

IFRS Introduction Meeting (First Session)

April 1, 2013

Accounting & Finance Departments, Rakuten Inc.

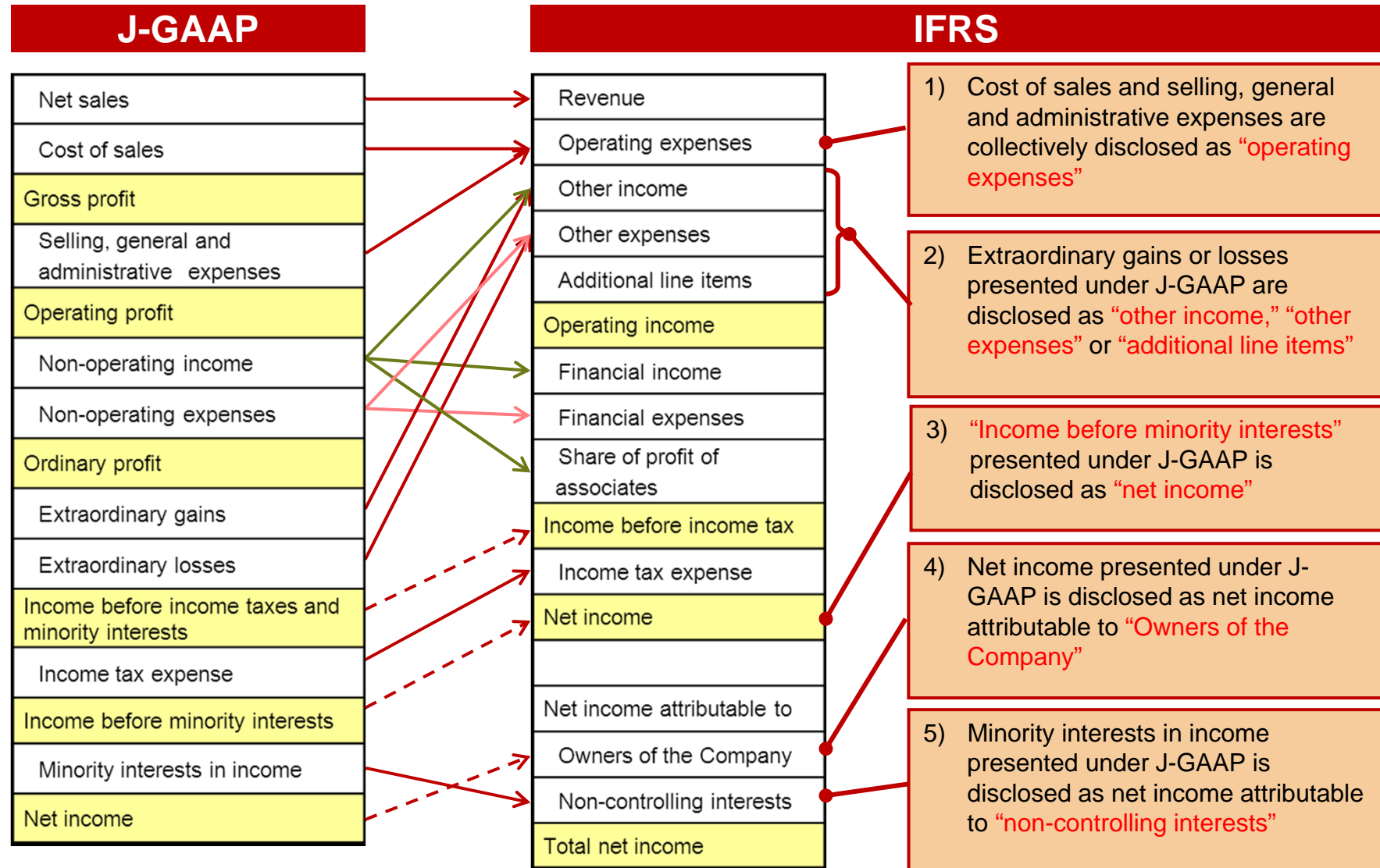
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Disclaimer

- In this presentation, FY2012 earnings are presented both in IFRS and J-GAAP. IFRS earnings are different with J-GAAP based figures.
- This presentation material includes expressions that are different with actual transactions and accounting treatment in order to facilitate readers' understanding.

