

# Next 20 Years Annual Report

Fiscal Year Ended December 31, 2015

 **Rakuten**

To Our Shareholders

# Empowering People and Society

Rakuten will celebrate its 20th anniversary in 2017. As we prepare for this, I am proud to report that in 2015 Rakuten achieved record consolidated revenue of ¥714 billion, rising 19.2% year on year, along with strong non-GAAP operating income of ¥152 billion, growing 28.8% year on year. We also developed our new mid-term strategy, Vision 2020, to map out a path to achieving our aim of becoming the world's leading Internet services company. Unveiled in early 2016, the vision lays out the key principles for sustainable growth, "Strong," "Smart," and "Speed," to steer us through the next five years, which I expect will bring greater change in the e-commerce industry than we have seen in the past two decades.

In 2015 we saw steady growth in Rakuten Ichiba and the FinTech businesses, promising developments in the e-book business and rapid expansion of Rakuten Mobile. The number of members, which is the base of the Rakuten Ecosystem, has grown dramatically to 900 million worldwide. Moreover, by taking advantage of various synergies that go beyond national borders or business categories, we increased Rakuten's global gross transaction value to over ¥9 trillion.

Strong results in our core domestic e-commerce business were achieved by strengthening synergy between services within the Rakuten Ecosystem, enhancing support for smart devices, expanding use of big data in marketing, boosting services for overseas consumers and implementing measures to improve user satisfaction and service quality. Rakuten continued to invest in new technologies and innovative business models, from FinTech to e-commerce to digital content.

In anticipation of growth in the employee base and to maximize effective collaboration between businesses, we relocated our headquarters to Futako-Tamagawa in Setagaya-ku, Tokyo, bringing many of our Group companies under one roof.

In 2016, we will build on the successes of 2015 by driving an increase in gross transaction value and revenue and providing members and business partners with services of higher quality than ever before. We will stay true to our entrepreneurial spirit, empowering people and society as we strive to improve corporate and shareholder value.



**Hiroshi Mikitani**  
Chairman and CEO



## New Mid-Term Strategy Vision 2020

We envisage our business as a marathon, rather than a sprint, and therefore, we pursue sustainable, long-lasting, long-term results. Nevertheless, a medium-term perspective provides insights to improve our long-term performance. The core objective of this new plan is to optimize growth by assessing each business unit against three growth principles characterized by the keywords: strong, smart, and speed.

Under Vision 2020 we plan to increase revenues from ¥714 billion in 2015 to ¥1.7 trillion in 2020 and Non-GAAP operating income from ¥152 billion to ¥300 billion.

# Vision 2020

## Our Key Strategies

### Strong Businesses

Formidable competitive positions, growth of 10-30%

#### **Domestic E-Commerce:**

Operating income is targeted to rise from ¥96 billion in 2015 to ¥160 billion in 2020, GMS from ¥2.7 trillion to ¥5.2 trillion

#### **FinTech:**

Operating income is targeted to rise from ¥64 billion in 2015 to ¥120 billion in 2020

### Smart Businesses

Niche/ unique, meaningful share, sustainable profit, growth of 25-75%

#### **Overseas E-Commerce:**

Ebates GMS is targeted to rise from US\$4.9 billion in 2015 to US\$15 billion in 2020, operating income from ¥3.5 billion to ¥20 billion

#### **Rakuten Marketing:**

Operating income is targeted to rise from ¥4.6 billion in 2015 to ¥10 billion in 2020

#### **Other Internet services:**

Contribution of income from Rakuten Kobo+OverDrive, operating income is targeted to turn from ¥18 billion loss in 2015 to ¥20 billion profit in 2020

### Speed Businesses

Entrepreneurial, disruptive, targeting very high growth of 70%+

#### **Viber:**

Planning rapid expansion to 2 billion unique IDs in 2020

#### **Rakuten Mobile:**

Rapid growth as an MVNO

#### **Other Segment:**

Operating income is targeted to be positive in 2020

## To Our Shareholders

### Domestic E-Commerce

Rakuten maintains leading positions in the domestic e-commerce market. Rakuten continues to be a market leader in terms of GMS. Rakuten Points holds a consistently high reputation among customers.

