

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

Consolidated Financial Statements for the  
Years Ended December 31, 2011 and 2010

# Rakuten, Inc. and Consolidated Subsidiaries

## Consolidated Balance Sheets December 31, 2011 and 2010

| ASSETS   | Millions of Yen    |                    | Thousands of<br>U.S. Dollars<br>(Note 1) |
|--|--------------------|--------------------|--|
|  | 2011               | 2010               | 2011                                     |
| <b>CURRENT ASSETS:</b>   |                    |                    |  |
| Cash and deposits (Note 6,17)  | ¥ 88,990           | ¥ 72,866           | \$ 1,144,711                             |
| Notes and accounts receivable — trade                                  | 49,668             | 45,354             | 638,898                                  |
| Accounts receivable — installment (Note 6,17)                          | 66,219             | 100,909            | 851,803                                  |
| Accounts receivable — installment sales — credit guarantee<br>(Note 8) | 2,153              | 2,466              | 27,699                                   |
| Beneficial interests in securitized assets (Note 7,17)                 | 88,960             | 66,601             | 1,144,324                                |
| Cash segregated as deposits for securities business (Note 17)          | 207,503            | 223,114            | 2,669,194                                |
| Margin transactions assets for securities business (Note 17)           | 115,634            | 126,779            | 1,487,440                                |
| Operating loans (Note 6,7,17)  | 62,387             | 156,950            | 802,507                                  |
| Short-term investment securities (Note 17,18)                          | 76,600             | 35,510             | 985,336                                  |
| Securities for banking business (Note 6,17,18)                         | 537,791            | 535,087            | 6,917,811                                |
| Loans for banking business (Note 17)                                   | 155,678            | 125,881            | 2,002,547                                |
| Deferred tax assets (Note 22)  | 33,319             | 13,340             | 428,598                                  |
| Other (Note 6)   | 189,815            | 151,586            | 2,441,664                                |
| Allowance for doubtful accounts (Note 17)                              | (14,385)           | (27,012)           | (185,038)                                |
| Total current assets   | 1,660,332          | 1,629,432          | 21,357,494                               |
| <b>NON-CURRENT ASSETS:</b>   |                    |                    |  |
| Property, plant and equipment  | 15,805             | 21,890             | 203,303                                  |
| Intangible assets  |                    |                    |  |
| Goodwill (Note 9)  | 115,064            | 127,456            | 1,480,114                                |
| Other  | 58,223             | 54,041             | 748,944                                  |
| Total intangible assets  | 173,287            | 181,496            | 2,229,059                                |
| <b>INVESTMENTS AND OTHER ASSETS:</b>                                   |                    |                    |  |
| Investment securities (Note 6,18)                                      | 20,685             | 67,834             | 266,078                                  |
| Deferred tax assets (Note 22)  | 25,731             | 25,459             | 330,988                                  |
| Other (Note 6)   | 33,630             | 26,454             | 432,597                                  |
| Allowance for doubtful accounts  | (14,908)           | (3,049)            | (191,766)                                |
| Investments assets and other assets                                    | 65,138             | 116,698            | 837,897                                  |
| Total non-current assets   | 254,230            | 320,084            | 3,270,258                                |
| <b>TOTAL ASSETS</b>  | <b>¥ 1,914,561</b> | <b>¥ 1,949,517</b> | <b>\$ 24,627,752</b>                     |

# Rakuten, Inc. and Consolidated Subsidiaries

## Consolidated Balance Sheets December 31, 2011 and 2010

| <b>LIABILITIES</b>   | Millions of Yen   |                   | Thousands of<br>U.S. Dollars<br>(Note 1) |
|--|-------------------|-------------------|--|
|  | 2011              | 2010              | 2011                                     |
| <b>CURRENT LIABILITIES:</b>  |                   |                   |  |
| Short-term debts (Note 5,6,17)   | ¥ 97,042          | ¥ 143,507         | \$ 1,248,290                             |
| Current portion of long-term debts (Note 5,15)                             | 59,030            | 92,573            | 759,326                                  |
| Notes and accounts payable — trade (Note 6)                                | 59,202            | 36,835            | 761,537                                  |
| Deposits for banking business (Note 17)                                    | 741,501           | 713,273           | 9,538,222                                |
| Accounts payable — credit guarantee (Note 8)                               | 2,295             | 2,466             | 29,527                                   |
| Income taxes payable (Note 22)   | 3,981             | 17,590            | 51,206                                   |
| Deposits received for securities business (Note 17)                        | 139,483           | 145,973           | 1,794,222                                |
| Margin transactions liabilities for securities business (Note 5,6,17)      | 38,230            | 55,329            | 491,764                                  |
| Guarantee deposits received for securities business (Note 17)              | 79,818            | 77,773            | 1,026,729                                |
| Borrowings secured by securities for securities business (Note 6,17)       | 28,735            | 32,775            | 369,629                                  |
| Provisions (Note 8)  | 18,988            | 15,686            | 244,251                                  |
| Other (Note 6)   | 204,530           | 209,980           | 2,630,946                                |
| Total current liabilities  | <u>1,472,835</u>  | <u>1,543,760</u>  | <u>18,945,649</u>                        |
| <b>NON-CURRENT LIABILITIES:</b>  |                   |                   |  |
| Long-term debts (Note 5, 6,15,17)  | 192,425           | 134,256           | 2,475,244                                |
| Deferred tax liabilities (Note 22)   | 4,762             | 4,694             | 61,253                                   |
| Other non-current provisions (Note 20)                                     | 1,434             | 10,569            | 18,444                                   |
| Other  | 6,246             | 5,027             | 80,346                                   |
| Total non-current liabilities  | <u>204,867</u>    | <u>154,546</u>    | <u>2,635,287</u>                         |
| <b>RESERVES UNDER THE SPECIAL LAWS:</b>                                    |                   |                   |  |
| Reserve for financial instrument transaction liabilities                   | 1,839             | 1,965             | 23,653                                   |
| Reserve for commodities transaction liabilities                            | 35                | 13                | 452                                      |
| Total Reserves under the special laws                                      | <u>1,874</u>      | <u>1,977</u>      | <u>24,104</u>                            |
| <b>TOTAL LIABILITIES</b>   | <u>1,679,576</u>  | <u>1,700,283</u>  | <u>21,605,040</u>                        |
| <b>NET ASSETS</b>  |                   |                   |  |
| <b>SHAREHOLDERS' EQUITY</b>  |                   |                   |  |
| Common stock   |                   |                   |  |
| Authorized: 39,418,000 shares  |                   |                   |  |
| Issued: 13,194,578 shares in 2011<br>and 13,181,697 shares in 2010         | 107,959           | 107,779           | 1,388,720                                |
| Capital surplus  | 120,031           | 119,851           | 1,544,003                                |
| Retained earnings  | 9,420             | 13,183            | 121,168                                  |
| Treasury stock—at cost,<br>60,079 shares in 2011 and 60,079 shares in 2010 | (3,626)           | (3,626)           | (46,637)                                 |
| Total shareholders' equity   | <u>233,784</u>    | <u>237,188</u>    | <u>3,007,254</u>                         |
| <b>ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME</b>                       |                   |                   |  |
| Valuation difference on available-for-sale securities                      | 2,433             | 6,001             | 31,303                                   |
| Deferred gains or losses on hedges   | 54                | (198)             | 693                                      |
| Foreign currency translation adjustments                                   | (7,854)           | (4,694)           | (101,035)                                |
| Total accumulated other comprehensive (loss) income                        | <u>(5,367)</u>    | <u>1,109</u>      | <u>(69,039)</u>                          |
| <b>SUBSCRIPTION RIGHTS TO SHARES</b>                                       | <u>1,185</u>      | <u>958</u>        | <u>15,242</u>                            |
| <b>MINORITY INTERESTS</b>  | <u>5,384</u>      | <u>9,979</u>      | <u>69,256</u>                            |
| <b>TOTAL NET ASSETS</b>  | <u>234,986</u>    | <u>249,234</u>    | <u>3,022,712</u>                         |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>                                    | <u>¥1,914,561</u> | <u>¥1,949,517</u> | <u>\$ 24,627,752</u>                     |

See notes to consolidated financial statements.

# Rakuten, Inc. and Consolidated Subsidiaries

## Consolidated Statements of Income Years Ended December 31, 2011 and 2010

|   | Millions of Yen  |           | Thousands of<br>U.S. Dollars<br>(Note 1) |
|---|------------------|-----------|--|
|   | 2011             | 2010      | 2011                                     |
| <b>NET SALES</b>  | <b>¥ 379,901</b> | ¥ 346,144 | <b>\$ 4,886,811</b>                      |
| <b>COST OF SALES</b>  | <b>75,232</b>    | 75,251    | <b>967,740</b>                           |
| Gross profit  | <b>304,669</b>   | 270,893   | <b>3,919,071</b>                         |
| <b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 10)</b>         | <b>233,325</b>   | 207,127   | <b>3,001,347</b>                         |
| Operating income  | <b>71,344</b>    | 63,766    | <b>917,724</b>                           |
| <b>OTHER INCOME (EXPENSES):</b>                                       |                  |           |  |
| Interest income   | 105              | 65        | 1,350                                    |
| Dividend income   | 137              | 209       | 1,760                                    |
| Foreign exchange (loss) gain  | (25)             | 17        | (324)                                    |
| Equity in earnings of affiliates                                      | 399              | (337)     | 5,132                                    |
| Interest expense  | (1,677)          | (1,629)   | (21,575)                                 |
| Commission fee expense  | (1,717)          | (369)     | (22,091)                                 |
| Gain on negative goodwill   | 124              | -         | 1,597                                    |
| Gain on step acquisitions   | -                | 1,700     | -  |
| Reversal of reserve for financial instruments transaction liabilities | 126              | 764       | 1,618                                    |
| Gain on change in equity  | 177              | 107       | 2,272                                    |
| Gain on sales of subsidiaries and affiliates' stocks                  | 374              | 262       | 4,809                                    |
| Loss on disposal of non-current assets (Note11)                       | (1,157)          | (409)     | (14,883)                                 |
| Loss on disaster (Note11)   | (1,725)          | -         | (22,196)                                 |
| Loss on business restructuring (Note11)                               | (77,122)         | -         | (992,051)                                |
| Provision of allowance for doubtful accounts (Note11)                 | (2,151)          | -         | (27,665)                                 |
| Loss on investment securities (Note11)                                | -                | (1,867)   | -  |
| Impairment loss (Note11)  | -                | (1,303)   | -  |
| Other — net   | (1,672)          | (942)     | (21,512)                                 |
| Other expenses — net  | (85,806)         | (3,050)   | (1,103,757)                              |
| <b>(LOSS) INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS</b>       | <b>(14,462)</b>  | 60,717    | <b>(186,033)</b>                         |
| <b>INCOME TAXES</b>   |                  |           |  |
| Income taxes — current  | 6,979            | 25,888    | 89,775                                   |
| Income taxes — deferred   | (21,418)         | (760)     | (275,505)                                |
| <b>INCOME TAX (BENEFIT) EXPENSE</b>                                   | <b>(14,439)</b>  | 25,128    | <b>(185,730)</b>                         |
| <b>(LOSS) INCOME BEFORE MINORITY INTERESTS</b>                        | <b>(24)</b>      | 35,589    | <b>(303)</b>                             |
| <b>MINORITY INTERESTS IN INCOME</b>                                   | <b>1,116</b>     | 633       | <b>14,356</b>                            |
| <b>NET (LOSS) INCOME</b>  | <b>¥ (1,140)</b> | ¥ 34,956  | <b>\$ (14,659)</b>                       |

See notes to consolidated financial statements.