1 : Income Statement

Structure of Income Statement



GAAP Differences

J-GAAP

Income Statement*	FY2011	FY2012
Net Sales	379,900	443,474
Operating Profit	70,789	72,259
Ordinary Profit	68,267	71,514
Net Income (Loss)	-2,287	19,413

IFRS

(JPY mm)

Income Statement	FY2011	FY2012
Revenue	346,425	400,444
Operating income before additional line items	76,136	78,793
Additional line items (FY11: Loss on business restructuring of Rakuten KC, FY12: Loss of Impairment & Re-organization)	-75,492	-28,738
Operating income	644	50,055
Profit (Loss) before income tax	-1,185	49,106
Net income	9,631	21,136
Net income attributable to Owners of the Company	7,986	20,489

Similar to Net Income of J-GAAP

*: After retrospective application of the revised accounting policy for loyalty points
 : J-GAAP Round-down
 : IFRS Round-off

Differences in Revenue Recognition

	J-GAAP	IFRS
Gross / Net reporting of revenue	<ul style="list-style-type: none"> ● No clear standard 	<ul style="list-style-type: none"> ● Reporting on a “Net” basis, in case of agency transactions <ul style="list-style-type: none"> ✓ No inventory risk (Books) ✓ No pricing control (Books) ✓ No credit risk (Acquiring fee of Rakuten Card)
Point Costs in Domestic Market	<ul style="list-style-type: none"> ● Treated as expense in SG&A expenses 	<ul style="list-style-type: none"> ● Cost is deducted from revenue, if point vesting is linked with revenue <ul style="list-style-type: none"> Impact Exists <ul style="list-style-type: none"> ✓ Rakuten Card ✓ Package Media No Impact <ul style="list-style-type: none"> ✓ Rakuten Ichiba (Base point of 1% is merchants’ expense)

GAAP Differences in FY2012 Income Statement

(JPY mm)

GAAP Differences	FY2012 Consolidated Income Statement				
	Revenue	Operating expenses	Operating profit	Profit before income tax	Net income
Figures under J-GAAP *	443,474	371,214	47,714	46,698	19,413
Termination of goodwill amortization		-8,006	8,006	8,006	8,006
Impairment of goodwill			-6,144	-6,144	-6,144
Net reporting of package media	-13,558	-13,558			
Net reporting of card acquiring	-7,523	-7,523			
Net reporting of point expenses	-19,623	-19,623			
Financial products	-1,496	-1,167	301	-604	-362
Others	-830	-1,902	178	1,150	-424
Figures under IFRS	400,444	319,435	50,055	49,106	20,489

*: Re-classify J-GAAP items to IFRS items

: J-GAAP Round-down

: IFRS Round-off

2: Balance Sheet

Structure of Balance Sheet

J-GAAP

Net assets
Shareholders' equity
Common stock
Capital surplus
Retained earnings
Treasury stock
Total shareholders' equity
Accumulated other comprehensive Income
Valuation difference on available-for sale securities
Deferred gains or losses on hedges
Foreign currency translation adjustments
Total accumulated other comprehensive incomes
Subscription rights to shares
Minority interests
Total net assets
Total liabilities and net assets

IFRS

- No distinction between current and non-current items

Net assets
Equity attributable to owners of the Company
Common stock
Capital Surplus
Retained earnings
Treasury stock
Other components of equity
Total shareholders' equity
Non-controlling interests
Total net assets
Total liabilities and net assets

GAAP Differences

J-GAAP

Balance Sheet	FY11-Beg	FY11-End	FY12-End
Total assets	1,951,440	1,915,892	2,108,409
Total net assets	246,422	231,025	262,451

