

Rakuten, Inc. Annual Report

Fiscal Year Ended December 31, 2005

Correction of Fiscal 2005 Consolidated Financial Statements Accompanied with the Revised Financial Reports

Five-Year Summary (Consolidated)

Results of Operations and Financial Condition

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements
consolidated statements of cash flows

Five-Year Summary (Consolidated)

	(After Revision)					Millions of U.S. dollars	
	2001	2002	2003	2004	2005	2005	
	Millions of yen (unless otherwise stated)						
Net Sales	¥ 6,780	¥ 9,894	¥ 18,082	¥ 45,567	¥ 129,775	\$ 1,099.1	
Ordinary Income	1,408	2,241	4,438	15,474	35,826	303.4	
Net Income (loss)	(4,158)	(3,276)	(52,643)	(14,271)	19,449	164.7	
Shareholders' Equity	33,745	30,220	26,364	45,853	76,550	648.3	
Total Assets	36,387	34,054	188,016	307,556	1,657,708	14,040.0	
Shareholders' Equity per Share (yen and U.S. dollars)	341,703.03	30,092.66	23,570.48	38,814.92	6,464.58	54.75	
Net Income (loss) per Share (yen and U.S. dollars)	(42,009.30)	(3,280.33)	(51,600.85)	(12,458.37)	1,642.50	13.91	
Net Income (loss) per Diluted Share (yen and U.S. dollars)	—	—	—	—	1,626.19	13.77	
Equity Ratio (%)	92.7	88.7	14.0	14.9	4.6		
Return on Equity (%)	(11.5)	(10.2)	(186.1)	(39.5)	31.8		
Cash Flow From Operating Activities	1,389	2,351	2,223	9,069	<u>(48,058)</u>	<u>(407.0)</u>	
Cash Flow From Investment Activities	(6,180)	(3,286)	(59,924)	(30,040)	(144,116)	(1,220.6)	
Cash Flow From Financing Activities	(661)	(695)	63,880	27,403	235,426	1,993.9	
Cash and Cash Equivalents	21,358	19,671	25,790	32,390	<u>76,149</u>	<u>644.9</u>	
Number of Employees	304	481	809	958	3,709		

Notes:

- The U.S. dollar amounts in the table of "Five-year Summary (consolidated)" are not included in the original "Yukashoken-Houkokusho" in Japanese.
- The U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥ 118.07 = U.S.\$ 1.
- All the consolidated financial data in this annual report have been prepared in accordance with accounting principles generally accepted in Japan and rounded down to the nearest numbers.

	(Before Revision)					Millions of U.S. dollars	
	2001	2002	2003	2004	2005	2005	
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Equity Ratio (%)	92.7	88.7	14.0	14.9	4.6		
Return on Equity (%)	(11.5)	(10.2)	(186.1)	(39.5)	31.8		
Cash Flow From Operating Activities	1,389	2,351	2,223	9,069	<u>(43,358)</u>	<u>(367.2)</u>	
Cash Flow From Investment Activities	(6,180)	(3,286)	(59,924)	(30,040)	(144,116)	(1,220.6)	
Cash Flow From Financing Activities	(661)	(695)	63,880	27,403	235,426	1,993.9	
Cash and Cash Equivalents	21,358	19,671	25,790	32,390	<u>80,849</u>	<u>684.7</u>	
Number of Employees	304	481	809	958	3,709		

Notes:

- The U.S. dollar amounts in the table of "Five-year Summary (consolidated)" are not included in the original "Yukashoken-Houkokusho" in Japanese.
- The U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥ 118.07 = U.S.\$ 1.
- All the consolidated financial data in this annual report have been prepared in accordance with accounting principles generally accepted in Japan and rounded down to the nearest numbers.

Results of Operations and Financial Condition

(After Revision)

2. Cash flow

Net cash provided by operating activities recorded a net decrease of ¥48,058 million for fiscal 2005, compared with a net increase of ¥9,069 million for fiscal 2004. The decrease is principally due to increase in trading assets from margin transactions of security brokerage business, increase in trade loans receivable and others.

Net cash used in investing activities recorded a net decrease of ¥144,116 million for fiscal 2005 mainly due to acquisition of investment securities, compared with a net decrease of ¥30,040 million for fiscal 2004.

Net cash provided by financing activities recorded a net increase of ¥235,426 million for fiscal 2005 primarily due to increase in borrowings, compared with a net increase of ¥27,403 million for fiscal 2004.

Consolidated cash flows resulted in a net increase of ¥43,759 million in cash and cash equivalents compared with a net increase of ¥6,599 million in 2004.

(Before Revision)

2. Cash flow

Net cash provided by operating activities recorded a net decrease of ¥43,358 million for fiscal 2005, compared with a net increase of ¥9,069 million for fiscal 2004. The decrease is principally due to increase in trading assets from margin transactions of security brokerage business, increase in trade loans receivable and others.

