

(Note) In the nine months ended September 30, 2019, there was no dividend income 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 adjustment (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 was objective evidence that the investment in Lyft, accounted for by the equity method, was 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 was ¥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	(41)	(242)
Comprehensive income	(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 the 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	(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 loss	(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 lease 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
FinTech	Rakuten Bank, Ltd.	32,886	—	32,886	—
	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 the management of each CGU or group of CGU, using pre-tax, estimated future cash flows for primarily three to five years and other assumptions for a three to five year period. These business plans have been drawn up based primarily on gross merchandise sales in the Internet Services, 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

(Millions of Yen)

Name	Type	Interest rate	December 31, 2018	December 31, 2019
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
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) (Note1)	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 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 thereof

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 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 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 services 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 ¥2,870 million and “Loans for credit card business” ¥11,677 million.

2. This represents accounts receivable arising from the use of credit cards by customers based on installment contracts, etc., which are recorded under “Loans for credit card business” in the Consolidated Statements of Financial Position. Such accounts receivable include commissions received by the Group Companies.

Of the revenues recognized in the 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 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	Presentaiton 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

(Millions of Yen)

Hedged item	Presentaiton 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
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

(Millions of Yen)

Hedged item	Presentaiton 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
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.

(Millions of Yen)

Hedging instrument	Presentaiton on the Consolidated Statements of Financial Position	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 will become 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

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
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
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

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
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
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

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
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
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

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
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
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

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
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
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

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
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
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

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
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
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

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
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 Share Options_02	May 1, 2018	April 30, 2020	0.01	520,100	From May 1, 2020 to 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

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
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
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

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
The 80th Share Options_03	May 1, 2019	April 30, 2022	0.01	39,600	From May 1, 2022 to May 1, 2029
The 80th Share Options_04	May 1, 2019	April 30, 2023	0.01	46,200	From May 1, 2023 to May 1, 2029
The 81st Share Options_01	May 1, 2019	October 31, 2019	0.01	1,217,900	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 subject to mandatory measurement at fair value	Financial liabilities designated as being measured at FVTPL	Financial liabilities measured at amortized cost	Total
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 are excluded.

(Financial Liabilities)

(Millions of Yen)

	Financial liabilities measured at fair value			
	Financial liabilities subject to mandatory measurement at fair value	Financial liabilities designated as being measured at FVTPL	Financial liabilities measured at amortized cost	Total
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. The derivatives of ¥3,302 million is included in derivative 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."

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 from which synergistic effects, etc. could no longer be anticipated were sold. In addition, some shares were sold as part of the efforts to review companywide financial strategies. 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 subject to mandatory measurement at fair value	Financial liabilities designated as being measured at fair value	Financial liabilities measured at amortized cost	Total
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 measured by 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 new consolidation	—	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	Net sales multiple EBIT multiple	1.75 - 2.10 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. Lease Accounting

The Group Companies, as the lessee, mainly leases offices, warehouses, data centers and telecommunications facilities.

Information on leases, with the Group Companies as the lessee, is as follows.

(1) Amounts recognized in the Consolidated Statements of Financial Position

(Millions of Yen)

	December 31, 2019
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 in business, 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 a lease term. Given that the lease term is determined for each lease transaction on the assumption of a reasonably certain contractual period, it contains leases that anticipate that the extension option be exercised or that the termination option 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 declaration in the 10th year, within the 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: Financial assets with credit risk which has significantly increased since initial recognition	Lifetime expected credit loss: Financial assets impaired	Lifetime expected credit loss: Financial assets with allowance for doubtful accounts measured at an amount equal to lifetime expected credit losses	Total
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 whose credit risk has significantly increased since initial recognition	Financial assets impaired	Financial assets whose allowance for doubtful accounts is always 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 whose 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 whose 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 whose credit risk 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-balnace sheet items:	5,642,156	11,313	62,976	5,716,445	(92,333)	5,624,112
Off-balance sheet:						
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					
	12-months expected credit losses	Financial assets whose credit risk has significantly increased since initial recognition	Financial assets impaired	Total	Allowance for doubtful accounts (Note)	Maximum credit risk exposure
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:						
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 under review as a result of collateral and other credit enhancements.

*2 Regarding the financial assets whose 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 under review, with regard to the financial assets whose allowance for doubtful accounts were based on an amount equivalent to estimated credit loss over the entire period, the amortized cost of the financial asset prior to the modification and net losses recognized as a result of the contractual cash flow modification were ¥21,480 million and ¥5,671 million, respectively.

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) Management of Market Risks Associated with Financial Instruments

For management of market risks, investment securities are subject to investment decisions based on consultation with the Board of Directors, as part of the management to ensure that such investment securities are appropriately evaluated according to internal regulations. With regard to foreign currency-denominated financial instruments, exchange markets are continuously monitored and the Group Companies' own positions are regulated by establishing position limits and maximum allowable losses for the prevention of any loss in excess of certain levels.

With regard to financial assets held by 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, in the case of a 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, gain from a bargain purchase 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 gain from a bargain purchasearising from the business combination were as follows

1) Amount of gain from a bargain purchase: ¥9,949 million

2) Gain from a bargain purchasearises 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 Companies plan 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)	1st quarter	2nd quarter	3rd quarter	4th quarter
Basic earnings (losses) per share (Yen)	¥77.63	¥(3.50)	¥(84.41)	¥(13.11)

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