

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

Consolidated Financial Reports (IFRS) For the nine months ended September 30, 2019

Rakuten, Inc.
November 7, 2019

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

1. Consolidated Results for the nine months ended September 30, 2019 (January 1 – September 30, 2019)

(Yen amounts are rounded to the nearest million)

(1) Consolidated Operating Results

(%, YoY)

| | Revenue | | Operating income | | Income before income tax | | Net income | |
|--------------------------------------|-----------------|------|------------------|--------|--------------------------|------|-----------------|------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| Nine months ended September 30, 2019 | 905,781 | 14.6 | 112,967 | (15.4) | (2,059) | — | (14,754) | — |
| Nine months ended September 30, 2018 | 790,330 | 16.8 | 133,544 | 11.1 | 129,298 | 16.7 | 107,716 | 48.5 |

| | Net income attributable to owners of the parent company | | Comprehensive income | | Basic Earnings per Share attributable to owners of the parent company | Diluted Earnings per Share attributable to owners of the parent company |
|--------------------------------------|---|------|----------------------|-------|---|---|
| | Millions of yen | % | Millions of yen | % | Yen | Yen |
| Nine months ended September 30, 2019 | (14,117) | — | (20,226) | — | (10.43) | (10.43) |
| Nine months ended September 30, 2018 | 107,923 | 48.6 | 122,887 | 100.2 | 80.01 | 79.33 |

(2) Consolidated Financial Position

| | Total assets | Total equity | Total equity attributable to owners of the parent company | Ratio of total equity attributable to owners of the parent company to total assets |
|--------------------------|-----------------|-----------------|---|--|
| | Millions of yen | Millions of yen | Millions of yen | % |
| As of September 30, 2019 | 8,285,772 | 756,997 | 754,942 | 9.1 |
| As of December 31, 2018 | 7,345,002 | 776,207 | 774,473 | 10.5 |

2. Dividend Distribution

| | Annual dividend per share | | | | |
|-------------------|---------------------------|------|-----|------|-------|
| | Q1 | Q2 | Q3 | Q4 | Total |
| | Yen | Yen | Yen | Yen | Yen |
| FY2018 | — | 0.00 | — | 4.50 | 4.50 |
| FY2019 | — | 0.00 | — | — | — |
| FY2019 (Forecast) | — | — | — | — | — |

Note: Dividend per share for the fiscal year ending December 31, 2019 has not been decided yet, and there are no changes to the previously disclosed dividend forecast.

3. Estimate of Consolidated Operating Results for Fiscal Year 2019 (January 1 to December 31, 2019)

For the estimate of consolidated operating results for fiscal year 2019, double-digit growth on consolidated operating results for fiscal year 2018 is estimated for fiscal year 2019 consolidated revenues, excluding the securities business whose results are heavily impacted by stock market conditions.

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

Note: There are no changes to the previously disclosed consolidated forecasts for the year ending December 31, 2019.

Notes

(1) Changes in significant subsidiaries during the current period

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

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

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

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

Note: For details, see page 20, 2. Consolidated Financial Statements (Summary) (6) Notes to the summary of consolidated financial statements for the nine months ended September 30, 2019 (Significant accounting policies)

(3) Number of shares issued (Common stock)

1. Total number of shares issued at the end of the period (including treasury stocks)
 - 1,434,573,900 shares (As of September 30, 2019)
 - 1,434,573,900 shares (As of December 31, 2018)
2. Number of treasury stocks at the end of the period
 - 79,046,938 shares (As of September 30, 2019)
 - 82,555,538 shares (As of December 31, 2018)
3. Average number of shares during the period (cumulative from the beginning of the year)
 - 1,353,573,066 shares (January 1 – September 30, 2019)
 - 1,348,872,402 shares (January 1 – September 30, 2018)

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

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

Consolidated earnings forecasts for the year ending December 31, 2019 are based on information that is available at the time of writing, but a number of known and unknown factors could cause actual results to differ from the projections.

1. Qualitative Information, Financial Statements, etc.

(1) Qualitative Information Concerning Consolidated Business Results

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

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

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

i) Business Results for the Nine Months Ended September 30, 2019 (Non-GAAP basis)

During the nine months ended September 30, 2019, the world economy has been recovering gradually, although attention must still be paid to trends in trade issues and the impact of fluctuations in financial and capital markets. The Japanese economy is seeing an ongoing gradual recovery with signs of a pickup in personal consumption amid continuing improvements in the wage and employment environment, in addition to increased capital investment by companies and rising consumer prices.

Under such an environment, the Rakuten Group is proceeding with the development of businesses that bring together membership, data, and branding, with the goal of expanding the Rakuten Ecosystem globally.

In domestic e-commerce services, the mainstay of Internet Services, the Rakuten Group is aiming for further growth in gross merchandise sales and revenues by working on various initiatives, including sales promotion activities to cultivate loyal customers and win new customers, promotion of cross-use of services, programs aimed at improving customer satisfaction through unifying free shipping offerings, further opening up the Rakuten Ecosystem, and reinforcing the logistics network. As for overseas Internet services, the Rakuten Group is integrating various services into the Rakuten brand, and conducting proactive sales promotion activities to raise the profile of the brand and expand business overseas. In the investment business, the Rakuten Group recorded ¥110,433 million in valuation gains on securities during the three months ended March 31, 2019, due to an IPO conducted by the U.S.-based Lyft, Inc. (hereinafter “Lyft”), a Rakuten Group investment, on the U.S. Nasdaq market. The Rakuten Group also reclassified its investment in Lyft, reclassifying it as an affiliated company accounted for by the equity method during the three months ended June 30, 2019, with the aim of facilitating mutual collaboration. As a result, the Rakuten Group recorded ¥10,943 million in valuation losses on securities.

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

In the Mobile segment, while preparations were underway to launch services as a cell phone carrier, providing the world’s first end-to-end fully virtualized cloud-native network, the Free Supporter Program was launched in October 2019, and is open to 5,000 subscribers, offering voice and data communications free of charge. In addition, Rakuten Viber, which provides messaging and VoIP services, saw a significant increase in revenue following an expansion of the membership base.

Through these efforts, the Rakuten Group achieved revenue of ¥905,781 million, up 14.6% year-on-year, for the nine months ended September 30, 2019. Non-GAAP operating income was ¥127,336 million, down 10.5% year-on-year.

(Non-GAAP)

(Millions of yen)

| | Nine months ended September 30, 2018 | Nine months ended September 30, 2019 | Amount Change YoY | % Change YoY |
|---------------------------|---|---|----------------------|-----------------|
| Revenue | 790,330 | 905,781 | 115,451 | 14.6% |
| Non-GAAP Operating Income | 142,330 | 127,336 | (14,994) | (10.5)% |

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

For the nine months ended September 30, 2019, amortization of intangible assets of ¥6,855 million and stock-based compensation expenses of ¥7,514 million were excluded from Non-GAAP operating income.

