Rakuten

The following information was originally prepared and published by the Company in Japanese as it contains timely disclosure materials to be submitted to the Osaka Securities Exchange. This English summary translation is for your convenience only. To the extent there is any discrepancy between this English translation and the original Japanese version, please refer to the Japanese version. The following financial information was prepared in accordance with generally accepted accounting principles in Japan.

Consolidated Financial Reports
For the Fiscal Year ended December 31, 2011

Rakuten, Inc.
February 13, 2012

Company name	Rakuten, Inc.			Listed	Osaka Securities Exchange
Code No	4755			URL	http://www.rakuten.co.jp/
Representative	(Title)	Chairman and CEO	(Name)	Hiroshi Mikitani	
Contact person	(Title)	CFO	(Name)	Ken Takayama	

Supplementary materials for quarterly financial results: Yes
Quarterly financial results information meeting held: Yes
Scheduled date of the Annual General Meeting of Shareholders: March 29, 2012
Scheduled date of commencement of dividend payment: March 30, 2012
Scheduled date of filing the securities report: March 30, 2012

(Amounts less than one million yen have been rounded off)

1. Consolidated Results for the Fiscal Year ended Dec 31, 2011 (Jan 1 to Dec 31, 2011)
(1) Consolidated Operating Results

(Percentage figures are referred to comparisons with the previous fiscal year)

	Net Sales		Operating Income		Ordinary Income		Net Income (loss)	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended Dec 31, 2011	379,900	9.8	71,343	11.9	68,822	10.5	(1,139)	—
Fiscal year ended Dec 31, 2010	346,144	16.1	63,766	12.6	62,301	13.5	34,956	(34.7)

(Note) Comprehensive Loss: 6,559 million yen (fiscal year ended Dec. 31, 2011);

	EPS (Earning per Share)	EPS (Earning per Share Diluted)	ROE (Return on Equity)	ROA (Ratio of Ordinary Income to Total Assets)	OP margin (Ratio of Operating Income to Net Sales)
	Yen	Yen	%	%	%
Fiscal year ended Dec 31, 2011	(86.80)	-	(0.5)	3.6	18.8
Fiscal year ended Dec 31, 2010	2,666.28	2,657.43	15.8	3.4	18.4

(Reference) Equity in earnings of affiliates : 398million yen (Fiscal year ended Dec 31, 2011), 337million yen (Fiscal year ended Dec 31, 2010)

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	Millions of yen	Millions of yen	%	Yen
As of Dec 31, 2011	1,914,561	234,985	11.9	17,390.59
As of Dec 31, 2010	1,949,516	249,233	12.2	18,160.62

(Reference) Shareholders' equity: 228,416 million yen(as of Dec 31, 2011); 238,296 million yen (as of December 31, 2010)

(3) Consolidated Cash Flows

	Cash Flows from Operating Activities	Cash Flows from Investment Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents, End of Year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal year ended Dec 31, 2011	27,585	56,351	(34,648)	149,752
Fiscal year ended Dec 31, 2010	30,304	(60,538)	27,609	100,736

2. Dividend Distribution

	Dividend per Share					Total Dividend (Year)	Dividend Ratio (Consolidated)	Ratio of Dividend to Net Assets (Consolidated)
	1Q	2Q	3Q	Annual	Year			
	Yen	Yen	Yen	Yen	Yen	Millions of Yen	%	%
FY2010	―	―	―	200.00	200.00	2,624	7.5	1.2
FY2011	―	―	―	250.00	250.00	3,283	-	1.4
FY2012 (Forecast)	―	―	―	―	―		―	

3. Forecast of Consolidated Operating Results for Fiscal 2012 (January 1–December 31, 2012)

(Note)

Rakuten, Inc. and its group companies do not disclose earnings forecasts as these business operations include an Internet service business characterized by high uncertainty and financial related businesses such as securities business whose results heavily depend on highly volatile markets. This precludes us from making earnings forecasts.

4. Other

(1) Significant changes in the scope of consolidation: Yes

Elimination: Rakuten KC Co., Ltd

(2) Changes in accounting policies and presentation of the financial statements (major items that provide the basis for preparing financial statements)

Changes due to amendment of accounting standards: Yes

Other changes: Yes

(3) Number of shares issued (Common stock)

1.Common stock (including treasury stock)

13,194,578 shares (As of Dec 31, 2011)

13,181,697 shares (As of Dec 31, 2010)

2.Treasury stock

60,079 shares (As of Dec 31, 2011)

60,079 shares (As of Dec 31, 2010)

3.Average number of shares issued for the year ended December 31

13,128,100 shares (January 1– December 31, 2011)

13,110,410 shares (January 1– December 31, 2010)

5. Qualitative Information Concerning Consolidated Business Results

(1) Business Results for the Fiscal Year Ended December 31, 2011

During the fiscal year ended December 31, 2011, the Japanese economy went into a temporary stall after the Great East Japan Earthquake but then picked up as supply chains were reestablished. We foresee the Japanese economy getting back on track, driven by demand from reconstruction, but believe this phase requires close watch for the risk of an underperforming economy amidst the European sovereign debt crisis.

On the other hand, the Internet shopping market has seen an annual doubling in items purchased from 2002 to 2010 as an estimated one-third or more of the population aged 15 or older has taken advantage of Internet shopping, according to the latest survey results from the Ministry of Internal Affairs and Communications(1). The results of this survey on Japanese consumption patterns provide evidence that Internet shopping has taken hold as a means of making purchases and undergone rapid growth. We expect the market to continue its healthy expansion hand-in-hand with changes in consumer purchasing behavior arising from the spread of smartphones and the move from real stores to the Internet since the earthquake.

Under these conditions, the Rakuten Group steadily aimed to raise user convenience and improve customer satisfaction through an uninterrupted series of new services via smartphones and additions to the lineup of listed stores during the fiscal year under review. Our overseas expansion accelerated since the previous fiscal year and included the opening of an Internet shopping mall in Indonesia as well as the incorporation of e-commerce operators in Brazil, Germany, and the UK as consolidated subsidiaries.

Furthermore, in a move to our participation in the e-book business, a market with high worldwide growth potential, we embarked on the acquisition of Kobo Inc. of Canada, a global e-book business operator. Our Internet Finance businesses have taken advantage of synergies within the group to achieve continued growth. We reorganized the credit card business during the third quarter in order to better focus resources on the Rakuten Card business, a core business with high growth prospects tied to the expansion of the Internet shopping market. The Rakuten Card-related business of the former Rakuten KC Co., Ltd., a consolidated subsidiary, was transferred to Rakuten Card Co., Ltd. (another consolidated subsidiary, formerly Rakuten Credit Co., Ltd.) in an absorption-type split. We then sold our holdings of Rakuten KC stock and took other financial measures.(2)

As a result of the above, net sales in the fiscal year ended December 31, 2011, grew at a steady pace, despite the short-term effect of the earthquake, amounting to ¥379,900 million (9.8% year-over-year growth). Operating income was ¥71,343 million (increase by 11.9% year-over-year) after recording a ¥4,264 million provision as a result of recalculating interest repayments prior to the reorganization of the credit card business. Ordinary income was ¥68,822 million (increase by 10.5% year-over-year). All three figures represent record-high results. On the other hand, there was a loss before income taxes and minority interests of ¥14,462 million as a result of the ¥84,093 million extraordinary loss recorded in connection with the reorganization of the credit card business, while net loss amounted to ¥1,139 million (compared with net income of ¥34,956 million in the previous fiscal year) after recording deferred income taxes of ¥21,417 million.

(2) Segment Information

The Rakuten group, a comprehensive provider of online services, has aligned its businesses along two main axes: Internet services and Internet financial services.

Since the first quarter of the fiscal year ended December 31, 2011, we have applied 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). In accordance with this standard and guidance, we have identified three reporting segments: Internet Services, Internet Finance, and Others. These segments represent the constituent units of the Rakuten Group for which we are able to obtain specific financial data. This segment information will be regularly reviewed as the basis for the assessment of business performance, and for decisions by the Board of Directors concerning the allocation of business resources.

