

# **Rakuten, Inc. and Consolidated Subsidiaries**

Consolidated Financial Statements for the  
Years Ended December 31, 2010 and 2009

Rakuten, Inc. and Consolidated Subsidiaries

Consolidated Balance Sheets  
December 31, 2010 and 2009

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
<b>CURRENT ASSETS:</b>			
Cash and deposits (Notes 4,15)	¥ 72,866	¥ 96,233	\$ 894,176
Notes and accounts receivable — trade	45,354	37,842	556,554
Accounts receivable — installment (Notes 4,15)	100,909	93,111	1,238,298
Accounts receivable — installment sales — credit guarantee (Note 6)	2,466	2,834	30,255
Beneficial interests in securitized assets (Notes 5,15)	66,601	41,774	817,296
Cash segregated as deposits for securities business (Note 15)	223,114	223,909	2,737,930
Margin transactions assets for securities business (Note 15)	126,779	119,060	1,555,765
Operating loans (Notes 4,5,15)	156,950	177,806	1,926,001
Short-term investment securities (Notes 15,16)	35,510	18,014	435,765
Securities for banking business (Notes 4,15,16)	535,087	524,379	6,566,296
Loans for banking business (Note 15)	125,881	92,877	1,544,741
Deferred tax assets (Note 20)	13,340	13,680	163,702
Other (Note 4 )	151,586	114,682	1,860,183
Allowance for doubtful accounts (Note 15)	(27,012)	(42,078)	(331,472)
Total current assets	<u>¥1,629,432</u>	<u>¥1,514,125</u>	<u>\$19,995,489</u>
<b>NON-CURRENT ASSETS:</b>			
Property, plant and equipment	¥ 21,890	¥ 19,525	\$ 268,624
Intangible assets			
Goodwill (Note 7)	127,456	87,047	1,564,064
Other	54,041	33,481	663,156
Total intangible assets	<u>181,496</u>	<u>120,528</u>	<u>2,227,220</u>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 4,16 )	67,834	59,314	832,427
Deferred tax assets (Note 20)	25,459	26,136	312,416
Other	26,454	23,990	324,627
Allowance for doubtful accounts	(3,049)	(4,381)	(37,418)
Investments assets and other assets	<u>116,698</u>	<u>105,059</u>	<u>1,432,052</u>
Total non-current assets	<u>320,084</u>	<u>245,112</u>	<u>3,927,896</u>
<b>TOTAL ASSETS</b>	<u><u>¥1,949,517</u></u>	<u><u>¥1,759,237</u></u>	<u><u>\$23,923,385</u></u>

The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at ¥ 81.49 to \$1, the rate prevailing of exchange at December 31, 2010.

Rakuten, Inc. and Consolidated Subsidiaries

Consolidated Balance Sheets  
December 31, 2010 and 2009

LIABILITIES	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
<b>CURRENT LIABILITIES:</b>			
Short-term debts (Notes 3,4,15)	¥ 143,507	¥ 83,090	\$ 1,761,039
Current portion of long-term debts (Note 13)	92,573	89,810	1,136,004
Notes and accounts payable — trade (Note 4)	36,835	28,232	452,020
Deposits for banking business (Note 15)	713,273	698,354	8,752,885
Accounts payable — credit guarantee (Note 6)	2,466	2,834	30,263
Income taxes payable (Note 20)	17,590	12,565	215,860
Deposits received for securities business (Note 15)	145,973	142,600	1,791,304
Margin transactions liabilities for securities business (Notes 4,15)	55,329	59,016	678,961
Guarantee deposits received for securities business (Note 15)	77,773	89,122	954,383
Borrowings secured by securities for securities business (Notes 4,15)	32,775	10,112	402,200
Provision (Note 6)	15,686	12,318	192,488
Other (Notes 4,20)	209,980	138,993	2,576,753
Total current liabilities	<u>1,543,760</u>	<u>1,367,044</u>	<u>18,944,161</u>
<b>NON-CURRENT LIABILITIES:</b>			
Long-term debts (Notes 3, 4,13,15)	134,256	158,067	1,647,516
Provision for loss on interest repayments	10,176	10,275	124,872
Deferred tax liabilities (Note 20)	4,694	460	57,598
Other non-current provision (Note 18)	393	357	4,826
Other	5,027	1,674	61,687
Total non-current liabilities	<u>154,546</u>	<u>170,833</u>	<u>1,896,500</u>
<b>RESERVES UNDER THE SPECIAL LAWS</b>			
Reserve for financial instrument transaction liabilities	1,965	2,728	24,108
Reserve for commodities transaction liabilities	13	11	157
Total reserves under the special laws	<u>1,977</u>	<u>2,740</u>	<u>24,265</u>
<b>TOTAL LIABILITIES</b>	<u>1,700,283</u>	<u>1,540,617</u>	<u>20,864,925</u>
<b>NET ASSETS</b>			
<b>SHAREHOLDERS' EQUITY:</b>			
Common stock-authorized, 39,418,000 shares; issued, 13,181,697 shares in 2010 and 13,096,980 shares in 2009	107,779	107,606	1,322,606
Capital surplus	119,851	115,899	1,470,743
Retained earnings	13,183	(20,411)	(161,780)
Treasury stock — at cost t, 60,079 shares in 2010 and 979.50 shares in 2009	(3,626)	(11)	(44,491)
Total shareholders' equity	<u>237,188</u>	<u>203,083</u>	<u>2,910,638</u>
<b>VALUATION AND TRANSLATION ADJUSTMENTS</b>			
Valuation difference on available - for - sale securities	6,001	1,842	73,638
Deferred gains or losses on hedges	(198)	(305)	(2,431)
Foreign currency translation adjustments	(4,694)	(1,275)	(57,600)
Total valuation and translation adjustment	<u>1,109</u>	<u>261</u>	<u>13,607</u>
<b>SUBSCRIPTION RIGHTS TO SHARES</b>	<u>958</u>	<u>609</u>	<u>11,753</u>
<b>MINORITY INTERESTS</b>	<u>9,979</u>	<u>14,666</u>	<u>122,462</u>
<b>TOTAL NET ASSETS</b>	<u>249,234</u>	<u>218,620</u>	<u>3,058,460</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>¥1,949,517</u>	<u>¥1,759,237</u>	<u>\$ 23,923,385</u>

Rakuten, Inc. and Consolidated Subsidiaries

Consolidated Statements of Income  
Years Ended December 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
NET SALES	¥ 346,144	¥ 298,252	\$4,247,692
COST OF SALES	75,251	70,039	923,440
Gross profit	270,893	228,213	3,324,252
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 8)	207,127	171,564	2,541,747
Operating income	63,766	56,649	782,504
OTHER INCOME (EXPENSES):			
Interest income	65	183	801
Dividend income	209	185	2,567
Foreign exchange gain	17	15	211
Equity in earnings of affiliates	337	527	4,141
Interest expenses	(1,629)	(2,216)	(19,995)
Commission fee expenses	(369)	(645)	(4,527)
Gain on step acquisitions	1,700	287	20,866
Reversal of reserve for financial instruments transaction liabilities	764	478	9,373
Loss on retirement of non-current assets (Note 9)	(402)	(1,087)	(4,932)
Loss on investment securities (Note 10)	(1,867)	—	(22,909)
Impairment loss (Note 11)	(1,303)	(2,125)	(15,988)
Other — net	(573)	277	(7,031)
Other expenses — net	(3,050)	(4,119)	(37,424)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	60,717	52,530	745,080
INCOME TAXES (Note 18)			
Income taxes — current	25,888	17,452	317,686
Income taxes — deferred	(760)	(18,059)	(9,330)
Income taxes	25,128	(607)	308,356
MINORITY INTERESTS IN INCOME (LOSS)	633	(427)	7,762
NET INCOME	¥ 34,956	¥ 53,564	\$ 428,962

See notes to consolidated financial statements.

Rakuten, Inc. and Consolidated Subsidiaries

Consolidated Statements of Changes in Net Assets  
Year Ended December 31, 2010

	Millions of Yen									
	As of Dec. 31, 2009	Changes in fiscal year 2009							As of Dec. 31, 2010	
		Issuance of capital stock	Dividends from surplus-other capital surplus	Cash dividends paid	Net income	Changes in the scope of consolidation	Purchase of treasury stock	Net changes in items other than those in shareholders' equity	Total of changes in fiscal 2010	
Common stock	¥107,606	¥173	—	—	—	—	—	—	¥173	¥107,779
Capital surplus	115,899	173	¥ 3,778	—	—	—	—	—	3,951	119,851
Retained earnings	(20,411)	—	—	¥(1,310)	¥34,956	¥(52)	—	—	33,594	13,183
Treasury stock	(11)	—	—	—	—	—	¥(3,614)	—	(3,614)	(3,626)
Shareholders' equity	203,083	347	(3,778)	(1,310)	34,956	(52)	(3,614)	—	34,105	237,188
Valuation difference on available-for-sale securities	1,842	—	—	—	—	—	—	¥4,159	4,159	6,001
Deferred gains or losses on hedges	(305)	—	—	—	—	—	—	107	107	(198)
Foreign currency translation adjustments	(1,275)	—	—	—	—	—	—	(3,419)	(3,419)	(4,694)
Valuation and translation adjustments	261	—	—	—	—	—	—	848	848	1,109
Subscription rights to shares	609	—	—	—	—	—	—	349	349	958
Minority interests	14,666	—	—	—	—	—	—	(4,687)	(4,687)	9,979
Net assets	¥218,620	¥347	¥3,778	¥(1,310)	¥34,956	¥(52)	¥(3,614)	¥(3,490)	¥30,614	¥249,234
Net assets, Dec.31, 2010 thousands of U.S. dollars (Note 1)	\$2,682,780	\$4,257	\$46,361	\$(16,071)	\$428,962	\$(642)	\$(44,355)	\$(42,833)	\$375,680	\$3,058,460

See notes to consolidated financial statements.

**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2010 and 2009**

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	(Note 1) 2010
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>			
Income before income taxes and minority interests	¥ 60,717	¥ 52,530	\$ 745,080
Depreciation and amortization	16,813	14,361	206,325
Amortization of goodwill	7,035	5,524	86,336
Decrease in allowance for doubtful accounts	(10,889)	(6,919)	(133,628)
Decrease in provision for loss on interest repayments	(99)	(5,090)	(1,217)
Interest expenses	1,625	2,216	19,941
Loss on valuation of securities for banking business	2,935	2,478	36,018
Other loss (gain)	6,415	(652)	78,718
Increase in notes and accounts receivable-trade	(5,986)	(3,470)	(73,460)
(Increase) decrease in accounts receivable-installment	(7,798)	(520)	(95,688)
(Increase) decrease in beneficial interests in securitized assets	(43,405)	39,798	(532,638)
Decrease (increase) in operating loans receivable	(20,847)	(81,434)	(255,819)
Increase in notes and accounts payable-trade	6,697	7,138	82,182
Increase (decrease) in deposits for banking business	14,919	(73,047)	(183,074)
Decrease in call loans for banking business	4,000	21,000	49,086
(Increase) decrease in loans for banking business	(33,004)	4,669	(405,010)
Increase in operating assets for securities business	(16,192)	(45,687)	(198,703)
(Decrease) increase in operating liabilities for securities business	(11,664)	5,842	(143,139)
Increase in borrowings secured by securities for securities business	22,663	(5,505)	278,111
Other — net	17,935	17,489	220,090
Subtotal	<u>53,563</u>	<u>(37,228)</u>	<u>657,297</u>
Increase in guarantee deposits for business operation	(5,540)	(2,665)	(67,981)
Decrease in guarantee deposits for business operation	3,333	41	40,899
Income taxes paid	(20,801)	(15,366)	(255,261)
Other	(250)	—	(3,068)
Net cash provided by (used in) operating activities — (Carried forward)	<u>¥30,305</u>	<u>¥ (55,219)</u>	<u>\$ 371,885</u>

See notes to consolidated financial statements.