(Millions of yen)

| | Nine months ended September 30, 2018 | Nine months ended September 30, 2019 | Amount Change YoY |
|---|---|---|----------------------|
| Non-GAAP operating income | 142,330 | 127,336 | (14,994) |
| Amortization of intangible assets (PPA) | (7,757) | (6,855) | 902 |
| Stock based compensation | (5,565) | (7,514) | (1,949) |
| One-off items | 4,536 | — | (4,536) |
| Operating Income | 133,544 | 112,967 | (20,577) |

iii) Business Results for the Nine Months Ended September 30, 2019 (IFRS basis)

For the nine months ended September 30, 2019, the Rakuten Group recorded revenue of ¥905,781 million, up 14.6% year-on-year, operating income of ¥112,967 million, down 15.4% year-on-year, and net loss attributable to owners of the Company of ¥14,117 million, compared to net income of ¥107,923 million in the nine months ended September 30, 2018.

(IFRS)

(Millions of yen)

| | Nine months ended September 30, 2018 | Nine months ended September 30, 2019 | Amount Change YoY | % Change YoY |
|--|---|---|----------------------|-----------------|
| Revenue | 790,330 | 905,781 | 115,451 | 14.6% |
| Operating income | 133,544 | 112,967 | (20,577) | (15.4)% |
| Net income attributable to owners of the Company | 107,923 | (14,117) | (122,040) | — % |

iv) Segment Information

At a Meeting of the Board of Directors held on March 28, 2019, the Company resolved to change its internal reporting management structure 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 in the three months ended March 31, 2019. The “Mobile” segment comprises business operations engaged in communication and messaging services. Business results for each segment are as follows. In terms of the IFRS management approach, segment profit or loss is presented on a Non-GAAP operating income basis.

From the three months ended June 30, 2019, the segment structure of functional subsidiaries etc. engaged in research and development has been changed, and the method of allocating shared costs in the headquarter administrative departments has been changed and applied retroactively. In accordance with this change, during the nine months ended September 30, 2018, segment revenue in the Internet Services segment decreased by ¥4,856 million and segment profit decreased by ¥1,465 million, segment revenue in the FinTech segment decreased by ¥811 million and segment profit decreased by ¥7,961 million, and segment profit in the Mobile segment decreased by ¥772 million, compared to before the retrospective application. In addition, during the three months ended September 30, 2018, revenue in the Internet Services segment decreased by ¥1,769 million and segment profit decreased by ¥634 million, segment revenue in the FinTech segment decreased by ¥289 million and segment profit decreased by ¥2,655 million, and segment profit in the Mobile segment decreased by ¥235 million. This change has no impact on consolidated revenue, Non-GAAP operating income, or operating income.

Internet Services

In domestic e-commerce services, the mainstay of Internet Services, the Rakuten Group aimed for further growth in gross merchandise sales and revenues by working on various initiatives, including sales promotion activities to cultivate loyal customers and win new customers, promotion of cross-use of services, programs aimed at improving customer satisfaction through unifying free shipping offerings, and further opening up the Rakuten Ecosystem.

The Rakuten Group worked to mitigate the medium to long-term impact of volume limits and increased shipping costs from shipping companies and to enhance the convenience of both customers and merchants who use Rakuten services by carrying out reinforcement of its logistics network. These efforts include increasing capacity of the Rakuten Group’s logistics facilities to accept products for stores on the Rakuten marketplace and expanding the last mile delivery area covered by the Rakuten Group based on the One Delivery concept of providing comprehensive logistics services.

In overseas Internet Services, the Rakuten Group is integrating various services into the Rakuten brand, and conducting proactive sales promotion activities to raise the profile of the brand and expand business overseas.

In the investment business, the Rakuten Group recorded ¥110,433 million in valuation gains on securities during the three months ended March 31, 2019, due to an IPO conducted by Lyft, a Rakuten Group investment, on the U.S. Nasdaq market. The Rakuten Group also reclassified its investment in Lyft, reclassifying it as an equity method associate during the three months ended June 30, 2019, with the aim of facilitating mutual collaboration. As a result, the Rakuten Group recorded ¥10,943 million in valuation losses on securities.

As a result, revenue for the Internet Services segment rose to ¥561,092 million, a 18.5% year-on-year increase, while segment profit stood at ¥114,039 million, a 14.5% year-on-year increase.

(Millions of yen)

| | Nine months ended September 30, 2018 | Nine months ended September 30, 2019 | Amount Change YoY | % Change YoY |
|-----------------|---|---|----------------------|-----------------|
| Segment Revenue | 473,575 | 561,092 | 87,517 | 18.5% |
| Segment Profit | 99,607 | 114,039 | 14,432 | 14.5% |

FinTech

As for Rakuten Card, growth in shopping transaction volume and revolving balances amid expansion of Rakuten Card's membership base, whose number of members exceeded 18 million, contributed to an increase in revenue and income. In banking services, revenue and income continued to expand due to an increase in interest income from growing loan balances and improvements in administrative efficiency, despite the backdrop of a negative interest rate policy. In insurance services, revenue and income increased during the nine months ended September 30, 2019 partly due to a rebound from large payment of insurance claims related to disasters including the heavy rains in western Japan during the nine months ended September 30, 2018. In securities services, revenue and income decreased due to reduced commissions under the backdrop of a sluggish domestic stock market.

As a result, the FinTech segment recorded ¥353,995 million in revenue, a 13.0% year-on-year increase, while segment profit stood at ¥50,933 million, a 1.9% year-on-year decrease.

(Millions of yen)

| | Nine months ended September 30, 2018 | Nine months ended September 30, 2019 | Amount Change YoY | % Change YoY |
|-----------------|---|---|----------------------|-----------------|
| Segment Revenue | 313,403 | 353,995 | 40,592 | 13.0% |
| Segment Profit | 51,899 | 50,933 | (966) | (1.9)% |

Mobile

As for Rakuten Mobile, while preparations were underway to launch services as a cell phone carrier, providing the world's first end-to-end fully virtualized cloud-native network, the Free Supporter Program was launched in October 2019, and is open to 5,000 subscribers, offering voice and data communications free of charge. In addition, Rakuten Viber, which provides messaging and VoIP services, saw a significant increase in revenue following an expansion of the membership base.

As a result, the Mobile segment recorded ¥83,386 million in revenue, a 26.0% year-on-year increase, while segment loss amounted to ¥33,472 million compared to a loss of ¥8,868 million in the nine months ended September 30, 2018.

(Millions of yen)

| | Nine months ended September 30, 2018 | Nine months ended September 30, 2019 | Amount Change YoY | % Change YoY |
|-----------------------|---|---|----------------------|-----------------|
| Segment Revenue | 66,195 | 83,386 | 17,191 | 26.0% |
| Segment Profit (Loss) | (8,868) | (33,472) | (24,604) | — % |

(2) Analysis Concerning Financial Position

i) Assets, Liabilities, and Equity

Assets

Total assets as of September 30, 2019 amounted to ¥8,285,772 million, an increase of ¥940,770 million from ¥7,345,002 million at the end of the previous fiscal year. The primary factors include an increase of ¥223,600 million in property, plant and equipment due to an increase in right-of-use assets following the adoption of IFRS 16 Leases and the execution of new leasing agreements, an increase of ¥173,801 million in loans for credit card business, and an increase of ¥171,276 million in investments in associates and joint ventures.