## Rakuten, Inc. and Consolidated Subsidiaries

### Consolidated Comprehensive Income Statement Year Ended December 31, 2011

|   | Millions of Yen  |          | Thousands of<br>U.S. Dollars<br>(Note 1) |
|---|------------------|----------|--|
|   | 2011             | 2010     | 2011                                     |
| Loss before minority interests  | ¥ (24)           | —        | \$ (303)                                 |
| <b>OTHER COMPREHENSIVE LOSS</b>   |                  |          |  |
| Valuation difference on available-for-sale securities                             | (3,557)          | —        | (45,757)                                 |
| Deferred gains on hedges  | 264              | —        | 3,392                                    |
| Foreign currency translation adjustments  | (3,222)          | —        | (41,450)                                 |
| Share of other comprehensive loss of affiliates accounted for using equity method | (20)             | —        | (255)                                    |
| <b>TOTAL OTHER COMPREHENSIVE LOSS</b> (Note 12)                                   | <b>(6,536)</b>   | <b>—</b> | <b>(84,070)</b>                          |
| <b>COMPREHENSIVE LOSS</b> (Note 12)   | <b>¥ (6,559)</b> | <b>—</b> | <b>\$ (84,373)</b>                       |
| (Comprehensive income (loss) attributable to)                                     |                  |          |  |
| Owners of the parent  | ¥ (7,616)        | —        | \$ (97,962)                              |
| Minority interests  | 1,056            | —        | 13,589                                   |

See notes to consolidated financial statements.

### Consolidated Statement of Changes in Net Assets Year Ended December 31, 2011

|   | As of Dec.<br>31, 2010 | Million of yen                 |                           |             |   |                                       | As of Dec.<br>31, 2011 |
|---|------------------------|--------------------------------|---------------------------|-------------|---|---------------------------------------|------------------------|
|   |                        | Changes in fiscal year 2011    |                           |             |   |                                       |                        |
|   |                        | Issuance<br>of common<br>stock | Cash<br>dividends<br>paid | Net<br>loss | Net changes<br>in items other<br>than those in<br>shareholders'<br>equity | Total of<br>changes in<br>fiscal 2011 |                        |
| Common stock  | ¥107,779               | ¥ 180                          | —                         | —           | —   | ¥180                                  | ¥107,959               |
| Capital surplus                                       | 119,851                | 180                            | —                         | —           | —   | 180                                   | 120,031                |
| Retained earnings                                     | 13,183                 | —                              | ¥ (2,624)                 | ¥ (1,140)   | —   | (3,764)                               | 9,420                  |
| Treasury stock  | (3,626)                | —                              | —                         | —           | —   | —                                     | (3,626)                |
| Shareholders' equity                                  | 237,188                | 360                            | (2,624)                   | (1,140)     | —   | (3,404)                               | 233,784                |
| Valuation difference on available-for-sale securities | 6,001                  | —                              | —                         | —           | ¥ (3,567)   | (3,567)                               | 2,433                  |
| Deferred gains or losses on hedges                    | (198)                  | —                              | —                         | —           | 252   | 252                                   | 54                     |
| Foreign currency translation adjustments              | (4,694)                | —                              | —                         | —           | (3,161)   | (3,161)                               | (7,854)                |
| Total accumulated other comprehensive income (loss)   | 1,109                  | —                              | —                         | —           | (6,476)   | (6,476)                               | (5,367)                |
| Subscription rights to shares                         | 958                    | —                              | —                         | —           | 227   | 227                                   | 1,185                  |
| Minority interests                                    | 9,979                  | —                              | —                         | —           | (4,595)   | (4,595)                               | 5,384                  |
| Net assets  | ¥249,234               | ¥360                           | ¥ (2,624)                 | ¥ (1,140)   | ¥ (10,844)  | ¥ (14,248)                            | ¥234,986               |
| Net assets, Dec. 31, 2011                             |                        |                                |                           |             |   |                                       |                        |
| thousands of U.S. dollars (Note 1)                    | \$3,205,993            | \$4,630                        | \$(33,758)                | \$(14,659)  | \$(139,494)   | \$183,281                             | \$3,022,712            |

See notes to consolidated financial statements.

## Rakuten, Inc. and Consolidated Subsidiaries

### Consolidated Statements of Cash Flows Years Ended December 31, 2011 and 2010

|   | Millions of Yen |          | Thousands of<br>U.S. Dollars<br>(Note 1) |
|---|-----------------|----------|--|
|   | 2011            | 2010     | 2011                                     |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                |                 |          |  |
| (Loss) income before income taxes and minority interests                        | ¥ (14,462)      | ¥ 60,717 | \$ (186,033)                             |
| Depreciation and amortization   | 16,934          | 16,813   | 217,826                                  |
| Amortization of goodwill  | 7,848           | 7,035    | 100,952                                  |
| Decrease in allowance for doubtful accounts                                     | (769)           | (10,889) | (9,887)                                  |
| Loss on valuation of securities for banking business                            | 2,214           | 2,935    | 28,477                                   |
| Loss on business restructuring  | 77,122          | —        | 992,051                                  |
| Other loss  | 5,513           | 7,941    | 70,913                                   |
| Increase in notes and accounts receivable - trade                               | (4,266)         | (5,986)  | (54,881)                                 |
| Decrease (increase) in accounts receivable - installment                        | 13,539          | (7,798)  | 174,155                                  |
| Increase in beneficial interests in securitized assets                          | (88,644)        | (43,405) | (1,140,268)                              |
| Decrease in operating loans receivable  | 22,697          | 20,847   | 291,964                                  |
| Increase in notes and accounts payable - trade                                  | 21,218          | 6,697    | 272,936                                  |
| Increase in accounts payable - other and accrued expenses                       | 21,770          | 3,696    | 280,034                                  |
| Increase in deposits for banking business                                       | 28,229          | 14,919   | 363,119                                  |
| (Increase) decrease in call loans for banking business                          | (24,000)        | 4,000    | (308,721)                                |
| Increase in loans for banking business  | (29,797)        | (33,004) | (383,291)                                |
| Decrease (increase) in operating assets for securities business                 | 28,983          | (16,192) | 372,821                                  |
| Decrease in operating liabilities for securities business                       | (21,544)        | (11,664) | (277,130)                                |
| (Decrease) increase in borrowings secured by securities for securities business | (4,040)         | 22,663   | (51,973)                                 |
| Other-net   | (8,356)         | 14,239   | (107,491)                                |
| Subtotal  | 50,187          | 53,563   | 645,573                                  |
| Increase in guarantee deposits for business operation                           | (392)           | (5,540)  | (5,036)                                  |
| Decrease in guarantee deposits for business operation                           | 2,176           | 3,333    | 27,995                                   |
| Income taxes paid   | (23,165)        | (20,801) | (297,986)                                |
| Payments for business restructuring   | (1,220)         | —        | (15,696)                                 |
| Other   | —               | (250)    | —  |
| Net cash provided by operating activities                                       | ¥ 27,586        | ¥ 30,305 | \$ 354,849                               |

See notes to consolidated financial statements.

## Rakuten, Inc. and Consolidated Subsidiaries

### Consolidated Statements of Cash Flows Years Ended December 31, 2011 and 2010

|  | Millions of Yen        |                        | Thousands of<br>U.S. Dollars<br>(Note 1) |
|--|------------------------|------------------------|--|
|  | 2011                   | 2010                   | 2011                                     |
| <b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>   |                        |                        |  |
| Increase in time deposits  | (9,946)                | (7,351)                | (127,934)                                |
| Decrease in time deposits  | 5,573                  | 11,001                 | 71,688                                   |
| Purchase of securities for banking business  | (390,828)              | (370,844)              | (5,027,370)                              |
| Proceeds from sales and redemption of securities for banking business                                      | 455,813                | 372,267                | 5,863,302                                |
| Purchase of investments in subsidiaries  | (7,497)                | (18,825)               | (96,438)                                 |
| Purchase of investments in subsidiaries resulting in change in scope of consolidation                      | (7,483)                | (40,159)               | (96,258)                                 |
| Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation (Note 14) | 33,554                 | —                      | 431,618                                  |
| Purchase of property, plant and equipment  | (3,825)                | (5,758)                | (49,206)                                 |
| Purchase of intangible assets  | (15,163)               | (14,947)               | (195,042)                                |
| Other payments   | (6,499)                | (4,435)                | (83,600)                                 |
| Other proceeds   | 2,207                  | 17,764                 | 28,388                                   |
| Interest and dividends received  | 445                    | 748                    | 5,724                                    |
| Net cash provided by (used in) investing activities  | <u>56,351</u>          | <u>(60,538)</u>        | <u>724,871</u>                           |
| <b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>   |                        |                        |  |
| Net (decrease) increase in short-term loans payable  | (19,235)               | 29,032                 | (247,429)                                |
| (Decrease) increase in commercial papers   | (30,200)               | 31,400                 | (388,474)                                |
| Proceeds from long-term loans payable  | 173,350                | 83,385                 | 2,229,869                                |
| Repayment of long-term loans payable   | (143,538)              | (92,550)               | (1,846,383)                              |
| Redemption of bonds  | (4,800)                | (18,280)               | (61,749)                                 |
| Interest paid  | (1,575)                | (1,639)                | (20,262)                                 |
| Cash dividends paid  | (2,630)                | (1,314)                | (33,831)                                 |
| Other  | (6,020)                | (2,425)                | (77,435)                                 |
| Net cash (used in) provided by financing activities  | <u>(34,648)</u>        | <u>27,609</u>          | <u>(445,695)</u>                         |
| <b>EFFECT OF CHANGE IN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS</b>                                     |                        |                        |  |
|  | (1,172)                | (984)                  | (15,074)                                 |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>  | <u>48,117</u>          | <u>(3,609)</u>         | <u>618,951</u>                           |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>  | <u>100,737</u>         | <u>103,618</u>         | <u>1,295,817</u>                         |
| <b>CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES</b>  | 898                    | 727                    | 11,554                                   |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR (Note 1, 13)</b>   | <u><u>¥149,752</u></u> | <u><u>¥100,737</u></u> | <u><u>\$1,926,321</u></u>                |

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 under International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by Rakuten, Inc. (the "Company") and consolidated subsidiaries and affiliates 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 ¥77.74 to \$1, the approximate rate of exchange at December 31, 2011. 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, 2011 include the accounts of the Company and its 75 (54 in 2010) significant subsidiaries (together, the "Group"). 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 8 (9 in 2010) affiliates are accounted for using 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 using the equity method.

Investments in the remaining 33 (30 in 2010) 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 a certain consolidated subsidiary that operates a banking business consists of the cash and deposits components within 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 the banking business are amortized on a cost basis using the moving average method (straight-line amortization). (2)-2 Available-for-sale securities for the banking business are stated at fair value and using 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 using the straight-line method.
- e. **Intangible Assets** — Amortization of intangible assets is computed using the straight-line method. Software for internal use is amortized using the straight-line method over its estimated useful life (generally five years).
- f. **Leases** — 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 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 the credit loss ratio for general credit, and the likelihood of collection for doubtful accounts. Allowance for doubtful accounts of 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 as a reserve for the fiscal year. Provision 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 recorded from the following fiscal year by the straight-line method using 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.
- 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 determined 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 Derivatives Act to provide for loss resulting from contingencies related to commodity transactions, in accordance with the provisions of Article 221 of the Commodity Derivatives Act.

**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.

*Hedging instruments and hedged items:*

Hedging instruments comprise currency forward agreements and interest rate swaps. Hedged items comprise foreign-currency-denominated prospective transactions, foreign currency deposits, foreign currency-denominated securities and loans.

*Hedging policies:*

Interest rate swaps are used to establish hedges for exposure to interest rate volatility risk associated with borrowings. Hedged items are identified by individual contract. Holdings of foreign currency deposits and foreign currency-denominated securities carry the risk of exchange rate and price fluctuations. To avoid this risk, currency forward agreements and interest rate swaps are used, subject to specific rules.