The composition of each segment is as follows.

The Internet Services segment is centered on the Rakuten Ichiba Internet shopping mall and is composed of businesses that operate a set of web sites in e-commerce, travel, portal services, and other areas and conduct sales and related transactions of advertising, content, etc., for these sites.

The Internet Finance segment consists of businesses that provide services over the Internet, including banking, securities services, credit card-related services, and e-money services.

The Others segment includes businesses for the provisioning of telecommunications services and operation of a professional baseball team.

Business results for each segment are as follows.

<Internet Services>

In its flagship Rakuten Ichiba service, the Internet Services segment aggressively expanded offerings for smartphones and took on initiatives to enrich its listing of stores, enhance delivery service, and leverage databases in marketing in the fiscal year ended December 31, 2011. Gross merchandise sales suffered a short-term impact from the earthquake but then quickly recovered as customers saw the convenience of Internet shopping and made greater use of it to purchase daily consumables. These efforts led to firm growth in unique purchasers and number of orders, extending high growth for another year with a 16.4% year-on-year increase in domestic e-commerce gross merchandise sales. In the travel business, the segment realized a 14.9% year-on-year increase in gross bookings assisted by a broader lineup of products in the Dynamic Package and a marketing strategy making successful use of coupons and other promotions combined with strategic initiatives to spur travel demand, all despite the effect of post-earthquake cancellations. In overseas e-commerce, we held the grand opening of Rakuten Belanja Online, an Indonesia Internet shopping mall, and converted RAKUTEN BRASIL INTERNET SERVICE LTDA of Brazil3, Tradoria GmbH of Germany4, and Play Holdings Limited of the UK into consolidated subsidiaries.

As a result, the Internet Services segment added to its strong growth with ¥228,567 million in net sales and ¥65,782 million in segment operating income.

<Internet Finance>

In credit card-related services for the fiscal year ended December 31, 2011, the Internet Finance segment showed robust growth in Rakuten Card membership applications coming from services of Rakuten Group companies along with increased shopping transaction volume and healthy increases in revolving shopping balances that led to greater commission revenues. Banking services reaped the benefits of effective marketing programs to Rakuten members and solid growth in loan balances, leading to increased interest income from loans. The securities business saw trading commission income fail to grow as expected due to the bearish conditions in the stock market, but Rakuten Securities was able to add new comprehensive accounts through such measures as usability improvements in its trading tools and the Money Bridge service to link accounts between Rakuten Securities and Rakuten Bank, Co. Ltd.

As a result, the segment achieved net sales of ¥141,160 million with segment income at ¥13,326 million after recording provision after recalculating interest repayments of ¥4,264 million prior to the reorganization of the credit card business.

<Others>

Telecommunications services was able to finish the fiscal year ended December 31, 2011 with record-high operating income owing to new subscriber growth in its Internet service provider business in addition to progress on fixed cost reductions and retroactive settlements of interconnection fees with other carriers. Professional sports increased sales with greater game attendance compared to last season.

These factors led the Others segment to net sales of ¥34,174 million and segment operating income of ¥1,142 million.

(Notes)

1. Source: Heisei 23 Nen Joho Tsushin ni Kansuru Genjo Hokoku [Fiscal 2011 Information and Communications Status Report] (published by the Ministry of Internal Affairs and Communications)
2. On August 1, 2011, the business name of the former Rakuten Credit Co., Ltd. a consolidated subsidiary of Rakuten, Inc., was changed to Rakuten Card Co., Ltd., and the business name of the former Rakuten KC Co., Ltd., was changed to KC Card Co., Ltd., which is no longer a Rakuten subsidiary.
3. The business name of Ikeda Internet Software Ltda. was changed to RAKUTEN BRASIL INTERNET SERVICE LTDA. on September 22, 2011.
4. The business name of Tradoria GmbH was changed to Rakuten Deutschland GmbH on January 13, 2012.

(3) Outlook for the Coming Year

In the year ending December 31, 2012, we anticipate further expansion in the use of our services in Japan including e-commerce and travel, resulting in continued high growth. In financial services, we expect the unsettled market conditions to persist, but nevertheless anticipate sustained earnings growth created from synergies within the Rakuten Group. We will also continue to make strategic allocations of corporate resources and active investments in high-growth areas such as e-books in order to open up more mid- and long-term income opportunities. While making these forward-looking investments, Rakuten intends to surpass its current financial results in the fiscal year ending December 31, 2012.

In addition to their activities in the rapidly changing environment of Internet-related business in Japan and overseas, Rakuten, Inc. and its group companies are also involved in the securities business and other finance-related business activities, with the result that their business performance is affected by financial market trends and other factors. For these reasons, it is impossible to predict financial results, and no forecasts are included in this report.

(4) Balance Sheet

<Assets>

Total assets at the end of the fiscal year ended December 31, 2011, amounted to ¥1,914,561 million, which represents a decrease of ¥34,955 million from the ¥1,949,516 million at the end of the previous fiscal year (December 31, 2010). Among the primary factors were increases of ¥41,089 million in negotiable certificates of deposits, ¥38,228 million in other current assets in conjunction with increased call loans for banking business, and ¥29,797 million in loans and bills discounted for banking business. Primary decreases included ¥94,562 million in operating loans receivables associated with the reorganization of the credit card business and ¥47,149 million in investment securities mainly due to sale of investments in Tokyo Broadcasting System Holdings, Inc.

<Liabilities>

Total liabilities at the end of the fiscal year ended December 31, 2011, were ¥1,679,575 million, a decrease of ¥20,706 million from the ¥1,700,282 million at the end of the previous fiscal year (December 31, 2010). The main factors were increases of ¥63,264 million for long-term loans payable and ¥28,228 million for deposits for banking business together with decreases of ¥49,717 million in short-term loans payable, ¥30,200 million in commercial papers, ¥17,098 million in margin transactions liabilities for securities business, and ¥13,609 million in income taxes payable.

<Net Assets>

Total assets at the end of the fiscal year ended December 31, 2011, came to ¥234,985 million, a decrease of ¥14,248 million from the ¥249,233 million at the end of the previous fiscal year (December 31, 2010). A major contributor was a ¥3,403 million decrease in shareholders' equity arising from the ¥1,139 million loss charged to income for the fiscal year and dividend paid of ¥2,624 million. Additional decreases stemmed from a ¥3,567 million unrealized gain on available-for-sale securities, a ¥3,160 million foreign currency translation adjustments, and ¥4,595 million in minority interests in conjunction with the sale of shares in the former Rakuten KC.

(5) Cash Flows

Cash and cash equivalents at the end of the fiscal year ended December 31, 2011, were ¥149,752 million, an increase of ¥49,015 million from the end of the previous fiscal year (December 31, 2010). Cash flow conditions and their major factors for the fiscal year ended December 31, 2011, are as follows.

<Cash Flows from Operating Activities>

Cash flows from operating activities had an outflow of ¥14,462 million resulting from the loss before income taxes and minority interests, as opposed to an inflow of ¥60,716 million in the previous fiscal year. Net loss for the reporting period includes non-cash flow items of ¥16,933 million for depreciation and amortization, compared with ¥16,813 million for the previous fiscal year; and ¥77,122 million for extraordinary losses arising from the reorganization of the credit card business, which have been adjusted by stating a corresponding cash inflow of the same value. At Rakuten Bank, a net increase in deposits contributed ¥28,228 million in cash inflows, increase from ¥14,918 million in the previous year, while a net increase in loans and bills discounted was responsible for ¥29,797 million in cash outflows, decrease from ¥33,004 million in the previous fiscal year. Rakuten Card had a cash outflow of ¥88,644 million from a net increase in beneficial interest in securitized assets, increase from ¥43,404 million in the previous fiscal year, and a cash inflow of ¥22,697 million from a net decrease in operating loans, up from ¥20,846 million in the previous fiscal year.