Liabilities

Total liabilities as of September 30, 2019 amounted to ¥7,528,775 million, an increase of ¥959,980 million from ¥6,568,795 million at the end of the previous fiscal year. The primary factors include an increase of ¥456,048 million in deposits for banking business due mainly to an increase in the number of savings accounts at Rakuten Bank, Ltd., an increase of ¥265,667 million in bonds and borrowings, and an increase of ¥261,821 million in other financial liabilities due mainly to an increase in lease liabilities following the adoption of IFRS 16 Leases and the execution of new leasing agreements.

Equity

Equity as of September 30, 2019 was ¥756,997 million, a decrease of ¥19,210 million from ¥776,207 million at the end of the previous fiscal year. The primary factors include a decrease of ¥21,341 million in retained earnings due mainly to recording of ¥14,117 million in net loss attributable to owners of the Company during the nine months ended September 30, 2019.

ii) Cash Flows

Cash and cash equivalents as of September 30, 2019 was ¥1,130,071 million, an increase of ¥139,829 million from the end of the previous fiscal year. Cash flow conditions and their main factors for the nine months ended September 30, 2019 are as follows.

Net cash flows from operating activities

Net cash flows from operating activities for the nine months ended September 30, 2019 resulted in a cash inflow of ¥105,792 million (compared with a cash inflow of ¥60,612 million for the same period of the previous fiscal year). Main factors included a cash outflow of ¥121,915 million due to an increase in loans for credit card business and a cash outflow of ¥174,112 million due to an increase in loans for banking business, offset by a cash inflow of ¥456,391 million due to an increase in deposits for banking business.

Net cash flows from investing activities

Net cash flows from investing activities for the nine months ended September 30, 2019 resulted in a cash outflow of ¥204,496 million (compared with a cash outflow of ¥44,594 million for the same period of the previous fiscal year). Main factors included a cash outflow of ¥82,708 million due to purchase of property, plant and equipment, a cash outflow of ¥57,881 million due to purchase of intangible assets, and a net cash outflow of ¥23,454 million due to purchase and sales, etc. of investment securities for banking business (a cash outflow of ¥237,538 million due to purchase of investment securities, and a cash inflow of ¥214,084 million due to sales and redemption of investment securities).

Net cash flows from financing activities

Net cash flows from financing activities for the nine months ended September 30, 2019 resulted in a cash inflow of ¥238,701 million (compared with a cash inflow of ¥128,967 million for the same period of the previous fiscal year). Main factors included a cash outflow of ¥194,036 million due to repayment of long-term debt, offset by a cash inflow of ¥246,950 million due to long-term debt, a cash inflow of ¥95,045 million due to an increase in short-term borrowings, and a cash inflow of ¥79,480 million due to issuance of bonds.

(3) Qualitative Information about Consolidated Business Forecasts

For the forecast of consolidated operating results for Fiscal Year 2019, the Rakuten Group aims at double-digit growth from the previous fiscal year for consolidated revenues, excluding results from the securities business which are impacted substantially by the stock market.

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

Internet Services

In the areas of domestic Internet Services including e-commerce and travel booking services, the Rakuten Group will aim for further growth in gross transaction value and revenue by pursuing various initiatives, such as cultivating a loyal customer base, winning new users, promoting cross-use of services and making efforts to improve customer satisfaction through setting the line of free shipping minimum, along with establishing and strengthening its logistics network with a view to expanding the e-commerce platform, and promoting strategies for opening up the Rakuten Ecosystem, while creating new markets through the use of technologies such as data and AI. In overseas Internet services, we aim to expand the Rakuten Ecosystem's membership base and provide new value to users.

FinTech

In credit card related services, we will continue striving to achieve further growth in shopping transaction volume by strengthening marketing initiatives aimed at expanding market share and promoting synergy. In banking services, a solid expansion of operations is expected due to a steady accumulation in loan balances. In life insurance services and general insurance services, we will aim for further growth by increasing the number of new policies and expanding our products that have a high level of affinity with Internet services. It is difficult to make a forecast for securities services due to substantial impact of stock market conditions.

Mobile

In media and communication services such as Rakuten Mobile and Rakuten Viber, we aim to increase revenue by expanding the Rakuten Ecosystem's membership base and providing new value to users. In communication services, expenses are expected to be incurred for establishing specified base stations, etc., in line with the launch of the cell phone carrier business in October 2019.

2. Consolidated Financial Statements (Summary)

(1) Consolidated Statement of Financial Position (Summary)

(Millions of yen)

| | As of December 31, 2018 | As of September 30, 2019 |
|--|----------------------------|-----------------------------|
| Assets | | |
| Cash and cash equivalents | 990,242 | 1,130,071 |
| Accounts receivable – trade | 181,026 | 175,100 |
| Financial assets for securities business | 1,789,832 | 1,813,342 |
| Loans for credit card business | 1,464,030 | 1,637,831 |
| Investment securities for banking business | 205,641 | 261,409 |
| Loans for banking business | 891,925 | 1,013,840 |
| Investment securities for insurance business | 277,057 | 301,520 |
| Derivative assets | 27,388 | 28,768 |
| Investment securities | 384,788 | 227,659 |
| Other financial assets | 275,800 | 362,272 |
| Investments in associates and joint ventures | 12,788 | 184,064 |
| Property, plant and equipment | 91,335 | 314,935 |
| Intangible assets | 553,815 | 590,588 |
| Deferred tax assets | 50,049 | 51,738 |
| Other assets | 149,286 | 192,635 |
| Total assets | 7,345,002 | 8,285,772 |
| Liabilities | | |
| Accounts payable – trade | 255,353 | 236,471 |
| Deposits of banking business | 2,355,114 | 2,811,162 |
| Financial liabilities of securities business | 1,753,216 | 1,739,875 |
| Derivative liabilities | 9,213 | 10,999 |
| Bonds and borrowings | 1,234,143 | 1,499,810 |
| Other financial liabilities | 444,531 | 706,352 |
| Income taxes payable | 13,243 | 11,802 |
| Provisions | 90,516 | 96,876 |
| Insurance business policy reserves | 334,536 | 324,674 |
| Employee retirement benefit liabilities | 5,164 | 9,130 |
| Deferred tax liabilities | 13,059 | 13,766 |
| Other liabilities | 60,707 | 67,858 |
| Total liabilities | 6,568,795 | 7,528,775 |
| Equity | | |
| Equity attributable to owners of the parent company | | |
| Common stock | 205,924 | 205,924 |
| Capital surplus | 218,856 | 222,466 |
| Retained earnings | 424,568 | 403,227 |
| Treasury stock | (97,300) | (93,163) |
| Other components of equity | 22,425 | 16,488 |
| Total equity attributable to owners of the parent company | 774,473 | 754,942 |
| Non-controlling interests | 1,734 | 2,055 |
| Total equity | 776,207 | 756,997 |
| Total liabilities and equity | 7,345,002 | 8,285,772 |