*Method for evaluating effectiveness of hedging activities:*

For interest rate swaps, 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. Goodwill is amortized over the estimated effective period. 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** — Balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at exchange rates as of the balance sheet date except for net assets, which is translated at historical rates. Revenue and expenses accounts of consolidated foreign subsidiaries are translated into Japanese yen at average rates of exchange over the applicable 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. CHANGES IN ACCOUNTING POLICY

- a. Application of the Accounting Standard for Equity Accounting Method, etc** — Effectively on January 1, 2011, the Company adopted the Accounting Standard for Equity Method of Accounting for Investments (Accounting Standards Board of Japan ("ASBJ") Statement No.16, March 10, 2008) and the Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method (ASBJ Practical Issues Task Force No.24, March 10, 2008) .  
There was no effect on operating income, ordinary income, net income before income taxes and minority interests as a result of the adoption.
- b. Application of the Accounting Standard for Asset Retirement Obligation, etc** — Effectively on January 1, 2011, the Company adopted the Accounting Standard for Asset Retirement Obligations (ASBJ Statement No.18, March 31, 2008) and the Guidance on the Accounting Standard for Asset Retirement Obligations (ASBJ Guidance No.21, March 31, 2008) .  
As a result of the adoption, extraordinary losses by this application amounted to ¥383 million were recorded whereas the effect on operating income and ordinary income was immaterial and the amount of Asset Retirement Obligation recognized was ¥1,384 million.
- c. Change in Depreciation Method for Tangible Fixed Assets (Excluding Leased Assets)** — Depreciation of tangible fixed assets (excluding leased assets) other than buildings (excluding ancillary facilities) acquired after April 1, 1998 were calculated using the declining-balance method at Rakuten, Inc. and some of its consolidated subsidiaries in prior years. On January 1, 2011, the Company elected to change its method of depreciation of those assets to the straight-line method. The purpose of this change is to reflect the pattern in which those tangible fixed assets are used and the economic benefits of those assets are consumed more appropriately in light of accelerated expansion of the Company's overseas operation..  
As a result of this change, depreciation expense has been decreased by ¥1,057 million, operating income and ordinary income have been increased by ¥1,057 million, and net loss before income taxes and minority interests has been decreased by ¥1,057 million..

#### 4. SUPPLEMENTAL INFORMATION

- a. Application of the Accounting Standard for Presentation of Comprehensive Income** — The Accounting Standard for Presentation of Comprehensive Income (ASBJ, Statement No. 25, issued June 30, 2010) is adopted starting from the fiscal year ended December 31, 2011. For the numbers of fiscal year ended December 31, 2010, valuation and translation adjustments and total valuation and translation adjustments are presented as accumulated other comprehensive income and total accumulated other comprehensive income, respectively.
- b. Allowance for Doubtful Accounts** — , The Company carried out restructuring of credit card business in the current financial reporting period. As a result, the Rakuten Group's credit card business has shifted to a business model based on unsecured credit and settlement operations through the Internet. In line with the change in business model, the Company changed organizational structure related to credit control aiming to concentrate more resources on collection of delinquent loans in early-stage whereas establishing collection system and policies for long-term delinquent loans from cost-effectiveness viewpoint given the limited human resources after the restructuring. The Company reviewed classification of debtor and allowance ratio in connection with these changes and recorded an additional allowance for doubtful accounts. As a result of the change in these estimates, additional allowance for doubtful accounts of ¥11,870 million and corresponding extraordinary loss of the same amount were recorded which resulted in the increase of loss before income taxes and minority interests and net loss by ¥11,870 million and ¥7,003 million, respectively.

#### 5. SHORT-TERM AND LONG-TERM DEBT AND CORPORATE BONDS

Short-term debt at December 31, 2011 and 2010 consisted of notes to banks, bank overdrafts, corporate bonds, commercial paper and lease obligations. Short-term and long-term debt at December 31, 2011 and 2010 consisted of the following:

##### Corporate bonds

|  | Millions of Yen |                 |
|--|-----------------|-----------------|
|  | 2011            | 2010            |
| Rakuten, Inc. (due in 2012 with interest rate of 1.68%)                        | ¥ 4,000         | ¥ 8,000         |
| FUSION COMMUNICATIONS CORPORATION<br>(due in 2012 with interest rate of 0.78%) | 494             | 987             |
| FUSION COMMUNICATIONS CORPORATION<br>(due in 2013 with interest rate of 0.54%) | 100             | 167             |
| FUSION COMMUNICATIONS CORPORATION<br>(due in 2015 with interest rate of 0.64%) | 960             | 1,200           |
| Total  | <u>¥ 5,553</u>  | <u>¥ 10,354</u> |

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

| Years Ending<br>December 31 | Millions of<br>Yen |
|-----------------------------|--------------------|
|                             | 2011               |
| 2012                        | ¥ 4,800            |
| 2013                        | 273                |
| 2014                        | 240                |
| 2015                        | 240                |
| 2016                        | —                  |
| Total                       | <u>¥ 5,553</u>     |

*Borrowing and others*

|   | Millions of Yen  |                  |
|---|------------------|------------------|
|   | 2011             | 2010             |
| Short-term bank loans                     | ¥ 77,242         | ¥ 93,507         |
| Long-term bank loans, due within one year | 53,480           | 86,932           |
| Long-term bank loans, due after one year  | 190,747          | 127,483          |
| Other debt with interest                  |                  |                  |
| Commercial paper                          | 19,800           | 50,000           |
| Margin transaction liabilities            | 18,331           | 13,331           |
| Lease obligation, due within one year     | 749              | 840              |
| Lease obligation, due after one year      | 926              | 1,220            |
| <b>Total</b>                              | <b>¥ 361,275</b> | <b>¥ 373,314</b> |

Weighted average interest rates of loans as of December 31, 2011 and 2010 were as follows:

|   | 2011  | 2010  |
|---|-------|-------|
| Short-term bank loans                     | 1.25% | 1.52% |
| Long-term bank loans, due within one year | 2.01% | 1.76% |
| Long-term bank loans, due after one year  | 1.45% | 1.68% |
| Commercial paper                          | 0.80% | 1.12% |
| Margin transaction liabilities            | 0.77% | 0.77% |
| 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, 2011 were as follows:

| Year Ending<br>December 31 | Millions of<br>Yen<br>2011 |
|----------------------------|----------------------------|
| 2012                       | ¥ 54,230                   |
| 2013                       | 62,637                     |
| 2014                       | 49,967                     |
| 2015                       | 32,024                     |
| 2016                       | 25,539                     |
| 2017 and after             | 21,505                     |
| <b>Total</b>               | <b>¥ 245,902</b>           |

Unused commitment lines for financing at December 31, 2011 and 2010 amounted to ¥134,337 million and ¥69,758 million, respectively.

## 6. PLEDGED ASSETS

### a. Assets pledged as collateral:

The carrying amounts of assets pledged as collateral at December 31, 2011 and 2010 were as follows:

|   | Millions of Yen |                |
|---|-----------------|----------------|
|   | 2011            | 2010           |
| Deposits  | ¥ 1,000         | ¥ 100          |
| Accounts receivable - installment and operating loans | 18,547          | 46,974         |
| Receivable from lease contracts                       | 5               | 15             |
| Investment securities                                 | —               | 1,448          |
| <b>Total</b>  | <b>¥19,552</b>  | <b>¥48,537</b> |

Securities in custody from customers in the amount of ¥1,843 million and ¥1,363 million were pledged as collateral for short-term bank loans at December 31, 2011 and 2010, respectively. Securities in the amount of ¥21,699 million and ¥27,189 million were pledged as collateral for short-term bank loans and margin transaction liabilities at December 31, 2011 and 2010, respectively. Loaned securities were pledged as collateral for borrowings in the amount of ¥28,735 million and ¥32,775 million at December 31, 2011 and 2010, respectively.

Securities for banking business, which were pledged as collateral for foreign exchange settlements, derivative trading and other transactions, and for commitment line of credit agreements, were ¥75,420 million and ¥74,953 million at December 31, 2011 and 2010, respectively. Other collateral included in current assets consists of ¥9,557 million and ¥8,402 million for initial margins related to futures trading and ¥1,470 million and ¥2,721 million for guarantees pledged by a consolidated subsidiary in the banking business, and ¥11,538 million and ¥14,540 million of short-term guarantee deposits pledged by a certain consolidated subsidiary in the securities business at December 31, 2011 and 2010, respectively.

In addition, investment securities of ¥1,003 million were pledged for deposits for e-money business in accordance with laws concerning settlement of funds at December 31, 2011.

b. Liabilities for which assets were pledged as collateral:

|   | Millions of Yen |          |
|---|-----------------|----------|
|   | 2011            | 2010     |
| Short-term bank loans                     | ¥ 1,822         | ¥ 19,571 |
| Long-term bank loans, due within one year | 22,514          | 38,024   |
| Borrowings related to margin transactions | 18,331          | 13,331   |
| Long-term bank loans, due after one year  | 21,781          | 30,444   |
| Accrued liabilities                       | —               | 117      |
| Accounts payable                          | —               | 992      |
| Deposits                                  | 8,215           | —        |
| Total                                     | ¥ 72,662        | ¥102,479 |

c. Fair value of marketable securities pledged as collateral:

|  | Millions of Yen |          |
|--|-----------------|----------|
|  | 2011            | 2010     |
| Securities loaned on margin transactions                     | ¥ 20,342        | ¥ 45,606 |
| Securities pledged for loans payable for margin transactions | 18,479          | 13,288   |
| Loaned securities  | 28,918          | 33,014   |
| Other marketable securities pledged as collateral            | 154             | —        |

d. Fair value of marketable securities received as collateral:

|  | Millions of Yen |           |
|--|-----------------|-----------|
|  | 2011            | 2010      |
| Securities pledged for loans receivable for margin transactions  | ¥ 99,230        | ¥ 112,633 |
| Securities borrowed on margin transactions                       | 3,543           | 12,614    |
| Substitute securities for guarantee deposits received on futures | 203,573         | 212,029   |

## 7. 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 ¥1,474,923 million and ¥1,613,494 million at December 31, 2011 and 2010, respectively.

## 8. CONTINGENCIES

Guarantee contracts where certain consolidated subsidiaries do not provide certain services for collection are not recorded as accounts receivable-installment sales-credit guarantee and accounts payable-credit guarantee in the consolidated balance sheet. The balance as of December 31, 2011 and 2010 were as follows:

|                                  | Millions of Yen |                 |
|----------------------------------|-----------------|-----------------|
|                                  | 2011            | 2010            |
| Credit guarantee                 | ¥ 22,307        | ¥ 26,020        |
| Provision for loss on guarantees | (70)            | (57)            |
| Total                            | <u>¥ 22,237</u> | <u>¥ 25,962</u> |

## 9. GOODWILL

Changes in the carrying amount of goodwill for the years ended December 31, 2011 and 2010 were as follows:

|   | Millions of Yen  |
|---|------------------|
|   |                  |
| Balance at December 31, 2009            | ¥ 87,047         |
| Goodwill acquired during the year       | 48,054           |
| Amortization                            | (7,035)          |
| Impairment                              | (610)            |
| Balance at December 31, 2010            | <u>¥ 127,456</u> |
| Goodwill acquired during the year       | 11,523           |
| Amortization                            | (7,848)          |
| Impairment                              | (14,540)         |
| Foreign currency translation adjustment | (1,526)          |
| Balance at December 31, 2011            | <u>¥ 115,064</u> |

Goodwill acquired during fiscal 2011 mainly consisted of goodwill related to the acquisition of Play Holdings Limited and Rakuten Deutschland GmbH. Goodwill of Rakuten KC Co., Ltd. was impaired in fiscal 2011 due to the difficulty in recovery of the companies' net assets based on estimated future financial performance in conjunction with sale of shares of the subsidiary.