Rakuten, Inc. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows  
Years Ended December 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
Net cash provided by (used in) operating activities — (Brought forward)	¥ 30,305	¥ (55,219)	\$ 371,885
<b>NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES:</b>			
Increase in time deposits	(7,351)	(10,982)	(90,209)
Decrease in time deposits	11,001	8,386	135,001
Purchase of securities for banking business	(370,844)	(526,820)	(4,550,788)
Proceeds from sales and redemption of securities for banking business	372,267	723,626	4,568,253
Purchase of investment securities	(3,376)	10	(41,423)
Advance receipt related to stock appraisal rights	(8,875)	40,000	108,913
Purchase of investments in subsidiaries	(18,825)	(1,670)	(231,014)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(40,159)	(3,293)	(492,809)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	7,038	—	86,373
Purchase of property, plant and equipment	(5,758)	(2,886)	(70,657)
Purchase of intangible assets	(14,947)	(10,030)	(183,417)
Other payments	(1,059)	(2,161)	(12,996)
Other proceeds	1,850	2,300	22,699
Interest and dividends received	748	700	9,180
Net cash (used in) provided by investing activities	(60,538)	217,160	(742,895)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:</b>			
Net increase (decrease) in short-term loans payable	29,032)	(77,600)	356,264
Increase in commercial papers	31,400	4,600	385,323
Proceeds from long-term loans payable	83,385	49,650	1,023,254
Repayment of long-term loans payable	(92,550)	(135,204)	(1,135,718)
Proceeds from issuance of bonds	1,400	1,234	17,180
Redemption of bonds	(18,280)	(6,010)	(224,324)
Repayments of lease obligations	(3,614)	—	(44,355)
Purchase of treasury stock of consolidated subsidiary	(415)	(4,116)	(5,089)
Interest expenses paid	(1,639)	(2,246)	(20,109)
Cash dividends paid	(1,314)	(1,309)	(16,123)
Other	204	376	2,500
Net cash provided by (used in) financing activities	27,609	(174,157)	338,803
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	(984)	(37)	(12,079)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,609)	(12,253)	(44,285)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	103,618	¥81,284	\$1,274,548
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARY	727	34,751	8,923
CASH AND CASH EQUIVALENTS AT END OF THE YEAR (Notes 1, 12)	¥ 100,737	¥103,618	\$1,236,186

See notes to consolidated financial statements.

## 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by Rakuten, Inc. (the "Company") and consolidated subsidiaries and affiliates (the "Group") as required by the Financial Instruments and Exchange Law of Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥81.49 to \$1, the approximate rate of exchange at December 31, 2010. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Certain amounts in the prior years' financial statements have been reclassified to conform to the current year's presentation.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. **Consolidation**—The consolidated financial statements as of December 31, 2010 include the accounts of the Company and its 54 (43 in 2009) significant subsidiaries. Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

Investments in 9 (7 in 2009) affiliates are accounted for by the equity method. Those companies over which the Group has the ability to exercise significant influence in terms of their operating and financial policies are accounted for by the equity method.

Investments in the remaining 30 (20 in 2009) non-consolidated subsidiaries and affiliates are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

- b. **Cash and Cash Equivalents**—Cash and cash equivalents as stated in the consolidated statements of cash flows consist of cash on hand, securities and deposits that can be converted to cash at any time, and short-term liquid investments with a maturity not exceeding three months at the time of purchase and whose value is not subject to significant fluctuation risk. In addition, the scope of cash and cash equivalents for certain consolidated subsidiary that operates a banking business consists of the cash and deposits components under cash and due from banks on the consolidated balance sheets.
- c. **Securities**—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1)-1 trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings, (1)-2 held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost, (1)-3 available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of available-for-sale securities sold is computed by the moving-average method and (1)-4 non-marketable available-for-sale securities are stated at cost determined by the moving-average method. (2)-1 Held-to-maturity debt securities for banking business are amortized on a cost basis using the moving average method (straight-line amortization). (2)-2 Available-for-sale securities for banking business are stated at fair value using the mark-to-market method based on the market price at the closing date (Valuation differences are reported as a component of net assets, and are primarily calculated as costs of sales using the moving average method.) (2)-3 Non-marketable available-for-sale securities are stated at cost using the moving average method or amortized cost using the moving average method.
- d. **Property, Plant and Equipment**—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed mainly by the declining-balance method at rates based on the estimated useful lives of the assets subject to corporate tax law, while the straight-line method is applied to buildings.



- e. **Intangible Assets**—Amortization of intangible assets is computed by the straight-line method. Software for internal use is amortized by the straight-line method over its estimated useful life (generally five years).
- f. **Leases**— For leased assets acquired before the Japanese accounting standards for leases changed, finance leases that deem to transfer ownership of the leased assets to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.  
Leased assets under finance leases that transfer ownership of the leased assets are depreciated using the same method that is applied to fixed assets. Assets leased in finance leases that do not transfer ownership of the leased assets are depreciated by the straight-line depreciation method over the estimated useful lives of the each asset, which is deemed to be the lease period, with zero residual value.
- g. **Allowance for Doubtful Accounts**—An allowance equal to estimated losses is established to prepare for losses from credit guarantees. The method of estimating the allowance is based on credit loss ratio for general credit, and on likelihood of collection for doubtful accounts. Allowance for doubtful accounts of a certain consolidated subsidiary that operates a banking business is provided for in accordance with internally developed standards for write-offs and provisions to allowance for loan losses, as follows. Claims considered normal claims or claims requiring caution as stipulated in the "Practical Guidelines for Self-assessment Valuation of Assets and Audits for Write-offs and Reserves for Allowance for Asset Losses of Banks and Similar Institutions" (Report No. 4 of Ad Hoc Committee for Audits of Banks of the Japanese Institute of Certified Public Accountants) are classified into specific classes and then an allowance is provided based on reasonable calculations of estimated loss ratios. Provisions for claims considered potentially bankrupt are made for the amount deemed necessary after subtracting the expected collectable amounts of collateral and guarantees. For claims considered bankrupt or substantially bankrupt, the amount remaining after subtracting the expected collectable amounts of collateral and guarantees is transferred to the reserve. Following the company's asset self-assessment standards, operating departments conduct an asset assessment, and an asset audit department which is independent of operations then audits the assessment results. The provisions mentioned above are then made for all claims based on these assessments.
- h. **Allowance for bonus**—At the Company and certain consolidated subsidiaries, an allowance for bonus is provided for the estimated amounts to be paid in the subsequent period based on the service provided during the current year.
- i. **Reserve for Points**—An amount equivalent to points that are earned by customers and are expected to be used in the future is recorded for the fiscal year. A provision of allowance for points is included in selling, general and administrative expenses.
- j. **Allowance for Retirement Benefits**—At certain consolidated subsidiaries, an allowance is made for employees' retirement benefits based on the estimated benefit obligation at the fiscal year-end. Actuarial differences are amortized from the following fiscal year by the straight-line method over a fixed number of years (mainly 10 years) within the average remaining service period of employees.
- k. **Allowance for Loss on Interest Repayments**—A certain consolidated subsidiary has calculated and recorded an allowance for expected loss on interest repayments based on factors such as the actual ratio of repayments made and average amount of repayments over the reasonable estimate period. The expected loss of ¥4,017million (¥10,277 million in 2009) for write-offs of principals by interest repayment claims was included in the allowance for doubtful accounts.
- l. **Reserve for Financial Instrument Transaction Liabilities** — At a certain consolidated subsidiary, provision is made for possible loss resulting from securities transaction accidents. The amount of the reserve is provided based on Article 175 of the Cabinet Order Concerning Transactions in Financial Instruments, which is based on the provisions of Article 46-5 of the Financial Instruments and Exchange Law.
- m. **Reserve for Liabilities on Transaction in Commodities** — A certain consolidated subsidiary allocates the amounts stipulated in the Commodity Exchange Law to provide for loss resulting from contingencies relating to commodity transactions, in accordance with the provisions of Article 221 of the Commodity Exchange Law.
- n. **Derivatives and Hedging Accounting**

*Hedge accounting:*

Deferred hedge accounting has been adopted. However, a special method is used for transactions which meet certain conditions. The appropriation method has been adopted for foreign currency-denominated receivables and payables with currency forward agreements.

*Hedging instruments and hedged items:*

Hedging instruments comprise currency forward agreements, interest rate swaps and interest rate caps. Hedged items comprise foreign currency-denominated receivables and payables relating to business transactions, foreign currency deposits, foreign currency-denominated securities and loans.

*Hedging policies:*

Interest rate swaps and interest rate caps are used to establish hedges for exposure to interest rate volatility risk associated with borrowings. Hedged items are identified by each individual contract. Interest caps are applied to all short-term borrowing by a certain consolidated subsidiary.

Foreign exchange volatility risks associated with foreign currency-denominated receivables and payables relating to business transactions are, in accordance with certain company rules, managed by using currency forward agreements to reduce foreign currency exchange risks in actual demand of securities transactions. Holdings of foreign currency deposits and foreign currency-denominated securities carry the risk of exchange rate and price fluctuations. Exchange contracts are used, subject to specific rules, to avoid this risk.

*Method for evaluating effectiveness of hedging activities:*

For interest rate swaps and interest rate caps, the effectiveness of the hedge is determined based on comparison of the cumulative changes in cash flows of the hedged items and hedging instruments every three months, along with other items. However, this evaluation is not performed for interest rate swaps accounted for by the special method.

For currency forward agreements, the effectiveness is determined by the currency, amount and settlement date of the hedged item based on the management data.

- o. Goodwill**—The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiaries at the date of acquisition is called goodwill. The goodwill is amortized over the period in which such action is deemed effective. However, if the amount is immaterial the entire amount is amortized at the date of acquisition.
- p. Consumption Taxes**—The tax-excluded method is used in consumption tax accounting for national and local consumption taxes.
- q. Foreign Currency Financial Statements**—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the exchange rate as of the balance sheet date except for net assets, which is translated at the historical rate. Revenue and expenses accounts of consolidated foreign subsidiaries are translated into Japanese yen at average rate of exchange for the fiscal periods. Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of net assets.
- r. Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.
- s. Retained earnings**—The Corporation Law of Japan provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock amount.

### 3. SHORT-TERM AND LONG-TERM DEBT AND CORPORATE BOND

Short-term debt at December 31, 2010 and 2009 consisted of notes to banks, bank overdrafts, corporate bonds, commercial paper and lease obligations. Short-term and long-term debt at December 31, 2010 and 2009 consisted of the following:

#### Corporate bonds

	Millions of Yen	
	2010	2009
Rakuten, Inc. (due in 2010 with interest rate of 1.09%)	¥—	¥2,000
Rakuten, Inc. (due in 2012 with interest rate of 1.68%)	8,000	10,000
Rakuten Bank, Ltd. (due in 2015 with interest rate of 5.43%)	—	10,000
FUSION COMMUNICATIONS CORPORATION (due in 2012 with interest rate of 0.78%)	987	1,234
FUSION COMMUNICATIONS CORPORATION (due in 2013 with interest rate of 0.62%)	167	—
FUSION COMMUNICATIONS CORPORATION (due in 2015 with interest rate of 0.64%)	1,200	—
Total	<u>¥10,354</u>	<u>¥23,234</u>

The amounts of corporate bonds due for redemption in each of the five years after the consolidated balance sheet date are as follows:

Year Ending December 31	Millions of Yen
	2010
2011	¥ 4,800
2012	4,800
2013	273
2014	240
2015	240
Total	<u>¥10,354</u>

#### Borrowing and others

	Millions of Yen	
	2010	2009
Short-term bank loans	¥ 93,507	¥ 64,490
Long-term bank loans, due within one year	86,932	85,247
Long-term bank loans, due after one year	127,483	138,333
Other debt with interest		
Commercial paper	50,000	18,600
Margin transaction liabilities	13,331	24,903
Lease obligation, due within one year	840	316
Lease obligation, due after one year	1,220	748
Total	<u>¥ 373,314</u>	<u>¥ 332,635</u>

Weighted average interest rates of loans as of December 31, 2010 and 2009 were as follows:

	2010	2009
Short-term bank loans	1.52%	1.58%
Long-term bank loans, due within one year	1.76%	2.03%
Long-term bank loans, due after one year	1.68%	1.72%
Commercial paper	1.12%	1.18%
Margin transaction liabilities	0.77%	1.11%
Lease obligation, due within one year	—	—
Lease obligation, due after one year	—	—

Annual maturities of long-term bank loans and lease obligations at December 31, 2010 were as follows:

Year Ending December 31	Millions of Yen
	2010
2011	¥ 87,773
2012	63,559
2013	42,770
2014	15,957
2015	6,410
Total	<u>¥216,468</u>

Unused commitment lines for financing at December 31, 2010 and 2009 amounted to ¥69,758 million and ¥80,400 million, respectively.

#### 4. PLEDGED ASSETS

##### (A) Assets pledged as collateral:

The carrying amounts of assets pledged as collateral at December 31, 2010 and 2009 were as follows:

	Millions of Yen	
	2010	2009
Deposits	¥ 100	¥ 100
Accounts receivable - installment and operating loans	46,974	52,963
Receivable from lease contracts	15	50
Investment securities	1,448	1,260
Total	<u>¥48,537</u>	<u>¥54,373</u>

Securities in custody from customers in the amount of ¥1,363 million and ¥6,699 million were pledged as collateral for short-term bank loans at December 31, 2010 and 2009, respectively. Securities in the amount of ¥27,189 million and ¥24,612 million were pledged as collateral for short-term bank loans and margin transaction liabilities at December 31, 2010 and 2009, respectively. Loaned securities were pledged as collateral for borrowings in the amount of ¥32,775 million and ¥10,112 million at December 31, 2010 and 2009, respectively.