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

Consolidated Statement of Income (Summary)

(For the nine months ended September 30, 2018 and 2019)

(Millions of yen)

| | Nine months ended September 30, 2018 (January 1 to September 30, 2018) | Nine months ended September 30, 2019 (January 1 to September 30, 2019) |
|--|--|--|
| Continuing Operations | | |
| Revenue | 790,330 | 905,781 |
| Operating expenses | 734,153 | 895,428 |
| Other income | 94,547 | 106,957 |
| Other expenses | 17,180 | 4,343 |
| Operating income | 133,544 | 112,967 |
| Financial income | 613 | 2,723 |
| Financial expenses | 2,905 | 7,121 |
| Share of losses of investments in associates and joint ventures | 1,954 | 110,628 |
| Income (loss) before income tax | 129,298 | (2,059) |
| Income tax expense | 21,582 | 12,695 |
| Net income (loss) | 107,716 | (14,754) |
| Net income (loss) attributable to: | | |
| Owners of the Company | 107,923 | (14,117) |
| Non-controlling interests | (207) | (637) |
| Net income (loss) | 107,716 | (14,754) |
| | | (Yen) |
| Earnings per share attributable to owners of the Company | | |
| Basic | 80.01 | (10.43) |
| Diluted | 79.33 | (10.43) |

Consolidated Statement of Income (Summary)
(For the three months ended September 30, 2018 and 2019)

(Millions of yen)

| | Three months ended September 30, 2018 (July 1 to September 30, 2018) | Three months ended September 30, 2019 (July 1 to September 30, 2019) |
|--|--|--|
| Continuing Operations | | |
| Revenue | 278,169 | 319,137 |
| Operating expenses | 265,517 | 315,759 |
| Other income | 44,963 | 2,124 |
| Other expenses | 13,741 | 4,430 |
| Operating income | 43,874 | 1,072 |
| Financial income | 184 | 611 |
| Financial expenses | 933 | 2,798 |
| Share of income (losses) of investments in associates and joint ventures | 72 | (111,198) |
| Income (Loss) before income tax | 43,197 | (112,313) |
| Income tax expense (benefit) | (5) | 2,344 |
| Net income (loss) | 43,202 | (114,657) |
| Net income (loss) attributable to: | | |
| Owners of the Company | 43,401 | (114,366) |
| Non-controlling interests | (199) | (291) |
| Net income (loss) | 43,202 | (114,657) |
| | | (Yen) |
| Earnings (Losses) per share attributable to owners of the Company | | |
| Basic | 32.14 | (84.41) |
| Diluted | 31.90 | (84.41) |

Consolidated Statement of Comprehensive Income (Summary)
(For the nine months ended September 30, 2018 and 2019)

(Millions of yen)

| | Nine months ended September 30, 2018 (January 1 to September 30, 2018) | Nine months ended September 30, 2019 (January 1 to September 30, 2019) |
|---|---|---|
| Net income | 107,716 | (14,754) |
| Other comprehensive income | | |
| Items that will not be reclassified to profit or loss | | |
| Gains (losses) on equity instruments measured at fair value through other comprehensive income | 3,089 | 20,600 |
| Income tax effect of gains and losses on equity instruments measured at fair value through other comprehensive income | (2,017) | (5,881) |
| Remeasurement of insurance policy reserves based on current market interest rates | 1,271 | (6,416) |
| Income tax effect of remeasurement of insurance policy reserves based on current market interest rates | (356) | 1,797 |
| Remeasurement of defined benefit plans | — | (7) |
| Income tax effect of remeasurement of defined benefit plans | — | 2 |
| Share of other comprehensive income of associates and joint ventures | (9) | 32 |
| Total items that will not be reclassified to profit or loss | 1,978 | 10,127 |
| Items that will be reclassified to net income | | |
| Foreign currency translation adjustments | 6,313 | (14,331) |
| Foreign currency translation adjustments due to the disposal (sale) of foreign operating business | 7,241 | (291) |
| Gains (losses) on debt instruments measured at fair value through other comprehensive income | 1,000 | 2,678 |
| Allowances for doubtful debts on debt instruments measured at fair value through other comprehensive income | 83 | (109) |
| Gains (losses) on debt instruments measured at fair value through other comprehensive income reclassified from other comprehensive income to profit or loss | (2,241) | (634) |
| Income tax effect of gains or losses on debt instruments measured at fair value through other comprehensive income | 83 | (540) |
| Gains (losses) on cash flow hedges recognized in other comprehensive income | 610 | (1,122) |
| Income tax effect of gains or losses on cash flow hedges recognized in other comprehensive income | (68) | 343 |
| Gains (losses) on cash flow hedges reclassified from other comprehensive income to profit or loss | 202 | 295 |
| Income tax effect of gains or losses on cash flow hedges reclassified from other comprehensive income to profit or loss | (104) | (98) |
| Share of other comprehensive income of associates and joint ventures | 154 | (1,790) |
| Share of other comprehensive income of associates and joint ventures reclassified from other comprehensive income to net income | (80) | — |
| Total items that will be reclassified to net income | 13,193 | (15,599) |
| Other comprehensive income, net of tax | 15,171 | (5,472) |
| Comprehensive income | 122,887 | (20,226) |
| Comprehensive income attributable to: | | |
| Owners of the parent company | 123,097 | (19,592) |

| | | |
|---------------------------|---------|----------|
| Non-controlling interests | (210) | (634) |
| Comprehensive income | 122,887 | (20,226) |

Consolidated Statement of Comprehensive Income (Summary)

(For the three months ended September 30, 2018 and 2019)