As presented in Vision 2020, domestic e-commerce aims to achieve further growth through our key e-commerce strategies:

1. Improve quality, 2. Maximize customer satisfaction, 3. Move faster than competitors

# Strong Position

Action to  
improve quality  
for safety and  
secure shopping

- Quality Control Committee
- Guarantee program for all buyers
- Policing pirate brand imitations

Maximization of  
customer  
satisfaction

- Enhanced point program  
(Super Point Up 7)
- New services to expand Ecosystem  
(Rakuma, Rakuten SmartPay, Checkout)

Anticipation of  
trends and  
proactively  
responding to  
competition

- Genre strategy/  
food, healthcare, home goods
- Trust with merchants/  
consultants, seminars, awards
- Data strategy





# Leading Innovation

## FinTech

Since Q3 2015, the Internet Finance segment has been renamed as “FinTech,” which is a new term to define the fusion of finance and Internet technology that our Group has pursued since 2003. In Vision 2020, we aim to achieve the top market share by increasing Rakuten Card’s transaction volume to ¥7 or ¥8 trillion from ¥4.2 trillion in 2015, and aim for 20 million cardholders, up from 12 million as of the end of 2015. Operating income is targeted at ¥50 billion in 2020 from ¥24 billion in 2015.

Rakuten Bank also aims to increase operating income from ¥15 billion in 2015 to ¥30 billion in 2020 from its core activities and raise the number of accounts from 5 million to 10 million.

The Securities business is diversifying its income structure by expanding non- Japanese equity business such as investment trust business and foreign exchange from 45% in 2015 to 60% in 2020, and targets operating income from ¥22 billion to ¥30 billion.

Rakuten launched the \$100 million global venture FinTech Fund to expand its FinTech investments, including Currency Cloud and WePay. Going forward, we will continue to create further synergies through the use of big data and to increase lifetime value of our customers.