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 companies' net assets based on estimated future financial performance under the current business environment.

## 10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses comprise the following:

|  | Millions of Yen  |                  |
|--|------------------|------------------|
|  | 2011             | 2010             |
| Point costs  | ¥ 10,111         | ¥ 10,074         |
| Advertising and promotion expenses                 | 40,571           | 26,013           |
| Personnel expenses                                 | 53,746           | 49,374           |
| Provision for bonuses                              | 2,964            | 2,710            |
| Depreciation                                       | 15,677           | 15,422           |
| Communication and maintenance expenses             | 14,692           | 14,706           |
| Outsourcing expenses                               | 25,254           | 24,750           |
| Provision of allowance for doubtful accounts       | 13,773           | 13,244           |
| Provision for loss on interest repayment           | 4,264            | 3,713            |
| Other  | 52,273           | 47,121           |
| Total selling, general and administrative expenses | <u>¥ 233,325</u> | <u>¥ 207,127</u> |

Research and development cost in general and administrative expenses for the year ended December 31, 2011 and 2010 were ¥540 million and ¥365 million yen respectively.

## 11. EXTRAORDINARY LOSSES

### A. Loss on disposal of non-current assets

The losses on disposal of non-current assets for the year ended December 31, 2011 and 2010 were as follows:

|   | Millions of Yen |              |
|---|-----------------|--------------|
|   | 2011            | 2010         |
| Tools, equipment and fixtures               | ¥ 195           | ¥ 113        |
| Software                                    | 942             | 261          |
| Other                                       | 19              | 28           |
| Total loss on disposal of noncurrent assets | <u>¥ 1,157</u>  | <u>¥ 402</u> |

### B. Loss on disaster

The loss on the Great East Japan Earthquake is presented as a loss on disaster for the year ended December 31, 2011 as follows:

|  | Millions of<br>Yen |
|--|--------------------|
|  | 2011               |
| Provision of allowance for doubtful accounts | ¥ 753              |
| Donations and other contributions            | 313                |
| Repair-related expenses                      | 567                |
| Other  | 93                 |
| Total  | <u>¥ 1,725</u>     |

### C. Loss on business restructuring

The loss on the restructuring of credit card business was shown as a loss on business restructuring for the year ended December 31, 2011 was as follows:

|  | Millions of<br>Yen |
|--|--------------------|
|  | 2011               |
| Loss on sale of business                     | ¥ 48,862           |
| Impairment loss *                            | 14,231             |
| Provision of allowance for doubtful accounts | 11,870             |
| Other  | 2,159              |
| Total  | <u>¥ 77,122</u>    |

\* Goodwill for Rakuten KC Co., Ltd. was fully impaired.

### D. Provision of allowance for doubtful accounts

Provision of allowance for doubtful accounts consists of bad debt expense of ¥568 million and a provision of allowance for doubtful accounts of ¥1,582 million recorded against advances paid as a result of customers' insufficient funds arising from rapid market change after the Great East Japan Earthquake.

E. Loss on investment securities

The Company recognized a 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<br>Yen |
|   | <u>2010</u>        |
| Difference between carrying value and selling price | ¥2,644             |
| Legal expense                                       | 51                 |
| Interest received                                   | <u>(828)</u>       |
| Total   | <u>¥1,867</u>      |

F. Impairment loss

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<br>(Millions of yen) |
|--------------------------|---------------------------------|----------------------------------|--------------------------------------|
| Net's Partners Co., Ltd. | Online supermarkets<br>business | Goodwill                         | ¥303                                 |
|                          |                                 | Software and other               | 150                                  |
| Rakuten, Inc.            | Advertising business            | Goodwill                         | 150                                  |
|                          |                                 | Software                         | 117                                  |
| Rakuten Shashinkan, Inc. | Photography service<br>business | Goodwill                         | 155                                  |
|                          |                                 | Other                            | 57                                   |
| Rakuten KC Co. Ltd.      | Idle assets                     | Telephone subscription<br>rights | 106                                  |
|                          |                                 | Other                            | 55                                   |
| bitWallet, Inc.          | e-money business                | Long-term prepaid<br>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 there are 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. COMPREHENSIVE LOSS

Effectively on January 1, 2011, the Accounting Standard for Presentation of Comprehensive Income (ASBJ, Statement No. 25, June 30, 2010) was adopted.

Comprehensive income for the fiscal year ended December 31, 2010 consists of as follows:

|   | Millions of<br>Yen |
|---|--------------------|
|   | <u>2010</u>        |
| Comprehensive income attributable to owners of the parent | ¥ 35,804           |
| Comprehensive income attributable to minority interests   | <u>500</u>         |
| Total   | <u>¥ 36,304</u>    |

Other comprehensive income for the fiscal year ended December 31, 2010 consists of as follows:

|   | Millions of<br>Yen |
|---|--------------------|
|   | <u>2010</u>        |
| Valuation difference on available-for-sale securities                             | ¥ 4,063            |
| Deferred gains on hedges  | 105                |
| Foreign currency translation adjustments  | (3,445)            |
| Share of other comprehensive loss of affiliates accounted for using equity method | <u>(8)</u>         |
| Total   | <u>¥ 715</u>       |

## 13. CASH AND CASH EQUIVALENTS

The reconciliation between the year-end balance of cash and deposits stated in the consolidated balance sheets and cash and cash equivalents stated in the consolidated statements of cash flows in the years ended December 31, 2011 and 2010 were as follows:

| <u>As of December 31</u>                 | Millions of Yen  |                  |
|--|------------------|------------------|
|  | <u>2011</u>      | <u>2010</u>      |
| Cash and deposits                        | ¥ 88,990         | ¥ 72,866         |
| Securities                               | 76,600           | 35,510           |
| Time deposit over three months' maturity | (12,358)         | (5,223)          |
| Due from foreign banks                   | (1,665)          | (1,699)          |
| Deposits with restrictions               | (1,214)          | (718)            |
| Cash in trust                            | <u>(600)</u>     | <u>—</u>         |
| Cash and cash equivalents                | <u>¥ 149,752</u> | <u>¥ 100,737</u> |

**14. MAIN CONSOLIDATED ASSETS AND LIABILITIES OF THE COMPANY REMOVED FROM THE SCOPE OF CONSOLIDATION THROUGH A SALE OF SHARES.**

Rakuten KC Co., Ltd., was removed from the scope of consolidation by a sale of shares. Book value of assets and liabilities which were removed from consolidated balance sheet and the proceeds from the sale were as follows.

|  | Millions of<br>Yen  |
|--|---------------------|
| Current assets   | ¥ 93,402            |
| Non-current assets   | 8,620               |
| Current liabilities  | (22,893)            |
| Non-current liabilities  | (38,817)            |
| (amount of loan receivables of the Company to the subsidiary for sale included in above liabilities) | 50,000              |
| Business transfer loss   | (48,862)            |
|  | <u>41,450</u>       |
| <br>(Proceeds from the sale of shares of the subsidiary)   | <br>4,450           |
| (Proceeds from the sale of loan receivables of the Company to the subsidiary)                        | 37,000              |
| <br>Cash and cash equivalents  | <br><u>(8,461)</u>  |
| <br>Net proceeds from sale of shares   | <br><u>¥ 32,989</u> |

**15. LEASES - Lessee's accounting**

A. Finance leases other than those which transfer ownership of the leased assets to the lessee

Finance leases other than those which transfer ownership of the leased assets to the lessee with commencement dates before the effective date of the revised Accounting Standards for Leases continue to be accounted for as an operating lease. Those leases for the years ended December 31, 2011 and 2010 are as follows;

a. Acquisition cost and accumulated depreciation

|                                | Millions of Yen |              |                                     |            |              |
|--------------------------------|-----------------|--------------|-------------------------------------|------------|--------------|
|                                | 2011            |              |                                     |            |              |
|                                | Vehicles        | Machinery    | Tools,<br>equipment<br>and fixtures | Software   | Total        |
| Acquisition cost               | —               | ¥ 2,665      | ¥ 3,046                             | ¥ 174      | ¥ 5,885      |
| Less: Accumulated depreciation | —               | 2,486        | 2,569                               | 167        | 5,222        |
| Impairment loss                | —               | 38           | 12                                  | 1          | 51           |
| Net amount                     | <u>—</u>        | <u>¥ 141</u> | <u>¥ 465</u>                        | <u>¥ 6</u> | <u>¥ 612</u> |

|                                 | Millions of Yen |              |                                     |             |                |
|---------------------------------|-----------------|--------------|-------------------------------------|-------------|----------------|
|                                 | 2010            |              |                                     |             |                |
|                                 | Vehicles        | Machinery    | Tools,<br>equipment<br>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> |

b. Obligations under finance leases:

|                     | Millions of Yen |                |
|---------------------|-----------------|----------------|
|                     | 2011            | 2010           |
| Due within one year | ¥ 498           | ¥ 1,797        |
| Due after one year  | 168             | 569            |
| Total               | <u>¥ 666</u>    | <u>¥ 2,365</u> |

Payables from unexpired leases related to subleased items other than those listed above amount to ¥143 million and ¥793 million at December 31, 2011 and 2010, respectively.

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

|   | Millions of Yen |         |
|---|-----------------|---------|
|   | 2011            | 2010    |
| Lease payments                          | ¥ 1,646         | ¥ 2,824 |
| Reversal of impairment of leased assets | 54              | 85      |
| Depreciation expense                    | 1,484           | 2,548   |
| Deemed interest expense                 | 37              | 104     |

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

B. Finance lease

a. Finance leases that transfer ownership

Description of leased assets

I. Tangible assets

These assets consist mainly of computer servers, etc. (tools, equipment and fixtures), used in the Internet Services segment.

II. Intangible assets

These assets consist mainly of a SPAN (standard portfolio analysis of risk) system (software) for guarantee funds used in the Internet Finance segment.

b. Finance leases that do not transfer ownership

Description of leased assets

I. Tangible assets

These consist mainly of computer servers (tools, furniture and fixtures) used in the Internet Services segment and system-related equipment (tools, furniture and fixtures) in the Internet Finance segment.

II. Intangible assets

These consist mainly of a front-end system (software) for foreign futures used in the Internet Finance.

c. Obligations under operation leases:

|                     | Millions of Yen |                |
|---------------------|-----------------|----------------|
|                     | 2011            | 2010           |
| Due within one year | ¥ 999           | ¥ 897          |
| Due after one year  | 2,835           | 3,231          |
| Total               | <u>¥ 3,833</u>  | <u>¥ 4,128</u> |

## 16. LEASED ASSETS - Lessor's accounting

Finance leases with commencement dates before the effective date of the revised accounting standards for leases other than those which transfer ownership of the leased assets to the lessee continue to be accounted for as an operating lease. Those leases for the years ended December 31, 2011 and 2010 are as follows;

### A. Acquisition cost, accumulated depreciation of tools, equipment and fixtures

|                                 | Millions of Yen |              |
|---------------------------------|-----------------|--------------|
|                                 | 2011            | 2010         |
| Acquisition cost                | ¥ 4,338         | ¥ 5,474      |
| Less : Accumulated depreciation | <u>4,316</u>    | <u>5,424</u> |
| Net amount                      | <u>¥ 22</u>     | <u>¥ 50</u>  |

### B. The aggregate receivables from the lessees, which were not recorded on the books of account, as of December 31, 2011 and 2010, were as follows:

|                     | Millions of Yen |             |
|---------------------|-----------------|-------------|
|                     | 2011            | 2010        |
| Due within one year | ¥ 6             | ¥ 31        |
| Due after one year  | <u>0</u>        | <u>8</u>    |
| Total               | <u>¥ 6</u>      | <u>¥ 39</u> |

Receivables from unexpired leases related to subleased items other than those listed above amount to ¥146 million and ¥796 million at December 31, 2011 and 2010, respectively.