(Millions of yen)

| | Three months ended September 30, 2018 (July 1 to September 30, 2018) | Three months ended September 30, 2019 (July 1 to September 30, 2019) |
|---|---|---|
| Net income (loss) | 43,202 | (114,657) |
| Other comprehensive income | | |
| Items that will not be reclassified to profit or loss | | |
| Gains (losses) on equity instruments measured at fair value through other comprehensive income | 2,862 | 5,861 |
| Income tax effect of gains and losses on equity instruments measured at fair value through other comprehensive income | (1,823) | (2,356) |
| Remeasurement of insurance policy reserves based on current market interest rates | 2,079 | (923) |
| Income tax effect of remeasurement of insurance policy reserves based on current market interest rates | (582) | 259 |
| Remeasurement of defined benefit plans | — | — |
| Income tax effect of remeasurement of defined benefit plans | — | — |
| Share of other comprehensive income of associates and joint ventures | 1 | 30 |
| Total items that will not be reclassified to profit or loss | 2,537 | 2,871 |
| Items that will be reclassified to net income | | |
| Foreign currency translation adjustments | 19,212 | (773) |
| Foreign currency translation adjustments due to the disposal (sale) of foreign operating business | 7,241 | — |
| Gains (losses) on debt instruments measured at fair value through other comprehensive income | 1,246 | 147 |
| Allowances for doubtful debts on debt instruments measured at fair value through other comprehensive income | 9 | (50) |
| Gains (losses) on debt instruments measured at fair value through other comprehensive income reclassified from other comprehensive income to profit or loss | (2,130) | (23) |
| Income tax effect of gains or losses on debt instruments measured at fair value through other comprehensive income | 62 | (8) |
| Gains (losses) on cash flow hedges recognized in other comprehensive income | 203 | (360) |
| Income tax effect of gains or losses on cash flow hedges recognized in other comprehensive income | (92) | 117 |
| Gains (losses) on cash flow hedges reclassified from other comprehensive income to profit or loss | 43 | 97 |
| Income tax effect of gains or losses on cash flow hedges reclassified from other comprehensive income to profit or loss | (34) | (32) |
| Share of other comprehensive income of associates and joint ventures | 90 | (1,638) |
| Share of other comprehensive income of associates and joint ventures reclassified from other comprehensive income to net income | (80) | — |
| Total items that will be reclassified to net income | 25,770 | (2,523) |
| Other comprehensive income, net of tax | 28,307 | 348 |
| Comprehensive income | 71,509 | (114,309) |
| Comprehensive income attributable to: | | |
| Owners of the parent company | 71,711 | (114,019) |

| | | |
|---------------------------|--------|-----------|
| Non-controlling interests | (202) | (290) |
| Comprehensive income | 71,509 | (114,309) |

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

(Millions of yen)

| | Other components of equity | | | | | | |
|---|----------------------------|--|---|----------------------------------|---|---|--------------|
| | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Foreign currency translation adjustments | Financial instruments measured at fair value through other comprehensive income | |
| As of January 1, 2018 | 205,924 | 217,185 | 320,397 | (103,616) | 15,586 | 31,866 | |
| Cumulative impact from change in accounting policies | — | — | (35,421) | — | — | 315 | |
| Current period balance reflecting change in accounting policy | 205,924 | 217,185 | 284,976 | (103,616) | 15,586 | 32,181 | |
| Comprehensive income | | | | | | | |
| Net income | — | — | 107,923 | — | — | — | |
| Other comprehensive income net of tax | — | — | — | — | 13,628 | (9) | |
| Total comprehensive income | — | — | 107,923 | — | 13,628 | (9) | |
| Transactions with owners | | | | | | | |
| Contributions by and distributions to owners | | | | | | | |
| Cash dividends paid | — | — | (6,060) | — | — | — | |
| Reclassification from other components of equity to retained earnings | — | — | (188) | — | — | 188 | |
| Disposal of treasury stock | — | (4,950) | — | 5,148 | — | — | |
| Issuance of stock acquisition rights | — | 5,744 | — | — | — | — | |
| Loss of stock acquisition rights | — | (53) | 53 | — | — | — | |
| Others | — | — | (78) | — | — | — | |
| Total contributions by and distributions to owners | — | 741 | (6,273) | 5,148 | — | 188 | |
| Changes in ownership interests in subsidiaries | | | | | | | |
| Issuance of new shares | — | — | — | — | — | — | |
| Acquisition and disposal of non-controlling interests | — | 70 | — | — | — | — | |
| Others | — | — | — | — | — | — | |
| Total changes in ownership interests in subsidiaries | — | 70 | — | — | — | — | |
| Total transactions with owners | — | 811 | (6,273) | 5,148 | — | 188 | |
| As of September 30, 2018 | 205,924 | 217,996 | 386,626 | (98,468) | 29,214 | 32,360 | |
| | Other components of equity | | | | | | |
| | Cash flow hedges | Remeasurement of insurance business policy reserves based on current market interest rates | Remeasurement of retirement benefit plans | Total other components of equity | Total equity attributable to owners of the parent company | Non-controlling interests | Total equity |
| As of January 1, 2018 | (664) | (3,497) | — | 43,291 | 683,181 | 227 | 683,408 |
| Cumulative impact from change in accounting policy | — | — | — | 315 | (35,106) | — | (35,106) |
| Adjusted balance reflecting change in accounting policy | (664) | (3,497) | — | 43,606 | 648,075 | 227 | 648,302 |
| Comprehensive income | | | | | | | |
| Net income | — | — | — | — | 107,923 | (207) | 107,716 |
| Other comprehensive income net of tax | 640 | 915 | — | 15,174 | 15,174 | (3) | 15,171 |
| Total comprehensive income | 640 | 915 | — | 15,174 | 123,097 | (210) | 122,887 |
| Transactions with owners | | | | | | | |
| Contributions by and distributions to owners | | | | | | | |
| Cash dividends paid | — | — | — | — | (6,060) | — | (6,060) |
| Reclassified from other components of equity to retained earnings | — | — | — | 188 | — | — | — |
| Disposal of treasury stock | — | — | — | — | 198 | — | 198 |
| Issuance of share acquisition rights | — | — | — | — | 5,744 | — | 5,744 |
| Forfeiture of stock acquisition rights | — | — | — | — | — | — | — |
| Others | — | — | — | — | (78) | — | (78) |
| Total contributions by and distributions to owners | — | — | — | 188 | (196) | — | (196) |
| Changes in ownership interests in subsidiaries | | | | | | | |
| Issuance of common stock | — | — | — | — | — | 319 | 319 |
| Acquisition and disposal of non-controlling interests | — | — | — | — | 70 | — | 70 |
| Others | — | — | — | — | — | 1,107 | 1,107 |
| Total changes in ownership interests in subsidiaries | — | — | — | — | 70 | 1,426 | 1,496 |
| Total transactions with owners | — | — | — | 188 | (126) | 1,426 | 1,300 |
| As of September 30, 2018 | (24) | (2,582) | — | 58,968 | 771,046 | 1,443 | 772,489 |