As a result of the above, net cash flows from operating activities fell to a net inflow of ¥27,585 million from a ¥30,304 million net inflow in the previous fiscal year.

<Cash Flows from Investing Activities>

Major cash flows from investing activities included net outflows of ¥390,827 million in acquisition of securities for banking business, an increase from ¥370,843 million in the previous fiscal year, and ¥15,162 million for purchase of software and other intangible assets, an increase from ¥14,946 million in the previous fiscal year. Cash inflows included proceeds from sale and redemption of securities for banking business of ¥455,813 million, compared with ¥372,266 million in the previous fiscal year.

As a result, net cash flows from investing activities were a net inflow of ¥56,351 million, a reversal of the ¥60,538 million net outflow in the previous fiscal year.

<Cash Flows from Financing Activities>

Cash flows from financing activities included a net inflow of ¥173,350 million for long-term loans payable, an increase over the ¥83,384 million inflow in the previous fiscal year. Net cash outflows included ¥143,537 million for repayment of long-term loans payable, up from ¥92,549 million in the previous fiscal year; ¥30,200 million for a net decrease in commercial papers, compared with a net inflow of ¥31,400 million in the previous fiscal year; and ¥19,235 million from a net decrease in short-term loans payable, compared with a net inflow of ¥29,031 million in the previous fiscal year.

As a result of the above, net cash flows for financing activities were a net outflow of ¥34,648 million, a reversal of the ¥27,609 million net inflow in the previous fiscal year.

(Reference) Cash Flows Index

	FY2009	FY2010	FY2011
Shareholders' equity ratio (%)	11.6	12.2	11.9
Ratio of Shareholders' equity to market capitalization (%)	52.6	45.8	56.8
Ratio of cash flows to interest-bearing liabilities （X）	—	12.2	12.6
Interest coverage ratio （X）	—	18.5	17.5

(Notes)
1. Shareholders' equity ratio: shareholders' equity/total assets
2. Ratio of Shareholders' equity to market capitalization: aggregate value of shares/total assets
3. Ratio of cash flows to interest-bearing liabilities: interest-bearing liabilities/cash flows
4. Interest coverage ratio: cash flows/interest payments
   (1) All indicators were calculated using consolidated financial statistics.
   (2) Market capitalization is calculated as the value of shares at the end of the period multiplied by the total number of shares issued and outstanding at the end of the period.
   (3) "Cash flow" stands for cash flows from operating activities.
   (4) The ratio of cash flows to interest-bearing liabilities and interest coverage ratio are not shown for fiscal 2009 because there was a net cash outflow resulting from operating activities.

(6) Basic Policy on Income Distribution and Dividends payment for Fiscal 2011 and Fiscal 2012

Our basic policy on returns to shareholders reflects our commitment to the maximization of corporate value. For this reason, we also take into account the need to build up reserves of retained earnings to maintain a sound financial structure while dynamically developing our business activities. On this basis, we have sought to maintain stable dividends. In keeping with this basic policy, we plan to pay a dividend of ¥250 per share for fiscal 2011 (versus a dividend of ¥200 per share for fiscal 2010).

Reasons for the Difficulty of Forecasting Dividends

Rakuten is a participant in the Internet business sector. Because that sector is subject to rapid change, it is difficult to predict our financial performance. For this reason, we have not included a dividend forecast for fiscal 2012.

(7) Management Policies

1. Basic Management Policy

Our basic business philosophy calls for the empowerment of individuals and society through Internet services. We contribute to social innovation and enrichment by creating growth opportunities for as many people as possible through the provision of services that ensure a high standard of satisfaction for both users and partner enterprises. Through these activities, we aim to maximize shareholders' value and corporate value of the Rakuten Group, and to become a truly global Internet service company.

2. Targets for Financial Indicators

The key performance indicators (KPIs) used by the Rakuten Group include the amounts and growth rates for group and business unit (BU) net sales, operating income, ordinary income and income before income taxes, together with gross transaction volume (the value of transactions in goods and services), the number of Rakuten Group members and others.

3. Medium- to Long-Term Management Strategies

At the heart of the basic management strategy of the Rakuten Group is a business model known as the "Rakuten Eco-System," which is based on the provision of a wide range of Internet services to users, especially Rakuten members. With this Rakuten Eco-System, we have created an environment in which members worldwide can continuously surf between multiple services, including e-commerce transactions and financial services. Our goal is to achieve synergistic benefits that include the expansion of gross transaction volume and maximization of the lifetime value of each member.

In order to bring the company to a higher growth plain by achieving these goals, we will fill out our existing lineup of services and strengthen our new service offerings such as those for smartphones. We will also proceed with effective marketing programs for building user loyalty, such as ones that make use of Rakuten Super Points.

Rakuten must be able to respond quickly to trends in the rapidly changing Internet business environment. This is reflected in the priority given to the development of robust management systems, the speedy performance of business activities, and the sharing of strategies by all executives and employees.

In the future, Rakuten will further increase its efforts to energize communities in Japan and other countries where it is active. We also aim to contribute to economic prosperity in Japan and globally through the growth of Rakuten Group over the medium- to long-term future.

(8) Challenges

The Internet sector is expected to undergo continued rapid expansion. The challenge for the Rakuten Group is to build structures capable of supporting sustainable long-term growth in that environment, reacting according to changes of business environment.

1. Globalization

We aim to contribute to economic growth and the advancement of the Internet sector by extending the Rakuten Eco-System business model both domestically and internationally. In addition, we will fold new services into the Rakuten Group's ongoing ventures, including e-commerce, to offer innovative Internet services, such as the e-book business which we have entered in earnest, to users across the globe.

2. Further improvement of Internet services

In Internet services, particularly e-commerce and travel, we will work with our partner companies to lift user satisfaction through efforts to create more new services for smartphones, expand our product lineup, and provide greater quality of deliveries.

3. Strengthening financial service brands

By offering financial services in such areas as credit cards, net banking and e-money, we aim to create a more robust Rakuten Eco-System business model in which Rakuten members can enjoy one-stop access to a multitude of services, thereby growing these services even more through group synergies.

4. Development of technology

Rakuten will give priority to the development of Internet-related technology, such as cloud computing. We will also strengthen our development organization, including overseas development centers, with the aim of building a reputation for Rakuten as a company with unique, world-class technology.

5. Development of global management structure

The Rakuten Shugi (Rakuten principles) define the corporate philosophy of the Rakuten Group together with its values and code of conduct. We will make sure that these principles are assimilated by executives and employees in Japan and overseas as we increase our business speed and quality. We will also develop the talent that is needed to globalize our business. Furthermore, we will reinforce corporate governance and create sustainable shareholder value through strengthening of our risk management system and corporate management structure.

(9) Changes in Accounting Policy

(a) Application of the Accounting Standard for Equity Accounting Method, etc

Since the first quarter of the year ended December 31, 2011, we have applied the Accounting Standard for Equity Accounting Method (ASBJ Statement No.16, March 10, 2008) and the Present Treatment of Accounting Method for Equity Accounting Method for Affiliated Companies (ASBJ practical report No.24, March 10, 2008).

There is no impact on operating income, ordinary income and net income before income taxes and minority interests by this application.

(b) Application of the Accounting Standard for Asset Retirement Obligation, etc

Since the first quarter of the fiscal year ended December 31, 2011, we have applied the Accounting Standard for Asset Retirement Obligation (ASBJ Statement No.18, March 31, 2008) and the Guidance on the Accounting Standard for Asset Retirement Obligation (ASBJ Guidance No.21, March 31, 2008).

As a result of this application, although the effect to operating income and ordinary income is immaterial, extraordinary losses by this application amounted to ¥382 million. Also, changes of the amount of Asset Retirement Obligation by this application amounted to ¥1,384 million.