*: J-GAAP Rounded-down
 : IFRS Rounded-off

IFRS

(JPY mm)

Balance Sheet	FY11-Beg	FY11-End	FY12-End
Total assets	2,052,571	1,959,765	2,287,634
Total net assets	217,459	212,346	241,912

GAAP Differences in FY2012 Balance Sheet

(JPY mm)

GAAP Differences	FY2012 Consolidated Balance Sheet		
	Total assets	Total liabilities	Total net assets
Figures under J-GAAP	2,108,409	1,845,957	262,451
Difference in goodwill	-23,163		-23,163
Gross revenue reporting of securities business	220,332	220,332	
On-balance of securitized assets	-6,222	-3,026	-3,196
Others	-11,722	-17,541	5,820
Figures under IFRS	2,287,634	2,045,722	241,912

- Despite on-balance impact of securitization, the amount of securitized assets on IFRS balance sheet declines due to difference in valuation
 - ✓ J-GAAP: Market value as Investment securities for banking business
 - ✓ IFRS: Amortized cost as Loans for credit card business

Treatment of Goodwill

J-GAAP		IFRS
Non-Consolidated	Consolidated	
Impairment of Equity in Subsidiary	Impairment of Goodwill	Impairment of Goodwill
<ul style="list-style-type: none"> ◆ Impair in case of significant drop in fair value ◆ Consider future probability of recovery by examining achievement of budget 	<ul style="list-style-type: none"> ◆ Periodically amortize with straight-line or other method over 20 years or less ◆ <u>Conduct impairment test if there is indication of impairment</u> ◆ <u>Undiscounted CF</u> is used for impairment test 	<ul style="list-style-type: none"> ◆ Amortization is unnecessary ◆ <u>Conduct impairment test once a year at same time each year, regardless of indication of impairment</u> ◆ <u>Discounted CF</u> is used for impairment test

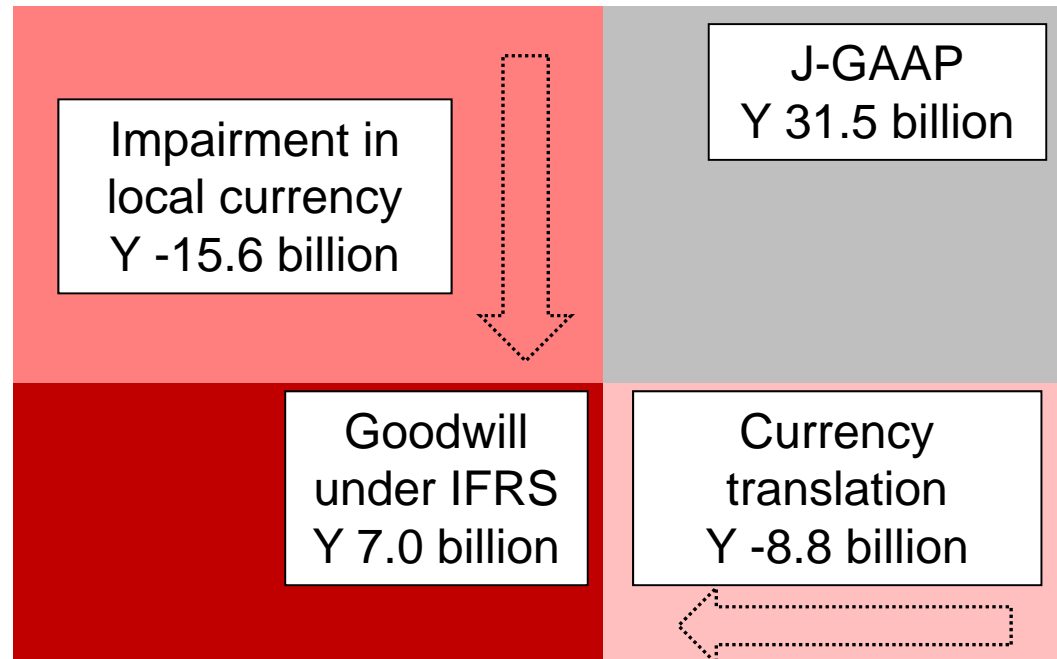
Impairment of LinkShare at 2011 IFRS adoption