- **Rakuten Card No. 1 in customer satisfaction for the 7th straight year-JCSI**

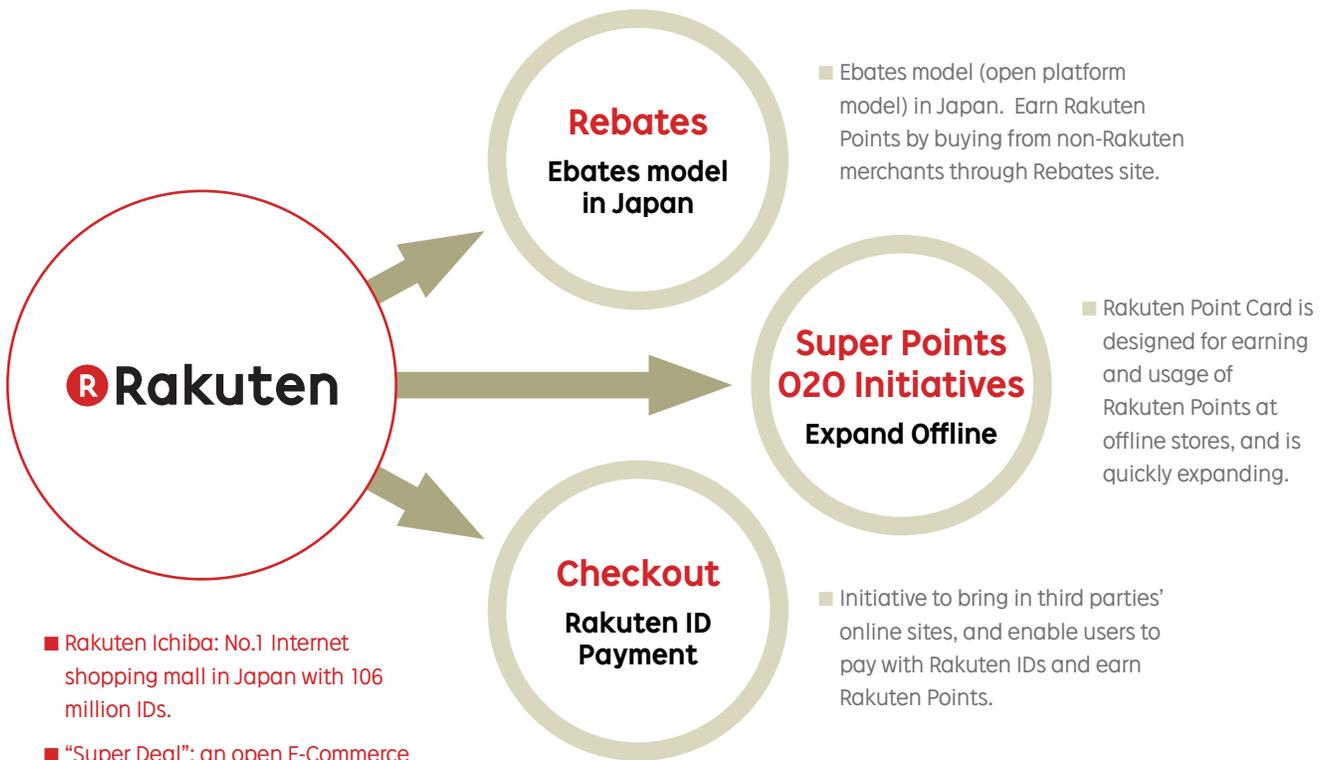
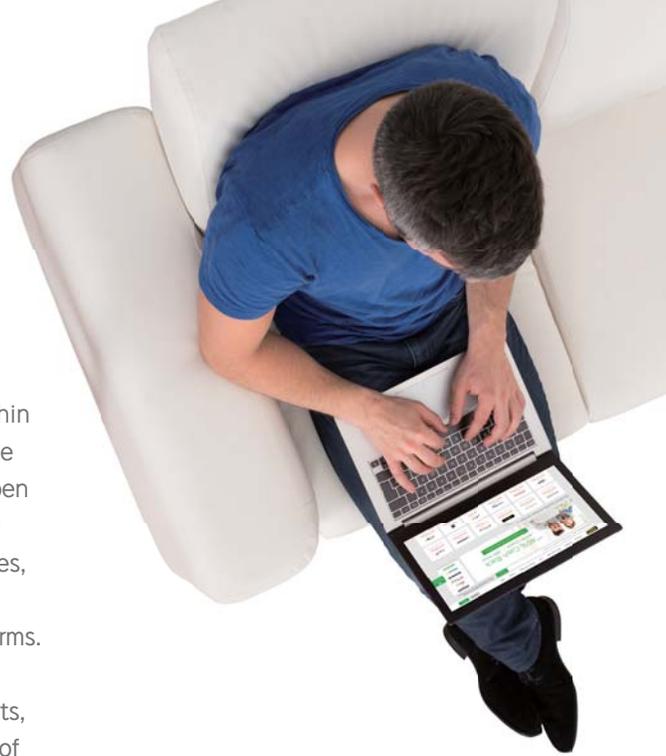


- **Rakuten Bank No.1 in domestic category for global finance-Best Digital Bank Awards**

## To Our Shareholders

### Open E-commerce Strategy

A typically closed e-commerce platform tends to confine the consumers within itself. Conversely, an open e-commerce platform links consumers with a wide network of associated e-commerce sites. Ebates is a good example of an open e-commerce platform, on which consumers can purchase from almost 3,000 partner sites, including most of the top e-commerce sites in the United States, as well as leading specialty sites and online travel agencies. Rakuten is beginning to realize the vast underlying potential of combining both platforms. “Open E-Commerce” expands our Ecosystem and reinforces member loyalty, while allowing us to serve them with a far wider selection, including products, services, and Rakuten Points offers from the “real” economy. Here are some of the initiatives and benefits for users.