### C. Receivables lease fees, depreciation and deemed interest income as of December 31, 2011 and 2010 were as follows:

|                        | Millions of Yen |       |
|------------------------|-----------------|-------|
|                        | 2011            | 2010  |
| Receivable lease fees  | ¥ 31            | ¥ 106 |
| Depreciation           | 56              | 89    |
| Deemed interest income | 1               | 5     |

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

## 17. FINANCIAL INSTRUMENTS

### 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, giving due consideration to credit risk, market risk, liquidity risk and other forms of risk. The policy concerning the raising of funds requires the selection of the most appropriate funding method, including direct or indirect financing, based on prevailing economic conditions and other factors.

A certain 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. A certain 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, and 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, Japanese government bonds, municipal bonds, foreign securities and other marketable securities, as well as monetary claims bought. Marketable securities are exposed to the 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 loans 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 structured time deposits held by individual customers, and foreign currency ordinary and time deposits. Structured 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 the 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, commodity derivatives 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 counterparty. Contracts for difference are provided in the form of ASP

services, and in principal, the Group is not exposed to the risk of fluctuation in exchange rates 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 and aims to achieve early detection and minimization of collection problems 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 financial condition of issuers.

### IV. Quantitative information related to market risk

#### i) Management of interest rate risk

For subsidiaries engaged in the financial business, major financial assets subject to interest rate risk are mainly securities for banking business, monetary claims bought, and loan receivables for banking business.

The financial liabilities subject to interest rate risk include ordinary deposits from individual and corporate customers, time deposits and structured time deposits held by individual customers, foreign currency ordinary and time deposits, and interest rate swaps.

A certain subsidiary engaged in the banking business calculates the fair value of these financial assets and liabilities and uses their net position ("Present Value") for quantitative analysis in the management of interest rate fluctuation risk.

Fluctuation in the Present Value is calculated by separating the applicable financial assets and liabilities into a fixed interest group and a variable interest group, then allocating the balances among the corresponding accrual periods and then applying the interest rate fluctuation applicable to each accrual period. As of December 31, 2011, assuming that all risk variables other than interest rate risk are held constant, if all index interest rates rise by 10 basis points (0.1%), present value would decrease by ¥667 million; conversely, if all index interest rates fall by 10 basis points, present value would increase by ¥667 million. The correlation between interest rates and other risk variables is not considered in the calculation of the effect, foreign-currency-denominated assets and liabilities are translated into Japanese yen using the exchange rates as of December 31, 2011 and the effect of negative interest rates in the case that interest rates fall by 10 basis points is not excluded from the calculation .

#### ii) Management of foreign exchange risk

For subsidiaries engaged in the financial business, major financial assets subject to foreign exchange risk are mainly securities denominated in foreign currency and foreign currency.

Financial liabilities subject to foreign exchange risk are mainly foreign currency ordinary and time deposits, currency forward agreements, and foreign currency swaps. A certain subsidiary engaged in the banking business calculates the fair value of these financial assets and liabilities and uses their net position ("Present Value") for quantitative analysis in the management of foreign exchange risk.

Fluctuation in the Present Value is calculated by separating the applicable financial assets and liabilities into currency group, and then applying the foreign exchange rate fluctuation to each currency group. As of December 31, 2011, assuming that risk variables other than foreign exchange are held constant, if the yen appreciates by 10% against all other currencies, the present value would decrease by ¥22 million. Conversely, if the yen depreciates by 10% against other currencies, the present value would increase by ¥22 million. The correlation between exchange rates and other risk variables is not considered in the calculation of the effect, and the fluctuations in the Present Value denominated in foreign currency are translated into Japanese yen using the exchange rates as of December 31, 2011.

**V. 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 values 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, 2011 and 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, 2011   | Millions of Yen |             |           |
|---|-----------------|-------------|-----------|
|   | Carrying Value  | Fair Value  | Variance  |
| 1) Cash and deposits  | ¥ 88,990        | ¥ 88,990    | ¥ —       |
| 2) Accounts receivable-installment                          | 66,219          |             |           |
| Allowance for doubtful accounts                             | (1,426)         |             |           |
|   | 64,793          | 65,224      | 430       |
| 3) Beneficial interests in securitized assets               | 88,960          |             |           |
| Allowance for doubtful accounts                             | (1,242)         |             |           |
|   | 87,718          | 86,550      | (1,168)   |
| 4) Cash segregated as deposits for securities business      | 207,503         | 207,503     | —         |
| 5) Margin transactions assets for securities business       | 115,634         | 115,634     | —         |
| 6) Operating loans  | 62,387          |             |           |
| Allowance for doubtful accounts                             | (8,931)         |             |           |
|   | 53,456          | 66,697      | 13,241    |
| 7) Marketable and investment securities                     |                 |             |           |
| 1. Trading securities                                       | 139             | 139         | —         |
| 2. Held to maturity securities                              | 1,004           | 1,003       | (0)       |
| 3. Available-for-sale securities                            | 80,960          | 80,960      | —         |
| 4. Stocks in subsidiaries and affiliates                    | 5,072           | 6,350       | 1,278     |
| 8) Securities for banking business                          |                 |             |           |
| 1. Marketable securities                                    |                 |             |           |
| i ) Held-to-maturity debt securities                        | 19,269          | 19,828      | 559       |
| ii) Available-for-sale securities                           | 300,145         | 300,145     | —         |
| 2. Monetary claims bought                                   | 218,305         |             |           |
| Allowance for doubtful accounts                             | (26)            |             |           |
|   | 218,279         | 218,307     | 27        |
| 9) Loans for banking business                               | 155,678         |             |           |
| Allowance for doubtful accounts                             | (1,746)         |             |           |
|   | 153,932         | 156,227     | 2,295     |
| Total assets  | ¥ 1,396,893     | ¥ 1,413,555 | ¥ 16,662  |
| 1) Deposits for banking business                            | 741,501         | 741,922     | 420       |
| 2) Short-term debts   | 130,722         | 130,722     | —         |
| 3) Deposits received for securities business                | 139,483         | 139,483     | —         |
| 4) Margin transactions liabilities for securities business  | 38,230          | 38,230      | —         |
| 5) Guarantee deposits received for securities business      | 79,818          | 79,818      | —         |
| 6) Borrowings secured by securities for securities business | 28,735          | 28,735      | —         |
| 7) Long-term debts  | 190,747         | 190,720     | (27)      |
| Total liabilities   | ¥ 1,349,236     | ¥ 1,349,629 | ¥ 393     |
| Derivatives <sup>*1</sup>                                   |                 |             |           |
| 1. Items not applicable under hedge accounting criteria     | 5,445           | 5,445       | —         |
| 2. Items applicable under hedge accounting criteria         | 91              | (1,022)     | (1,113)   |
| Total derivatives   | ¥ 5,536         | ¥ 4,423     | ¥ (1,113) |



| 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*1   |                 |             |          |
| 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 approximates 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 a 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. The fair value of subordinated beneficial interests with maturity greater 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 a 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 re-contract loans and delinquent loans. Accordingly, their fair value is stated at the carrying amount as of balance sheet dates, net of the allowance for doubtful accounts. Since operating loans with a 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 prices on stock exchanges. Since negotiable certificates of deposit are settled in a short period of time, their fair value 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 corporate 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, in comparison with statement at market value, the fair values of securities for the banking business and the valuation differences on available for sale securities are increased by ¥1,248 million and ¥803 million, respectively, and the fair value of deferred tax assets is decreased by ¥445 million as of December 31, 2011, 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 as of December 31, 2010.

Floating-rate Japanese's Government Bonds were previously stated at market value in the consolidated balance sheets. However, as a result of examination of recent market conditions, the Company determined that the market value can no longer be regarded as a fair value. Therefore, the bonds are stated at reasonably estimated value in the balance sheets as of the end of the current fiscal year. As a result of the change, securities for banking business increased and valuation difference on available-for-sale securities increased by ¥1,248 million and ¥803 million, respectively

The estimated value of floating-rate Japanese Government Bonds is the 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.

For monetary claims bought, trust beneficiary rights with multiple claimholders that are divided qualitatively into preferred, subordinate, and other classes are stated at quoted prices from financial institutions. The fair value of other monetary claims bought is calculated using the same method as the one described in "Loans for banking business" below as of December 31, 2011.

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 the 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 a 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 or less. 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 and,

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 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      |         |
|---------------------------------------|----------------------|---------|
|                                       | Balance sheet amount |         |
|                                       | 2011                 | 2010    |
| Available-for-sale securities         |                      |         |
| Unlisted equity securities            | ¥ 2,628              | ¥ 1,465 |
| Unlisted foreign securities           | 70                   | 76      |
| Deemed securities                     | —                    | 16      |
| Other                                 | 395                  | 440     |
| Stocks in subsidiaries and affiliates | 9,327                | 5,954   |
| Total                                 | ¥ 12,420             | ¥ 7,950 |

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, 2011                             | 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>               | ¥ 87,709        | ¥ —                    | ¥ —                      | ¥ —           |
| Accounts receivable-installment <sup>*3</sup> | 50,511          | 10,821                 | 1,882                    | 600           |
| Beneficial interests in securitized assets    | 80,098          | 8,861                  | —                        | —             |
| Operating loans <sup>*4</sup>                 | 26,156          | 20,187                 | 1,306                    | 294           |
| Marketable and investment securities          |                 |                        |                          |               |
| Available-for-sale maturity securities        | 76,650          | 502                    | 502                      | —             |
| Securities for banking business               |                 |                        |                          |               |
| Marketable securities                         |                 |                        |                          |               |
| Held-to-maturity debt securities              | —               | 11,069                 | 8,200                    | —             |
| Available-for-sale maturity securities        | 54,269          | 123,122                | 109,111                  | 9,222         |
| Monetary claims bought                        | 24,910          | 148,835                | 36,813                   | 7,747         |
| Loans for banking business <sup>*5</sup>      | 23,624          | 57,126                 | 41,902                   | 32,256        |
| Total   | ¥ 423,928       | ¥ 380,523              | ¥ 199,717                | ¥ 50,120      |

| 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 the carrying amount in the consolidated balance sheets.

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 ¥2,405 million and ¥3,676 million with no due date at December 31, 2011 and 2010, respectively.

\*4 Operating loans do not include operating loans of ¥7,004 million and ¥5,572 million which are deemed unrecoverable and ¥7,440 million and ¥16,433 million with no due date at December 31, 2011 and 2010, respectively.

\*5 Loans for banking business does not include loans to bankrupt debtors, substantially bankrupt debtors and doubtful debtors of ¥770 million and ¥770 million at December 31, 2011 and 2010, respectively.