Securities for banking business, which were pledged as collateral for foreign exchange settlements, derivative trading and other transactions, and for issuing letters of credits, were ¥74,953 million and ¥79,022 million at December 31, 2010 and 2009. Other collateral included in current assets consists of ¥8,402 million and ¥5,945 million for initial margins related to futures trading and ¥2,721 million and ¥698 million for guarantees pledged by consolidated subsidiaries in the banking business, and ¥14,540 million and ¥8,866 million of short-term guarantee deposits pledged by a certain consolidated subsidiary in the securities business at December 31, 2010 and 2009, respectively.

##### (B) Liabilities for which assets were pledged as collateral:

	Millions of Yen	
	2010	2009
Short-term bank loans	¥ 19,571	¥ 20,190
Long-term bank loans, due within one year	38,024	46,905
Borrowings related to margin transactions	13,331	24,903
Long-term bank loans, due after one year	30,444	32,418
Accrued liabilities	117	141
Accounts payable	992	1,757
Total	<u>¥102,479</u>	<u>¥126,314</u>

##### (C) Fair value of marketable securities pledged as collateral:

	Millions of Yen	
	2010	2009
Securities loaned on margin transactions	¥ 45,606	¥ 36,107
Securities pledged for loans payable for margin transactions	13,288	24,826
Loaned securities	33,014	9,664

(D) Fair value of marketable securities received as collateral:

	Millions of Yen	
	2010	2009
Securities pledged for loans receivable for margin transactions	¥ 112,633	¥ 99,774
Securities borrowed on margin transactions	12,614	10,812
Substitute securities for guarantee deposits received on futures	212,029	174,900

## 5. LINE-OF-CREDIT AGREEMENTS

Certain subsidiaries make loans to customers who have credit card or loan card issued by the subsidiaries. Unused lines of credit granted to customers amounted to ¥1,613,494 million and ¥1,229,554 million at December 31, 2010 and 2009, respectively.

## 6. COMMITMENTS AND CONTINGENCIES

Accounts receivable - installment, guarantee contracts and accounts receivable, guarantee contracts for which a consolidated subsidiary does not provide certain services of collection are not recorded in the consolidated balance sheet. Such balance as of December 31 2010 and 2009 were as follows:

	Millions of Yen	
	2010	2009
Credit guarantee	¥26,020	¥29,542
Provision for loss on guarantees	(57)	(102)
Total	<u>¥25,962</u>	<u>¥29,440</u>

The Group had guarantees for customers in the amount of ¥160 million and ¥181 million at December 31, 2010 and 2009, respectively.

## 7. GOODWILL

The change in the carrying amount of goodwill for the years ended December 31, 2010 and 2009 was as follows:

	Millions of Yen
Balance at December 31, 2008	¥ 65,083
Goodwill acquired during the year	27,886
Amortization	(5,524)
Impairment	(398)
Balance at December 31, 2009	¥ 87,047
Goodwill acquired during the year	48,054
Amortization	(7,035)
Impairment	(610)
Balance at December 31, 2010	¥127,456

Goodwill acquired during fiscal 2010 mainly consisted of goodwill related to the acquisition of Buy.com Inc. and PRICEMINISTER S.A.S.. Goodwill of Net's Partners Co., Ltd. and Rakuten Shashinkan, Inc. were impaired in fiscal 2010 due to the difficulty in recovery of the company's net assets based on estimated future financial performance under the current business environment. Goodwill acquired during fiscal 2009 mainly consisted of goodwill related to the acquisition of Rakuten Bank, Ltd.. Goodwill of Cause Loyalty, LLC was impaired in fiscal 2009 due to the difficulty in recovery of the company's net assets based on estimated future financial performance under the current business environment.

## 8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses comprise as follows:

	Millions of Yen	
	2010	2009
Point costs	¥10,074	¥6,809
Advertising and promotion expenses	26,013	16,772
Personnel expenses	49,374	41,181
Provision for bonuses	2,710	1,897
Depreciation	15,422	12,850
Communication and maintenance expenses	14,706	13,235
Outsourcing expenses	24,750	21,181
Provision of allowance for doubtful accounts	13,244	16,212
Provision for loss on interest repayment	3,713	—
Other	47,121	41,427
Total selling, general and administrative expenses	<u>¥ 207,127</u>	<u>¥ 171,564</u>

Research and development cost in general and administration expenses for the year ended December 31, 2010 and 2009 were ¥365 million and ¥214 million yen respectively.

## 9. LOSS ON RETIREMENT OF NON-CURRENT ASSETS

The losses on retirement of non-current assets for the year ended December 31, 2010 and 2009 were as follows:

	Millions of Yen	
	2010	2009
Tools, equipment and fixtures	¥113	¥103
Software	261	866
Other	28	118
Total loss on retirement of non-current assets	¥401	¥1,087

## 10. LOSS ON INVESTMENT SECURITIES

The Company recognized loss on write-down of the carrying value of shares in Tokyo Broadcasting System Holdings, Inc. to the selling price ruled by the Tokyo High Court, net of legal expense and net interest received under Article 786, paragraph 4 of the Corporate Law of Japan in the fiscal year ended December 31, 2010.

The individual amounts are as follows:

	Millions of Yen
	2010
Difference between carrying value and selling price	¥2,644
Legal expense	51
Interest received	(828)
Total	<u>¥1,867</u>

## 11. IMPAIRMENT LOSSES

The Rakuten Group recorded the following impairment losses in the year ended December 31, 2010:

Main assets for which impairment losses were recognized:

Unit	Business use	Type of asset	Impairment loss (Millions of yen)
Net's Partners Co., Ltd.	Online super markets business	Goodwill	¥303
		Software and other	150
Rakuten, Inc.	Advertising business	Goodwill	150
		Software	117
Rakuten Shashinkan, Inc.	Photography service business	Goodwill	155
		Other	57
Rakuten KC Co. Ltd.	Idle assets	Telephone subscription rights	106
		Other	55
bitWallet, Inc.	e-money business	Long-term prepaid expense	115
		Other	36
—	—	Other	58
Total			¥1,303

### (A) Asset grouping method

The Rakuten Group generally groups its assets by business unit except for idle assets and real estate for rent, which are assessed by individual properties.

### (B) Background information on recognition of impairment losses

- a. Net's Partners Co., Ltd.  
Impairment losses have been recorded concerning goodwill and software assets pertaining to this company, to reflect its income position and future outlook, based on the business environment and the fact that initial income forecasts seem unlikely to be achieved.
- b. Rakuten, Inc.  
Impairment losses have been recorded concerning goodwill and software assets pertaining to the Rakuten Pitatto Ad service, which has been terminated.
- c. Rakuten Shashinkan, Inc.  
Impairment losses have been recorded concerning goodwill, etc., following a decision that it would not be possible to recover future earnings from the photography service business.
- d. Rakuten KC Co., Ltd.  
Impairment losses have been recorded in respect of communication lines shut down as a result of the consolidation and closure of outlets, and land, etc., the recoverability of which has been significantly reduced.
- e. bitWallet, Inc.  
Impairment losses have been recorded concerning assets provided to affiliated merchants, to reflect a decision that the value of these items is unlikely to be fully recoverable.

### (C) Method used to estimate recoverable amounts

The recoverable amount of business assets for which sales agreements has been calculated based on the agreed sale price.

The recoverable amount of a part of business assets has been calculated according to utility value, and estimated future cash flows have been discounted by 8.99%. The recoverable amount of other business assets, idle assets and goodwill are deemed to be zero.

## 12. CASH AND CASH EQUIVALENTS

The reconciliation between the year-end balance of cash and deposits stated in the consolidated balance sheet and cash and cash equivalents stated in the consolidated statement of cash flows was as follows:

As of December 31	Millions of Yen	
	2010	2009
Cash and deposits	¥ 72,866	¥ 96,233
Securities	35,510	17,944
Time deposit over three months' maturity	(5,223)	(9,040)
Due from foreign banks	(1,699)	(825)
Deposits with restrictions	(718)	(694)
Cash and cash equivalents	<u>¥ 100,737</u>	<u>¥ 103,618</u>

## 13. LEASES

A. The Group leases buildings, machinery, tools, equipment and fixtures, software and vehicles.

Lessee's accounting

- a. Pro forma information regarding of leased properties acquired before change of accounting standard for lease such as acquisition cost, accumulated depreciation, obligations under finance lease, depreciation expense, impairment loss, interest expense and other information regarding of finance leases that do not transfer ownership of the leased assets to the lessee on an "as if capitalized" basis for the years ended December 31, 2010 and 2009 were as follows:

	Millions of Yen				
	2010				
	Vehicles	Machinery	Tools, equipment and fixtures	Software	Total
Acquisition cost	¥10	¥4,252	¥6,469	¥ 479	¥11,210
Less: Accumulated depreciation	2	3,337	5,099	412	8,850
Impairment loss	—	140	33	7	181
Net amount	<u>¥8</u>	<u>¥775</u>	<u>¥ 1,337</u>	<u>¥59</u>	<u>¥2,180</u>

	Millions of Yen				
	2009				
	Vehicles	Machinery	Tools, equipment and fixtures	Software	Total
Acquisition cost	¥21	¥6,226	¥7,917	¥837	¥15,001
Less: Accumulated depreciation	18	4,247	5,143	541	9,949
Impairment loss	—	214	—	7	221
Net amount	<u>¥3</u>	<u>¥1,765</u>	<u>¥2,774</u>	<u>¥289</u>	<u>¥4,831</u>

- b. Obligations under finance leases:

	Millions of Yen	
	2010	2009
Due within one year	¥ 1,797	¥ 2,691
Due after one year	<u>569</u>	<u>2,427</u>
Total	<u>¥ 2,365</u>	<u>¥ 5,118</u>



Payables from unexpired leases related to subleased items other than listed above amount to ¥793 million and ¥2,638 million at December 31, 2010 and 2009, respectively.

- c. Lease payment, depreciation expense, deemed interest expense and other information under finance leases:

	Millions of Yen	
	2010	2009
Lease payments	¥2,824	¥3,684
Depreciation expense	2,548	3,397
Deemed interest expense	104	185
Impairment loss	—	95
Reversal of impairment of leased assets	85	

- d. Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of income, are computed by the straight-line method and the interest method, respectively.

**B. Finance Lease**

- a. finance leases that transfer ownership

Description of leased assets

- I. Property, plant and equipment

These consist mainly of servers, etc. (tools, equipment and fixtures), used in the E-Commerce business.

- II. Intangible assets

These are back-up systems (software) for overseas futures trading used in the Securities business.

- b. finance leases that do not transfer ownership

Description of leased assets

- I. Property, plant and equipment

These consist mainly of servers, etc. (tools, equipment and fixtures), used in the E-Commerce business, and updated FEP machines and backup equipment (tools, equipment and fixtures) used for the Credit Card business.

- II. Intangible assets

This consists of software.

**C. Obligations under operation leases:**

	Millions of Yen	
	2010	2009
Due within one year	¥897	¥478
Due after one year	3,231	2,139
Total	<u>¥4,128</u>	<u>¥2,617</u>

#### 14. LEASED ASSETS

Pro forma information regarding of leased assets acquired before change of accounting standard for lease such as acquisition cost, accumulated depreciation, obligations under finance lease, that do not transfer ownership of the leased assets to the lessee on an "as if capitalized" basis for the years ended December 31, 2010 and 2009 were as follows:

Lessor's accounting

	Millions of Yen	
	2010	2009
Tools, equipment and fixtures	¥ 5,474	¥ 6,985
Other	—	21
Total	5,474	7,006
Accumulated depreciation	(5,424)	(6,862)
Net leased assets	¥50	¥144

The aggregate receivables from the lessees, which were not recorded on the books of account, as of December 31, 2010 and 2009, were as follows:

	Millions of Yen	
	2010	2009
Due within one year	¥31	¥103
Due after one year	8	40
Total	¥39	¥143

Receivables from unexpired leases related to subleased items other than listed above amount to ¥796 million and ¥2,701 million at December 31, 2010 and 2009, respectively.

Receivables lease fees, depreciation and deemed interest income as of December 31, 2010 and 2009 were as follows:

	Millions of Yen	
	2010	2009
Receivable lease fees	¥106	¥202
Depreciation	89	139
Deemed interest income	5	16

The booked amount of interest income is based on the interest method.

## 15. FINANCIAL INSTRUMENTS

Effectively on January 1, 2010, the Company adopted the “Accounting Standard for Financial Instruments (ASBJ Statement No. 10, March 10, 2008)” and the “Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No.19, March 10, 2008).