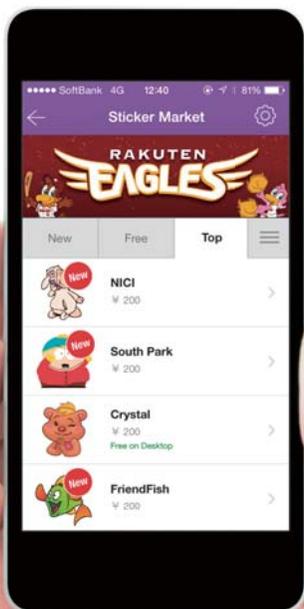
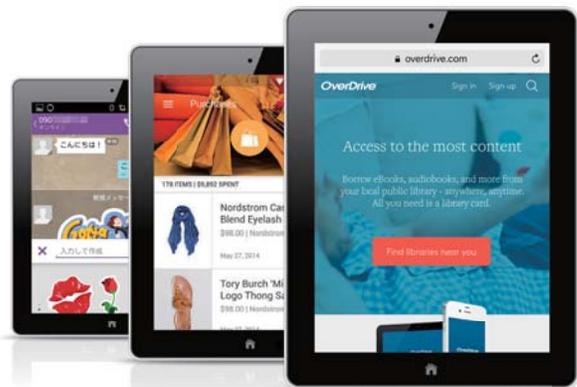
# Smart and Open E-Commerce

## Smart Business: Ebates, Rakuten Kobo + OverDrive

Since its acquisition, Ebates has accelerated its growth through its unique Open E-Commerce business model, and its GMS should continue to grow up to US\$15 billion in 2020, from US\$4.9 billion in 2015.

Rakuten Marketing, ranked best CPS affiliate network company in the U.S. by mThink Blue Book Survey in 2016, has an important role in connecting Ebates to over 3,000 brand-retailers in North America. It is expected to expand its operating income (non-GAAP basis) from ¥4.6 billion in 2015 to ¥10 billion in 2020.

OverDrive, a full-service digital distributor of e-books, audio books and other content to more than 30,000 libraries and educational institutions in 40+ countries, joined Rakuten Group in 2015. Adding OverDrive with Rakuten Kobo, operating income of global e-book business is expected to approach breakeven in 2016. Their goal is to deliver consistent growth by 2020.



# Disruptive Growth Speed

## Speed Business: Viber

Viber is a typical “Speed Business,” with fast growth, and should become a solid platform for other businesses. When Rakuten acquired Viber in 2014, it had 305 million unique IDs, and in 2015, it reached 711 million as it aims to reach 2 billion by 2020.

### Equity Offering

In June 2015, a public equity offering of ¥180 billion was placed in Japan and overseas to strengthen the financial structure and long-term growth. Proceeds from the equity offering were channeled to repayment of debt and capital expenditures, which we consider as a solid preparation for next-decade growth. Our strategy is focusing on “connecting the dots” with big data, or in other words, utilizing the latest big data technologies to recognize and leverage synergies among our various operations and member trends to enhance the shopping experience of Rakuten services.

We took advantage of our sound financial position to develop our business activities and to increase shareholder value in the long term.



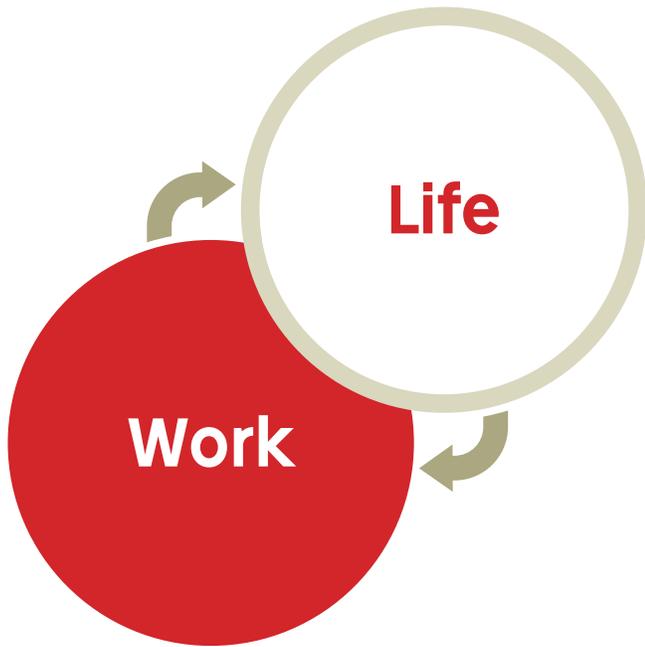
# Foundation for next-decade growth



**New Share  
Issue**

Total

**¥180.8 billion**



**Change WORK × LIFE  
and change the world**

# Open Workplace

## Crimson House

Rakuten Crimson House, opened in 2015, features a unique design combining both simplicity and comfort in an open workplace where people and ideas can thrive. It provides an environment which is true to the core of Rakuten Shugi (corporate philosophy). To empower spontaneous collaboration, it features desks without dividers, open meeting spaces dotted across every floor, a state-of-the-art video conference system that enables colleagues to hold meetings with overseas offices as seamlessly as if they are in the same room.