(Millions of yen)

| | Other components of equity | | | | | | |
|---|----------------------------|--|---|----------------------------------|---|---|--------------|
| | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Foreign currency translation adjustments | Financial instruments measured at fair value through other comprehensive income | |
| As of January 1, 2019 | 205,924 | 218,856 | 424,568 | (97,300) | 1,462 | 25,781 | |
| Cumulative impact from change in accounting policies | — | — | (2,087) | — | — | — | |
| Adjusted balance reflecting change in accounting policy | 205,924 | 218,856 | 422,481 | (97,300) | 1,462 | 25,781 | |
| Comprehensive income | | | | | | | |
| Net income | — | — | (14,117) | — | — | — | |
| Other comprehensive income net of tax | — | — | — | — | (16,410) | 16,142 | |
| Total comprehensive income | — | — | (14,117) | — | (16,410) | 16,142 | |
| Transactions with owners | | | | | | | |
| Contributions by and distributions to owners | | | | | | | |
| Cash dividends paid | — | — | (6,084) | — | — | — | |
| Reclassified from other components of equity to retained earnings | — | — | 462 | — | — | (462) | |
| Disposal of treasury stock | — | (4,068) | — | 4,137 | — | — | |
| Issuance of share acquisition rights | — | 7,761 | — | — | — | — | |
| Forfeiture of stock acquisition rights | — | (83) | 83 | — | — | — | |
| Others | — | — | 152 | — | — | — | |
| Total contributions by and distributions to owners | — | 3,610 | (5,387) | 4,137 | — | (462) | |
| Changes in ownership interests in subsidiaries | | | | | | | |
| Issuance of common stock | — | — | — | — | — | — | |
| Acquisition and disposal of non-controlling interests | — | — | — | — | — | — | |
| Others | — | — | 250 | — | — | — | |
| Total changes in ownership interests in subsidiaries | — | — | 250 | — | — | — | |
| Total transactions with owners | — | 3,610 | (5,137) | 4,137 | — | (462) | |
| As of September 30, 2019 | 205,924 | 222,466 | 403,227 | (93,163) | (14,948) | 41,461 | |
| | Other components of equity | | | | | | |
| | Cash flow hedges | Remeasurement of insurance business policy reserves based on current market interest rates | Remeasurement of retirement benefit plans | Total other components of equity | Total equity attributable to owners of the parent company | Non-controlling interests | Total equity |
| As of January 1, 2019 | (511) | (4,260) | (47) | 22,425 | 774,473 | 1,734 | 776,207 |
| Cumulative impact from change in accounting policy | — | — | — | — | (2,087) | — | (2,087) |
| Current period balance reflecting change in accounting policy | (511) | (4,260) | (47) | 22,425 | 772,386 | 1,734 | 774,120 |
| Comprehensive income | | | | | | | |
| Net income | — | — | — | — | (14,117) | (637) | (14,754) |
| Other comprehensive income net of tax | (582) | (4,620) | (5) | (5,475) | (5,475) | 3 | (5,472) |
| Total comprehensive income | (582) | (4,620) | (5) | (5,475) | (19,592) | (634) | (20,226) |
| Transactions with owners | | | | | | | |
| Contributions by and distributions to owners | | | | | | | |
| Cash dividends paid | — | — | — | — | (6,084) | — | (6,084) |
| Reclassification from other components of equity to retained earnings | — | — | — | (462) | — | — | — |
| Disposal of treasury stock | — | — | — | — | 69 | — | 69 |
| Issuance of stock acquisition rights | — | — | — | — | 7,761 | — | 7,761 |
| Loss of stock acquisition rights | — | — | — | — | — | — | — |
| Others | — | — | — | — | 152 | — | 152 |
| Total contributions by and distributions to owners | — | — | — | (462) | 1,898 | — | 1,898 |
| Changes in ownership interests in subsidiaries | | | | | | | |
| Issuance of new shares | — | — | — | — | — | 1,205 | 1,205 |
| Acquisition and disposal of non-controlling interests | — | — | — | — | — | — | — |
| Others | — | — | — | — | 250 | (250) | — |
| Total changes in ownership interests in subsidiaries | — | — | — | — | 250 | 955 | 1,205 |
| Total transactions with owners | — | — | — | (462) | 2,148 | 955 | 3,103 |
| As of September 30, 2019 | (1,093) | (8,880) | (52) | 16,488 | 754,942 | 2,055 | 756,997 |

(4) Consolidated Statement of Cash Flows (Summary)

(Millions of Yen)

| | Nine months ended September 30, 2018 (January 1 to September 30, 2018) | Nine months ended September 30, 2019 (January 1 to September 30, 2019) |
|--|---|---|
| Cash flows from operating activities | | |
| Income (loss) before income tax | 129,298 | (2,059) |
| Depreciation and amortization | 52,476 | 75,244 |
| Other loss (Income) | (76,759) | 27,694 |
| Decrease (Increase) in operating receivables | 3,141 | (410) |
| Decrease (Increase) in loans for credit card business | (95,439) | (174,112) |
| Increase (Decrease) in deposits for banking business | 221,254 | 456,391 |
| Net decrease (increase) in call loans for banking business | 10,000 | (15,000) |
| Decrease (Increase) in loans for banking business | (115,364) | (121,915) |
| Increase (Decrease) in operating payables | 2,834 | (18,736) |
| Decrease (Increase) in financial assets for securities business | (95,216) | (23,649) |
| Increase (Decrease) in financial liabilities for securities business | 118,188 | (13,209) |
| Others | (61,794) | (58,513) |
| Income tax paid | (32,007) | (25,934) |
| Net cash flows from (used in) operating activities | 60,612 | 105,792 |
| Cash flows from investing activities | | |
| Increase in time deposits | (7,666) | (8,160) |
| Decrease in time deposits | 6,560 | 8,843 |
| Purchase of property, plant and equipment | (14,045) | (82,708) |
| Purchase of intangible assets | (45,904) | (57,881) |
| Acquisition of subsidiaries | (10,990) | (8,617) |
| Proceeds from acquisition of subsidiaries | 10,826 | — |
| Acquisition of investments in associates and joint ventures | (1,055) | (9,073) |
| Purchase of investment securities for banking business | (210,540) | (237,538) |
| Proceeds from sales and redemption of investment securities for banking business | 212,255 | 214,084 |
| Purchase of investment securities for insurance business | (62,534) | (111,193) |
| Proceeds from sales and redemption of investment securities for insurance business | 82,643 | 106,476 |
| Purchase of investment securities | (18,570) | (23,721) |
| Proceeds from sales and redemption of investment securities | 12,379 | 13,339 |
| Other payments | (6,268) | (17,734) |
| Other proceeds | 8,315 | 9,387 |
| Net cash flows from (used in) investing activities | (44,594) | (204,496) |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term borrowings | 50,626 | 95,045 |
| Increase (Decrease) in commercial papers | 51,000 | 52,500 |
| Proceeds from long-term debt | 220,976 | 246,950 |
| Repayment of long-term debt | (185,148) | (194,036) |
| Proceeds from issuance of bonds | — | 79,480 |
| Redemption of bonds | (150) | (20,000) |
| Repayment of leases | (621) | (11,622) |
| Cash dividends paid | (6,055) | (6,113) |
| Others | (1,661) | (3,503) |
| Net cash flows from (used in) financing activities | 128,967 | 238,701 |
| Effect of change in exchange rates on cash and cash equivalents | 1,756 | (168) |
| Net increase (decrease) in cash and cash equivalents | 146,741 | 139,829 |
| Cash and cash equivalents at the beginning of the period | 700,881 | 990,242 |
| Cash and cash equivalents at the end of the period | 847,622 | 1,130,071 |

(5) Assumptions for going concern for the nine months ended September 30, 2019

No items to report

(6) Notes to the summary of consolidated financial statements for the nine months ended September 30, 2019

(Basis of presentation)

The Rakuten Group's summary of consolidated financial statements for the nine months ended September 30, 2019 meets the requirements set out under Article 1-2 of the Rules on Terminology, Formats and Compilation Methods of Quarterly Consolidated Financial Statements (Cabinet Office Ordinance No. 64 of 2007; hereinafter referred to as the "Rules on Quarterly Consolidated Financial Statements") under which the Rakuten Group is qualified as a "Specified Company under the Designated International Accounting Standards" and duly prepares such summary in accordance with IAS 34 "Interim Financial Reporting" under the provision of Article 93 of the Rules on Quarterly Consolidated Financial Statements. As this summary does not contain all the information required in annual consolidated statements, it is advised to be used in combination with the consolidated financial statements for the fiscal year ended December 31, 2018.

