

Annual Financial Report (Consolidated) for the First Quarter of Fiscal2009

Rakuten, Inc.
May 12,2009

Company name Rakuten, Inc. Listed JASDAQ (Japan)
 Code No 4755 URL <http://www.rakuten.co.jp/>
 Representative (Position) Chairman and CEO (Name) Hiroshi Mikitani
 Contact person (Position) CFO (Name) Ken Takayama TEL +813-6387-0555
 Scheduled date of filing the securities report: May 15,2009 Date of commencement of dividend payments —

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

1. Consolidated Results for the First Quarter of Fiscal 2009 (Jan 1, 2009 through March 31, 2009)

(1) Consolidated Operating Result (Total) (Percentage figures are refer to comparisons with the previous fiscal year)

| | Net Sales | | Operating Income | | Ordinary Income | | Net Income | |
|--------------------|-----------------|------|------------------|------|-----------------|-------|-----------------|-------|
| | Millions of Yen | % | Millions of Yen | % | Millions of Yen | % | Millions of Yen | % |
| 1st Quarter FY2009 | 66,364 | — | 9,825 | — | 9,120 | — | 25,218 | — |
| 1st Quarter FY2008 | 59,522 | 22.9 | 7,213 | 16.9 | 6,992 | - 4.0 | 1,889 | -12.8 |

| | EPS (Earning per Share) | EPS (Earning per Share Diluted) |
|--------------------|----------------------------|---------------------------------------|
| | Yen | Yen |
| 1st Quarter FY2009 | 1,927.03 | 1,920.48 |
| 1st Quarter FY2008 | 144.48 | 143.90 |

(2) Consolidated Financial Position

| | Total assets | Net Assets | Equity Ratio | Book-value per Share |
|--------------------|-----------------|-----------------|--------------|----------------------|
| | Millions of Yen | Millions of Yen | % | Yen |
| 1st Quarter FY2009 | 1,762,811 | 191,268 | 9.8 | 13,227.95 |
| FY 2008 | 1,086,937 | 158,727 | 13.8 | 11,439.86 |

(Reference) Shareholders'equity:173,126 million yen (year ended March 31, 2009);149,703million yen (year ended December 31, 2008)

2. Dividend Distribution

| (Base Date) | Dividend per Share | | | | |
|-------------------|--------------------|-------------|-------------|--------|--------|
| | 1st Quarter | 2nd Quarter | 3rd Quarter | Annual | Year |
| | Yen | Yen | Yen | Yen | Yen |
| FY2008 | 0.00 | 0.00 | 0.00 | 100.00 | 100.00 |
| FY2009 | 0.00 | | | | |
| FY2009 (Forecast) | | | | | |

3. Forecast of Consolidated Operating Results for Fiscal 2009 (January 1, 2009–December 31, 2009)

Rakuten and its group businesses do not disclose earnings forecasts as its business operations include an Internet service business and a securities brokerage business, both of which are characterized by high volatility and uncertainty with regards to results. This precludes us from making earnings forecasts.

4. Other

- (1) Significant changes in scope of consolidation: Yes New subsidiary: 1 (eBANK Corporation)
- (2) Adoption of simplified accounting procedures: No
- (3) Changes to consolidated accounting rules and procedures concerning the preparation and presentation of the financial statements (major items that provide the basis for preparing financial statements)
- Changes in accounting policy: Yes
- Other changes: None
- (4) Number of shares issued (Common stock)
- ① Common stock (including treasury stock)
- 13,088,924 shares (March 31, 2009)
- 13,087,064 shares (December 31, 2008)
- ② Treasury stock
- 979 shares (March 31, 2009)
- 979 shares (December 31, 2008)
- ③ Average number of shares issued during the 1st Quarter Fiscal 2009 (Jan. 1–Mar. 31, 2009)
- 13,086,562 shares (Jan. 1–Mar. 31, 2009)
- 13,075,603 shares (Jan. 1–Mar. 31, 2008)

Qualitative Information, Financial Statements, etc.