(c) Change to Depreciation Method for Tangible Fixed Assets (Excluding Leased Assets)

In the past, Rakuten, Inc. and some of its consolidated subsidiaries applied the declining-balance method of depreciation to the tangible fixed assets (excluding leased assets) other than buildings (excluding ancillary facilities) acquired after April 1, 1998. Starting in the first quarter of the fiscal year ended December 31, 2011, we have changed to straight-line method of depreciation. The purpose of this change is to reflect the ways in which tangible fixed assets are used more appropriately in light of our overseas expansion, and to result in the allocation of costs more accurately to earnings based upon the usage of tangible fixed assets.

As a result of this change, depreciation expenses has been decreased by ¥1,056 million, operating income and ordinary income have been increased by ¥1,056 million, and net loss before income taxes and minority interests has been decreased by ¥1,056 million compared with the previous method applied.

(10) Additional Supplemental Information

(a) Allowance for Doubtful Accounts

During the financial reporting period, a business transfer took place on August 1, 2011, in conjunction with the reorganization of the Credit Card Business.

As a result of this transfer, the Rakuten Group's Credit Card Business has shifted to a business model based on unsecured credit and settlement operations conducted mainly over the Internet. In line with this change, we have conducted organizational change in the credit control and will be concentrating more resources on recovery of early-stage uncollected receivables. For long-term outstanding receivables, we have set up a collectibles system that aligns collection effectiveness and costs given the limited human resources after the reorganization.

In connection with these changes, we have made additional provision to the allowance for doubtful accounts as a result of a review of loanee classification and provision ratios.

Based on a change of these estimation methods, we have recorded additional allowance for doubtful accounts of ¥11,870 million and recorded a corresponding extraordinary loss, which resulted in the same effect on loss before income taxes and minority interests and also affected ¥7,003 million to net loss in the consolidated income statement for the financial reporting period.

6. Consolidated Financial Statements for the Fiscal Year ended December 31, 2010 and 2011

(1) Consolidated Balance Sheets as of December 31, 2010 and 2011

(Millions of yen)

	As of December 31, 2010	As of December 31, 2011
(Assets)		
Current assets		
Cash and deposits	72,866	88,989
Notes and accounts receivable-trade	45,353	49,667
Accounts receivable-installment	100,908	66,219
Accounts receivable-installment sales-credit guarantee	2,465	2,153
Beneficial interests in securitized assets	66,601	88,959
Cash segregated as deposits for securities business	223,113	207,503
Margin transaction assets for securities business	126,779	115,633
Operating loans	156,949	62,386
Short-term investment securities	35,510	76,600
Securities for banking business	535,087	537,790
Loans and bills discounted for banking business	125,880	155,677
Deferred tax assets	13,340	33,319
Other	151,586	189,814
Allowance for doubtful accounts	(27,011)	(14,384)
Total current assets	1,629,432	1,660,331
Noncurrent assets		
Property, plant and equipment	21,890	15,804
Intangible assets		
Goodwill	127,455	115,064
Other	54,040	58,222
Total intangible assets	181,496	173,287
Investments and other assets		
Investment securities	67,834	20,684
Deferred tax assets	25,458	25,731
Other	26,453	33,630
Allowance for doubtful accounts	(3,049)	(14,907)
Total investments and other assets	116,697	65,138
Total noncurrent assets	320,084	254,229
Total assets	1,949,516	1,914,561
(Liabilities)		
Current liabilities		
Notes and accounts payable-trade	36,835	59,201
Accounts payable-credit guarantee	2,466	2,295
Commercial papers	50,000	19,800
Short-term loans payable	180,439	130,722
Deposits for banking business	713,272	741,501
Current portion of bonds	4,800	4,800
Income taxes payable	17,590	3,980
Deferred tax liabilities	2,716	57
Deposits received for securities business	145,973	139,482

(Millions of yen)

	As of December 31, 2010	As of December 31, 2011
Margin transaction liabilities for securities business	55,328	38,229
Guarantee deposits received for securities business	77,772	79,817
Payable secured by securities for securities business	32,775	28,734
Provision	15,685	18,988
Other	208,103	205,221
Total current liabilities	1,543,759	1,472,834
Noncurrent liabilities		
Bonds payable	5,553	753
Long-term loans payable	127,482	190,746
Deferred tax liabilities	4,693	4,761
Provision for loss on interest repayment	10,175	—
Other provision	393	1,433
Other	6,246	7,171
Total noncurrent liabilities	154,545	204,867
Reserves under the special laws		
Reserve for financial products transaction liabilities	1,964	1,838
Reserve for commodities transaction liabilities	12	35
Total reserves under the special laws	1,977	1,873
Total liabilities	1,700,282	1,679,575
(Net assets)		
Shareholders' equity		
Capital stock	107,779	107,959
Capital surplus	119,850	120,030
Retained earnings	13,183	9,419
Treasury stock	(3,625)	(3,625)
Total shareholders' equity	237,187	233,783
Accumulated other comprehensive income (loss)		
Valuation difference on available-for-sale securities	6,000	2,433
Deferred gains or losses on hedges	(198)	53
Foreign currency translation adjustments	(4,693)	(7,854)
Total accumulated other comprehensive income (loss)	1,108	(5,367)
Subscription rights to shares	957	1,184
Minority interests	9,979	5,383
Total net assets	249,233	234,985
Total liabilities and net assets	1,949,516	1,914,561

(2) Consolidated Income Statements and Consolidated Comprehensive Income Statements for the Year ended December 31, 2010 and 2011

Consolidated Income Statements for the Fiscal Year ended December 31, 2010 and 2011

(Millions of yen)

	Fiscal year ended Dec. 31, 2010 (Jan. 1 to Dec. 31, 2010)	Fiscal year ended Dec. 31, 2011 (Jan. 1 to Dec. 31, 2011)
Net sales	346,144	379,900
Cost of sales	75,251	75,232
Gross profit	270,893	304,668
Selling, general and administrative expenses	*1 207,126	*1 233,324
Operating income	63,766	71,343
Non-operating income		
Interest income	65	104
Dividends income	209	136
Equity in earnings of affiliates	337	398
Foreign exchange gains	17	―
Other	425	571
Total non-operating income	1,054	1,212
Non-operating expenses		
Interest expenses	1,629	1,677
Foreign exchange losses	―	25
Commission fee	368	1,717
Other	520	314
Total non-operating expenses	2,518	3,733
Ordinary income	62,301	68,822
Extraordinary income		
Gain on negative goodwill	―	124
Gain on step acquisitions	1,700	―
Gain on change in equity	―	176
Reversal of reserve for financial products transaction liabilities	763	125
Gain on sales of subsidiaries and affiliates' stocks	―	373
Other	570	8
Total extraordinary income	3,034	808
Extraordinary loss		
Loss on retirement of noncurrent assets	401	1,156
Impairment loss	1,302	―
Loss on disaster	―	*2 1,725
Loss on investment securities	1,866	―
Restructuring loss	―	*3 77,122
Provision of allowance for doubtful accounts	―	*4 2,150
Other	1,048	1,938
Total extraordinary losses	4,619	84,093
Income (loss) before income taxes and minority interests	60,716	(14,462)
Income taxes-current	25,888	6,979
Income taxes-deferred	(760)	(21,417)
Total income taxes	25,127	(14,438)
Loss before minority interests	―	(23)

(Millions of yen)

	Fiscal year ended Dec. 31, 2010 (Jan. 1 to Dec. 31, 2010)	Fiscal year ended Dec. 31, 2011 (Jan. 1 to Dec. 31, 2011)
Minority interests in income	632	1,116
Net income (loss)	34,956	(1,139)

Consolidated Comprehensive Income Statements for the year ended December 31, 2010 and 2011

(Million of yen)

	Fiscal year ended Dec. 31, 2010 (Jan. 1-Dec. 31, 2010)	Fiscal year ended Dec. 31, 2011 (Jan. 1-Dec. 31, 2011)
Loss before minority interests	—	(23)
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	—	(3,557)
Deferred gains or losses on hedges	—	263
Foreign currency translation adjustments	—	(3,222)
Share of other comprehensive income (loss) of associates accounted for using equity method	—	(19)
Total other comprehensive loss	—	(6,535)
Comprehensive loss	—	(6,559)
(Comprehensive loss attributable to)		
Comprehensive loss attributable to owners of the parent	—	(7,615)
Comprehensive income attributable to minority interests	—	1,056