Net cash used in investing activities recorded a net decrease of ¥144,116 million for fiscal 2005 mainly due to acquisition of investment securities, compared with a net decrease of ¥30,040 million for fiscal 2004.

Net cash provided by financing activities recorded a net increase of ¥235,426 million for fiscal 2005 primarily due to increase in borrowings, compared with a net increase of ¥27,403 million for fiscal 2004.

Consolidated cash flows resulted in a net increase of ¥48,459 million in cash and cash equivalents compared with a net increase of ¥6,599 million in 2004.

Consolidated Statements of Cash Flows

(After Revision)

	Millions of yen	
	Fiscal 2004 January 1, 2004 to December 31, 2004	Fiscal 2005 January 1, 2005 to December 31, 2005
Cash flows from operating activities		
Net income (loss) before income taxes and minority interests	¥ (8,437)	¥ 34,276
Amortization of consolidation adjustment account	10,712	909
Equity in earnings of affiliates	10,715	(1,041)
Depreciation and amortization	2,461	4,064
Loss on sales of property and equipment	133	41
Loss on disposal of property and equipment	179	97
Amortization of start-up costs	—	910
Gain on sales of investment securities	—	(335)
Impairment loss on investment securities	375	0
Increase (decrease) in allowance for doubtful accounts	136	(556)
Increase in allowance for losses on loan guarantees	—	1
Increase in allowance for directors' retirement benefits	—	27
Gain (loss) on change in equity in affiliates	—	(2,720)
Interest and dividend income	(26)	(877)
Interest expense	164	367
Other non-cash expense	44	1,583
Increase in trade receivables	(2,427)	(4,226)
Decrease in installment accounts receivable	—	4,807
Decrease in installment accounts receivable, guarantee contracts	—	103,935
Decrease in beneficial interests in secured assets	—	10,962
Increase in inventories	(12)	(145)
Increase (decrease) in accounts payable	201	(558)
Decrease in loan accounts payable, guarantee contracts	—	(103,935)
Increase (decrease) in other accounts payable and accrued expenses	1,194	(1,531)
Increase in advances received	542	1,119
Decrease in deferred installment income	—	(615)
Increase in receivables in security brokerage business	(63,722)	(361,291)
Increase in payables in security brokerage business	61,787	282,377
Increase in statutory reserve for security brokerage business	523	1,098
Decrease in deposited marketable securities for security brokerage business	—	7,890
Increase in trade loans receivables	(2,349)	(15,360)
Other	447	<u>1,893</u>
Subtotal	12,644	(40,616)
Payments of security deposits	(2,700)	(4,446)
Proceeds of security deposits	300	81
Payments of income taxes	(1,174)	(3,076)
Net cash provided by (used in) operating activities	9,069	<u>(48,058)</u>

	Millions of yen	
	Fiscal 2004 January 1, 2004 to December 31, 2004	Fiscal 2005 January 1, 2005 to December 31, 2005
Cash flows from investing activities		
Payments for time deposits	¥ —	¥ (419)
Proceeds from withdrawal from time deposits	—	15
Acquisition of investment securities	(16,745)	(178,801)
Proceeds from sale of investment securities	—	49,477
Proceeds from redemption of investment securities	—	5,698
Proceeds from sale of cash in trust	—	5,000
Acquisition of shares of consolidated subsidiaries	(5,508)	(9,502)
Acquisition of property and equipment	(2,652)	(2,927)
Proceeds from sales of property and equipment	144	120
Acquisition of intangible assets	(2,896)	(5,448)
Proceeds from sales of intangible assets	—	1
Payments for investments	(89)	(13)
Proceeds from investments	6	2
Payments of security deposits	(551)	(758)
Refunds of security deposits	248	100
Acquisition of deferred assets	(597)	(313)
Loans made	—	(1,451)
Proceeds from recovery of loans	—	862
Other payments	(1,442)	(6,938)
Other receipts	7	762
Receipts of interest and dividends	36	416
Net cash used in investing activities	(30,040)	(144,116)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(2,608)	145,751
Borrowings on long-term debt	2,000	77,000
Repayments of long-term debt	—	(19)
Proceeds from issuance of corporate bonds	—	9,860
Payment for maturities of corporate bonds	—	(650)
Proceeds from issuance of stock	28,479	89
Proceeds from minority shareholders pursuant to increase in capital	—	4,015
Acquisition of treasury stock	(2)	(0)
Payment of interest	(150)	(287)
Payment of dividends	(313)	(287)
Payment of dividends to minority shareholders	—	(44)
Net cash provided by financing activities	27,403	235,426
Effect of exchange rate changes on cash and cash equivalents	166	507
Net increase in cash and cash equivalents	6,599	43,759
Cash and cash equivalents at beginning of year	25,790	32,390
Cash and cash equivalents at end of year	32,390	76,149

*Please refer to Notes to Consolidated Statements of Cash Flows of P44.