(Significant changes in the scope of consolidation and the scope of equity method application)

Nine months ended September 30, 2019 (January 1 to September 30, 2019)

Except for the following, there were no significant changes neither in the scope of consolidation nor in the scope of equity method with respect to the summary of consolidated financial statements for the nine months ended September 30, 2019, as compared with the consolidated financial statements for the fiscal year ended December 31, 2018.

The Rakuten Group's investment in Lyft, Inc. (hereafter "Lyft") stock, which was originally accounted for as a financial instrument measured at fair value through profit or loss, was as of the accounting period for the six months ended June 30, 2019, accounted by the equity method. This is due to, amongst other considerations, the Rakuten Group's stockholding and voting rights in Lyft which, while below 20%, because of factors such as its stockholding and active involvement on the board of directors through its appointed director (also a director of the Rakuten Group) etc., the Rakuten Group is capable to exert significant influence on Lyft. Further, due to the agreements with Lyft, it is not practically feasible to align reporting periods, and consequently the equity method is applied in the Rakuten Group's consolidated financial statements with a three-month difference in reporting periods. Moreover, necessary adjustments will be made in 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 Altistar Networks, Inc. (hereafter "Altistar") which was acquired in the three months ended June 30, 2019. Altistar is not treated as a subsidiary because the composition of the board members is agreed between stockholders of Altistar, 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 Altistar by holding shares, actively involving in the Board of Directors through appointing 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 three months ended September 30, 2019.

(Significant accounting policies)

Significant accounting policies adopted by the Rakuten Group in this summary of consolidated financial statements for the nine months ended September 30, 2019 basically remain the same as those adopted in the consolidated financial statements for the previous fiscal year, except for the items below. In addition, income tax expenses for the nine months ended September 30, 2019 are calculated based upon an estimated annual effective tax rate.

Adoption of IFRS 16

The Rakuten Group adopted IFRS 16 from January 1, 2019.

| IFRS | | Description of the revision |
|---------|--------|--|
| IFRS 16 | Leases | Revisions related to accounting for leases |

Lease transactions (lessee)

At the commencement date, a lessee shall measure the lease liability at the 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 lease liabilities by initial direct cost and lease prepayments, etc. which is then added by the cost of carry out obligations to restore the property to its original state as required under lease agreements. Right-of-use assets are subject to depreciation on a systematic basis over the lease term.

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 lessee shall use the lessee's incremental borrowing rate.

Lease payments are allocated into interest cost and the portion of the balance of lease liability to be repaid, to ensure that the interest rate remains consistent for the balance of lease liability. Financial cost shall be presented separately from the depreciation of the Right-of-use assets in the consolidated statement 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.

The Rakuten Group has adopted IFRS 16 on a retroactive 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 2019.

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized in the statement 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 outcome calculated based on 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.

(Significant accounting estimates and judgments)

Preparation of the summary of consolidated financial statements under IFRS for the three months ended March 31, 2019 involves accounting estimates in respect of certain significant matters. In the process of adopting accounting policies, management of the Rakuten Group is required to make its own judgments. Resulting accounting estimates by their nature may be different from the actual outcome.

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

years that follow.

Estimates and judgments that have significant impact on the amounts in the consolidated financial statements for the three months ended September 30, 2019 remain the same as those that had significant impact on the amounts in the consolidated financial statements for the previous fiscal year.

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”. At the Meeting of the Board of Directors held on March 28, 2019, the Company resolved to change its internal reporting management structure 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 in the first quarter ended March 31, 2019.

Segment information for the nine months ended September 30, 2018 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 for the Board of Directors to decide on the distribution of management resources and evaluate performance.

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

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

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

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

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

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

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

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

From the second quarter ended June 30, 2019, the segment structure of functional subsidiaries etc. engaged in research and development has been changed, and the method of allocating shared costs in the headquarters administration departments has been changed and applied retroactively. With this change, during the nine months ended September 30, 2018, Internet Services segment revenue decreased by ¥4,856 million compared to before retroactive application, and segment profit decreased by ¥1,465 million, FinTech segment revenue decreased by ¥811 million and segment profit decreased by ¥7,961 million, and Mobile segment profit decreased by ¥772 million. In addition, in the three months ended September 30, 2018, Internet Services segment revenue decreased by ¥1,769 million and segment profit decreased by ¥634 million, FinTech segment revenue decreased by ¥289 million and segment profit decreased by ¥2,655 million, and Mobile segment profit decreased by ¥235 million. There is no impact on consolidated revenue, Non-GAAP operating income, and operating income.

Nine months ended September 30, 2018 (January 1 to September 30, 2018)

(Millions of Yen)

| | Internet Services | FinTech | Mobile | Total |
|-----------------------|-------------------|---------|---------|---------|
| Segment Revenue | 473,575 | 313,403 | 66,195 | 853,173 |
| Segment Profit (Loss) | 99,607 | 51,899 | (8,868) | 142,638 |

Nine months ended September 30, 2019 (January 1 to September 30, 2019)

(Millions of Yen)

| | Internet Services | FinTech | Mobile | Total |
|-----------------------|-------------------|---------|----------|---------|
| Segment Revenue | 561,092 | 353,995 | 83,386 | 998,473 |
| Segment Profit (Loss) | 114,039 | 50,933 | (33,472) | 131,500 |

Three months ended September 30, 2018 (July 1 to September 30, 2018)

(Millions of Yen)

| | Internet Services | FinTech | Mobile | Total |
|-----------------------|-------------------|---------|---------|---------|
| Segment Revenue | 164,106 | 111,240 | 23,702 | 299,048 |
| Segment Profit (Loss) | 43,587 | 13,286 | (5,618) | 51,255 |

Three months ended September 30, 2019 (July 1 to September 30, 2019)

(Millions of Yen)

| | Internet Services | FinTech | Mobile | Total |
|-----------------------|-------------------|---------|----------|---------|
| Segment Revenue | 201,936 | 121,443 | 30,906 | 354,285 |
| Segment Profit (Loss) | 5,172 | 16,542 | (14,547) | 7,167 |