### A. Matters pertaining to financial instruments

#### a. Matters pertaining to the status of financial instruments

##### I. Policy toward financial instruments

The investment policy of the Group calls for measures to ensure the security of principal and the efficient utilization of funds, with due consideration to credit risk, market risk, liquidity risk and other forms of risk. The policy concerning the raising funds requires the selection of the most appropriate funding method, including direct or indirect financing, based on prevailing economic conditions and other factors.

Subsidiary engaged in the banking business is mainly involved in deposit services, remittance services and loan services to individuals. It provides ordinary deposit services to both of individual and corporate customers, and time deposit and foreign currency deposit services to individual customers. Using these financial liabilities as its main source of funds, it also provides unsecured card loans and housing loans to individual customers, purchases marketable securities and monetary claims bought, establishes monetary trusts, is engaged in market transactions, such as call loans, and undertakes derivative and foreign exchange transactions and other transactions that are incidental to sales of financial instruments to customers. It remains constantly aware of the social responsibilities and public mission of bank and exercises strict prudence to avoid investment activities such as the pursuit of excessive returns that exceed its managerial and financial capacity, It exercises particular diligence with regard to the security of deposits held on behalf of customers. It aims to optimize their asset and liability structures across their entire range of investment and funding activities, and to maintain its capital adequacy at appropriate levels by applying asset and liability management (ALM), taking into account interest sensitivity, funding liquidity, market liquidity and other factors.

Subsidiary engaged in the securities business is primarily involved in stock brokerage services for individual investors. Deposits and guarantee deposits received from customers are held in separate customer trust accounts, etc., as required under the Financial Instruments and Exchange Act. It gives priority to security when investing funds, which are placed in bank deposits and financial assets with high liquidity. It procures funds primarily by borrowing from financial institutions.

The investment of funds by subsidiaries engaged in the consumer credit business (credit card purchases, installment, credit guarantees and lending) is limited to short-term deposits, etc. These companies procure funds by borrowing from banks and other financial institutions, and through direct finance in the form of issuance of commercial paper and securitization of receivables.

Transactions in derivatives are approached with caution. It is the policy of the Group that derivatives should not be used as a speculative means of procuring income.

##### II. Description of Financial Instruments and Risk Profiles

The financial assets held by the Group consist mainly of installment receivables, operating loans, marketable securities, investment securities, banking-related assets held by subsidiary engaged in the banking business, and securities business-related assets held by subsidiary engaged in the securities business.

Installment receivables and operating loans include card and loan receivables, consumer loans and secured loans, etc., held by subsidiary engaged in the consumer credit business, all of which are exposed to the credit risk and default risk of the respective debtors.

Marketable and investment securities include stocks and negotiable certificates of deposit, etc., which are exposed to market risk, risk of fluctuation in foreign exchange rate and other risks.

Banking-related assets include marketable securities and loan receivables, etc., relating to the banking business. Marketable securities relating to the banking business consist primarily of stocks, government bonds, municipal bonds, foreign securities and other marketable securities, as well as monetary claims bought. Marketable securities are exposed to credit risk of respective issuers, and to interest rate fluctuation risk, market risk, risk of fluctuation in foreign exchange rate and liquidity risk. Monetary claims bought consist mainly of beneficial interests in trust, which are exposed to credit risk of respective issuers and underlying assets, as well as interest rate fluctuation risk and other types of risk. Loans relating to the banking business include unsecured card loans and housing loans to individual customers. These are exposed to the credit risk of individual customers.

Assets relating to the securities business include cash segregated as deposits and margin transaction assets. Cash segregated as deposits for securities business consists mainly of money in separate customer trust accounts which is invested in bank deposits and it is exposed to credit risk of the respective institutions. Margin transaction assets are exposed to credit risk of the respective customers.

Financial liabilities held by the Group consist mainly of loan and banking-related liabilities. Loans are exposed to various risks, including deterioration of financing terms with the financial institutions, resulting from changes in the credit status of the Group and in the market condition..

Liabilities relating to the banking business consist of deposits, including ordinary deposits from individual and corporate customers, time deposits and strategic time deposits held by individual customers, and foreign currency ordinary and time deposits. Strategic time deposits are exposed to interest rate fluctuation risk, which is hedged by using appropriate interest rate swap contracts. Foreign currency ordinary and time

deposits are exposed to risk of fluctuation in foreign exchange rate, which is hedged by using appropriate forward exchange contracts.

Derivatives used by the Group are forward exchange contracts, interest rate swaptions, interest rate swaps, interest rate caps, foreign exchange margin transactions, contracts for difference and derivatives incorporated into hybrid financial instruments.

When dealing foreign exchange margin transactions, subsidiary engaged in the securities business handling over-the-counter derivatives transactions, hedges risks arising from their position in relation to the customer, in principle, by obtaining full coverage for each position from a counterparty. Contracts for difference are provided in the form of ASP services, and in principal, the Group is not exposed to risk of fluctuation in exchange rate or price fluctuation risk.

### III. Risk Management for Financial Instruments

The Group implements specific risk management processes and procedures as stipulated in risk management rules formulated by each group company.

#### i) Credit risk management

Under its credit risk management rules, the Group manages credit risk by setting credit limits for individual transactions, monitoring the credit status of customers, due dates and outstanding balances on regular basis aiming at early detection and minimization of collection issues caused by deteriorating financial condition of customers. Credit risk of derivative instruments is deemed negligible, since the Group deals with selected financial institutions with high credit ratings. However, it is exposed to a risk of economic losses in the event of non-performance by counterparties to the derivative instruments.

#### ii) Market risk management

Decisions concerning investments in financial instruments exposed to market risks, such as investment securities, are made by the meeting of Board of Directors, and such investments are being monitored in accordance with specific rules to ensure that they are valued appropriately. To limit losses on foreign currency denominated receivables for customer sales, the Group's own positions are managed through position limit and loss limit and day-to-day monitoring of sales and other factors. For financial assets with fair value held by subsidiary engaged primarily in the banking business, in principle, risk is measured according to the value-at-risk (VaR) method, based on the most recent data available, and the results are used as amount of capital used to cover market risk. The amount of capital used to cover credit risk on financial assets without fair value is measured by using the standard calculation method for Pillar 1 (minimum capital adequacy ratio) of Basel II, as stipulated in Notification 19 (March 27, 2006) of the Financial Services Agency.

#### iii) Liquidity risk management

Liquidity risk relating to procurement of funds and other activities is managed through cash flow planning and other measures in accordance with the policy formulated by each group company, with the aim of maintaining appropriate levels of liquidity at hand. Liquidity risk of investment securities and other assets is managed by keeping the acquisition of such assets to the minimum and monitoring the credit status of issuers.

### IV. Supplementary information concerning fair value of financial instruments and other matters

The fair value of financial instruments are recorded as market prices or prices reasonably estimated where market price is not available. The valuation is based on certain assumptions, and the prices may vary if it is based on different assumptions. The contract value of derivatives in the note of derivatives, does not in itself represent market risk relating to the derivatives.

B. Matters pertaining to fair value financial instruments

The carrying amount of financial instruments as of December 31, 2010, the fair value of those items, and the variance between carrying amount and fair value is as follows. Items for which it would be extremely difficult to establish fair value are not included in the following table. (See Note 2.)

December 31, 2010	Millions of Yen		
	Carrying Value	Fair Value	Variance
1) Cash and deposits	¥72,866	¥72,866	¥ —
2) Accounts receivable-installment	100,909		
Allowance for doubtful accounts	(6,602)		
	94,306	96,978	2,671
3) Beneficial interests in securitized assets	66,601		
Allowance for doubtful accounts	(2,963)		
	63,639	64,265	626
4) Cash segregated as deposits for securities business	223,114	223,114	—
5) Margin transactions assets for securities business	126,779	126,779	—
6) Operating loans	156,950		
Allowance for doubtful accounts	(13,733)		
	143,216	153,350	10,134
7) Marketable and investment securities			
1. Trading securities	91	91	—
2. Available-for-sale securities	91,970	91,970	—
3. Stocks in subsidiaries and affiliates	4,828	8,191	3,363
8) Securities for banking business			
1. Marketable securities			
i) Held-to-maturity debt securities	11,089	11,523	434
ii) Available-for-sale securities	337,539	337,539	—
2. Monetary claims bought	186,366		
Allowance for doubtful accounts	(1,233)		
	185,134	185,300	167
9) Loans for banking business	125,881		
Allowance for doubtful accounts	(1,432)		
	124,449	126,292	1,843
Total assets	¥1,479,021	¥1,498,258	¥19,237
1) Deposits for banking business	713,273	714,482	1,209
2) Short-term debts	180,439	180,439	—
3) Deposits received for securities business	145,973	145,973	—
4) Margin transactions liabilities for securities business	55,329	55,329	—
5) Guarantee deposits received for securities business	77,773	77,773	—
6) Borrowings secured by securities for securities business	32,775	32,775	—
7) Long-term debts	127,483	127,477	(6)
Total liabilities	¥1,333,044	¥1,334,248	¥1,204
Derivatives <sup>*1</sup>			
1. Items not applicable under hedge accounting criteria	5,849	5,849	—
2. Items applicable under hedge accounting criteria	(353)	(1,300)	(947)
Total derivatives	¥5,496	¥4,549	¥(947)

\*1. Net amount of receivables and liabilities

Note 1: Items pertaining to the calculation of fair value of financial instruments, and marketable securities and derivatives

Assets

1) Cash and deposits

Since these items are mostly settled in a short period of time, their fair value approximate their book value including the fair value of deposits with no maturity date.

2) Accounts receivable-installment

The fair value of accounts receivable-installment is measured by discounting future cash flows for each unit that is expected to generate similar cash flows based on product type and customer profile, by the rate of return expected by the market. Since receivables with maturity date within one year or less will be settled in a short period of time, their fair value approximates their book value.

3) Beneficial interests in securitized assets

The fair value of beneficial interests in securitized assets is measured by each securitization scheme. Fair value of subordinated beneficial interests with maturity more than one year is measured by discounting future cash flows of each unit expected to generate similar cash flows, based on product type and customer profile, by the rate of return expected by the market. Since subordinated beneficial interests with maturity date within one year or less will be settled in a short period of time, their fair value approximates their book value. The fair value of money trusts, which are cash reserved at the start of securitization schemes, approximates their book value.

4) Cash segregated as deposits for securities business and 5) Margin transactions assets for securities business

Since these items are settled in a short period of time, their fair value approximates their book value.

6) Operating loans

The fair value of operating loans is measured by discounting future cash flows of each unit that is expected to generate similar cash flows, based on product type and customer profile, by the rate of return expected by the market. The amount of doubtful accounts is estimated for operating loans that are deemed unrecoverable such as restructured loans and delinquent loans. Accordingly, their fair value is stated at carrying amount as of balance sheet dates, net of the allowance for doubtful accounts. Since operating loans with maturity date within one year or less are settled in a short period of time, their fair value approximates their book value.

7) Marketable and investment securities

The fair value of stocks is based on quoted price on stock exchanges. Since negotiable certificates of deposit are settled in a short period of time, their fair value is approximates their book value. Please refer to the notes "Securities", for information by each category of securities.

8) Securities for banking business

The fair value of stocks is measured at quoted price on stock exchanges and the fair value of bonds is measured at either quoted price on stock exchanges or quoted prices by the financial institutions trading the bonds. The fair value of mutual funds is stated at using constant value. The fair value of certain straight bonds is stated at the reasonably estimated value of underlying assets

Since it is deemed that market prices do not represent fair value of the floating-rate Japanese Government Bonds, these are stated at reasonably estimated value. On this basis, securities for the banking business, valuation differences on available for sale securities and deferred tax liabilities increased by ¥5,215 million, ¥3,093 million and ¥2,122 million, respectively.

Estimated value of the floating-rate Japanese Government Bonds is a sum of present value of future interest payments based on the forward curve of Japanese Government Bonds and the present value of principle payment at maturity (after adjustment for convexity). The major variables used to estimate their value are the Japanese Government Bond yields and the volatility of 10-year interest swaptions..

Monetary claims bought are stated at quoted prices on stock exchanges or quoted prices by the financial institutions.

Please refer to the notes "Securities for banking business" for information by each category of securities held by banking subsidiary.