- Under IFRS, recognize goodwill of every overseas subsidiary in local currency
- Current J-GAAP requires recognition in local currency
- Goodwill of LinkShare, acquired before accounting change of J-GAAP, was recognized in yen
- Impairment loss of LinkShare at IFRS adoption date is directly reflected in balance sheet, instead of passing through income statement

Book value before impairment
\$ 278M

Amount of impairment
\$ -192M

Book value after impairment
\$ 86M



FX rate at adoption
(Y81.49/\$, 2011/1/1)

FX rate at acquisition
(Y113.19/\$)

*: Revaluation at IFRS adoption date of 2011/1/1

Impairment of PRICEMINISTER

- Impaired ¥ 4.7billion of goodwill in Q4 of FY12 under IFRS
- No impairment was recognized under J-GAAP
- Impairment loss was reflected in balance sheet through income statement

Balance of Goodwill and Intangible Assets (End of Dec 2012)

(JPY mm)

Cash Generating Unit	Balance	
	Goodwill	Non-depreciable intangible assets*
Internet Services	58,736	5,871
PRICEMINISTER S.A.S.	12,273	5,110
Kobo Inc.	17,483	29
Others	28,980	732
Internet Finance	45,973	-
Rakuten Bank	34,386	-
Others	11,587	-
Others	3,186	-
Total	107,895	5,871

*: Excluding depreciable intangible assets

3: Segments & Businesses in Detail

Operating Segments

(JPY mm)

	FY2011	FY2012		FY2011	FY2012
Segment revenue	403,904	475,515	Segment profit	79,696	83,939
Internet Services	228,568	285,815	Internet Services	65,584	58,639
Internet Finance	141,161	156,430	Internet Finance	12,970	23,714
Others	34,175	33,270	Others	1,142	1,586
Intercompany transactions, etc	-24,003	-32,040	Amortization of goodwill and other items not allocated to reporting segments	-8,907	-11,680
Sub-Total	379,901	443,475	Sub-Total	70,789	72,259
Differences between accounting standards of J-GAAP and IFRS	-33,476	-43,031	Differences between accounting standards of J-GAAP and IFRS	10,173	8,750
Consolidated revenue under IFRS	346,425	400,444	Other income	1,178	3,365
			Other expenses	-6,004	-5,581
			Additional line items	-75,492	-28,738
			Consolidated operating income under IFRS	644	50,055

Segment earnings disclosed under J-GAAP

*: J-GAAP Rounded-down
: IFRS Rounded-off

Change of Segments

- Segment revenue and profit of FY12 under IFRS are unchanged, because managerial accounting was based on J-GAAP
- Managerial accounting will adopt IFRS from Q1/13
- Based on management approach, segment information will also change from Q1/13
 - ✓ New segment information is not consistent with disclosure under J-GAAP

Internet Services

	Revenue	Operating Expenses	Operating Income
Rakuten Ichiba	Little Change	Little Change	Little Change
	<ul style="list-style-type: none"> ● No impact from change in point accounting; merchant vests 1% base point 		
	Revenue	Operating Expenses	Operating Income
Package Media	Decrease	Decrease	Little Change
	<ul style="list-style-type: none"> ● Net reporting of revenue <ul style="list-style-type: none"> ✓ Gross profit equivalent under J-GAAP is booked as revenue ● Point expenses are deducted from revenue and operating expenses 		
	Revenue	Operating Expenses	Operating Income
Overseas ECs and Kobo	Little Change	Little Change	Little Change
	<ul style="list-style-type: none"> ● Amortization of goodwill, included in “adjustments”, is terminated 		