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

| <u>December 31, 2011</u>                    | 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> | ¥ 619,981        | ¥ 23,558               | ¥ 11,496                | ¥ 5,763                 | ¥ 4,459                 | ¥ 76,245        |
| Long-term debts                             | —                | 62,108                 | 49,695                  | 31,926                  | 25,511                  | 21,505          |
| <b>Total</b>                                | <b>¥ 619,981</b> | <b>¥ 85,667</b>        | <b>¥ 61,191</b>         | <b>¥ 37,689</b>         | <b>¥ 29,970</b>         | <b>¥ 97,750</b> |

| <u>December 31, 2010</u>                    | 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               |
| <b>Total</b>                                | <b>¥ 608,072</b> | <b>¥ 86,612</b>        | <b>¥ 56,501</b>         | <b>¥ 24,874</b>         | <b>¥ 12,542</b>         | <b>¥ 52,155</b> |

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

## 18. SECURITIES

### A. Securities

a. Held to maturity securities with fair value at December 31, 2011 were as follows:

| <u>December 31, 2011</u>               | Millions of Yen         |                |                   |
|--|-------------------------|----------------|-------------------|
|  | Value on balance sheets | Fair value     | Unrealized losses |
| JGB, local government bonds and others | ¥ 1,004                 | ¥ 1,003        | ¥ 0               |
| <b>Total</b>                           | <b>¥ 1,004</b>          | <b>¥ 1,003</b> | <b>¥ 0</b>        |

b. The acquisition costs, unrealized gains and losses and aggregate fair value of marketable securities at December 31, 2011 and 2010 were as follows:

| <u>December 31, 2011</u>            | Millions of Yen |                  |                   |                         |
|-------------------------------------|-----------------|------------------|-------------------|-------------------------|
|                                     | Cost            | Unrealized gains | Unrealized losses | Value on balance sheets |
| Marketable securities classified as |                 |                  |                   |                         |
| Trading                             | ¥ —             | ¥ —              | ¥ 5               | ¥ 139                   |
| Available-for-sale                  |                 |                  |                   |                         |
| Equity securities                   | 2,544           | 2,101            | 335               | 4,310                   |
| Other                               | 76,650          | 0                | —                 | 76,650                  |

| <u>December 31, 2010</u>            | Millions of Yen |                  |                   | Value on balance sheets |
|-------------------------------------|-----------------|------------------|-------------------|-------------------------|
|                                     | 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                  |

Note:

1. The acquisition values shown above are the amounts after adjustment for impairment losses. A valuation loss on investment securities of ¥100 million and ¥165 million were recognized in fiscal 2011 and 2010, 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.

c. The total value of available-for-sale securities sold during the fiscal year ended December 31, 2011 and 2010 were as follows:

|              | Millions of Yen |          |
|--------------|-----------------|----------|
|              | 2011            | 2010     |
| Amount sold  | ¥ 84,573        | ¥ 68,571 |
| Total gains  | 3               | 5        |
| Total losses | —               | 0        |

B. Securities for banking business

a. Trading securities at December 31, 2011 and 2010 : None

b. Held to maturity securities with fair value at December 31, 2011 and 2010 were as follows:

| <u>December 31, 2011</u> | Millions of Yen         |            |                  |
|--------------------------|-------------------------|------------|------------------|
|                          | Value on balance sheets | Fair value | Unrealized gains |
| Local government bonds   | ¥ 7,069                 | ¥ 7,145    | ¥ 76             |
| Other securities         | 12,200                  | 12,683     | 483              |
| Total                    | ¥ 19,269                | ¥ 19,828   | ¥ 559            |

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

c. The costs, unrealized gains and losses and aggregate fair value of marketable securities for banking business at December 31, 2011 and 2010 were as follows:

| December 31, 2011         | Millions of Yen  |                  |                   |                  |
|---------------------------|------------------|------------------|-------------------|------------------|
|                           | Cost             | Unrealized gains | Unrealized losses | Value on balance |
| Available-for-sale        |                  |                  |                   |                  |
| Bonds                     |                  |                  |                   |                  |
| JGB                       | ¥ 139,537        | ¥ 1,519          | ¥ 24              | ¥ 141,032        |
| Short-term corporate bond | 7,496            | 0                | 2                 | 7,494            |
| Corporate bonds           | 24,979           | 129              | 31                | 25,077           |
| Others                    | <u>329,275</u>   | <u>3,080</u>     | <u>1,974</u>      | <u>330,381</u>   |
| Total                     | <u>¥ 501,287</u> | <u>¥ 4,728</u>   | <u>¥ 2,032</u>    | <u>¥ 503,984</u> |

| December 31, 2010         | Millions of Yen  |                  |                   |                  |
|---------------------------|------------------|------------------|-------------------|------------------|
|                           | Cost             | Unrealized gains | Unrealized losses | Value on balance |
| 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 of ¥2,169 million and ¥3,317 million were recognized in fiscal 2011 and 2010, respectively.
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 in fiscal 2010.

d. Other securities sold during the fiscal 2011 and 2010 were as follows:

|              | Millions of Yen |          |
|--------------|-----------------|----------|
|              | 2011            | 2010     |
| Amount sold  | ¥ 37,744        | ¥ 32,074 |
| Total gains  | 1,170           | 323      |
| Total losses | 339             | 134      |

## 19. DERIVATIVES

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

a. The fair value of foreign currency transactions as of December 31, 2011 and 2010 were as follows:

| <u>December 31, 2011</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                    | ¥ 113,528              | ¥ 6,333           | ¥ 6,333                         |
|                          | Long positions                     | <u>21,598</u>          | <u>(165)</u>      | <u>(165)</u>                    |
|                          | Foreign exchange margin trading    |                        |                   |                                 |
| Counterparties           | Short positions                    | 21,433                 | —                 | —                               |
|                          | Long positions                     | <u>107,194</u>         | <u>—</u>          | <u>—</u>                        |
|                          | Foreign exchange forward contracts |                        |                   |                                 |
| OTC                      | Short positions                    | 33,852                 | 12                | 12                              |
|                          | Long positions                     | <u>78,446</u>          | <u>(790)</u>      | <u>(790)</u>                    |
| Total                    |                                    | <u>¥ 376,050</u>       | <u>¥ 5,390</u>    | <u>¥ 5,390</u>                  |

| <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>                      |
| Total                    |                                    | <u>¥ 441,431</u>       | <u>¥ 5,752</u>    | <u>¥ 5,752</u>                  |

#### Notes:

Method for calculating fair value: The fair value of foreign exchange margin trading is calculated based on foreign currency spot markets. The fair value of foreign exchange forward contracts is calculated based on foreign exchange futures markets and trading prices submitted to financial trading institutions



b. Interest rate derivatives as of December 31, 2011 and 2010 were as follows:

| <u>December 31, 2011</u> |                            | <u>Millions of Yen</u> |                   |                                     |
|--------------------------|----------------------------|------------------------|-------------------|-------------------------------------|
| Type of party            | Type of trade              | <u>Contract value</u>  | <u>Fair value</u> | <u>Valuation gains<br/>(losses)</u> |
|                          | Interest rate swap options |                        |                   |                                     |
| OTC                      | Short positions            | ¥ 92,895               | ¥ 1,115           | ¥ 1,115                             |
|                          | Long positions             | <u>92,032</u>          | <u>(1,060)</u>    | <u>(1,060)</u>                      |
| Total                    |                            | <u>¥ 184,927</u>       | <u>¥ 54</u>       | <u>¥ 54</u>                         |

| <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<br/>(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>                      |
| Total                    |                            | <u>¥ 144,890</u>       | <u>¥ (3)</u>      | <u>¥ (3)</u>                        |

Notes:

- Interest rate swap transactions presented in this table were classified in groups including those with complex provisions.
- Fair value was calculated using discount cash flow method, option pricing models and other means.

c. Commodity derivatives as of December 31, 2011 were as follows:

| <u>December 31, 2011</u> |                             | <u>Millions of Yen</u> |                   |                                     |
|--------------------------|-----------------------------|------------------------|-------------------|-------------------------------------|
| Type of party            | Type of trade               | <u>Contract value</u>  | <u>Fair value</u> | <u>Valuation gains<br/>(losses)</u> |
|                          | Commodity rate swap options |                        |                   |                                     |
| OTC                      | Short positions             | ¥ 864                  | ¥ 22              | ¥ 22                                |
|                          | Long positions              | <u>864</u>             | <u>(22)</u>       | <u>(22)</u>                         |
| Total                    |                             | <u>¥ 1,729</u>         | <u>¥ 0</u>        | <u>¥ 0</u>                          |

Notes:

Estimates of fair value were based on the data submitted by trading institutions.

d. Other derivatives as of December 31, 2011 and 2010 were as follows:

| <u>December 31, 2011</u> |                     | <u>Millions of Yen</u> |                   |                                     |
|--------------------------|---------------------|------------------------|-------------------|-------------------------------------|
| Type of party            | Type of trade       | <u>Contract value</u>  | <u>Fair value</u> | <u>Valuation gains<br/>(losses)</u> |
|                          | Balance settlements |                        |                   |                                     |
| Customers                | Short positions     | ¥ 377                  | ¥ 5               | ¥ 5                                 |
|                          | Long positions      | 892                    | (20)              | (20)                                |
|                          | Balance settlements |                        |                   |                                     |
| Counterparties           | Short positions     | 892                    | 20                | 20                                  |
|                          | Long positions      | <u>377</u>             | <u>(5)</u>        | <u>(5)</u>                          |
| Total                    |                     | <u>¥ 2,538</u>         | <u>—</u>          | <u>—</u>                            |

| <u>December 31, 2010</u> |                     | Millions of Yen |            |                             |
|--------------------------|---------------------|-----------------|------------|-----------------------------|
| Type of party            | Type of trade       | Contract value  | Fair value | Valuation gains<br>(losses) |
|                          | 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                    |                     | ¥ 4,804         | —          | —                           |

Notes:

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

B. Derivatives that qualify for hedge accounting

a. The fair value of foreign currency transactions as of December 31, 2011 and 2010 were as follows:

| <u>December 31, 2011</u>  |   |   | Millions of Yen |                              |            |
|---------------------------|---|---|-----------------|------------------------------|------------|
| Hedge accounting method   | Type of derivatives                             | Main hedged items                                     | Contract value  | Contract value over one year | Fair value |
| Deferred hedge accounting | Foreign exchange forward contracts transactions | Foreign-currency-denominated prospective transactions |                 |                              |            |
|                           | Long positions                                  |   | ¥ 21,948        | —                            | ¥ 91       |
|                           | Total   |   | ¥ 21,948        | —                            | ¥ 91       |

| <u>December 31, 2010</u> |   |                        | 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 transactions |                        |                 |                              |            |
|                          | Long positions                                  | Accounts payable-trade | ¥ 198           | —                            | ¥ (25)     |
|                          | Total   |                        | ¥ 198           | —                            | ¥ (25)     |

Notes:

Estimates of fair value were based on data submitted by financial trading institutions.

b. Interest rate derivatives as of December 31, 2011 and 2010 were as follows:

| <u>December 31, 2011</u> |   |   | Millions of Yen |                              |            |
|--------------------------|---|---|-----------------|------------------------------|------------|
| Hedge accounting method  | Type of derivatives                     | Main hedged items   | Contract value  | Contract value over one year | Fair value |
|                          | Interest swaps                          |   |                 |                              |            |
| Special method           | Floating rate received, fixed rate paid | Long-term borrowings and foreign currency-denominated bonds | ¥ 63,404        | ¥ 44,490                     | ¥ (1,113)  |
|                          | Total                                   |   | ¥ 63,404        | ¥ 44,490                     | ¥ (1,113)  |

| <u>December 31, 2010</u> |  |                      | Millions of Yen |                              |            |
|--------------------------|--|----------------------|-----------------|------------------------------|------------|
| Hedge accounting method  | Type of derivatives                                      | Main hedged items    | Contract value  | Contract value over one year | Fair value |
|                          | Interest swaps   |                      |                 |                              |            |
| Special method           | Floating rate received, fixed rate paid                  | Long-term borrowings | ¥53,900         | ¥37,367                      | ¥(947)     |
| Method used in principle | Interest swap<br>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 were based on data submitted by financial trading institutions.