Rakuten Crimson House also enriches the daily lives of employees. Healthy meals are served for free at breakfast, lunch and dinner at the cafeterias. It also houses a gym to work-out and refresh, a daycare center promoting diversity education, and science experiments for kids. Our goal is a workplace that supports the daily life and wellbeing of every Rakuten employee as we collaborate on our global expansion.



# Building Shareholder Returns

## Cash Dividends per Share



## Dividend Policy

Guided by the Vision 2020, we will continue our efforts to optimize efficiency and maximize the Rakuten Group's shareholder and corporate value. We have consistently paid dividends in line with our basic policy of balancing shareholder returns against the need to expand internal reserves. We aim to maximize our corporate value, maintain a sound financial structure, and provide resources for strategic business development in the future. In line with this basic policy, we decided to pay a dividend of ¥4.5 per share, the same level as in fiscal 2014.

## Financial Highlights (IFRS)

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2013	2014	2015	2015
<b>Income and Loss</b>				
Revenue	¥ 518,568	¥ 598,565	¥ 713,555	\$ 5,895,691
Operating income (Non-GAAP) (Note 2)	103,344	118,092	152,153	1,257,151
Operating income (IFRS)	90,244	106,397	94,689	782,361
Net income	43,481	71,103	44,280	365,859
<b>Cash Flows</b>				
Net cash flows from operating activities	¥ 1,485	¥ 111,860	¥ 78,245	646,491
Net cash flows from used in investing activities	30,584	(261,085)	(224,078)	(1,851,428)
Net cash flows from financing activities	75,252	189,512	221,831	1,832,856
<b>Assets and Liabilities</b>				
Total assets	¥3,209,808	¥3,680,695	¥4,269,953	\$35,280,117
Total liabilities	2,903,354	3,252,609	3,605,940	29,793,763
Total net assets	306,454	428,086	664,013	5,486,353
	Yen		U.S. dollars	
<b>Earnings per Share Attributable to Owners of the Company</b>				
Net income (basic)	¥ 32.60	¥ 53.47	¥ 32.33	\$ 0.27
Net income (diluted)	32.41	53.15	32.09	0.27
Dividend per Share	¥ 4.0	¥ 4.5	¥ 4.5	\$ 0.04

**Note 1:** U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥121.03 to US\$ 1, the approximate rate of exchange at December 31, 2015.

**Note 2:** Non-GAAP operating income excludes amortization of intangible assets, stock-based compensation expense and other items such as gains and losses from impairments, acquisitions and change in accounting treatment. Please see the reconciliation sheet on P.11.

## Overview

### Business Results for Fiscal Year 2015 (Non-GAAP basis)

Rakuten Group delivered strong results in its core domestic e-commerce business by strengthening synergy between services within the Rakuten Ecosystem, enhancing support for smart devices, expanding use of big data in marketing, boosting services for overseas consumers, and implementing measures to improve user satisfaction and service quality. In content services, Rakuten Group made strategic investments for future profit growth, including acquisition of OverDrive Holdings, Inc. (U.S.), which offers an e-book platform to public libraries, as well as implementing strict cost control measures to put results on track for improvement. As a result, revenue from the Internet services segment rose to ¥440,744 million, a 21.5% year-on-year increase.

Rakuten Group also recorded unrealized gains on stocks and is expediting investments in new technologies and innovative business models. In the FinTech segment\*, the expansion of the Rakuten Card membership base raised

commission income, while the growth of Rakuten Securities and Rakuten Bank services also added to profits.

As a result of these efforts, the Rakuten Group achieved revenue of ¥713,555 million, up 19.2% year-on-year, and Non-GAAP operating income of ¥152,153 million, up 28.8% year-on-year.

\* Please see Segment Change on P.111.