1. Qualitative Information Concerning Consolidated Business Results

Because the first quarter of fiscal 2009, the year ending December 31, 2009, was the first in which we have applied a quarterly reporting system, there is no quarterly review by the independent auditor comparing figures for this quarter with those from the same quarter in the previous year. Absolute and percentage increases and decreases for each quarter are therefore provided for reference purposes only.

(1) First Quarter Business Results

In the first quarter (January 1–March 31, 2009) of fiscal 2009, the entire Japanese economy, including business activity and consumer spending, decelerated drastically under the impact of the worsening global financial crisis that began in the previous year. Consumers have reacted to this situation by becoming more cost-conscious, as well as more willing to make product price comparisons and buy non-standard goods and services with higher cost performance. According to a survey of the telecommunications sector in 2008, conducted by the Ministry of Internal Affairs and Communications, the number of Internet users reached 90.91 million, or 75.3% of the total population, by the end of 2008, while the number of individuals using the Internet via mobile phones and other mobile systems rose by 2.19 million, or 3.0%, year on year to 75.06 million. There was also an increase of 2.09 million, or 58.4%, to 5.67 million in the number of people accessing the Internet through home appliances, such as game consoles or televisions. These results reflect the growing sophistication and versatility of IT devices and point to continuing growth in Internet use.

In this environment, Rakuten Group was able to maintain high growth in the E-Commerce and Travel Businesses by enhancing user support services, including consulting services for merchants of online stores and contracted facilities, and product delivery and payment collection services. However, our Securities Business continued to be affected by the stock market slump that resulted from the subprime mortgage crisis.

In addition to these existing businesses, we also added eBANK Corporation to our consolidation in the first quarter of fiscal 2009. This contributed to an increase in first quarter sales, which at ¥66,364 million were 11.5% higher than the result for the first quarter of the previous year.

Operating income was 36.2% higher at ¥9,825 million, while ordinary income before income taxes increased by 30.4% to ¥9,120 million. This growth was attributable to cost restructuring as part of a package of measures to strengthen our management and cost structures.

On March 31, 2009, we exercised our right to demand the buy-back of our shareholding in Tokyo Broadcasting System Inc. (now Tokyo Broadcasting System Holdings, Inc.). Valuation losses incurred on these shares in the previous year were shown in the accounts as a deferred tax asset. This was partly responsible for a tax adjustment of ¥22,713 million. As a result, net income for the first quarter of fiscal 2009 amounted to ¥25,218 million, an increase of ¥23,329 million compared with the result for the first quarter of the previous year.

(2) Segment Overview

In the first quarter of fiscal 2009, we established a new business segment, the Bank Business Segment. This reflects the addition of eBANK Corporation as a consolidated subsidiary. Rakuten Credit, Inc. and Rakuten

Financial Solution, Inc., which were previously part of the Credit and Payment Business Segment, were transferred to the new Bank Business Segment in the first quarter of fiscal 2009. This decision was based on a reassessment of the business operations of these two companies. The Credit and Payment Business Segment became the Credit Card Business Segment. This new name better reflects the nature of activities in this segment after changes to the categorization. Results for each business segment in the first quarter are summarized below.

E-Commerce Business Segment

Our main activity in this segment is the operation of our Internet shopping mall, Rakuten Ichiba. We maintained a high growth rate in the first quarter of fiscal 2009, and gross merchandise sales including Rakuten Books were 19.4%(20.7% after leap year adjustment 20.7%)higher than the first quarter of the previous year. Factors contributing to this result included policies adopted in response to the increased cost-awareness of consumers, and measures to support merchants with outlets in our mall. Net sales from the E-Commerce Business Segment were 21.1% higher year on year at ¥25,208 million. Operating income was dramatically higher at ¥7,714 million, an increase of 91.0% compared with the first quarter of the previous year. This growth reflects increased profit from Rakuten Ichiba and the effect of measures to improve the earnings from other e-commerce businesses.