9) Loans for banking business

The fair value of fixed rate loans is measured by discounting future cash flow of principal and interest payment by interest rates that would be offered for new loans for each category of loan based on loan type and period. The fair value of loans with maturity date within one year or less approximates their book value due to their short maturity. The allowance for doubtful accounts is estimated for loans to bankrupt debtors, substantially bankrupt debtors and doubtful debtors based on the estimated amount recoverable through collateral and guarantees. Accordingly, fair value of those loans approximates their carrying amounts, net of allowance for doubtful accounts, as of balance sheet date,

## Liabilities

### 1) Deposits for banking business

The fair value of demand deposits is measured at the amount payable if payment was demanded at balance sheet date (book value). The fair value of time deposits is measured at present value of future cash flows by each category based on their maturity. The discount rate used is the interest rate that would be offered for new deposits. The fair value of deposits with maturity date within one year or less approximates their book value due to their short maturity

### 2) Short-term debts

Short-term debts include short-term bank loans and long-term bank loans due within one year. Since these debts are settled in a short period of time, the fair value of those debts approximates their book value.

### 3) Deposits received for securities business, 4) Margin transactions liabilities for securities business, 5) Guarantee deposits received for securities business, 6) Borrowings secured by securities for securities business

Since these items are settled in a short period of time, their fair value approximates their book value.

### 7) Long-term debts

The fair value of long-term debt is measured by each category of debts. Because debts subject to variable interest rates reflect market interest rates in a short period, and because there has been no significant change in the Company's credit situation since the debts were incurred, fair value approximates book value. The fair value of debts subject to fixed interest rates is measured by discounting future cash flows by the rates of return expected by the market. The fair value of long-term debts being accounted for by the special method permitted for interest rate swaps are measured by using the variable interest rates without applying the interest rate swaps. Accordingly, it is measured at the book value.

## Derivatives

Please refer to the notes "Derivatives".

Note 2: Financial instruments whose fair value is extremely difficult to determine

	Millions of Yen
<u>December 31, 2010</u>	<u>Balance sheet amount</u>
Available-for-sale securities	
Unlisted equity securities	¥1,465
Unlisted foreign securities	76
Deemed securities	16
Others	440
Stocks in subsidiaries and affiliates	5,954
Total	<u>¥7,950</u>

Since there are no market prices for the above items, it is extremely difficult to determine fair value. Accordingly, these items are not included in "7) Marketable and investment securities" or "8) Securities for banking business."

Note 3: Schedule of redemption of monetary claims and marketable securities with a maturity date.

December 31, 2010	Millions of Yen			
	1 year or less	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years
Cash and deposits <sup>*2</sup>	¥72,118	¥ —	¥ —	¥ —
Accounts receivable-installment <sup>*3</sup>	55,567	41,666	—	—
Beneficial interests in securitized assets	51,101	15,500	—	—
Operating loans <sup>*4</sup>	49,850	84,593	235	266
Marketable and investment securities				
Available-for-sale maturity securities	35,500	50	—	—
Securities for banking business				
Marketable securities				
Held-to-maturity debt securities	—	11,089	—	—
Available-for-sale maturity securities	46,543	123,339	106,077	57,267
Monetary claims bought	30,361	74,169	72,528	9,308
Loans for banking business <sup>*5</sup>	26,106	48,901	31,096	19,008
Total	¥367,147	¥399,307	¥209,936	¥85,849

\*1 The amount scheduled for redemption is based on carrying amount in the consolidated balance sheet.

Monetary claims with maturity date within one year or less are excluded.

\*2 Cash and deposits with restrictions are not included in cash and deposits.

\*3 Accounts receivable-installment do not include ¥3,676 million with no due date.

\*4 Operating loans do not include operating loans of ¥5,572 million which are deemed unrecoverable and ¥16,433 million with no due date.

\*5 Loans for banking business does not include loans to bankrupt debtors, substantially bankrupt debtors and doubtful debtors of ¥770 million.

Note 4: Payment schedule of deposits for the banking business and long-term debts

December 31, 2010	Millions of Yen					
	1 year or less	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years
Deposits for banking business <sup>*1</sup>	¥608,072	¥23,661	¥14,130	¥9,106	¥6,156	¥52,148
Long-term debts	—	62,950	42,371	15,768	6,386	7
Total	¥608,072	¥86,612	¥56,501	¥24,874	¥12,542	¥52,155

\*1 Deposits for the banking business include demand deposits with maturities of one year or less.



## 16. SECURITIES

### A. Securities

a. The acquisition costs, unrealized gains and losses and aggregate fair value of marketable securities at December 31, 2010 and 2009 were as follows:

<u>December 31, 2010</u>	Millions of Yen			Value on balance sheets
	Acquisition cost	Unrealized gains	Unrealized losses	
Marketable securities classified as				
Trading	¥ —	¥ —	¥ 1	¥ 91
Available-for-sale				
Equity securities	51,285	5,332	157	56,459
Other	35,515	—	4	35,510

<u>December 31, 2009</u>	Millions of Yen			Value on balance sheets
	Acquisition cost	Unrealized gains	Unrealized losses	
Marketable securities classified as				
Trading	¥ —	¥ —	¥ 0	¥ 57
Available-for-sale				
Equity securities	54,653	2,131	2,844	53,940
Corporate bonds	70	—	—	70

Note:

1. The acquisition costs shown above are the amounts after adjustment for impairment losses. A valuation loss on investment securities of ¥165 million and ¥848 million were recognized in fiscal 2010 and 2009, respectively.
2. Impairment loss is recognized if the fair value is less than 50% of the acquisition cost. If the fair value is less than the acquisition cost by an amount between 30% and 50% of the acquisition cost, impairment loss is recognized as deemed necessary in consideration of the recoverability of the impairment.

b. The total value of available-for-sale securities sold during the fiscal year ended December 31, 2010.

	Millions of Yen
	<u>2010</u>
Amount sold	¥68,571
Total gains	5
Total losses	0

The amount for the fiscal year December 31, 2009 is immaterial and is omitted accordingly.

B. Securities for banking business

a. Trading securities at December 31, 2010 and 2009 : None

b. Held to maturity securities with fair value at December 31, 2010 and 2009 were as follows:

	Millions of Yen		
	Value on balance sheets	Fair value	Unrealized gains
<u>December 31, 2010</u>			
Local government bonds	¥7,089	¥7,193	¥104
Other securities	4,000	4,330	330
Total	<u>¥11,089</u>	<u>¥11,523</u>	<u>¥434</u>

	Millions of Yen		
	Value on balance sheets	Fair value	Unrealized gains
<u>December 31, 2009</u>			
Local government bonds	¥7,109	¥7,218	¥109
Other securities	4,000	4,294	294
Total	<u>¥11,109</u>	<u>¥11,512</u>	<u>¥403</u>

c. The acquisition costs, unrealized gains and losses and aggregate fair value of marketable securities for banking business at December 31, 2010 and 2009 were as follows:

	Millions of Yen			
	Acquisition cost	Unrealized gains	Unrealized losses	Value on balance
<u>December 31, 2010</u>				
Available-for-sale				
Bonds				
JGB	¥151,593	¥3,259	¥204	¥154,647
Short-term corporate bond	18,395	0	2	18,393
Corporate bonds	19,767	139	114	19,792
Others	<u>305,202</u>	<u>3,588</u>	<u>1,501</u>	<u>307,290</u>
Total	<u>¥494,957</u>	<u>¥6,986</u>	<u>¥1,820</u>	<u>¥500,122</u>

Notes:

1. If the fair value of an available-for-sale security for which fair value accounting applies has declined by 50% or more from the purchase cost, then, in the absence of any reasonable evidence to the contrary, such decline in value will be regarded as material to the extent that recovery cannot be expected. The security will be reported on the consolidated balance sheets at the corresponding fair value, and the valuation differences will be treated as an impairment loss in the same consolidated fiscal year. Furthermore, if the fair value has declined by less than 50%, but has depreciated by at least 30%, an assessment is made of the likelihood that the asset will recover its fair value and any required losses for impaired assets will be recorded. Impairment losses for fiscal 2010 were ¥3,317 million.

2. An amount of ¥100 million was reflected in the income statement due to the treatment of embedded derivatives as part of a hybrid security.

December 31, 2009	Millions of Yen			
	Acquisition cost	Unrealized gains	Unrealized losses	Value on balance
Available-for-sale				
Stocks	¥28	¥0	—	¥28
Bonds				
JGB	207,895	5,502	¥255	213,142
Short-term corporate bond	22,492	0	0	22,491
Corporate bonds	27,536	232	83	27,684
Others	125,152	2,938	1,947	126,143
Total	¥383,103	¥8,672	¥2,285	¥389,489

Notes:

1. The carrying value on the consolidated balance sheets is stated at fair value based on market prices or similar data on December 31, 2009.

2. If the fair value of an available-for-sale security for which fair value accounting applies has declined by 50% or more from the purchase cost, then, in the absence of any reasonable evidence to the contrary, such decline will be regarded as material to the extent that recovery cannot be expected. The security will be reported on the consolidated balance sheets at the corresponding fair value, and the valuation differences will be treated as an impairment loss in the same consolidated fiscal year. Furthermore, if the fair value has declined by less than 50%, but has depreciated by at least 30%, an assessment is made of the likelihood that the asset will recover its fair value and any required losses for impaired assets will be recorded. Impairment losses for fiscal 2009 were ¥1,868 million.

3. An amount of ¥897 million was reflected in the income statement due to the treatment of embedded derivatives as part of a hybrid security.

4. Among securities for banking business that should be stated at fair value, the market price of floating rate Japanese government bonds in a market with a large gap between buyers' and sellers' desired prices was not regarded as the fair value. Instead, a value calculated on a reasonable basis was assigned as the fair value. Therefore, compared with the case in which fair value is estimated by the market price, securities for banking business were increased by ¥9,179 million, the valuation difference on available-for-sale securities was increased by ¥6,002 million, and deferred tax liabilities were increased by ¥3,177 million.

The value calculated on a reasonable basis for floating rate government bonds was set to the net present value (after adjustment for convexity) of all future interest payments as calculated from the government bond forward curve and the cash flow at redemption. The main variables applied for price determination were the yield on Japanese government bonds and the volatility of interest rate swap options on 10-year underlying assets.

d. Other securities sold during the fiscal 2010 and 2009 were as follows:

	Millions of Yen	
	2010	2009
Amount sold	¥32,074	¥333,359
Total gains	323	323
Total losses	134	167

## 17. DERIVATIVES

### A. Derivatives that do not qualify for hedge accounting

a. The fair value of foreign currency transactions as of December 31, 2010 and 2009 were as follows:

<u>December 31, 2010</u>		<u>Millions of Yen</u>		
Type of party	Type of trade	<u>Contract value</u>	<u>Fair value</u>	<u>Valuation gains (losses)</u>
	Foreign exchange margin trading			
Customers	Short positions	¥143,842	¥5,453	¥5,453
	Long positions	<u>24,800</u>	<u>83</u>	<u>83</u>
	Foreign exchange margin trading			
Counterparties	Short positions	24,883	—	—
	Long positions	<u>138,389</u>	<u>—</u>	<u>—</u>
	Foreign exchange forward contracts			
OTC	Short positions	35,946	109	109
	Long positions	<u>73,571</u>	<u>107</u>	<u>107</u>
<b>Total</b>		<b><u>¥441,431</u></b>	<b><u>¥5,752</u></b>	<b><u>¥5,752</u></b>

<u>December 31, 2009</u>		<u>Millions of Yen</u>		
Type of party	Type of trade	<u>Contract value</u>	<u>Fair value</u>	<u>Valuation gains (losses)</u>
	Foreign exchange margin trading			
Customers	Short positions	¥44,500	¥(116)	¥(116)
	Long positions	<u>34,195</u>	<u>864</u>	<u>864</u>
	Foreign exchange margin trading			
Counterparties	Short positions	35,060	—	—
	Long positions	<u>44,616</u>	<u>—</u>	<u>—</u>
	Foreign exchange forward contracts			
OTC	Short positions	32,580	(198)	(198)
	Long positions	<u>69,599</u>	<u>1,389</u>	<u>1,389</u>
<b>Total</b>		<b><u>¥260,550</u></b>	<b><u>¥1,939</u></b>	<b><u>¥1,939</u></b>

Notes: Method for calculating fair value: Foreign exchange margin trading adapts foreign currency spot markets method. Foreign exchange forward contracts adapts foreign exchange futures markets and trading prices submitted to financial trading institutions method.

b. Interest rate derivatives as of December 31, 2010 and 2009 were as follows:

<u>December 31, 2010</u>		<u>Millions of Yen</u>		
Type of party	Type of trade	<u>Contract value</u>	<u>Fair value</u>	<u>Valuation gains (losses)</u>
	Interest rate swap options			
OTC	Short positions	¥74,147	¥1,732	¥1,732
	Long positions	<u>70,743</u>	<u>(1,735)</u>	<u>(1,735)</u>
<b>Total</b>		<b><u>¥144,890</u></b>	<b><u>¥(3)</u></b>	<b><u>¥(3)</u></b>