### Business Results (IFRS basis)

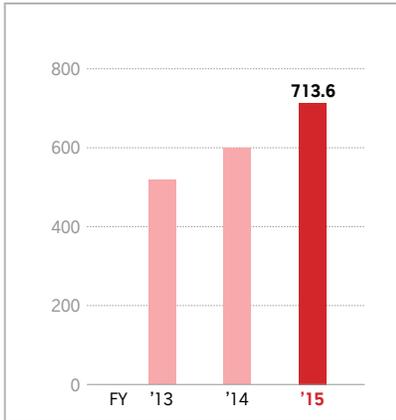
The Rakuten Group recorded revenue of ¥713,555 million, up 19.2% year-on-year. IFRS Operating income of ¥94,689 million was down 11.0% year-on-year, adversely affected by one-off items of ¥43,054 million, specifically as impairment loss and relocation costs.

For details, please see the Reconciliation table on P.11. Net income attributable to owners of the parent company was ¥44,436 million, down 37.1% year-on-year. For further analysis, please see Summary of Results on P. 34 and Analyses of Consolidated Business Results, Financial Position and Cash Flows on P.55.

# Financial Highlights

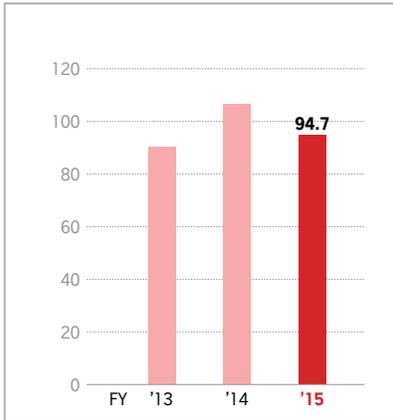
## Revenue

(Billions of yen)



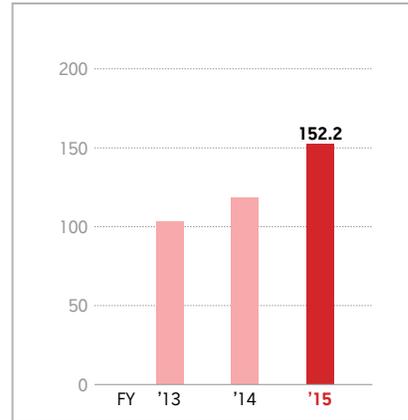
## Operating Income (IFRS)

(Billions of yen)



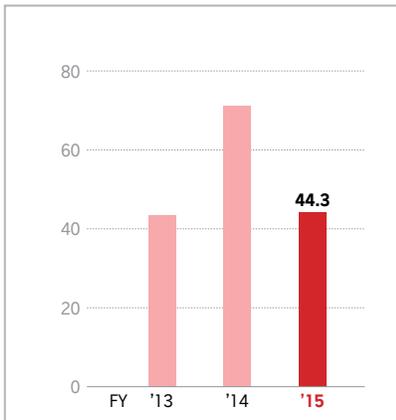
## Operating Income (Non-GAAP)

(Billions of yen)



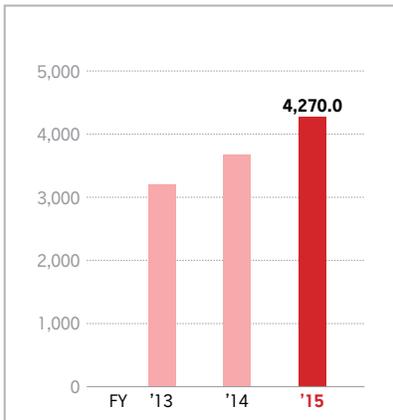
## Net Income

(Billions of yen)



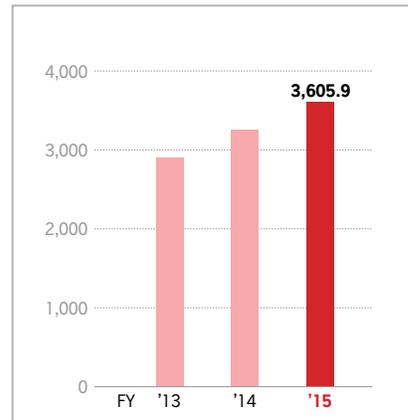
## Total Assets

(Billions of yen)