Credit Card Business Segment (Previously Credit and Payment Business Segment)

Despite a decline in the balance of outstanding loans, net sales in the Credit Card Business Segment remained steady at ¥13,972 million, thanks to support from sustained growth in the balance of revolving credit for shopping transactions. Operating expenses were higher, mainly because of steady growth in the number of Rakuten Card members. Despite this, operating income remained firmly in the black at ¥901 million. Because the structure of this segment was changed in the first quarter of fiscal 2009, the results have not been compared with those for the first quarter of the previous year.

Bank Business Segment

On a non-consolidated basis, income before income taxes in the Bank Business Segment was positive in the first quarter of fiscal 2009. Contributing factors included cost-cutting measures by Rakuten Credit, Inc., and the sale of government bonds as part of a portfolio restructuring by eBANK Corporation. However, there were accounting adjustments resulting in part from a difference in acquisition book value relating to the addition of eBANK Corporation to the consolidation. Net sales amounted to ¥6,713 million, and there was an operating loss of ¥503 million. Because this segment was established in the first quarter of fiscal 2009, the results have not been compared with those for the first quarter of the previous year.

Portal and Media Business Segment

The contribution from the wedding information service company O-net, Inc., which was added to the consolidation in the third quarter of fiscal 2008, helped to boost net sales in the first quarter of fiscal 2009 to ¥3,424 million, an increase of 46.5% compared with the result for the first quarter of the previous year. Operating income was 463.9% higher at ¥292 million.

Travel Business Segment

The gross transaction value of bookings in the first quarter of fiscal 2009 was 9.2(10.5% after leap year adjustment)% higher than in the first quarter of fiscal 2008. This reflects strong support from leisure-related users, as well as the popularity of specific services, such as reservation services for ANA Raku Pack package tours and intercity bus travel. Advertising sales were also buoyant. Net sales rose to ¥4,148 million, an increase of 15.5% compared with the result for the first quarter of fiscal 2008. Operating income benefited from revenue growth and efficiency improvements, including measures to control and reduce operating expenses, and was 36.5% higher at ¥1,812 million.

Securities Business Segment

The 2008 slump in the Japanese stock market continued in the first quarter of fiscal 2009, and operating revenues were lower. However, the results were underpinned by the continuing strong performance of the Rakuten FX foreign currency margin trading service. Another positive factor was an improved cost structure. Net sales were 16.3% below the result for the first quarter of 2008 at ¥5,288 million. Operating income was 48.2% lower at ¥448 million.

Professional Sports Business Segment

Net sales from the Professional Sports Business in the first quarter of fiscal 2009 amounted to ¥710 million, a reduction of 25.8% compared with the result for the first quarter of the previous year. Because the first quarter is an off-season period with no official matches, there was an operating loss of ¥1,185 million, compared with ¥1,088 million in the first quarter of fiscal 2008.

Telecommunications Business Segment

We continued to restructure our existing business activities in the first quarter of fiscal 2009, focusing particularly on the reduction of fixed costs. At ¥6,898 million, net sales were 23.5% below the result for the first quarter of fiscal 2008, while operating income amounted to ¥225 million, compared with an operating loss of ¥171 million in the first quarter of fiscal 2008.

2. Qualitative Information Pertaining to the Consolidated Financial Position

(Assets)

Total assets amounted to ¥1,762,811 million at the end of the first quarter of fiscal 2009. This represents an increase of ¥675,873 million compared with the ¥1,086,937 million total at the end of the previous year. This growth resulted primarily from the addition of eBANK Corporation to the consolidation, increases in cash and deposits, and the inclusion of assets relating to the bank business, including securities worth ¥583,757 million, to the Rakuten Group's assets for the first time.

(Liabilities)

From ¥928,210 million at the end of fiscal 2008, total liabilities increased by ¥643,332 million to ¥1,571,543 million at the end of the first quarter of fiscal 2009. This increase resulted mainly from the inclusion of eBANK Corporation to the consolidation, and the addition of deposits and other liabilities relating to the Bank Business to the Rakuten Group's liabilities. The total amount of short-term and long-term loans from financial institutions outside of the Rakuten Group was reduced by ¥78,936 million because of repayments, which were mostly made by Rakuten Credit, Inc. in preparation for its merger with eBANK Corporation.