(3) Consolidated Statements of Changes in Net Assets for the year ended December 31, 2010 and 2011

(Millions of yen)

	Fiscal year ended Dec 31, 2010 (Jan 1-Dec 31, 2010)	Fiscal year ended Dec 31, 2011 (Jan 1-Dec 31, 2011)
Shareholders' equity		
Capital stock		
Balance at the end of previous period	107,605	107,779
Changes of items during the period		
Issuance of new shares	173	179
Total changes of items during the period	173	179
Balance at the end of current period	107,779	107,959
Capital surplus		
Balance at the end of previous period	115,899	119,850
Changes of items during the period		
Issuance of new shares	173	179
Increase by share exchanges	3,777	—
Total changes of items during the period	3,951	179
Balance at the end of current period	119,850	120,030
Retained earnings		
Balance at the end of previous period	(20,410)	13,183
Changes of items during the period		
Dividends from surplus	(1,309)	(2,624)
Net income (loss)	34,956	(1,139)
Change of scope of consolidation	(52)	—
Total changes of items during the period	33,594	(3,763)
Balance at the end of current period	13,183	9,419
Treasury stock		
Balance at the end of previous period	(11)	(3,625)
Changes of items during the period		
Purchase of treasury stock	(3,614)	—
Total changes of items during the period	(3,614)	—
Balance at the end of current period	(3,625)	(3,625)
Total shareholders' equity		
Balance at the end of previous period	203,083	237,187
Changes of items during the period		
Issuance of new shares	346	359
Increase by share exchanges	3,777	—
Dividends from surplus	(1,309)	(2,624)
Net income (loss)	34,956	(1,139)
Change of scope of consolidation	(52)	—
Purchase of treasury stock	(3,614)	—
Total changes of items during the period	34,104	(3,403)
Balance at the end of current period	237,187	233,783

(Millions of yen)

	Fiscal year ended Dec 31, 2010 (Jan 1-Dec 31, 2010)	Fiscal year ended Dec 31, 2011 (Jan 1-Dec 31, 2011)
Accumulated other comprehensive income (loss)		
Valuation difference on available-for-sale securities		
Balance at the end of previous period	1,841	6,000
Changes of items during the period		
Net changes of items other than shareholders' equity	4,159	(3,567)
Total changes of items during the period	4,159	(3,567)
Balance at the end of current period	6,000	2,433
Deferred gains or losses on hedges		
Balance at the end of previous period	(305)	(198)
Changes of items during the period		
Net changes of items other than shareholders' equity	107	251
Total changes of items during the period	107	251
Balance at the end of current period	(198)	53
Foreign currency translation adjustments		
Balance at the end of previous period	(1,274)	(4,693)
Changes of items during the period		
Net changes of items other than shareholders' equity	(3,418)	(3,160)
Total changes of items during the period	(3,418)	(3,160)
Balance at the end of current period	(4,693)	(7,854)
Total accumulated other comprehensive income (loss)		
Balance at the end of previous period	261	1,108
Changes of items during the period		
Net changes of items other than shareholders' equity	847	(6,475)
Total changes of items during the period	847	(6,475)
Balance at the end of current period	1,108	(5,367)
Subscription rights to shares		
Balance at the end of previous period	608	957
Changes of items during the period		
Net changes of items other than shareholders' equity	348	227
Total changes of items during the period	348	227
Balance at the end of current period	957	1,184
Minority interests		
Balance at the end of previous period	14,666	9,979
Changes of items during the period		
Net changes of items other than shareholders' equity	(4,687)	(4,595)
Total changes of items during the period	(4,687)	(4,595)
Balance at the end of current period	9,979	5,383

(Millions of yen)

	Fiscal year ended Dec 31, 2010 (Jan 1-Dec 31, 2010)	Fiscal year ended Dec 31, 2011 (Jan 1-Dec 31, 2011)
Balance at the end of previous period	218,619	249,233
Changes of items during the period		
Issuance of new shares	346	359
Increase by share exchanges	3,777	—
Dividends from surplus	(1,309)	(2,624)
Net income (loss)	34,956	(1,139)
Change of scope of consolidation	(52)	—
Purchase of treasury stock	(3,614)	—
Net changes of items other than shareholders' equity	(3,490)	(10,844)
Total changes of items during the period	30,614	(14,248)
Balance at the end of current period	249,233	234,985

(4) Consolidated Statements of Cash Flows for the year ended December 31, 2010 and 2011

(Millions of yen)

	Fiscal year ended Dec. 31, 2010 (Jan. 1-Dec. 31, 2010)	Fiscal year ended Dec. 31, 2011 (Jan. 1-Dec. 31, 2011)
Net cash provided by (used in) operating activities		
Income (loss) before income taxes and minority interests	60,716	(14,462)
Depreciation and amortization	16,813	16,933
Amortization of goodwill	7,035	7,847
Increase (decrease) in allowance for doubtful accounts	(10,889)	(768)
Increase (decrease) in provision for loss on interest repayment	(99)	—
Interest expenses	1,625	—
Loss (gain) on valuation of securities for banking business	2,935	2,213
Loss on business restructuring	—	77,122
Other loss (gain)	6,414	5,512
Decrease (increase) in notes and accounts receivable-trade	(5,986)	(4,266)
Decrease (increase) in accounts receivable-installment	(7,797)	13,538
Decrease (increase) in beneficial interests in securitized assets	(43,404)	(88,644)
Decrease (increase) in operating loans receivable	20,846	22,697
Increase (decrease) in notes and accounts payable-trade	6,696	21,218
Increase (decrease) in accounts payable-other and accrued expenses	—	21,769
Increase (decrease) in deposits for banking business	14,918	28,228
Decrease (increase) in call loans for banking business	4,000	(24,000)
Decrease (increase) in cash loans and bills discounted for banking business	(33,004)	(29,797)
Decrease (increase) in operating receivables for securities business	(16,192)	28,983
Increase (decrease) in operating payable for securities business	(11,664)	(21,544)
Increase (decrease) in loans payable secured by securities for securities business	22,663	(4,040)
Other, net	17,935	(8,356)
Subtotal	53,563	50,186
Payments for guarantee deposits for business operation	(5,539)	(391)
Proceeds from guarantee deposits for business operation	3,332	2,176
Income taxes paid	(20,801)	(23,165)
Payments for business restructuring	—	(1,220)
Other, net	(250)	—
Net cash provided by (used in) operating activities	30,304	27,585
Net cash provided by (used in) investing activities		
Payments into time deposits	(7,351)	(9,945)
Proceeds from withdrawal of time deposits	11,001	5,573
Acquisition of securities for banking business	(370,843)	(390,827)

(Millions of yen)

	Fiscal year ended Dec. 31, 2010 (Jan. 1-Dec. 31, 2010)	Fiscal year ended Dec. 31, 2011 (Jan. 1-Dec. 31, 2011)
Proceeds from sales and redemption of securities for banking business	372,266	455,813
Purchase of investment securities	(3,375)	—
Proceeds from partial payment due to share repurchase demand	8,875	—
Purchase of investments in subsidiaries	(18,825)	(7,497)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(40,158)	(7,483)
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	—	33,554
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	7,038	—
Purchase of property, plant and equipment	(5,757)	(3,825)
Purchase of intangible assets	(14,946)	(15,162)
Other payments	(1,059)	(6,499)
Other proceeds	1,849	2,206
Interest and dividends income received	748	444
Net cash provided by (used in) investing activities	(60,538)	56,351
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	29,031	(19,235)
Increase (decrease) in commercial papers	31,400	(30,200)
Proceeds from long-term loans payable	83,384	173,350
Repayment of long-term loans payable	(92,549)	(143,537)
Proceeds from issuance of bonds	1,400	—
Redemption of bonds	(18,280)	(4,800)
Purchase of treasury stock	(3,614)	—
Purchase of treasury stock of subsidiaries in consolidation	(414)	—
Interest expenses paid	(1,638)	(1,575)
Cash dividends paid	(1,313)	(2,630)
Other, net	203	(6,019)
Net cash provided by (used in) financing activities	27,609	(34,648)
Effect of exchange rate change on cash and cash equivalents	(984)	(1,171)
Net increase (decrease) in cash and cash equivalents	(3,608)	48,117
Cash and cash equivalents at beginning of period	103,618	100,736
Increase in cash and cash equivalents from newly consolidated subsidiaries	727	898
Cash and cash equivalents at end of period	100,736	149,752