## 20. RETIREMENT AND PENSION PLANS

Certain consolidated subsidiaries have a lump-sum retirement plan as a defined benefit plan, and also have a pension plan as a defined contribution plan as of December 31, 2011. Tax-qualified pension plan was abolished on July 30, 2011

### a. Information concerning retirement benefit obligation:

|  | Millions of Yen |              |
|--|-----------------|--------------|
|  | 2011            | 2010         |
| Projected benefit obligation           | ¥ 274           | ¥ 3,921      |
| Fair value of plan assets              | —               | (2,948)      |
| Unfunded retirement benefit obligation | —               | 973          |
| Unrecognized actuarial loss            | —               | 583          |
| Unrecognized past service liability    | —               | 1            |
|  | <u>¥ 274</u>    | <u>¥ 392</u> |

#### 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 |              |
|--|-----------------|--------------|
|  | 2011            | 2010         |
| Service cost                           | ¥ 106           | ¥ 143        |
| Interest cost                          | 45              | 78           |
| Expected return on plan assets         | (37)            | (62)         |
| Amortization of actuarial gain         | 88              | 140          |
| Amortization of past service liability | (0)             | (0)          |
| Other                                  | 46              | 53           |
|  | <u>¥ 248</u>    | <u>¥ 351</u> |

#### Notes:

1. Retirement benefit expense at consolidated subsidiaries using the simplified method is 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:

|  | 2011  | 2010  |
|--|---|---|
| Allocation between fiscal years of the estimated amount of retirement benefits | Allocation method based on years of service | Allocation method based on years of service |
| Discount rate  | mainly 2.00%                                | mainly 2.00%                                |
| Expected rate of return on plan assets   | mainly 2.00%                                | mainly 2.00%                                |
| Amortization period for past service liability                                 | mainly 10 years                             | mainly 10 years                             |
| Amortization period for actuarial differences                                  | mainly 10 years                             | mainly 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.

Because certain consolidated subsidiaries use a simplified method, the basic ratios are not disclosed.

## 21. 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 over approximately two to four years and expire within ten years from the grant date. 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 2011 |
|-------------------|---------------------------------------|----------------|---|
| April 30, 2002    | From March 29, 2006 to March 27, 2012 | ¥ 11,000*      | 810   |
| July 14, 2003     | From March 28, 2007 to March 26, 2013 | 19,300*        | 20,050  |
| August 29, 2003   | From March 28, 2007 to March 26, 2013 | 27,500*        | 1,810   |
| September 7, 2004 | From March 31, 2008 to March 29, 2014 | 75,500*        | 35,630  |
| 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         | 11,505  |
| 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 2011 |
|--------------------|---|----------------|---|
| September 15, 2005 | From September 19, 2007 to September 18, 2012 | ¥ 1,380,000    | 164   |

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 2011 |
|---------------|-------------------------------------|----------------|---|
| July 12, 2001 | From July 12, 2001 to July 10, 2012 | ¥ 155,792      | 225   |
| 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        | 90  |

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

| Grant Date     | Exercisable Period                       | Exercise Price | Number of outstanding<br>stock options<br>as of Dec.31 2011 |
|----------------|--|----------------|---|
| July 30, 2005  | From July 28, 2007<br>to July 27, 2015   | ¥ 38,000       | 380   |
| April 28, 2006 | From April 27, 2008<br>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<br>stock options<br>as of Dec.31 2011 |
|---------------|---------------------------------------|----------------|---|
| July 1 , 2005 | From July 1 , 2007<br>to May 31, 2015 | ¥ 50,000       | 220   |
| July 1 , 2006 | From July 1, 2008<br>to May 31, 2016  | 50,000         | 250   |

## 22. 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, 2011 and 2010.

The tax effects of significant temporary differences and tax loss carry forwards which resulted in deferred tax assets and liabilities at December 31, 2011 and 2010 were as follows:

|   | Millions of Yen |                 |
|---|-----------------|-----------------|
|   | 2011            | 2010            |
| Deferred tax assets:  |                 |                 |
| Tax loss carry forwards   | ¥ 74,637        | ¥ 55,398        |
| Excess of depreciation  | 1,764           | 2,493           |
| Loss on valuation of investment securities                      | —               | 20,462          |
| Excess of allowance for doubtful accounts                       | 6,035           | 4,421           |
| Reserve for points  | 6,268           | 5,144           |
| Asset reconciliation  | 6,676           | —               |
| Impairment loss   | —               | 1,225           |
| Allowance for loss on interest repayment                        | —               | 4,121           |
| Allowance for bonuses   | 1,088           | 1,012           |
| Loss on valuation of investment securities for banking business | 2,410           | 6,781           |
| Other   | 4,500           | 7,254           |
| Less valuation allowance  | <u>(32,171)</u> | <u>(57,196)</u> |
| Total   | <u>¥71,207</u>  | <u>¥51,115</u>  |
| Deferred tax liabilities:                                       |                 |                 |
| Tax-deductible loss due to transfer of shares                   | ¥ 7,568         | ¥ 8,465         |
| Valuation difference on available-for-sale                      | 1,767           | 4,542           |
| Intangible fixed assets   | 6,732           | 6,189           |
| Other   | 910             | 530             |
| Total   | <u>¥ 16,976</u> | <u>¥ 19,726</u> |
| Net deferred tax assets   | <u>¥ 54,231</u> | <u>¥ 31,389</u> |

Reconciliation of the difference between the statutory tax rate and the actual effective tax rate is not disclosed for the year ended December 31, 2011 and 2010 due to the loss before income taxes and minority interests recorded for the year ended December 31, 2011 and immateriality of the difference for the year ended December 31, 2010.

Subsequent changes in tax rates (after the consolidated balance sheet date) are as follows:

Income tax rates will change from fiscal year beginning on or after April 1, 2012, in accordance with the "Act for Partial Amendment of the Income Tax Act, etc. for the Purpose of Creating a Taxation System Responding to Changes in Socio-Economic Structures" (Act No. 114 of 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No. 117 of 2011), which were promulgated on December 2, 2011. As a result, the effective statutory tax rates used in the calculation of deferred tax assets and liabilities for the respective periods in which temporary differences are reversed are as follows:

|                                      |        |
|--------------------------------------|--------|
| Until December 31, 2012              | 41.00% |
| January 1, 2013 to December 31, 2015 | 38.00% |
| January 1, 2016 and after            | 36.00% |

As a result of these changes in the tax rates, deferred tax assets decreased by ¥1,424 million and deferred income taxes presented as expenses in the financial statements for the current fiscal year increased by ¥1,669 million for the year ended December 31, 2011.

## 23. BUSINESS COMBINATION

In accordance with a resolution approved at a Board of Directors meeting on June 2, 2011, the Company entered into agreements to transfer all of its shares and loan receivables of Rakuten KC Co., Ltd. ("Rakuten KC") to J Trust Co., Ltd. ("J Trust") and to succeed the Rakuten Card-related portion of Rakuten KC's business to Rakuten Credit Co., Ltd. ("Rakuten Credit," a consolidated subsidiary) by means of an absorption-type company split. The transfer was carried out and the business names of Rakuten KC and Rakuten Credit changed, to KC Card Co., Ltd. and Rakuten Card Co., Ltd. respectively on August 1, 2011.

### A. Sale of investments in a subsidiary

#### a. Summary of transaction

##### i. Names and business of the subsidiary and the purchaser

Subsidiary: Rakuten KC (business description: legacy credit card, money card, and real estate businesses)

Purchaser: J Trust (business description: holding operations, debt purchasing operations)

##### ii. Main reasons for sale

Rakuten KC, which conducts the credit card business in the Rakuten Group, is a "credit card company with an Internet foundation" and its mainstay product, Rakuten Card, has been expanding through healthy growth both in the number of its membership and its usage.

However, the environment for the credit card business has been undergoing drastic changes, driven by factors such as strengthened regulations related to the Money-Lending Control Law. In response, the Company is concentrating more resources in the core Rakuten Card and related businesses, where synergy with group companies and future growth are promising. For this purpose, the Company reorganized its credit card business and transferred the Rakuten Card-related business to Rakuten Credit, a group subsidiary, in an absorption-type split. In order for the Rakuten KC businesses after the split (legacy credit card, money card, and real estate) to keep operating smoothly, they were transferred to J Trust, a company that possesses know-how in the consumer finance and real estate business in the group.

##### iii. Date of divestiture (share transfer date)

August 1, 2011

##### iv. Legal form of the transaction and other information of the transactions

Business transfer through sale of shares and transfer of loan receivables

#### b. Summary of accounting treatment

In accordance with the Accounting Standard for Business Divestitures (ASBJ, Statement No. 7, issued December 26, 2008), the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No.10., issued December 26, 2008), and the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, issued December 26, 2008), Loss on business transfer of ¥48,862 million was recognized as an extraordinary loss in the fiscal year ended December 31, 2011.

#### c. Business segment for applicable subsidiaries

Internet Finance segment

#### d. Approximate amounts of profit and loss pertaining to the divested businesses included in the consolidated statements of income for the fiscal year ended December 31, 2011 were as follows;

|                |                 |
|----------------|-----------------|
| Net sales      | ¥10,756 million |
| Operating loss | ¥ 1,170 million |



## B. Transactions under common control

### a. Summary of transaction

#### i. Name and description of business

Rakuten KC's business related to Rakuten Card business

#### ii. Date of business combination

August 1, 2011

#### iii. Legal form of business combination

An absorption-type company split in which Rakuten KC is the split company and Rakuten Credit is the successor company.

#### iv. Name of business after business combination

Rakuten Card Co., Ltd.

#### v. Summary and purpose of the transaction

See A. "Sale of investments in a subsidiary, a. Summary of transaction, ii. Main reasons for sale."

### b. Summary of accounting treatment

The absorption-type company split was accounted for as a transaction under common control in accordance with the Accounting Standard for Business Combinations (Corporate Accounting and Disclosure Division of Financial Services Agency, issued December 26, 2008) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No.10., issued December 26, 2008).

## C. Business combination resulting from acquisition

### Business combination with Play Holdings Limited

#### a. Summary of business combination

##### i. Name and business of the acquired company

Name: Play Holdings Limited ("Play Holdings") and its 10 subsidiaries

Type of business: Business management of an e-commerce website operator

##### ii. Main reasons for business combination

The Play Holdings, with its subsidiaries, operates an e-commerce website Play.com, and is the fourth largest e-commerce operator in the UK. With the acquisition of Play Holdings, the Company will have footprints in the UK, one of the largest e-commerce markets in Europe, and Play Holdings will be a centerpiece for the Company's European business strategy along with the existing businesses in France and Germany.

##### iii. Date of business combination

October 3, 2011

##### iv. Legal form of business combination

Share acquisition

##### v. Name of company after business combination

Unchanged

##### vi. Percentage of voting rights acquired

100.0%

##### vii. Reason for determination of acquiring company

Rakuten, Inc. acquired all shares of Play Holdings by means of consideration in cash.

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

From October 1 to December 31, 2011

|   |                      |
|---|----------------------|
| c. Acquisition cost of the acquired company |                      |
| Consideration in cash                       | ¥2,916 million       |
| Direct expenditure incurred for acquisition | <u>¥ 113 million</u> |
| Acquisition cost                            | ¥3,029 million       |

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

i. Amount of goodwill  
£33 million

ii. Cause of goodwill

The goodwill was recognized based on a reasonable estimate of the ability to generate excess earnings from future business development.

iii. Amortization method and period

The straight-line method and 20 years

\* Procedures for the purchase price allocation of Play Holdings are in progress on the date of submission of the Securities Report (the Yukashoken-Hokokusho) to the Japanese government (March 30, 2012), the amount of goodwill is subject to change.

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

i. Assets

|                    |             |
|--------------------|-------------|
| Current assets     | £30 million |
| Non-current assets | £35 million |
| Total assets       | £64 million |

ii. Liabilities

|                         |             |
|-------------------------|-------------|
| Current liabilities     | £65 million |
| Non-current liabilities | £ 8 million |
| Total liabilities       | £73 million |

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

|           |                     |
|-----------|---------------------|
| Net sales | ¥22,002 million yen |
| Net loss  | ¥ 1,284 million     |

\* These estimates were calculated on the basis of Play Holding's profit and loss for the period from January 1, 2011 to September 30, 2011. The estimated amount of effect was not audited.