Internet Finance - Rakuten Bank, Rakuten Securities

Rakuten Bank	Revenue	Operating Expenses	Operating Income	Total Assets
	Slight Decrease	Slight Decrease	Slight Decrease	Little Change
	PL	<ul style="list-style-type: none"> ● Timing to recognize sales gain on floating-rate sovereign bonds are different 		
	BS	<ul style="list-style-type: none"> ● Amount of total assets is mostly unchanged, but classification of financial products significantly changes 		
Rakuten Securities	Revenue	Operating Expenses	Operating Income	Total Assets
	Little Change	Little Change	Little Change	Significant Increase
	BS	<ul style="list-style-type: none"> ● Unsettled transactions are recognized both in assets and liabilities 		

Internet Finance - Rakuten Card

Revenue	Operating Expenses	Operating Income	Total Assets
Decrease	Decrease	Basically Unchanged	Significant Increase

PL

- Point expenses are deducted from revenue and operating expenses
 - ✓ Neutral impact on operating income
- Net reporting of acquiring revenue and cost of sales
- Valuation gain associated with securitization is eliminated
 - ✓ Operating income is mostly similar with “operating profit excluding effect of securitization”, disclosed in presentation material (power point)
- Criteria of credit monitoring unchanged

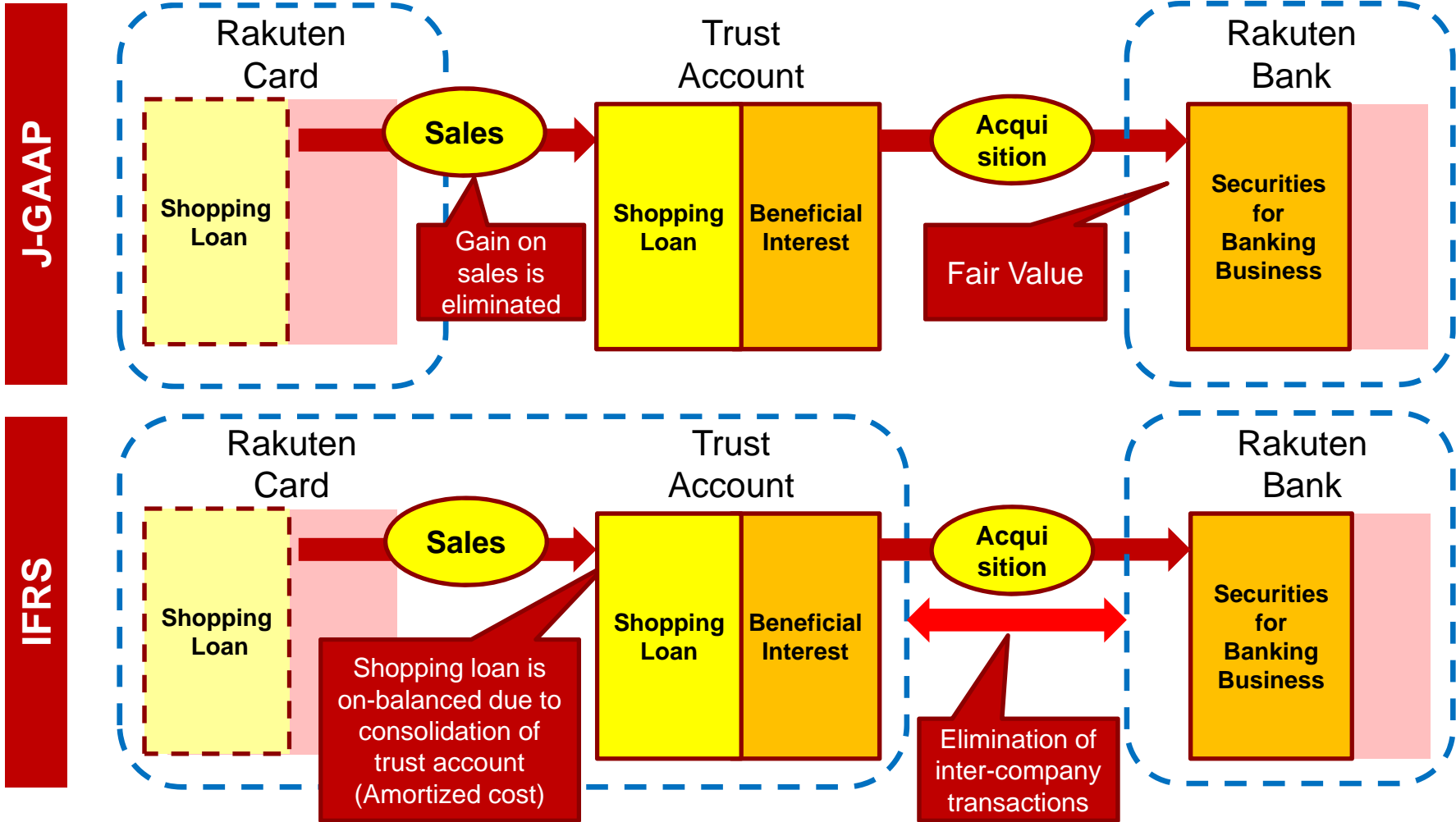
BS

- On-balance securitized off-balanced assets
- Recognize liabilities, which is equivalent with on-balanced loans (Such as loans invested by Rakuten Bank)
- Some accounts receivable (asset) and payable (liability) are netted and decline

Effect of Securitization

Consolidation Scope

*: Illustration below is one example of various securitization schemes



Internet Finance - Rakuten Life Insurance

Rakuten Life Insurance

Revenue	Operating Expenses	Operating Income	Total Assets
Little Change	Little Change	Little Change	Slight Decrease

- Total assets slightly decrease due to difference in goodwill recognition