<u>December 31, 2009</u>		<u>Millions of Yen</u>		
Type of party	Type of trade	<u>Contract value</u>	<u>Fair value</u>	<u>Valuation gains (losses)</u>
	Interest rate swap options			
OTC	Short positions	¥67,505	¥2,603	¥2,603
	Long positions	68,061	(2,594)	(2,594)
Total		<u>¥135,566</u>	<u>¥9</u>	<u>¥9</u>

Notes:

1. Interest rate swap transactions presented in this table were classified in groups including those with complex provisions.
2. Fair value was calculated by present discounted value of future cash flows, option pricing models and other means.

c. Credit derivatives as of December 31, 2010 and 2009 were as follows:

<u>December 31, 2010</u>		<u>Million of Yen</u>		
Type of party	Type of trade	<u>Contract value</u>	<u>Fair value</u>	<u>Valuation gains</u>
OTC	Other Short positions	¥500	¥100	¥100

<u>December 31, 2009</u>		<u>Million of Yen</u>		
Type of party	Type of trade	<u>Contract value</u>	<u>Fair value</u>	<u>Valuation gains</u>
OTC	Other Short positions	¥2,500	¥918	¥918

Notes:

1. The credit derivatives reported in this table include embedded derivatives in hybrid financial instruments.
2. "Short positions" are transactions that underwrite credit risks.
3. Estimates of fair value were based on data submitted by financial trading institutions.

d. Other derivatives as of December 31, 2010 and 2009 were as follows:

<u>December 31, 2010</u>		<u>Million of Yen</u>		
Type of party	Type of trade	<u>Contract value</u>	<u>Fair value</u>	<u>Valuation gains (losses)</u>
	Balance settlements			
Customers	Short positions	¥1,112	¥ (50)	¥ (50)
	Long positions	1,290	45	45
	Balance settlements			
Counterparties	Short positions	1,290	(45)	(45)
	Long positions	1,112	50	50
Total		<u>¥4,804</u>	<u>—</u>	<u>—</u>

December 31, 2009

		Millions of Yen		
Type of party	Type of trade	Contract value	Fair value	Valuation gains (losses)
	Balance settlements			
Customers	Short positions	¥337	¥ (0)	¥ (0)
	Long positions	526	2	2
	Balance settlements			
Counterparties	Short positions	526	(2)	(2)
	Long positions	337	0	0
Total		¥1,726	—	—

Notes: Fair value was based on the closing market price on markets or exchanges that handle the given financial instrument.

B. Derivatives that qualify for hedge accounting

a. The fair value of foreign currency transactions as of December 31, 2010 was as follows:

December 31, 2010

			Millions of Yen		
Hedge accounting method	Type of derivatives	Main hedged items	Contract value	Contract value over one year	Fair value
Appropriation method	Foreign exchange forward contracts transaction				
	Long positions	Accounts payable-trade	¥198	—	¥(25)
	Total		¥198	—	¥(25)

Notes: Estimates of fair value was based on data submitted by financial trading institutions.

b. Interest rate derivatives as of December 31, 2010 was as follows:

December 31, 2010

			Millions of Yen		
Hedge accounting method	Type of derivatives	Main hedged items	Contract value	Contract value over one year	Fair value
Special method	Interest swaps				
	Floating rate received, fixed rate paid	Long-term borrowings	¥53,900	¥37,367	¥(947)
Method used in principle	Interest swap				
	Floating rate received, fixed rate paid	Long-term borrowings	20,833	12,500	(327)
	Total		¥74,734	¥49,867	¥(1,275)

Notes: Estimates of fair value was based on data submitted by financial trading institutions.

## 18. RETIREMENT AND PENSION PLANS

Certain consolidated subsidiaries have a tax-qualified pension plan and a lump-sum retirement as a defined benefit plan, and also have pension plan as a defined contribution plan.

### a. Information concerning retirement benefit obligation:

	Millions of Yen	
	2010	2009
Projected benefit obligation	¥ 3,921	¥ 3,660
Fair value of plan assets	(2,948)	(2,756)
Unfunded retirement benefit obligation	973	904
Unrecognized actuarial gain (loss)	(583)	(547)
Unrecognized past service liability	1	—
Allowance for retirement benefits	¥ 392	¥ 357

Notes: Certain consolidated subsidiaries that have a retirement benefit plan use the simplified method for calculating retirement benefit obligations.

### b. Retirement benefit expense:

	Millions of Yen	
	2010	2009
Service cost	¥ 143	¥ 157
Interest cost	78	71
Expected return on plan assets	(62)	(52)
Amortization of actuarial gain (loss)	140	133
Amortization of past service liability	(0)	—
Other	53	15
Total retirement benefit expense	¥ 351	¥ 324

Notes:

1. Retirement benefit expense at consolidated subsidiaries using the simplified method are included in "Service cost."
2. "Other" consists of contributions made to defined contribution pension at consolidated subsidiaries.

### c. Basis for calculating retirement benefit obligations and others:

	Millions of Yen	
	2010	2009
Discount rate	mainly 2.00%	2.00%
Expected rate of return on plan assets	mainly 2.00%	2.00%
Amortization period for past service liability	mainly 10 years	—
Amortization period for actuarial differences	mainly 10 years	10 years

Notes: The retirement benefit obligations are attributed to each period by the straight-line method over the estimated years of service of employees.

## 19. STOCK-BASED COMPENSATION PLANS

The Company has stock-based compensation plans as an incentive program for directors, auditors and employees of the Company, subsidiaries and affiliates.

From 2001, in accordance with approval at shareholders' meetings, the Company has granted stock acquisition rights and stock options to directors, auditors and certain employees of the Company, subsidiaries and affiliates. These options vest about over two years to four years and expire within ten years from the date of grant. Some subsidiaries have the same type plans.

The following is a summary of the Company's stock-based compensation:

Grant Date	Exercisable Period	Exercise Price	Number of outstanding stock options as of Dec.31 2010
April 26, 2001	From March 30, 2003 to March 28, 2011	¥ 11,210*	3,212
April 30, 2002	From March 29, 2006 to March 27, 2012	11,000*	3,537
July 14, 2003	From March 28, 2007 to March 26, 2013	19,300*	24,440
August 29, 2003	From March 28, 2007 to March 26, 2013	27,500*	1,940
September 7, 2004	From March 31, 2008 to March 29, 2014	75,500*	35,730
December 15, 2005	From March 31, 2009 to March 29, 2015	91,300	54,410
February 13, 2006	From March 31, 2009 to March 29, 2015	103,848	2,000
April 20, 2006	From March 31, 2010 to March 29, 2016	101,000	30,000
December 14, 2006	From March 31, 2010 to March 29, 2016	55,900	13,827
January 19, 2009	From March 28, 2012 to March 26, 2018	56,300	33,050
February 12, 2010	From March 28, 2013 to March 26, 2019	70,695	11,989

\* Exercise price has been adjusted to reflect the stock splits.

The following is a summary of Rakuten Securities, Inc.'s stock-based compensation:

Grant Date	Exercisable Period	Exercise Price	Number of outstanding stock options as of Dec.31 2010
September 15, 2005	From September 19, 2007 to September 18, 2012	¥ 1,380,000	184

The following is a summary of Rakuten KC Co., Ltd.'s stock-based compensation plans:

Grant Date	Exercisable Period	Exercise Price	Number of outstanding stock options as of Dec.31 2010
June 17, 2005	From June 18, 2007 to June 17, 2015	¥ 256,000	880



The following is a summary of FUSION COMMUNICATIONS' stock-based compensation:

Grant Date	Exercisable Period	Exercise Price	Number of outstanding stock options as of Dec.31 2010
July 12, 2001	From July 12 , 2001 to July 10, 2011	¥ 155,792	650
July 12, 2001	From July 12 , 2001 to July 10, 2012	155,792	255
June 29, 2002	From June 29, 2004 to June 28, 2012	219,388	425
June 30, 2003	From July 1, 2005 to June 30, 2013	219,388	105

The following is a summary of Net's Partners Co., Ltd.'s stock-based compensation:

Grant Date	Exercisable Period	Exercise Price	Number of outstanding stock options as of Dec.31 2010
July 30, 2005	From July 28, 2007 to July 27, 2015	¥ 38,000	380
April 28, 2006	From April 27, 2008 to April 26, 2016	38,000	120

The following is a summary of Dot Commodity, Inc.'s stock-based compensation:

Grant Date	Exercisable Period	Exercise Price	Number of outstanding stock options as of Dec.31 2010
July 1 , 2005	From July 1 , 2007 to May 31, 2015	¥ 50,000	220
July 1 , 2006	From July 1, 2008 to May 31, 2016	50,000	280

## 20. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41% for the years ended December 31, 2010 and 2009.

The tax effects of significant temporary differences and tax loss carry forwards which resulted in deferred tax assets and liabilities at December 31, 2010 and 2009 were as follows:

	Millions of Yen	
	2010	2009
Deferred tax assets:		
Tax loss carry forwards	¥ 55,398	¥ 42,997
Excess of depreciation	2,493	2,200
Loss on valuation of investment securities	20,462	19,332
Excess of allowance for doubtful accounts	4,421	11,009
Reserve for points	5,144	3,908
Impairment loss	1,225	1,204
Allowance for loss on interest repayment	4,121	4,161
Loss on valuation of investment securities for banking business	6,781	4,304
Other	8,266	8,664
Less valuation allowance	<u>(57,196)</u>	<u>(48,333)</u>
Total	<u>¥51,115</u>	<u>¥49,446</u>
Deferred tax liabilities:		
Tax-deductible loss due to transfer of shares	¥ 8,465	¥ 8,465
Valuation difference on available-for-sale	4,542	3,880
Intangible fixed assets	6,189	—
Other	530	905
Total	<u>¥ 19,726</u>	<u>¥ 13,250</u>
Net deferred tax assets	<u>¥ 31,389</u>	<u>¥ 36,196</u>

Reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the year ended December 31, 2009 was as follows. In addition, reconciliation of the difference between the statutory tax rate and the effective tax rate for financial statement purposes for the year ended December 31, 2010 is not presented as it is negligible.

	<u>2009</u>
Effective statutory tax rate	41.00%
Expense not deductible for income tax purposes	0.58
Expired tax loss carried forward	6.33
Increase (decrease) in valuation allowance	(49.82)
Amortization of goodwill	4.11
Gain on change in equity	(3.15)
Other—net	<u>(0.21)</u>
Actual effective tax rate	<u>(1.16)%</u>

## 21. BUSINESS COMBINATION

### A. Business combination accounted for by the purchase method

a. Name and business of the acquired company, main reasons for business combination, date of business combination, legal form of business combination, name of company after combination, percentage of voting rights acquired.

i. Name and business of the acquired company

Name of the acquired company	bitWallet Inc.
Type of business	Operating the "Edy", prepaid e-money system

ii. Main reasons for business combination

The Company and bitWallet Inc. ("bitWallet") agreed to enter into a capital alliance with the aim of providing users with a highly convenient settlement tool. The alliance is to enhance acquiring users of the Edy and promoting the usage on the Internet by leveraging the customer base and marketing know-how of the Group. As a result of this agreement, the Company accepted a private allocation of new shares by bitWallet and as a result, bitWallet became a consolidated subsidiary of the Company.

iii. Date of business combination

January 21, 2010

iv. Legal form of business combination

Share acquisition

v. Name of company after business combination

Unchanged

vi. Percentage of voting rights acquired

52.9%

After the business combination, Rakuten purchased 27,105 shares from minority shareholders, increasing its percentage of voting rights to 55.4%.

b. Period of the financial results of the acquired company which was included in the consolidated financial statements.

From January 1 to December 31, 2010

c. Acquisition cost of acquired company

Consideration in cash	¥3,000 million
Direct expenditure incurred for acquisition	126 million
Acquisition cost	¥3,126 million

d. Amount of goodwill recognized, cause of goodwill, amortization method and period

i. Amount of goodwill                      ¥1,253 million

ii. Cause of goodwill

The goodwill was recognized based on a reasonable estimate of ability of generating excess earning resulting from future business development.

iii. Amortization method and period                      The straight line method and 20 years

e. Assets acquired and liabilities assumed on the business combination date

i. Assets

Current assets	¥24,701 million
Fixed assets	¥6,373 million
Total assets	¥31,074 million

ii. Liabilities

Current liabilities	¥26,194 million
Fixed liabilities	¥4,340 million
Total liabilities	¥30,534 million

f. Estimated amount of effect on consolidated income statements if the business combination had been completed at the beginning of the current fiscal year

There is no effect on consolidated income statements since the deemed acquisition date was at the beginning of the current year.