Consolidated Statements of Cash Flows

(Before Revision)

	Millions of yen	
	Fiscal 2004 January 1, 2004 to December 31, 2004	Fiscal 2005 January 1, 2005 to December 31, 2005
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Acquisition of property and equipment	(2,652)	(2,927)
Proceeds from sales of property and equipment	144	120
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Cash and cash equivalents at beginning of year	25,790	32,390
Cash and cash equivalents at end of year	32,390	80,849

*Please refer to Notes to Consolidated Statements of Cash Flows of P44.

Consolidated Statements of Cash Flows

(After Revision)

Fiscal 2004 January 1, 2004 to December 31, 2004		Fiscal 2005 January 1, 2005 to December 31, 2005		
<p>1. The reconciliation between the year-end balance of cash and cash equivalents and the amounts stated in the consolidated balance sheets is as follows:</p> <p>(As of December 31, 2004) Cash and cash equivalents: ¥ 32,396 million Restricted cash: (¥ 6) million Marketable securities: ¥ 0 million Cash and cash equivalents: ¥ 32,390million</p>		<p>1. The reconciliation between the year-end balance of cash and cash equivalents and the amounts stated in the consolidated balance sheets is as follows:</p> <p>(As of December 31, 2005) Cash and cash equivalents: ¥ 82,037 million Restricted cash: (¥ 4,700) million Marketable securities: ¥ 0 million Cash and cash equivalents: ¥ 76,149 million</p>		
<p>2. The assets and liabilities of the newly consolidated subsidiary due to the share acquisitions:</p> <p>The followings are the reconciliation between the assets and liabilities of newly consolidated subsidiary due to share acquisitions at the time of their initial consolidation and net costs of share acquisitions and net payments for acquisition.</p>		<p>2. The assets and liabilities of the newly consolidated subsidiary due to the share acquisitions:</p> <p>The followings are the reconciliation between the assets and liabilities of newly consolidated major subsidiaries due to share acquisitions at the time of their initial consolidation and costs of share acquisitions and net payments for acquisition.</p>		
(Millions of yen)		(Millions of yen)		
Company name	Rakuten Credit, Inc.	Company name	Rakuten KC Co.,Ltd.	LinkShare Corp.
Date deemed acquired	September 30	Date deemed acquired	June 30	September 30
Current assets	30,306	Current assets	810,500	9,429
Fixed assets	354	Fixed assets	61,364	2,791
Consolidation adjustment account	9,650	Consolidation adjustment account	7,268	42,291
Deferred assets	76	Deferred assets	5	—
Current liabilities	(30,319)	Current liabilities	(700,244)	(7,286)
Long-term liabilities	(0)	Long-term liabilities	(158,216)	(5)
Purchase of stock	10,067	Minority interests	(4,906)	—
Cash and cash equivalents held by subsidiary	(4,791)	Purchase of stock	7,508	47,219
Net payments	(5,276)	Cash and cash equivalents held by subsidiaries	(50,528)	(6,065)
		Net payments	43,019	(41,153)

(Before Revision)

Fiscal 2004 January 1, 2004 to December 31, 2004		Fiscal 2005 January 1, 2005 to December 31, 2005		
<p>1. The reconciliation between the year-end balance of cash and cash equivalents and the amounts stated in the consolidated balance sheets is as follows:</p> <p>(As of December 31, 2004) Cash and cash equivalents: ¥ 32,396 million Restricted cash: (¥ 6) million Marketable securities: ¥ 0 million Cash and cash equivalents: ¥ 32,390million</p>		<p>1. The reconciliation between the year-end balance of cash and cash equivalents and the amounts stated in the consolidated balance sheets is as follows:</p> <p>(As of December 31, 2005) Cash and cash equivalents: ¥ 82,037 million Restricted cash: (¥ 1,188) million Marketable securities: ¥ 0 million Cash and cash equivalents: ¥ 80,849million</p>		
<p>2. The assets and liabilities of the newly consolidated subsidiary due to the share acquisitions:</p> <p>The followings are the reconciliation between the assets and liabilities of newly consolidated subsidiary due to share acquisitions at the time of their initial consolidation and net costs of share acquisitions and net payments for acquisition.</p>		<p>2. The assets and liabilities of the newly consolidated subsidiary due to the share acquisitions:</p> <p>The followings are the reconciliation between the assets and liabilities of newly consolidated major subsidiaries due to share acquisitions at the time of their initial consolidation and costs of share acquisitions and net payments for acquisition.</p>		
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		Net payments	43,019	(41,153)