 - ✓ IFRS: Increase in stake after establishing control is adjusted in equity section
 - ✓ J-GAAP: Recognize additional goodwill

	Dec 2011	Oct 2012	Mar 2013
Voting Rights	33.9%	87.8%	100%

- IFRS for insurance business may change in the future
- Rakuten Bank, Rakuten Securities and Rakuten Life Insurance will continue to disclose financial statements under J-GAAP
- Rakuten, Inc. consolidates three subsidiaries above under IFRS

Notes

Adjustments

- Termination of periodical amortization of goodwill lowers expenses
- Difference in book value associated with floating-rate sovereign bonds does not occur under IFRS
 - ✓ The bonds were completely sold in Q1/13

(JPY mm)

	FY12 Consolidated Income Statements
	Adjustments
Figures under J-GAAP	-11,679
Amortization of goodwill	-7,686
Difference in book value (floating-rate JGBs held by Rakuten Bank)	-2,836
Others (mostly elimination of inter company transactions)	-1,157

Appendix

IFRS Income Statement

(JPY mm)

	2011	2012				
	FY	FY	Q1	Q2	Q3	Q4
Continuing operations						
Revenue	346,425	400,444	89,798	91,451	98,589	120,606
Operating expenses	265,463	319,435	70,191	71,641	78,230	99,373
Other income	1,178	3,365	386	105	174	2,700
Other expenses	6,004	5,581	1,381	773	511	2,916
Additional line items	-75,492	-28,738	—	—	—	-28,738
Operating income (Loss)	644	50,055	18,612	19,142	20,022	-7,721
Financial income	277	193	116	37	16	24
Financial expenses	2,569	2,565	569	834	637	525
Share of profit of associates	463	1,423	59	395	321	648
(Loss) Income before income tax	-1,185	49,106	18,218	18,740	19,722	-7,574
Income tax expense	-10,816	27,970	8,026	7,189	8,941	3,814
Net income (Loss)	9,631	21,136	10,192	11,551	10,781	-11,388
Net income (Loss) attributable to						
Owners of the Company	7,986	20,489	10,167	11,380	10,621	-11,679
Non-controlling interests	1,645	647	25	171	160	291
Total net income (Loss)	9,631	21,136	10,192	11,551	10,781	-11,388