(Net Assets)

Net assets amounted to ¥191,268 million at the end of the first quarter of fiscal 2009. This represents an increase of ¥32,541 million from the figure of ¥158,727 million at the end of the previous year. Shareholders' equity increased by ¥23,937 million. This reflects the fact that quarterly net income reached ¥25,218 million due to factors that included operating income of ¥9,120 million, as well as a deferred tax asset resulting from the exercise of our right to demand the buy-back of shares in Tokyo Broadcasting System Inc. (now Tokyo Broadcasting System Holdings, Inc.).

3. Cash Flows

In the first quarter of fiscal 2009, net cash provided by operating activities amounted to ¥2,917 million. Despite ¥10,719 million in income tax payments relating to the previous year, the operating cash flow was pushed into positive figures mainly by pre-tax quarterly net income of ¥6,262 million, reflecting the strong performance of the E-Commerce Business Segment.

Net cash provided by investing activities totaled ¥114,965 million in the first quarter. This reflects the restructuring of the investment portfolios of eBANK Corporation, as a result of which proceeds from sales and redemptions of securities substantially outweighed expenditure on the acquisition of negotiable securities.

Net cash used for financing activities amounted to ¥78,842 million in the first quarter. This result was primarily attributable to a reduction of short-term and long-term borrowings through repayments in preparation for the merger of Rakuten Credit, Inc. with eBANK Corporation.

In addition to the above, changes to the scope of the consolidation, including the addition of eBANK Corporation, resulted in a net increase of ¥34,544 million in cash and cash equivalents. As a result, cash and cash equivalents at the end of the first quarter of fiscal 2009 amounted to ¥155,348 million, an increase of ¥74,064 million compared with the position at the end of the previous year.

4. Qualitative Information about Consolidated Business Forecasts

Some segments, including the E-Commerce Business, are expected to show continuing performance growth in fiscal 2009. Net sales and operating income are also expected to be higher than in the previous year by the factors that include the E-Commerce Business and other segments are expected to show continuing performance growth in fiscal 2009 and measures to strengthen our management structure. The business performance of the Rakuten Group is affected by seasonal factors, and net sales tend to be higher in the third quarter because of leisure-related demand in the summer holiday season, and in the fourth quarter because of demand related to holiday season and year-end gifts.

However, some factors influencing our business performance are more difficult to forecast, such as the volatility of the business environment for Internet-related business activities, and the impact of shifts in stock market trends on the performance of the Securities Business. For this reason, we have not disclosed any quantitative performance forecasts.

5. Fiscal Year 2009 Financial Results

(1) Consolidated Balance Sheets

(Million of Yen)

| | 1st Quarter FY2009 Mar. 31, 2009 | Fiscal 2008 Year-End Dec. 31, 2008 |
|--|-------------------------------------|---------------------------------------|
| (Assets) | | |
| Current assets | | |
| Cash and deposits | 159,077 | 88,588 |
| Notes and accounts receivable-trade | 31,343 | 32,241 |
| Accounts receivable-installment | 94,870 | 93,631 |
| Accounts receivable-installment sales-credit guarantee | 3,336 | 3,550 |
| Beneficial interests in securitized assets | 69,580 | 101,572 |
| Cash segregated as deposits for Securities Business | 205,111 | 214,891 |
| Margin transaction assets for Securities Business | 84,041 | 81,153 |
| Operating loans | 230,864 | 188,695 |
| Short-term investment securities | 2,755 | 2,629 |
| Securities for Bank Business | 583,757 | — |
| Deferred tax assets | 14,505 | 12,829 |
| Other | 80,541 | 66,556 |
| Allowance for doubtful accounts | (47,296) | (36,073) |
| Current assets | 1,512,487 | 850,267 |
| Non-current assets | | |
| Property, plant and equipment | 21,954 | 21,114 |
| Intangible assets | | |
| Goodwill | 83,969 | 65,083 |
| Other | 34,268 | 28,229 |
| Intangible assets | 118,237 | 93,313 |
| Investments and other assets | | |
| Investment securities | 60,331 | 82,846 |
| Deferred tax assets | 29,043 | 15,510 |
| Other | 26,441 | 29,294 |
| Allowance for doubtful accounts | (5,683) | (5,407) |
| Investments and other assets | 110,132 | 122,242 |
| Non-current assets | 250,324 | 236,670 |
| Assets | 1,762,811 | 1,086,937 |