Notes to the Consolidated Financial Statements

(Millions of yen)

Fiscal year ended Dec. 31, 2010 (Jan. 1 to Dec. 31, 2010)	Fiscal year ended Dec. 31, 2011 (Jan. 1 to Dec. 31, 2011)
*1 The breakdown of selling, general and administrative expenses is as follows;	*1 The breakdown of selling, general and administrative expenses is as follows;

	2010	2011
Point Costs	10,074	10,110
Advertisement and promotion expenses	26,013	40,571
Personnel expenses	49,373	53,746
Provision for bonuses	2,710	2,964
Depreciation	15,421	15,676
Communications and maintenance expenses	14,706	14,692
Outsourcing expenses	24,750	25,253
Provision of allowance for doubtful accounts	13,243	13,773
Provision for loss on interest repayment	3,713	4,264
Other	47,120	52,273
Total	207,126	233,324

Fiscal year ended Dec. 31, 2010

*2 Impairment loss

Unit	Business use	Type of asset	Impairment loss
Net's Partners Co.,Ltd	Online super market business	Goodwill	303
		Software and other	150
Rakuten, Inc.	Advertising business	Goodwill	150
		Software	116
Rakuten Shashinkan, Inc.	Photography and service business	Goodwill	155
		other	56

Fiscal year ended Dec. 31, 2011

*3 The effects of the Great East Japan Earthquake are shown as loss on disaster. They consist of the following items.

Provision for doubtful accounts, etc	752
Donations, etc	312
Repair-related expenses	567
Other items	92
Total	1,725

*4 The effects of losses from the credit card business reorganization are shown as business restructuring losses. They consist of the following items.

Allowance for business transfer loss	48,861
Impairment loss (*)	14,230
Expenses for doubtful accounts	11,870
Other items	2,159
Total	77,122

(*) Impairment of goodwill in the consolidated financial statements for the former Rakuten KC

Fiscal year ended Dec. 31, 2010 (Jan. 1 to Dec. 31, 2010)	**Fiscal year ended Dec. 31, 2011** (Jan. 1 to Dec. 31, 2011)
	*5 Sudden price movements following the Great East Japan Earthquake led to shortfalls in customers' settlement funds, resulting in losses from doubtful accounts of JPY 568 million and loan loss reserve transfer of JPY 1,582 million

Business Segment Information

Fiscal year ended Dec. 31, 2010 (Jan. 1 to Dec. 31, 2010)

(Millions of yen)

	E-Commerce	Credit card	E-money	Banking	Portal, Media	Travel	Securities
1 Sales and operating income (loss)							
Sales							
Net Sales to customers	144,081	63,116	5,262	33,288	22,729	23,284	23,961
Intersegment sales	2,551	3,399	24	1,906	8,129	494	304
Total net sales	146,632	66,515	5,287	35,194	30,859	23,779	24,265
Operating expenses	105,592	64,005	5,885	33,538	28,482	13,494	19,062
Operating income (loss)	41,039	2,509	(598)	1,656	2,376	10,285	5,203
2 Assets, depreciation, impairment loss, and capital expenditure							
Assets	340,543	340,690	29,595	822,800	12,561	33,944	438,128
Depreciation	6,934	1,333	837	2,669	344	622	2,378
Impairment loss	720	161	151	43	211	—	4
Capital expenditure	12,495	1,127	569	2,445	216	498	2,922

	Professional sports	Telecommunications	Total	Eliminations	Consolidated
1 Sales and operating income (loss)					
Sales					
Net sales to customers	7,743	22,675	346,144	—	346,144
Intersegment sales	498	182	17,491	(17,491)	—
Total net sales	8,241	22,858	363,635	(17,491)	346,144
Operating costs	9,574	21,784	301,420	(19,042)	282,378
Operating income (loss)	(1,332)	1,073	62,215	1,550	63,766
2 Segment Assets, depreciation, impairment loss, and capital expenditure					
Segment Assets	10,095	9,977	2,038,337	(88,820)	1,949,516
Depreciation	909	782	16,812	1	16,813
Impairment loss	—	9	1,302	—	1,302
Capital expenditure	568	1,074	21,917	0	21,917

Segment Information

The Rakuten Group is an integrated Internet service group with two core business areas: Internet Services and Internet Finance.

Since the first quarter of the fiscal year ended December 31, 2011, we have applied 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). In accordance with this standard, we have identified three reporting segments: Internet Services, Internet Finance and Others. These segments represent the constituent units of the Rakuten Group for which we are able to obtain specific financial data. This segment information will be regularly reviewed as the basis for the assessment of business performance, and for decisions by the Board of Directors concerning the allocation of management resources. The composition of each segment is as described below.

Internet Services

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

Internet Finance

Activities in this segment involve the provision banking and securities services via the Internet, credit card services, e-money services and other services.

Others

This segment consists of the provision of IP telephony services and the management of a professional baseball team.

Fiscal year ended December 31, 2010 (Jan. 1 to Dec. 31, 2010)

(Millions of yen)

	Reporting Segment				Adjustment (Note 1)	Amount shown in consolidated income statements for the year ended December 31, 2010 (Note 2)
	Internet Services	Internet Finance	Others	Total		
Sales						
Sales to customers	185,012	125,629	35,502	346,144	—	346,144
Intersegment Sales	5,836	11,605	959	18,401	(18,401)	—
Total Sales	190,849	137,234	36,461	364,546	(18,401)	346,144
Segment Operating income	58,128	12,011	193	70,334	(6,568)	63,766
Other						
Depreciation	7,471	7,093	1,597	16,163	650	16,813
Amortization of goodwill	21	234	169	425	6,651	7,077

Notes

1. The ¥6,568 million adjustment to segment income or losses consist mainly of an amount of ¥6,651million for goodwill amortization that has not been allocated to the reporting segments, and an amount of ¥1,307million for the elimination of intercompany transactions.
2. Segment income or losses are reconciled to operating profit in the consolidated income statements for the year ended December 31, 2010.

Fiscal year ended December 31, 2011 (Jan 1 to Dec 31, 2011)

(Millions of yen)

	Reporting Segment				Adjustment (Note 1)	Amount shown in consolidated income statements for the year ended December 31, 2011 (Note 2)
	Internet Services	Internet Finance	Others	Total		
Sales						
Sales to customers	219,985	126,526	33,388	379,900	–	379,900
Intersegment Sales	8,582	14,634	785	24,002	(24,002)	–
Total Sales	228,567	141,160	34,174	403,903	(24,002)	379,900
Segment Operating Income	65,782	13,326	1,142	80,251	(8,907)	71,343
Other						
Depreciation	8,085	6,819	1,831	16,736	197	16,933
Amortization of goodwill	21	447	169	638	7,224	7,863

Notes

1. The ¥8,907million adjustment to segment income or losses consist mainly of an amount of ¥7,224million for goodwill amortization that has not been allocated to the reporting segments, and an amount of ¥1,191 million for the elimination of intercompany transactions.
2. Segment income or losses are reconciled to operating income in the consolidated income statements for the fiscal year ended December 21, 2011.