IFRS Balance Sheet as of Beg Jan 2011

(JPY mm)

Assets	
Cash and cash equivalents	105,896
Accounts receivable - trade	44,603
Financial assets for securities business	483,073
Loans for credit card business	348,791
Investment securities for banking business	484,530
Loans for banking business	124,885
Derivative assets	10,143
Investment securities	59,754
Other financial assets	142,556
Investments in associates and joint ventures	9,454
Property, plant and equipment	25,885
Intangible assets	152,215
Deferred tax assets	47,212
Other assets	13,574
Total assets	2,052,571

Liabilities	
Accounts payable -trade	36,836
Deposits for banking business	714,856
Financial liabilities for securities business	427,440
Derivative liabilities	2,429
Bonds and borrowings	377,661
Other financial liabilities	152,130
Income taxes payable	17,590
Provisions	32,499
Deferred tax liabilities	6,236
Other liabilities	67,435
Total liabilities	1,835,112

Net assets	
Equity attributable to owners of the Company	
Common stock	107,779
Capital surplus	117,311
Retained earnings	-1,656
Treasury stock	-3,626
Other components of equity	-11,032
Total shareholders' equity	208,776
Non-controlling interests	8,683
Total net assets	217,459
Total liabilities and net assets	2,052,571

IFRS Balance Sheet as of End Dec 2011

(JPY mm)

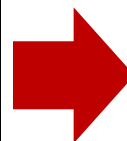
Assets	
Cash and cash equivalents	152,801
Accounts receivable - trade	48,958
Financial assets for securities business	415,600
Loans for credit card business	306,131
Investment securities for banking business	423,954
Loans for banking business	154,555
Derivative assets	9,829
Investment securities	10,963
Other financial assets	172,764
Investments in associates and joint ventures	9,685
Property, plant and equipment	21,535
Intangible assets	149,620
Deferred tax assets	64,579
Other assets	18,791
Total assets	1,959,765

Liabilities	
Accounts payable -trade	59,365
Deposits for banking business	742,593
Financial liabilities for securities business	364,490
Derivative liabilities	2,861
Bonds and borrowings	347,983
Other financial liabilities	176,413
Income taxes payable	3,981
Provisions	23,181
Deferred tax liabilities	6,054
Other liabilities	20,498
Total liabilities	1,747,419

Net assets	
Equity attributable to owners of the Company	
Common stock	107,959
Capital surplus	116,864
Retained earnings	3,641
Treasury stock	-3,626
Other components of equity	-16,471
Total shareholders' equity	208,367
Non-controlling interests	3,979
Total net assets	212,346
Total liabilities and net assets	1,959,765

B/S Difference: Asset Section (End Dec 2012)

J-GAAP	
(Assets)	
Current assets	
Cash and deposits	267,596
Notes and accounts receivable - trade	66,740
Accounts receivable – installment	205,330
Accounts receivable - installment sales-credit guarantee	1,781
Beneficial interests in securitized assets	23,074
Cash segregated as deposits for securities business	252,308
Margin transaction assets for securities business	130,165
Operating loans	69,214
Short-term investment securities	4,300
Securities for bank business	428,676
Loans and bills discounted for banking business	189,471
Securities for insurance business	13,777
Deferred tax assets - current	24,686
Other current assets	155,709
Allowance for doubtful accounts - current	-14,468
Total current assets	1,818,364
Non-current assets	
Property, plant and equipment	18,308
Intangible assets	
Goodwill	131,058
Other	83,686
Total intangible assets	214,744
Investments and other assets	
Investment securities	26,534
Deferred tax assets - non-current	17,851
Other non-current assets	23,344
Allowance for doubtful accounts - non-current	-10,737
Total investments and other assets	56,992
Total non-current assets	290,045
Total assets	2,108,409