Reconciliation from Segment Revenue to Consolidated Revenue

(Millions of Yen)

| | Nine months ended September 30, 2018 (January 1 to September 30, 2018) | Nine months ended September 30, 2019 (January 1 to September 30, 2019) |
|---------------------------------|--|--|
| Segment Revenue | 853,173 | 998,473 |
| Intercompany transactions, etc. | (62,843) | (92,692) |
| Consolidated Revenue | 790,330 | 905,781 |

(Millions of Yen)

| | Three months ended September 30, 2018 (July 1 to September 30, 2018) | Three months ended September 30, 2019 (July 1 to September 30, 2019) |
|---------------------------------|--|--|
| Segment Revenue | 299,048 | 354,285 |
| Intercompany transactions, etc. | (20,879) | (35,148) |
| Consolidated Revenue | 278,169 | 319,137 |

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

(Millions of Yen)

| | Nine months ended September 30, 2018 (January 1 to September 30, 2018) | Nine months ended September 30, 2019 (January 1 to September 30, 2019) |
|--|--|--|
| Segment Profit | 142,638 | 131,500 |
| Intercompany transactions, etc. | (308) | (4,164) |
| Non-GAAP Operating Income | 142,330 | 127,336 |
| Amortization of Intangible Assets (PPA) | (7,757) | (6,855) |
| Stock Based Compensation | (5,565) | (7,514) |
| One-off Items | 4,536 | — |
| Operating income | 133,544 | 112,967 |
| Financial income and expenses | (2,292) | (4,398) |
| Share of losses of investments in associates and joint ventures | 1,954 | 110,628 |
| Income (loss) before income tax | 129,298 | (2,059) |

(Millions of Yen)

| | Three months ended September 30, 2018 (July 1 to September 30, 2018) | Three months ended September 30, 2019 (July 1 to September 30, 2019) |
|--|--|--|
| Segment Profit | 51,255 | 7,167 |
| Intercompany transactions, etc. | 839 | (959) |
| Non-GAAP Operating Income | 52,094 | 6,208 |
| Amortization of Intangible Assets (PPA) | (3,335) | (2,229) |
| Stock Based Compensation | (1,773) | (2,907) |
| One-off Items | (3,112) | — |
| Operating income | 43,874 | 1,072 |
| Financial income and expenses | (749) | (2,187) |
| Share of income (losses) of associates and joint ventures | 72 | (111,198) |
| Income (Loss) before income tax | 43,197 | (112,313) |

Breakdown of Operating Expenses

(Millions of Yen)

| | Nine months ended September 30, 2018 (January 1 to September 30, 2018) | Nine months ended September 30, 2019 (January 1 to September 30, 2019) |
|---|--|--|
| Advertising and promotion expenditures | 134,800 | 163,875 |
| Employee benefits expenses | 129,411 | 152,468 |
| Depreciation and amortization | 52,476 | 75,244 |
| Communication and maintenance expenses | 19,848 | 22,416 |
| Consignment and subcontract expenses | 41,448 | 57,013 |
| Allowance for doubtful accounts charged to expenses | 27,846 | 31,154 |
| Cost of sales of merchandise and service revenue | 187,681 | 244,938 |
| Interest expense for finance business | 5,116 | 5,732 |
| Commission expense for finance business | 7,985 | 9,151 |
| Insurance claims and other payments, and provision of policy reserves and others for insurance business | 28,776 | 23,181 |
| Others | 98,766 | 110,256 |
| Total | 734,153 | 895,428 |

(Millions of Yen)

| | Three months ended September 30, 2018 (July 1 to September 30, 2018) | Three months ended September 30, 2019 (July 1 to September 30, 2019) |
|---|--|--|
| Advertising and promotion expenditures | 47,467 | 54,894 |
| Employee benefits expenses | 44,418 | 52,253 |
| Depreciation and amortization | 18,700 | 26,281 |
| Communication and maintenance expenses | 6,962 | 7,707 |
| Consignment and subcontract expenses | 15,591 | 21,458 |
| Allowance for doubtful accounts charged to expenses | 10,338 | 11,365 |
| Cost of sales of merchandise and service revenue | 64,937 | 89,793 |
| Interest expense for finance business | 1,761 | 1,841 |
| Commission expense for finance business | 2,737 | 3,186 |
| Insurance claims and other payments, and provision of policy reserves and others for insurance business | 15,728 | 8,318 |
| Others | 36,878 | 38,663 |
| Total | 265,517 | 315,759 |

(Other Income)

(Millions of Yen)

| | Nine months ended September 30, 2018 (January 1 to September 30, 2018) | Nine months ended September 30, 2019 (January 1 to September 30, 2019) |
|--|--|--|
| Foreign exchange gains | 739 | 6,878 |
| Gains on sales of shares of associated companies | 2,577 | 473 |
| Valuation gains on securities (note) | 76,606 | 97,008 |
| Others | 14,625 | 2,598 |
| Total | 94,547 | 106,957 |

Note: During the nine months ended September 30, 2019, the Group recorded ¥86,593 million in valuation gains on securities related to investments in the ride-sharing business, while recording ¥7,760 million in the healthcare business.

(Millions of Yen)

| | Three months ended September 30, 2018 (July 1 to September 30, 2018) | Three months ended September 30, 2019 (July 1 to September 30, 2019) |
|--|--|--|
| Foreign exchange gains | (880) | 1,192 |
| Gains on sales of shares of associated companies | 2,496 | 473 |
| Valuation gains on securities (note) | 42,857 | — |
| Others | 490 | 459 |
| Total | 44,963 | 2,124 |

(Other Expenses)

(Millions of Yen)

| | Nine months ended September 30, 2018 (January 1 to September 30, 2018) | Nine months ended September 30, 2019 (January 1 to September 30, 2019) |
|---|--|--|
| Loss on disposal of property, plant and equipment and intangible assets | 433 | 758 |
| Others | 16,747 | 3,585 |
| Total | 17,180 | 4,343 |

(Millions of Yen)

| | Three months ended September 30, 2018 (July 1 to September 30, 2018) | Three months ended September 30, 2019 (July 1 to September 30, 2019) |
|---|--|--|
| Loss on valuation of securities | — | 2,481 |
| Loss on disposal of property, plant and equipment and intangible assets | 225 | 91 |
| Others | 13,516 | 1,858 |
| Total | 13,741 | 4,430 |

(Investment in associates and joint ventures using equity method)

It is deemed that there is objective evidence that the investment in Lyft, accounted for by the equity method, is impaired due to a significant decline in the market price of its shares. As a result of measurement of the recoverable amount based on the market price as of September 30, 2019 and comparison with the book value, an impairment loss of ¥102,873 was recorded during the three months ended September 30, 2019. The impairment loss is presented in Share of losses of investments in associates and joint ventures in the Consolidated Statements of Income (Summary).

Notes on significant subsequent events

No items to report