## 24. SEGMENT INFORMATION

The Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Statement No. 17, March 27, 2009) and the Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Guidance No. 20, March 21, 2008) were adopted as of January 1, 2011. Segment information for the year ended December 31, 2010 has been retrospectively applied of such a change in accounting standards for comparative purposes.

### A Segment

#### a. Reportable segment overview

The Rakuten Group, a provider of wide-range of internet related services, has aligned its businesses along two main axes, Internet services and Internet financial services, and reports its financial results by three reportable segments: Internet Services, Internet Finance, and Others.

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resource allocation and to assess performance..

Activities in Internet Services segment consist of the operation of e-commerce sites, including the Rakuten Ichiba Internet shopping mall, travel booking sites, portal sites and other sites, as well as services based on these sites, such as advertising and content.

Activities in Internet Finance segment involve internet banking and securities services via the Internet, credit card services, e-money services and other financial services.

Activities in Others segment mainly consists of IP telephony services and the management of a professional baseball team.

#### b. Calculation of Sales and Operating Income (Loss) by Segment

The accounting policies of the reportable segments are substantially the same as those described in the summary of significant accounting policies in note 2 above. The presented sales and segment income or loss of reportable segments are those before the elimination of inter-segment transactions except for certain consolidated subsidiaries. Segment income or loss is calculated based on operating income after allocations of company-wide expenses. The Group does not allocate its assets to the business segments.

Intersegment sales and intersegment transfers are recorded at based current market value.

#### c. Segment Sales, Segment Income (Loss), and Other Items.

| <u>December 31, 2011</u>         |                   | Millions of Yen  |               |                |                           |   |
|----------------------------------|-------------------|------------------|---------------|----------------|---------------------------|---|
|                                  | Internet Services | Internet Finance | Others        | Total          | Adjustments <sup>*1</sup> | Amount in consolidated financial statements <sup>*2</sup> |
| <b>Sales</b>                     |                   |                  |               |                |                           |   |
| Sales to customers               | ¥ 219,985         | ¥ 126,527        | ¥ 33,389      | ¥ 379,901      | ¥ —                       | ¥ 379,901   |
| Intersegment sales and transfers | 8,583             | 14,634           | 786           | 24,003         | (24,003)                  | —   |
| <b>Total sales</b>               | <b>228,568</b>    | <b>141,161</b>   | <b>34,175</b> | <b>403,903</b> | <b>(24,003)</b>           | <b>379,901</b>  |
| <b>Segment income (loss)</b>     | <b>65,783</b>     | <b>13,326</b>    | <b>1,142</b>  | <b>80,251</b>  | <b>(8,907)</b>            | <b>71,344</b>   |
| <b>Other items</b>               |                   |                  |               |                |                           |   |
| Depreciation                     | 8,086             | 6,819            | 1,831         | 16,736         | 198                       | 16,934  |
| Goodwill amortization            | 21                | 447              | 170           | 638            | 7,225                     | 7,863   |

#### Notes:

1. The ¥8,907 million adjustment to segment loss consists mainly of ¥7,225 million for goodwill amortization not allocated to reporting segments and ¥1,191 million for elimination of internal transactions.
2. Segment income has been reconciled to operating income in the consolidated income statements for the current fiscal year.

December 31, 2010

Millions of Yen

|                                  | Internet Services | Internet Finance | Others   | Total     | Adjustments <sup>*1</sup> | Amount in consolidated financial statements <sup>*2</sup> |
|----------------------------------|-------------------|------------------|----------|-----------|---------------------------|---|
| Sales                            |                   |                  |          |           |                           |   |
| Sales to customers               | ¥ 185,013         | ¥ 125,629        | ¥ 35,502 | ¥ 346,144 | ¥ —                       | ¥ 346,144   |
| Intersegment sales and transfers | 5,836             | 11,605           | 960      | 18,401    | (18,401)                  | —   |
| Total sales                      | 190,849           | 137,235          | 36,462   | 364,546   | (18,401)                  | 346,144   |
| Operating income (loss)          | 58,128            | 12,012           | 194      | 70,334    | (6,568)                   | 63,766  |
| Other items                      |                   |                  |          |           |                           |   |
| Depreciation                     | 7,471             | 7,093            | 1,597    | 16,163    | 650                       | 16,813  |
| Goodwill amortization            | 21                | 234              | 170      | 426       | 6,652                     | 7,078   |

Notes:

1. The ¥6,568 million adjustment to segment loss consists mainly of ¥6,652 million for goodwill amortization not allocated to reporting segments and ¥1,307 million for elimination of internal transactions.
2. Segment income has been reconciled to operating income in the consolidated income statements for the fiscal year.

#### B. Related Information

##### a. Products and Services

December 31, 2011

Millions of Yen

|                    | Rakuten Ichiba | Rakuten Card | Rakuten Bank | Others    | Total     |
|--------------------|----------------|--------------|--------------|-----------|-----------|
| Sales to customers | ¥ 85,921       | ¥ 62,404     | ¥ 35,223     | ¥ 196,353 | ¥ 379,901 |

##### b. Geographical Segments

###### i. Sales

Disclosure of sales by geographic segment is omitted because over 90% of the value of consolidated net sales is to external Japanese customers.

###### ii. Property, Plant and Equipment

Disclosure of property, plant and equipment by geographic segment is omitted because such assets are negligible, both inside and outside Japan.

##### c. Major Customers

Disclosure of sales to major external customers is omitted because net sales to any customer do not exceed 10% of consolidated net sales.

### C. Impairment Loss of Non-current Assets

Disclosure of impairment losses in the year ended of fiscal year 2011 is omitted because the value is negligible. As a result of the credit card business reorganization in the Internet Finance segment, an impairment loss to goodwill of ¥14,231 million has been recorded as an extraordinary loss for loss on business restructuring for the former Rakuten KC Co., Ltd..

### D. Goodwill Amortization and Carrying Value

| <u>December 31, 2011</u>     | Millions of Yen   |                  |        |         |
|------------------------------|-------------------|------------------|--------|---------|
|                              | Internet Services | Internet Finance | Others | Total   |
| Amortization <sup>*1</sup>   | ¥ 4,472           | ¥ 3,212          | ¥ 164  | ¥ 7,848 |
| Carrying value <sup>*2</sup> | 70,820            | 41,452           | 2,792  | 115,064 |

Notes:

1. As stated in A-c "Segment Sales, Operating Income (Loss), Assets, Liabilities, and Other Reported items," goodwill amortization costs are included in the adjustments to operating income.
2. As stated in A-b "Estimation of Sales, Operating Income (Loss), Assets, Liabilities, and Other Reported items by Segment," the carrying value of goodwill is not included in reporting business segments because assets are not allocated to segments.

### E. Negative Goodwill

In the Internet Finance segment, effective December 1, 2011, the issuance of Edy cards and Edy e-money by Toyota Finance Corporate and their rights and obligations were transferred to the Group as a result of an absorption-type split. In conjunction with this transfer, negative goodwill of ¥124 million was recognized.

## 25. RELATED PARTY TRANSACTIONS

Transactions during the years ended December 31, 2011 and 2010 with related party were as follows :

| <u>December 31, 2011</u>   |                             |  |                                       |  | <u>Millions of Yen</u>      |                                 |
|--|-----------------------------|--|---------------------------------------|--|-----------------------------|---------------------------------|
| 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, 2011 |
| Related party in which major shareholders hold majority of voting rights | Crimson Football Club, Inc. | 100%   | Professional football club operator   | Sponsor fee and joint appointment as officer | ¥ 236                       | ¥ 17                            |

  

| <u>December 31, 2010</u>   |                             |  |                                       |                     | <u>Millions of Yen</u>      |                                 |
|--|-----------------------------|--|---------------------------------------|---------------------|-----------------------------|---------------------------------|
| 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                       | ¥ 15                            |
| Executive  | Atsushi Kunishige           | —  | Director                              | Trading of stock    | 27                          | —                               |

Note:

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

## 26. AMOUNTS PER SHARE

|                   | <u>Yen</u>  |             |
|-------------------|-------------|-------------|
|                   | <u>2011</u> | <u>2010</u> |
| Net assets        | ¥ 17,390.59 | ¥ 18,160.62 |
| Net income (loss) |             |             |
| Basic             | ¥ (86.80)   | ¥ 2,666.28  |
| Diluted           | —           | 2,657.43    |

  

|                                       | <u>Yen</u>  |             |
|---------------------------------------|-------------|-------------|
|                                       | <u>2011</u> | <u>2010</u> |
| Cash dividends applicable to the year | 250.00      | 200.00      |

Net income per diluted share was not disclosed because of net loss per share for the fiscal year ended December 31, 2011. Basic net income per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period, retroactively adjusted for stock splits. Diluted net income per share of common stock assumes full conversion of the dilutive stock options. Listed cash dividends per share applicable to the respective years include dividends to be paid after the end of the year.

## 27. SUBSEQUENT EVENT

### A. Dividend

The following distributions of retained earnings at December 31, 2011 were approved at the Board of Directors' meeting held on February 13, 2012:

|   | <u>Millions of Yen</u> |
|---|------------------------|
| Year-end cash dividends, ¥250 per share | ¥ 3,284                |

### B. Acquisition of Shares in Kobo Inc.

At an extraordinary meeting on November 9, 2011, the board of directors approved a resolution to acquire the shares of Kobo Inc. (Toronto, Canada) ("Kobo"), a company that operates an e-books business in numerous countries throughout the world, for the purpose of making Kobo a wholly owned subsidiary of the Company. The acquisition was completed by the payment made on January 11, 2012.

#### a. Name and business description of company acquired, major reasons for business combination, effective date of business combination, legal form of business combination and name of business after combination

i. Name of company acquired: Kobo Inc.

ii. Business description: Sales and related activities of electronic readers and contents

iii. Reasons for combination:

Among its full-fledged ventures towards the eBook era that will be shortly upon us, the Company, by making Kobo into a wholly owned subsidiary, will not only obtain the eBook reader product line under the Kobo eReader brand, it will also acquire a network, focused on North America and Europe, of rights holders including overseas publishers, retail vendors for the sale of specialty terminals, and original design manufacturers (ODMs). In addition, Kobo will strive for integration of services between Kobo and existing worldwide e-commerce business of the Group as well as further growth and expansion of its business. The Group aims to provide digital contents and new e-commerce transaction services compatible with a variety of mobile devices to users throughout the world.

iv. Effective date: January 11, 2012

v. Legal form of business combination: Acquisition of shares

vi. Name of business after combination: No change

#### b. Detailed of Acquisition Costs

Consideration for the acquired share: maximum US\$285 million

\* The funds for consideration were borrowed from financial institutions.

### C. Introduction of share split and change in basic share trading unit

The Company, at the meeting of the Board of Directors held on February 20, 2012, adopted resolutions for a share split and a change in basic share trading unit.

#### a. Objective of share split and adoption of unit share system

Based on the "Action Plan for Consolidating Trading Units" released by the Japanese Stock Exchanges Conference in November 2007, the Company intended to increase the convenience of trading and liquidity of the Company's publicly traded shares by the 1:100 share split and adoption of unit share system changing basic share trading unit from one share to one hundred shares.

There is no change in the investment unit required for the Company's share as a result of the share split and the adoption of unit share system,

#### b. Ratio of share split

Split one ordinary share into one hundred shares

#### c. Change in basic share trading unit

One hundred ordinary shares as one share trading unit

#### d. Date of share split and adoption of unit share system

July 1, 2012