IFRS	
Assets	(JPY mm)
Cash and cash equivalents	270,114
Accounts receivable — trade	65,493
Financial assets for securities business	615,703
Loans for credit card business	402,418
Investment securities for banking business	296,326
Securities for insurance business	13,623
Loans for banking business	189,669
Derivative assets	10,674
Investment securities	23,411
Other financial assets	123,132
Investments in associates and joint ventures	6,601
Property, plant and equipment	24,143
Intangible assets	188,014
Deferred tax assets	40,546
Other assets	17,767
Total assets	2,287,634

*: J-GAAP Rounded-down
: IFRS Rounded-off

B/S Difference: Liability Section (End Dec 2012)

J-GAAP	
(Liabilities)	
Current liabilities	
Notes and accounts payable - trade	79,965
Accounts payable - credit guarantee	1,781
Commercial papers	33,800
Short-term loans payable	145,417
Deposits for banking business	808,080
Current portion of bonds payable	273
Income taxes payable	2,873
Deposits received for securities business	177,515
Margin transaction liabilities for securities business	41,777
Guarantee deposits received for securities business	83,371
Payable secured by securities for securities business	37,465
Reserve for insurance policy liabilities	20,413
Deferred tax liabilities - current	71
Reserve for points	25,908
Other provision - current	4,243
Other current liabilities	235,201
Total current liabilities	1,698,159
Non-current liabilities	
Bonds payable	480
Long-term loans payable	126,063
Deferred tax liabilities - non-current	10,433
Other provision - non-current	1,570
Other non-current liabilities	7,621
Total non-current liabilities	146,169
Reserves under the special laws	
Reserve for financial products transaction liabilities	1,587
Reserve for commodities transaction liabilities	41
Total reserves under the special laws	1,628
Total liabilities	1,845,957

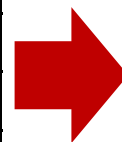


IFRS	
(JPY mm)	
Liabilities	
Accounts payable — trade	79,965
Deposits for banking business	809,531
Financial liabilities for securities business	558,055
Derivative liabilities	4,685
Bonds and borrowings	305,186
Reserve for insurance policy liabilities	18,496
Other financial liabilities	210,048
Income taxes payable	2,873
Provisions	29,614
Deferred tax liabilities	6,416
Other liabilities	20,853
Total liabilities	2,045,722

*: J-GAAP Rounded-down
: IFRS Rounded-off

B/S Difference: Equity Section (End Dec 2012)

J-GAAP	
(Net assets)	
Shareholders' equity	
Common stock	108,255
Capital surplus	120,327
Retained earnings	21,590
Treasury stock	-3,625
Total shareholders' equity	246,546
Accumulated other comprehensive income	
Unrealized gains or losses on available-for-sale securities	6,330
Foreign currency translation adjustments	1,814
Total accumulated other comprehensive income	8,145
Subscription rights to shares	1,706
Minority interests	6,052
Total net assets	262,451



IFRS	
	(JPY mm)
Net assets	
Equity attributable to owners of the Company	
Common stock	108,255
Capital surplus	116,599
Retained earnings	20,873
Treasury stock	-3,626
Other components of equity	-6,159
Total shareholders' equity	235,942
Non-controlling interests	5,970
Total net assets	241,912

*: J-GAAP Rounded-down
: IFRS Rounded-off

Notes

- FY2012 Securities Report (“Yuukasyokenhoukokusyo”), submitted on Mar 29, 2013, is based on J-GAAP
- Voluntary Report (“Ninihoukokusyo”), submitted on Apr 1, 2013, is based on IFRS
- English annual report, which is planned to be issued in June, includes English financial statements under IFRS
- Disclosure after Q1/13 is IFRS only
- Change in segment information is planned in Q1/13

 **Rakuten**

樂天  **Rakuten**