7. Parent Financial Statements

(1) Parent Balance Sheets as of December 31, 2010 and 2011

(Millions of yen)

	As of December 31, 2010	As of December 31, 2011
(Assets)		
Current assets		
Cash and deposits	5,145	4,728
Accounts receivable-trade	32,901	37,130
Short-term investment securities	10,500	43,000
Merchandise	860	1,089
Supplies	51	160
Prepaid expenses	1,100	1,118
Short-term loans receivable from subsidiaries and affiliates	24,728	8,685
Deferred tax assets	7,226	27,573
Other	4,331	6,427
Allowance for doubtful accounts	(471)	(394)
Total current assets	86,374	129,521
Noncurrent assets		
Property, plant and equipment		
Buildings, net	1,287	1,928
Tools, furniture and fixtures, net	3,597	3,783
Construction in progress	93	174
Other, net	430	304
Total property, plant and equipment	5,409	6,190
Intangible assets		
Patent right	244	137
Right of trademark	66	70
Software	10,363	12,319
Software in progress	2,098	2,157
Other	3	3
Total intangible assets	12,776	14,689
Investments and other assets		
Investment securities	53,726	2,543
Stocks of subsidiaries and affiliates	322,913	312,326
Investments in capital of subsidiaries and affiliates	300	300
Bonds of subsidiaries and affiliates	10,000	5,000
Long-term loans receivable from subsidiaries and affiliates	47,142	41,807
Claims provable in bankruptcy, claims provable in rehabilitation, and other	531	731
Long-term prepaid expenses	161	101
Lease and guarantee deposits	2,632	2,788
Deferred tax assets	8,731	8,763
Allowance for doubtful accounts	(531)	(731)
Allowance for investment loss	(1,667)	(1,339)
Total investments and other assets	443,941	372,290
Total noncurrent assets	462,126	393,171
Total assets	548,501	522,692
(Liabilities)		
Current liabilities		
Accounts payable-trade	4,137	3,784

(Millions of yen)

	As of December 31, 2010	As of December 31, 2011
Short-term loans payable	49,076	27,341
Current portion of bonds	4,000	4,000
Accounts payable-other	9,483	12,337
Accrued expenses	6,115	8,196
Income taxes payable	13,663	241
Advances received	4,968	5,139
Deposits received	33,766	40,614
Provision for point card certificates	12,192	15,044
Provision for bonuses	2,007	2,218
Provision for directors' bonuses	210	224
Suspense receipt	48,943	134
Other	177	237
Total current liabilities	188,742	119,515
Noncurrent liabilities		
Bonds payable	4,000	—
Long-term loans payable	68,674	127,348
Other	326	1,388
Total noncurrent liabilities	73,000	128,736
Total liabilities	261,742	248,252
(Net assets)		
Shareholders' equity		
Capital stock	107,779	107,959
Capital surplus		
Legal capital surplus	75,315	75,495
Other capital surplus	41,271	41,271
Total capital surplus	116,587	116,767
Retained earnings		
Other retained earnings		
Retained earnings brought forward	62,434	51,012
Total retained earnings	62,434	51,012
Treasury stock	(3,625)	(3,625)
Total shareholders' equity	283,175	272,113
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	2,625	1,087
Deferred gains or losses on hedges	—	53
Total valuation and translation adjustments	2,625	1,141
Subscription rights to shares	957	1,184
Total net assets	286,758	274,439
Total liabilities and net assets	548,501	522,692

(2) Parent Income Statements for the year ended December 31, 2010 and 2011

(Millions of yen)

	Fiscal year ended Dec. 31, 2010 (Jan. 1 to Dec. 31, 2010)	Fiscal year ended Dec. 31, 2011 (Jan. 1 to Dec. 31, 2011)
Net sales	136,806	146,603
Cost of sales	29,697	28,395
Gross profit	107,109	118,207
Selling, general and administrative expenses	62,721	66,681
Operating Income	44,388	51,526
Non-operating income		
Interest income	1,422	1,058
Dividends income	677	270
Other	111	236
Total non-operating income	2,211	1,565
Non-operating expenses		
Interest expenses	1,388	1,502
Corporate bond interest	168	111
Commission fee	368	1,716
Other	251	31
Total non-operating expenses	2,176	3,361
Ordinary income	44,422	49,731
Extraordinary income		
Gain on sales of subsidiaries and affiliates' stocks	142	—
Reversal of allowance for doubtful accounts	62	124
Reversal of allowance for investment loss	—	390
Other	—	8
Total extraordinary income	204	522
Extraordinary loss		
Loss on retirement of noncurrent assets	209	797
Impairment loss	266	—
Loss on investment securities	1,866	—
Loss on valuation of stocks of subsidiaries and affiliates	1,332	43
Loss on support to subsidiaries and affiliates	1,390	1,870
Provision of allowance for Investment loss	554	349
Loss on liquidation of subsidiaries and affiliates	—	108
Restructuring loss	—	74,435
Other	—	642
Total extraordinary losses	5,620	78,247
Income (loss) before income taxes	39,006	(27,993)
Income taxes-current	19,776	66
Income taxes-deferred	(2,748)	(19,261)
Total income taxes	17,028	(19,195)
Net income (loss)	21,978	(8,798)

Rakuten

8. Parent Statements of Changes in Net Assets for the year ended December 31, 2010 and 2011

(Million of yen)

	Fiscal year ended Dec. 31, 2010 (Jan. 1-Dec. 31, 2010)	Fiscal year ended Dec. 31, 2011 (Jan. 1-Dec. 31, 2011)
Shareholders' equity		
Capital stock		
Balance at end of previous period	107,605	107,779
Changes of items during the period		
Issuance of new shares	173	179
Total changes of items during the period	173	179
Balance at the end of current period	107,779	107,959
Capital surplus		
Legal capital surplus		
Balance at the end of previous period	71,364	75,315
Changes of items during the period		
Issuance of new shares	173	179
Increase by share exchanges	3,777	—
Total changes of items during the period	3,951	179
Balance at the end of current period	75,315	75,495
Other capital surplus		
Balance at the end of previous period	41,835	41,271
Changes of items during the period		
Decrease by corporate division split-off-type	(563)	—
Total changes of items during the period	(563)	—
Balance at the end of current period	41,271	41,271
Total capital surplus		
Balance at the end of previous period	113,199	116,587
Changes of items during the period		
Issuance of new shares	173	179
Increase by share exchanges	3,777	—
Decrease by corporate division-split-off-type	(563)	—
Total changes of items during the period	3,388	179
Balance at the end of current period	116,587	116,767
Retained earnings		
Other retained earnings		
Retained earnings brought forward		
Balance at the end of previous period	41,765	62,434
Changes of items during the period		
Dividends from surplus	(1,309)	(2,624)
Net income (loss)	21,978	(8,798)
Total changes of items during the period	20,668	(11,422)
Balance at the end of current period	62,434	51,012
Total retained earnings		
Balance at the end of previous period	41,765	62,434
Changes of items during the period		
Dividends from surplus	(1,309)	(2,624)
Net income (loss)	21,978	(8,798)

(Million of yen)

	Fiscal year ended Dec. 31, 2010 (Jan. 1-Dec. 31, 2010)	Fiscal year ended Dec. 31, 2011 (Jan. 1-Dec. 31, 2011)
Total changes of items during the period	20,668	(11,422)
Balance at the end of current period	62,434	51,012
Treasury stock		
Balance at the end of previous period	(11)	(3,625)
Changes of items during the period		
Purchase of treasury stock	(3,614)	—
Total changes of items during the period	(3,614)	—
Balance at the end of current period	(3,625)	(3,625)
Total shareholders' equity		
Balance at the end of previous period	262,560	283,175
Changes of items during the period		
Issuance of new shares	346	359
Dividends from surplus	(1,309)	(2,624)
Increase by share exchanges	3,777	—
Decrease by corporate division-split-off type	(563)	—
Net income (loss)	21,978	(8,798)
Purchase of treasury stock	(3,614)	—
Total changes of items during the period	20,615	(11,062)
Balance at the end of current period	283,175	272,113
Valuation and translation adjustments		
Valuation difference on available-for-sale securities		
Balance at the end of previous period	(832)	2,625
Changes of items during the period		
Net changes of items other than shareholders' equity	3,458	(1,537)
Total changes of items during the period	3,458	(1,537)
Balance at the end of current period	2,625	1,087
Deferred gains or losses on hedges		
Changes of items during the period		
Net changes of items other than shareholders' equity	—	53
Total changes of items during the period	—	53
Balance at the end of current period	—	53
Total valuation and translation adjustments		
Balance at the end of previous period	(832)	2,625
Changes of items during the period		
Net changes of items other than shareholders' equity	3,458	(1,483)
Total changes of items during the period	3,458	(1,483)
Balance at the end of current period	2,625	1,141
Subscription rights to shares		
Balance at the end of previous period	608	957
Changes of items during the period		
Net changes of items other than shareholders' equity	348	227
Total changes of items during the period	348	227
Balance at the end of current period	957	1,184