B. Business Combinations Resulting from Acquisition

a. Business combination with Buy.com Inc.

i. Overview of business combination

1) Name and business of the acquired company

Name of the acquired company	Buy.com Inc.
Type of business	Operation of e-commerce site

2) Reason for business combination

The Company acquired Buy.com Inc., a leading e-commerce company in the United States with a customer base of 14 million people as a foundation for the development of its e-commerce business in the United States according to its medium-to long-term global growth strategy. While using the existing customer base of Buy.com Inc., the Company plans to strengthen Buy.com's marketplace business and help it achieve a new form of business growth by using its accumulated know-how of the e-commerce business. The Group also aims to expand and develop its e-commerce business in the United States through mutual supply of goods between Japan and the United States, and through collaboration with various businesses within the Group.

3) Business combination date July 1, 2010

4) Legal form of business combination

Buy.com Inc. merged with a wholly owned subsidiary established in preparation for the merger by Rakuten USA, Inc., a consolidated subsidiary of Rakuten, Inc. The company established in preparation for the merger made a cash payment to shareholders of Buy.com Inc., as a result, Buy.com Inc. became a wholly owned subsidiary of Rakuten USA, Inc.

5) Name of company after business combination Unchanged

6) Percentage of voting rights acquired 100.0%

7) Reason for determination of acquiring company

Rakuten USA, Inc., a subsidiary of Rakuten, Inc., owned 100.0% of voting rights in Buy.com Inc.

ii. Period of the financial results of the acquired company which was included in the consolidated balance sheets

From July 1 to December 31, 2010

iii. Acquisition cost of acquired company

Consideration in cash	¥23,142 million
Direct expenditure incurred for acquisition	¥153 million
Acquisition cost	¥23,295 million

iv. Amount of goodwill recognized, cause of goodwill, amortization method and period

i) Amount of goodwill                      US\$180 million

ii) Cause of goodwill

The goodwill was recognized based on a reasonable estimate of ability of generating excess earning resulting from future business development.

iii) Amortization method and period                      The straight line method and 20 years

v. Assets acquired and liabilities assumed on the business combination date

i) Assets

Current assets	US\$26 million
Fixed assets	US\$311 million
Total assets	US\$337 million

ii) Liabilities

Current liabilities	US\$26 million
Fixed liabilities	US\$13 million
Total liabilities	US\$40 million

vi. Estimated amount of effect on consolidated income statements if the business combination had been completed at the beginning of the current fiscal year

Since the effect was immaterial, it has not been stated.

b. Business combination with PRICEMINISTER S.A.S.

i) Overview of business combination

1) Name and business activities of the acquired company

Name of the acquired company	PRICEMINISTER S.A.S. (Formerly PRICEMINISTER S.A., trading name changed as of December 22, 2010)
Type of Business	Operation of e-commerce site

2) Reasons for business combination

PRICEMINISTER S.A.S. is one of the leading Internet companies in Europe which operates an e-commerce business in France, the United Kingdom and Spain. It is also engaged in other businesses, including the operation of travel price comparison sites and real estate information sites. According to its medium/long-term growth strategy, the Company acquired PRICEMINISTER S.A.S. as a subsidiary with the aim of entering into the European e-commerce market, which is expanding at an accelerated rate.

With this acquisition, the Company secured a business base in France, which has the fastest growing e-commerce market in Europe. Using its accumulated e-commerce know-how, it will implement a variety of measures to further develop "PRICEMINISTER", ecommerce website operated by PRICEMINISTER S.A.S to attractive e-commerce site. Through this business combination, Rakuten aims to accelerate PRICEMINISTER's growth in France and across Europe, and to expand and develop the Group's e-commerce business on a global scale through various strategies, including the reciprocal supply of goods through a network linking Japan, Asia, the United States and Europe.

3) Business combination date    July 21, 2010

4) Legal format of business combination    Acquisition of shares for cash payment

5) Name of company after business combination    Unchanged

6) Percentage of voting rights acquired    100.0%

7) Reason for determination of acquiring company

Rakuten Europe S.a.r.l. acquired 100% of voting rights in PRICEMINISTER S.A.S.

ii) Period of the financial results of the acquired company which was included in the consolidated financial statements  
From July 1 to December 31, 2010



the Board of Directors at a meeting held on August 19, 2010. As a result of the share exchange, the Company became a sole parent company and Rakuten Bank, Ltd. became a wholly owned subsidiary. This share exchange was implemented for the Company to be a sole parent company of Rakuten Bank, Ltd. which was deemed necessary in order to maximize synergy benefits with the Company and other companies of the Group, and to create a structure to support timely and flexible management decision-making, and to facilitate the effective utilization of management resources.

The takeover bid period ended in May. However, the resolution of the Board of Directors concerning the share exchange and its effective date were rescheduled to August, 2010 which was after the closing of the overseas acquisitions and October 15, 2010, respectively to properly reflect the effect of the Company's acquisition in the U.S. and in France and the associated globalization strategy to the share exchange ratio.

b. Overview of accounting treatment

This transaction has been treated as a transaction under common control in accordance with the Accounting Standards for Business Combinations (ASBJ Statement No. 21, December 26, 2008) and the Guidance Accounting Standards for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, December 26, 2008).

c. Acquisition of additional shares of subsidiary

i) Acquisition costs

1) Acquisition through takeover bid

Consideration in cash	¥16,555 million
Direct expenditure incurred for the acquisition	¥232 million
Acquisition cost	¥16,787 million

2) Acquisition through share exchange

Consideration in cash	¥3,778 million
Direct expenditure incurred for the acquisition	¥8 million
Acquisition cost	¥3,787 million

ii) Exchange ratios for each type of shares, calculation method, number of shares allocated and valuation

1) Exchange ratios for each type of shares

Common stock 1 Rakuten share: 0.52 shares in Rakuten Bank, Ltd.

2) Method used to calculate exchange ratio

To ensure the fairness and reasonableness of exchange ratio, the Company appointed Abeam M&A Consulting Ltd. and Rakuten Bank, Ltd. appointed KPMG FAS as a third-party appraiser to calculate share exchange ratios. The actual ratio was then decided through discussion between the two companies based on the results of the calculations by the appraisers.

3) Number of allocated shares allocated and their value

Number of allocated shares	61,934 shares
Value of allocated shares	¥3,778 million

iii) Amount of goodwill recognized, cause of goodwill, amortization method and amortization period

1) Amount of goodwill (from takeover bid)	¥10,815 million
(from share exchange)	¥2,752 million

2) Cause of goodwill

The goodwill was recognized based on a reasonable estimate of the excess earning power resulting from the future development of the business of Rakuten Bank, Ltd.

3) Amortization method and period	The straight line method and 20 years
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## 22. SEGMENT INFORMATION

The Company operates in the following industries:

The E-Commerce Business segment consists mainly of Rakuten, Inc., Rakuten Auction, Inc., Rakuten Logistics, Inc., LinkShare Corporation, Buy.com Inc. and PRICEMINISTER S.A.S.. The business focuses on operating and providing services for websites related to retailing including Rakuten Ichiba and other forms of e-commerce.

The Credit Card Business segment consists mainly of Rakuten KC Co., Ltd. The business is mainly concerned with the consumer credit card business and consumer loan businesses.

The Banking Business segment consists mainly of Rakuten Bank, Ltd. and its subsidiaries. The business is primarily concerned with the internet banking businesses.

The E-Money Business segment consists of bitWallet, Inc.. It focuses on operating the Edy prepaid e-money system.

The Portal and Media Business segment consists mainly of Rakuten, Inc., Rakuten Research, Inc., O-net, Inc. and SHOWTIME Inc.. The segment focuses on the operation of Internet portal sites, Infoseek, and community networking sites as well as Internet market research and distribution of broadband content.

The Travel Business segment consists of Rakuten Travel, Inc. and its subsidiaries. It focuses on operating travel-related websites and services.

The Securities Business segment mainly consists of Rakuten Securities, Inc.. The business primarily provides online securities brokerage and commodity trading services.

The Professional Sports Business segment consists of Rakuten Baseball, Inc.. It manages the Tohoku Rakuten Golden Eagles professional baseball team, as well as planning and selling related goods.

The Telecommunication Business segment consists of FUSION COMMUNICATIONS. The business provides IP network services, IP telephony and other services.



(1) Industry Segments

a. Sales and Operating Income

	Millions of Yen											
	2010											
	E-Commerce Business	Credit Card Business	E-Money Business	Banking Business	Portal and Media Business	Travel Business	Securities Business	Professional Sports Business	Tele-communications	Total	Corporate & Eliminations	Consolidated
Sales to customers	¥144,082	¥63,116	¥5,263	¥33,289	¥22,730	¥23,285	¥23,961	¥7,743	¥22,676	¥346,144	—	¥346,144
Intersegment sales	2,551	3,399	25	1,906	8,129	495	304	499	183	17,491	¥ (17,491)	—
Total sales	146,633	66,516	5,287	35,195	30,859	23,780	24,266	8,242	22,858	363,636	(17,491)	346,144
Operating expenses	105,593	64,006	5,886	33,538	28,483	13,494	19,062	9,574	21,784	301,420	(19,042)	282,378
Operating income (loss)	¥41,040	¥2,510	¥ (598)	¥1,657	¥2,377	¥10,285	¥5,204	¥ (1,332)	¥1,074	¥62,215	¥1,551	¥63,766

Note:

- 1.The Accounting Standard for Financial Instruments (ASBJ Statement No. 10, March 10, 2008) and the Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No.19, March 10, 2008) are applied, effective from the consolidated the fiscal year ended December 31, 2010. As a result of this change, operating income for the consolidated the fiscal year ended December 31, 2010 is ¥322 million higher than under the former method.
- 2.The E-Money business was established as a new segment following the acquisition of bitWallet Inc. as a consolidated subsidiary in the first quarter of the fiscal year ended December 31, 2010.
- 3.Unallocatable operating expenses amounted to ¥577million. The main items are tax expense based on pro forma standard taxation, and head office expense that cannot be allocated to segments.

**b. Total Assets, Depreciation and Capital Expenditures**

	Millions of Yen											
	2010											
	E-Commerce Business	Credit Card Business	E-Money Business	Banking Business	Portal and Media Business	Travel Business	Securities Business	Professional Sports Business	Tele-communications	Total	Corporate & Eliminations	Consolidated
Total assets	¥340,543	¥340,691	¥29,595	¥822,800	¥12,562	¥33,944	¥438,128	¥10,096	¥9,978	¥2,038,337	¥ (88,821)	¥1,949,517
Depreciation and amortization	6,935	1,333	837	2,670	344	622	2,379	910	782	16,812	1	16,813
Impairment loss	720	162	151	43	212	—	5	—	10	1,303	—	1,303
Capital expenditures	12,496	1,127	570	2,445	217	498	2,922	568	1,074	21,917	0	21,917

Note: The group total for corporate and internal eliminations included in assets is ¥68,180 million. This consists mainly of investment securities held by the Rakuten Group.

**a. Sales and Operating Income**

	Millions of Yen										
	2009										
	E-Commerce Business	Credit Card Business	Banking Business	Portal and Media Business	Travel Business	Securities Business	Professional Sports Business	Tele-communications	Total	Corporate & Eliminations	Consolidated
Sales to customers	¥115,003	¥57,699	¥30,301	¥17,622	¥19,321	¥23,549	¥8,361	¥26,396	¥298,252	—	¥298,252
Intersegment sales	1,657	2,227	1,204	6,872	361	24	472	58	12,875	¥ (12,875)	—
Total sales	116,660	59,926	31,505	24,494	19,682	23,573	8,833	26,454	311,127	(12,875)	298,252
Operating expenses	80,438	56,613	29,087	23,330	10,880	19,109	9,450	26,091	254,999	(13,396)	241,603
Operating income (loss)	¥36,222	¥3,313	¥2,418	¥1,164	¥8,802	¥4,464	¥ (617)	¥363	¥56,128	¥521	¥56,649

Note:

1. Due to the addition of Rakuten Bank, Ltd. as a consolidated subsidiary, a new business segment was created starting with the first quarter of the fiscal year 2009 financial results. The new segment was classified as the Banking Business Segment, Rakuten Credit, Inc. and Rakuten Financial Solutions, Inc., which were part of the Credit and Payment Business in previous fiscal years, were also transferred to the Banking Business as of the first quarter of the fiscal year 2009, in consideration of these companies' similar activities. In addition, the Credit and Payment Business became the Credit Card Business after reassessing of the nature of its business. Compared with the

previous segmentation, these changes caused reductions of ¥6,152 million and ¥782 million respectively in the net sales and operating income of the Credit Card Business in the fiscal year 2009. The effect of these changes has been included in the results for the new Banking Business, which recorded net sales to external customers of ¥30,301 million and operating income of ¥2,418 million in the fiscal year 2009. In light of the above, information on individual business segments is presented below for the fiscal year ended December 31, 2009.