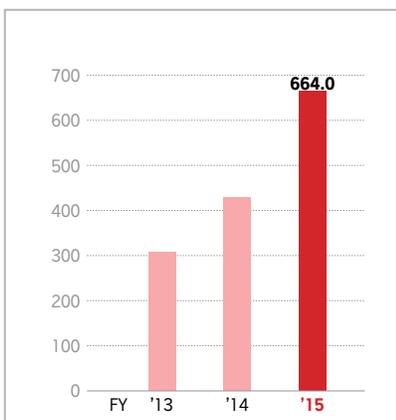
## Total Liabilities

(Billions of yen)



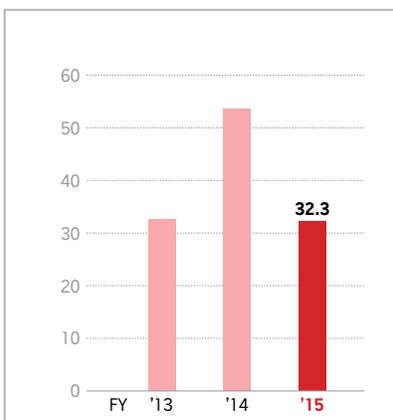
## Total Net Assets

(Billions of yen)



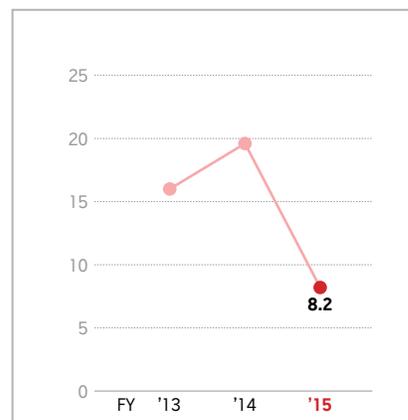
## Earnings per Share (basic)

(Yen)



## Return on Equity

(%)



## Notes for Financial Highlights

### 1. Segment Change

From the third quarter ended September 30, 2015, the Rakuten Group changed the segment name “Internet Finance” to “FinTech.” This is to reflect the global spread of the term FinTech, a fusion of finance and Internet technology, which the Group has been working on since 2003.

### 2. Definition of Non-GAAP Operating Income

Non-GAAP operating income excludes amortization of intangible assets, stock based compensation expense and other items such as gains and losses from impairments, acquisitions and change in accounting treatment.

### 3. Reconciliation from IFRS Operating Income to Non-GAAP Operating Income

	Fiscal year ended December 31, 2014	Fiscal year ended December 31, 2015	Amount Change YoY	% Change YoY
<b>Non-GAAP operating income</b>	118,092	152,153	34,061	28.8%
<b>Amountization of intangible assets (PPA)</b>	(6,327)	(8,322)	(1,995)	—
<b>Stock based compensation</b>	(2,315)	(6,088)	(3,773)	—
<b>One-off items*</b>	(3,053)	(43,054)	(40,001)	—
<b>Operating Income</b>	106,397	94,689	(11,708)	(11.0%)

#### \*Breakdown of One-off Items

A head office relocation-related expense of ¥4,171 million was recorded during FY2015.

An impairment of goodwill and intangible assets loss of ¥38,883 million was recorded in Q4/15.

The major impairment loss of ¥17,247 million was from PriceMinister, ¥13,080 million was from Kobo.

Others are mainly overseas subsidiary-related impairment loss recorded in Q4/15.

### 4. Policy Concerning Decisions on Dividends of Surplus and Dividend Forecast

With the aim of providing shareholders with returns in excess of capital cost, while targeting to maximize the shareholder value, the Group makes management decisions with attention paid to the medium- to long-term maintenance and enhancement of consolidated return on equity (ROE). The Company's basic policy for shareholder return is to return profits with due consideration to ensuring sufficient internal reserves for the purpose of stabilizing investment funds and financial base with a view to the medium- to long-term growth, and have been increasing or maintaining our dividend per share at a constant level. 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 conducting financial business, while sustaining the level of shareholders equity in compliance with regulatory requirements

Share repurchase is being considered as an option of financial measures for the purpose of flexibly addressing the changes in the business environment and contributing to the enhancement of shareholder value.