(Million of yen)

	Fiscal year ended Dec. 31, 2010 (Jan. 1-Dec. 31, 2010)	Fiscal year ended Dec. 31, 2011 (Jan. 1-Dec. 31, 2011)
Total net assets		
Balance at the end of previous period	262,335	286,758
Changes of items during the period		
Issuance of new shares	346	359
Dividends from surplus	(1,309)	(2,624)
Increase by share exchanges	3,777	—
Decrease by corporate division-split-off Type	(563)	—
Net income (loss)	21,978	(8,798)
Purchase of treasury stock	(3,614)	—
Net changes of items other than shareholders' equity	3,807	(1,256)
Total changes of items during the period	24,422	(12,318)
Balance at the end of current period	286,758	274,439

9. Quarterly Consolidated Financial Statements (Summary)

(1) Quarterly Consolidated Income Statements for the three months ended December 31, 2010 and 2011

(Millions of yen)

	Three months ended Dec. 31, 2010 (Oct. 1 to Dec. 31, 2010)		Three months ended Dec. 31, 2011 (Oct. 1 to Dec. 31, 2011)	
	Amount	(%)	Amount	(%)
Net sales	93,588	100.0	109,442	100.0
Cost of sales	20,332	21.7	19,648	18.0
Gross profit	73,255	78.3	89,793	82.0
Selling, general, and administrative expenses *1	53,691	57.4	66,620	60.9
Operating income	19,563	20.9	23,173	21.2
Non-operating income				
Interest income	—		48	
Other	124		154	
Total non-operating income	124	0.1	203	0.2
Non-operating expenses				
Interest expenses	411		453	
Foreign exchange loss	—		225	
Commission fee	—		520	
Other	90		134	
Total non-operating expenses	502	0.5	1,334	1.2
Ordinary Income	19,186	20.5	22,041	20.1
Extraordinary Income				
Gain on negative goodwill	—		124	
Others	188		21	
Total extraordinary income	188	0.2	145	0.1
Extraordinary loss				
Loss on retirement of noncurrent assets	285		422	
Impairment loss	1,150		635	
Restructuring loss	—		634	
Other	243		152	
Total extraordinary loss	1,680	1.8	1,845	1.7
Income before income taxes and minority interests	17,694	18.9	20,342	18.6
Income taxes-current	8,012		1,681	
Income taxes-deferred	1,169		975	
Total income taxes	9,181	9.8	2,657	2.4
Income before minority interests	8,513		17,684	16.2
Minority interests in income	15	0.0	254	0.2
Net income	8,496	9.1	17,429	15.9

Note to the Consolidated Income Statements

(Millions of yen)

Three months ended Dec. 31, 2010 (Oct. 1 to Dec. 31, 2010)		Three months ended Dec. 31, 2011 (Oct. 1 to Dec. 31, 2011)	
*1 The breakdown of selling, general and administrative expenses is as follows:		*1 The breakdown of selling, general and administrative expenses is as follows:	
Point costs	2,344	Point costs	2,220
Advertisement and promotion expenses	7,115	Advertisement and promotion expenses	18,166
Personnel expenses	13,473	Personnel expenses	14,868
Depreciation	4,364	Depreciation	4,120
Communications and maintenance expenses	3,798	Communications and maintenance expenses	3,686
Outsourcing expenses	6,239	Outsourcing expenses	6,760
Provision of allowance for doubtful accounts	4,228	Provision of allowance for doubtful accounts	1,897
Other	12,127	Other	14,901
Total	53,691	Total	66,620

Rakuten

(2) Business Segment Information

Three months ended Dec 31, 2010 (Oct. 1 to Dec. 31, 2010)

(Millions of yen)

	E-Commerce	Credit Card	E-money	Banking	Portal, Media	Travel	Securities
Sales							
Sales to customers	43,292	16,772	1,576	8,122	5,969	6,116	5,546
Intersegment sales	562	953	6	449	2,133	119	106
Total net sales	43,854	17,725	1,583	8,571	8,103	6,236	5,653
Operating expenses	30,403	16,489	1,585	8,095	7,336	3,503	4,480
Operating income (loss)	13,450	1,236	(2)	476	766	2,733	1,173

	Professional Sports	Telecommunic-ations	Total	Elimination	Consolidated
Sales					
Sales to customers	846	5,345	93,588	—	93,588
Intersegment sales	114	60	4,507	(4,507)	—
Total net sales	960	5,406	98,095	(4,507)	93,588
Operating expenses	1,973	5,155	79,024	(5,000)	74,024
Operating income (loss)	(1,013)	250	19,070	493	19,563

Three months ended Dec. 31, 2010 (Oct. 1 to Dec. 31, 2010)

(Millions of yen)

	Reporting Segment				Adjustment (Note 1)	Amount shown in quarterly consolidated income statements (Note 2)
	Internet Services	Internet Finance	Others	Total		
Sales	55,868	35,170	7,656	98,693	(5,104)	93,588
Segment Operating Income	18,694	3,823	(646)	21,871	(2,308)	19,563

1. The ¥2,308 million adjustment to segment income or losses consist mainly of goodwill amortization that has not been allocated to the reporting segments
2. Segment income or losses are reconciled to operating profit in the consolidated income statements for the year ended December 31, 2010.

Three months ended Dec. 31, 2011 (Oct. 1 to Dec. 31, 2011)

(Millions of yen)

	Reporting Segment				Adjustment (Note 1)	Amount shown in quarterly consolidated income statements (Note 2)
	Internet Services	Internet Finance	Others	Total		
Sales	74,746	34,130	7,570	116,448	(7,006)	109,442
Segment Operating Income	20,813	5,236	(238)	25,810	(2,637)	23,173

1. The ¥2,637 million adjustment to segment income or losses consist mainly of goodwill amortization that has not been allocated to the reporting segments
2. Segment income or losses are reconciled to operating profit in the consolidated income statements for the year ended December 31, 2011.

(Note) Significant Subsequent Events

For the three months period ended December 31, 2011 (January 1 to December 31, 2011)

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), a company that operates an e-books business in numerous countries throughout the world, for the purpose of making Kobo a subsidiary. Following payment on January 11, 2012, the acquisition was completed.

1) Name and business description of company acquired, major reasons for business combination, effective date of business combination, legal form of business combination, name of business after combination

#1 Name of company acquired: Kobo Inc.

#2 Business description: Sales and related activities of electronic readers and contents

#3 Reasons for combination:

Among its full-fledged ventures towards the eBook era that will be shortly upon us, Rakuten, 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, the Kobo acquisition will lead to further growth and business expansion, and we plan to merge the company with e-commerce Business of the Rakuten Group, which is undertaking worldwide expansion. With this action, the Rakuten Group aims to provide digital content and new e-commerce transaction services compatible with a variety of mobile devices to users throughout the world.

#4 Effective date: January 11, 2012

#5 Legal form of combination: Acquisition of shares

#6 Name of business after combination: No change

(2) Detailed Statement of Acquisition Costs

Consideration in share acquisition: maximum US$285 million

* The funds for consideration are expected to be borrowed from financial institutions.