2. Unallocatable operating expenses amounted to ¥1,262 million. The main items are tax expense based on pro forma standard taxation, and head office expense that cannot be allocated to segments.

**b. Total Assets, Depreciation and Capital Expenditures**

	Millions of Yen										
	2009										
	E-Commerce Business	Credit Card Business	Banking Business	Portal and Media Business	Travel Business	Securities Business	Professional Sports Business	Tele-communications	Total	Corporate & Eliminations	Consolidated
Total assets	¥310,358	¥304,938	¥789,452	¥11,008	¥24,058	¥408,305	¥11,072	¥9,333	¥1,868,524	¥ (109,287)	¥1,759,237
Depreciation and amortization	5,989	1,244	2,519	129	723	2,128	878	750	14,360	1	14,361
Impairment loss	434	297	1,181	15	—	8	—	190	2,125	—	2,125
Capital expenditures	5,768	1,086	2,540	82	654	2,326	437	957	13,850	10	13,860

Note: The group total for corporate and internal eliminations included in assets is ¥54,283 million. This consists mainly of investment securities held by the Rakuten Group.

**(2) Geographical Segments**

Disclosure of geographic segment information is omitted because domestic net sales and assets exceed 90% of total segment sales and assets.

**(3) Sales to Foreign Customers**

Disclosure of sales to foreign customers is omitted because such sales represent less than 10% of consolidated net sales.

## 23. RELATED PARTY TRANSACTIONS

Transactions during the years ended December 31, 2010 and 2009 with related party were as follows :

<u>December 31, 2010</u>					Millions of Yen	
Type of related party	Name of company or person	Percentage of voting rights held by major shareholders	Description of business or occupation	Type of transaction	Total amount of transaction	Balance as of December 31, 2010
Related party in which major shareholders hold majority of voting rights	Crimson Football Club, Inc.	100%	Professional football club operator	Sponsor fee	¥239	¥24
Executive	Atsushi Kunishige	-	Director	Trading of stock	27	—

<u>December 31, 2009</u>					Millions of Yen	
Type of related party	Name of company or person	Percentage of voting rights held by major shareholders	Description of business or occupation	Type of transaction	Total amount of transaction	Balance as of December 31, 2009
Related party in which major shareholders hold majority of voting rights	Crimson Football Club, Inc.	100%	Professional football club operator	Sponsor fee	¥199	¥15

Note:

1. Hiroshi Mikitani, Chairman and CEO indirectly owns 100% of voting rights in Crimson Football Club, Inc.
2. Sponsor fee is determined on an arm's length basis.
3. The trading value of stock is determined based on appraisal value by a third-party appraiser.



## Reorganization of the Credit Card Business

(Company split between two consolidated subsidiaries, move of subsidiary to another company [by share transfer] and waiver of subsidiary debt)

Rakuten decided to entry into an agreement for reorganizing its credit card business on June 2,2011.

The Rakuten Card credit card, Rakuten KC's current core product, is well regarded by users for the Rakuten Super Points program. The credit card service has been showing strong results in both membership numbers and usage.

On the other hand, after Rakuten acquired Rakuten KC in 2005, the environment for the credit card business has been uncertain, driven by such factors as measures related to the Act for the Control of Money Lending Business, which was revised in 2006. This was led to increasing interest repayment claims from debtors. For this reason, Rakuten decided to keep the Rakuten Card and related businesses in order to concentrate more resources in them, while transferring Rakuten KC and other businesses to J Trust.

### 1. Summary of Business Restructuring

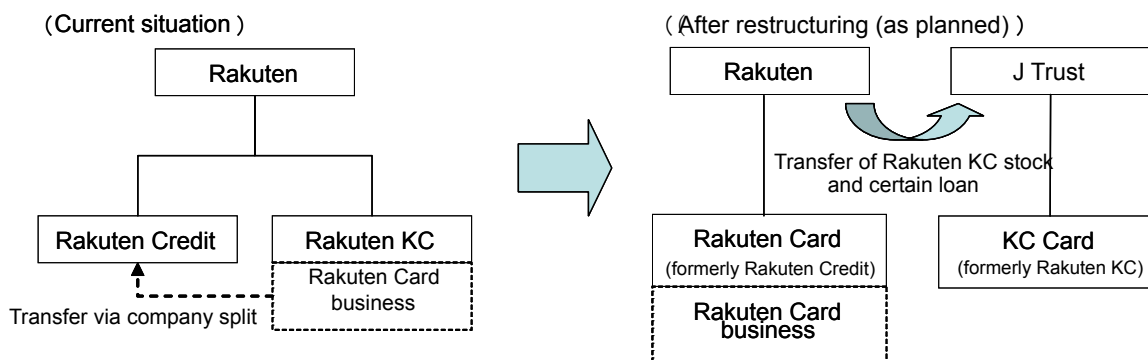
(1) The Rakuten Card related business of Rakuten KC, a Rakuten subsidiary, will succeed to Rakuten Credit<sup>1</sup>, also a Rakuten subsidiary, through an absorption-type company split (scheduled effective date: August 1, 2011).

Details are described below in Section 4, "Company Split between Consolidated Subsidiaries"

(2) Rakuten will transfer with compensation its holdings of Rakuten KC<sup>2</sup> common stock and Class two preferred stock and a portion of the loan receivables that Rakuten currently holds against Rakuten KC. The share transfer ("Rakuten KC share transfer") is scheduled to be executed on August 1, 2011, conditioned upon the absorption-type split coming into effect. Details are described below in Section 5, "Rakuten KC Share Transfer", the trade name of the company.

<sup>1</sup>On August 1, 2011, the name of the business will be changed to Rakuten Card Co., Ltd condition on approvals from the relevant authorities and the General Meeting of Shareholders.

<sup>2</sup>On August 1, 2011, the name of the business will be changed to KC Card Co., Ltd conditioned on approvals from the relevant authorities and the General Meeting of Shareholders.



(3) Rakuten will forgive debts it currently holds against Rakuten KC of 10,000 million yen in receivables for subordinated loans and 3,000 million yen in loan receivables for other debt instruments (total 13,000 million yen in receivables).

## 2. Summary of parties

(As of March 31, 2011)

	Split Company	Successor Company
□ Trade Name	Rakuten KC Co., Ltd.	Rakuten Credit, Inc.
□ Business description	Credit cards, consumer finance	Credit guarantees, consumer finance
□ Date of establishment	April 26, 1963	December 6, 2001
□ Company headquarters	3-4-2 Hakata Ekimae, Hakata-ku, Fukuoka	4-12-3 Higashi Shinagawa, Shinagawa-ku, Tokyo
□ Title and name of representative	Representative Director and President Masayuki Hosaka	Representative Director and President Masayuki Hosaka
□ Capital	¥3,055 million	¥4,323 million <sup>1</sup>
□ Number of shares outstanding	24,060,000 shares <sup>2</sup>	38,649 shares
□ Net assets	¥33,410 million <sup>3</sup>	¥4,706 million
□ Total assets	¥434,618 million	¥8,351 million
□ Fiscal year-end	December 31	December 31
□ Major shareholders and shareholding ratio	[Common stock] Rakuten, Inc. 97.26% <sup>4</sup> [Class one preferred stock] Mizuho Corporate Bank, Ltd. 100% [Class two preferred stock] Rakuten, Inc. 90%	Rakuten, Inc. 100%

<sup>1</sup>A 30,000 million yen capital increase by Rakuten is planned before the absorption-type split comes into effect.

<sup>2</sup>Treasury stock accounts for 22,776,028 shares.

<sup>3</sup>To ensure stable business continuity for Rakuten KC after the absorption-type split, plans call for strengthening Rakuten KC's equity through a debt waiver of 10,000 million yen in receivables for subordinated loans currently held by Rakuten against Rakuten KC plus 3,000 million yen in other loan receivables. Details are described below in Section 6, "Debt Waiver for Rakuten KC."

<sup>4</sup>Shareholding ratios of common stock are calculated after deducting treasury stock from total shares outstanding.

Financial condition and business results for the fiscal year ended December 31, 2010

(per-share values expressed in yen, all other values in million yen)

	Rakuten KC Co., Ltd.	Rakuten Credit, Inc.
Net assets	33,241	4,706
Total assets	401,985	8,134
Net assets per share	17,863.65	121,774.57
Operating revenues	67,619	5,587
Operating income	4,785	697
Ordinary income	4,887	660
Net income	3,912	382
Net income per share	2,809.65	9,900.25

## 3. Summary of transaction

### (1) Overview of business division subject to company split

#### □ Description of business division

Rakuten card related business of Rakuten KC.

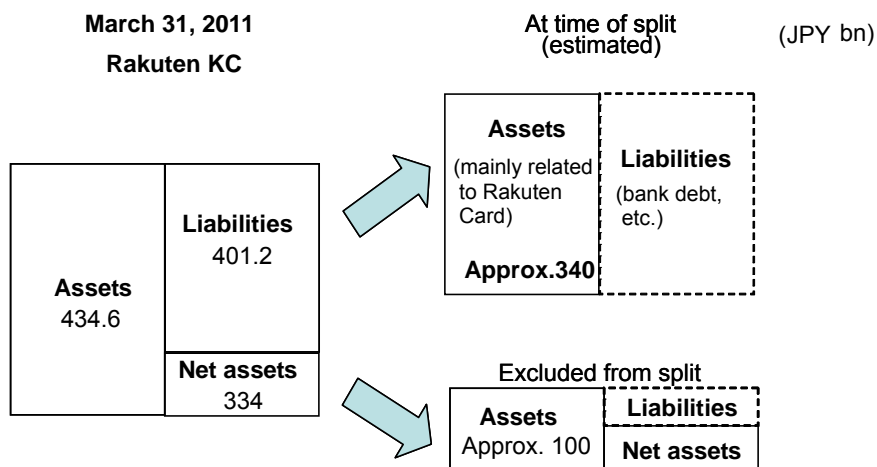
#### □ Division business results

Operating revenues (equivalent to sales, as accounted for by management) of the 'Rakuten Card Business', the main part of the company split, were 38,000 million yen for the fiscal year ended December 31, 2010. Business results are not stated since they can not be calculated retroactively.

#### □ Assets and liabilities transferred in the split and their valuation

The assets and liabilities of the business division subject to the split will be identified individually in the absorption-type company split agreement. The value of the assets and liabilities transferred in the split has not been finally determined at present. However, a final determination is planned, which will use

the balance sheets of March 31, 2011, as the basis and incorporate changes through the effective date of the company split.



(2) Number of shares to transfer, their value, and ratio of total number of shares outstanding.

Number of shares to transfer:

Common stock: 1,248,794 shares (ratio of total shares of common stock outstanding: 97.26%)

Class two preferred stock: 11,250 shares (ratio of total Class two preferred shares outstanding: 90%) Value of transferred shares: 4,500 million yen

\*1 Ratio of total shares of common stock outstanding is calculated after deducting treasury stock.

\*2 In the case Rakuten acquires shares from shareholders of Rakuten KC before the date of the share transfer, Rakuten is to transfer shares including these newly acquired shares to J Trust.

(3) Calculation basis for share transfer value

Rakuten requested an independent third party to conduct a valuation of the post-split Rakuten KC business entity. Rakuten and J Trust have held discussions based on these calculations and agreed to the transfer value.

(4) Number of shares owned and shareholding ratio before and after the transfer

(Common stock) Before transfer Shares owned: 1,248,794 shares, ratio owned: 97.26%

After transfer Shares owned: 0, ratio owned: 0%

(Class two preferred stock) Before transfer Shares owned: 11,250, ratio owned: 90.00%

After transfer Shares owned: 0, ratio owned: 0%

\*1 The ratio of common stock owned is calculated after deducting treasury stock from total shares of common stock outstanding.

\*2 In the case Rakuten acquires shares from shareholders of Rakuten KC before the date of the share transfer, Rakuten is to transfer shares including these newly acquired shares to J Trust.

(5) Transfer of loan receivables

Loan receivables to transfer: 37,000 million yen from the loan receivables held by Rakuten against Rakuten KC, after deduction of the debt waiver discussed below in Part 6, "Debt Waiver for Rakuten KC."

Transfer value: 37,000 million yen

\*Rakuten holds a total of 60,000 million yen in loan receivables against Rakuten KC, but based on schedule repayments, a total value of 50,000 million yen is expected on the day of the loans receivable transfer.

(6) Schedule for subsidiary move (planned)

Board of Directors meeting for approval of Rakuten KC share transfer: June 2, 2011

Execution of Rakuten KC share transfer: August 1, 2011

As stated above in Part (2) of Section 1, "Summary of Business Restructuring," the execution of the Rakuten KC share transfer is conditioned on the absorption-type split from Rakuten KC to Rakuten Credit coming into effect on the same date.