| | 1st Quarter FY2009 Mar. 31, 2009 | Fiscal 2008 Year-End Dec. 31, 2008 |
|--|-------------------------------------|---------------------------------------|
| (Liabilities) | | |
| Current liabilities | | |
| Notes and accounts payable-trade | 17,485 | 20,209 |
| Accounts payable-credit guarantee | 3,336 | 3,550 |
| Commercial Paper | 20,000 | 14,000 |
| Short-term loans payable | 202,374 | 270,335 |
| Deposits for Bank Business | 729,685 | — |
| Income taxes payable | 4,624 | 10,697 |
| Deferred tax liabilities | 1,346 | 91 |
| Deposits received for Securities Business | 127,202 | 142,608 |
| Margin transaction liabilities for Securities Business | 58,076 | 53,538 |
| Guarantee deposits received for Securities Business | 85,977 | 88,749 |
| Provision | 11,597 | 13,452 |
| Other | 98,212 | 85,621 |
| Current liabilities | 1,359,920 | 702,855 |
| Non-current liabilities | | |
| Bonds payable | 20,000 | 13,020 |
| Long-term loans payable | 170,089 | 181,065 |
| Provision for loss on interest repayment | 13,898 | 15,364 |
| Other provisions | 335 | 374 |
| Deferred tax liabilities | 128 | 8,266 |
| Other | 3,945 | 4,046 |
| Non-current liabilities | 208,397 | 222,137 |
| Reserves under the special laws | | |
| Reserve for financial products transaction liabilities | 3,214 | 3,206 |
| Reserve for commodities transaction liabilities | 11 | 11 |
| Reserves under the special laws | 3,225 | 3,217 |
| Liabilities | 1,571,543 | 928,210 |
| (Net assets) | | |
| Shareholders' equity | | |
| Capital stock | 107,546 | 107,534 |
| Capital surplus | 115,839 | 119,565 |
| Retained earnings | (48,756) | (76,408) |
| Treasury stock | (11) | (11) |
| Shareholders' equity | 174,618 | 150,680 |
| Valuation and translation adjustments | | |
| Valuation difference on available-for-sale securities | (346) | 655 |
| Deferred gains or losses on hedges | (260) | (335) |
| Foreign currency translation adjustment | (885) | (1,297) |
| Valuation and translation adjustments | (1,491) | (977) |
| Subscription rights to shares | 333 | 243 |
| Minority interests | 17,808 | 8,781 |
| Net assets | 191,268 | 158,727 |
| Liabilities and net assets | 1,762,811 | 1,086,937 |

(2) Consolidated Income Statements

| | (Million of Yen) |
|--|---|
| | 1st Quarter Fiscal 2009 (Jan. 1–Mar. 31, 2009) |
| Net sales | 66,364 |
| Cost of sales | 16,920 |
| Gross profit | 49,444 |
| Selling, general and administrative expenses | 39,619 |
| Operating income | 9,825 |
| Non-operating income | |
| Interest income | 27 |
| Dividend income | 11 |
| Foreign exchange income | 15 |
| Equity in income of affiliates | 151 |
| Other | 71 |
| Non-operating income | 277 |
| Non-operating expenses | |
| Interest expenses | 648 |
| Commission fee | 214 |
| Other | 118 |
| Non-operating expenses | 981 |
| Ordinary income | 9,120 |
| Extraordinary income | |
| Reversal of provision for loss on business liquidation | 389 |
| Other | 40 |
| Extraordinary income | 429 |
| Extraordinary loss | |
| Loss on valuation of investment securities | 735 |
| Impairment loss | 871 |
| Restructuring losses | 694 |
| Other | 986 |
| Extraordinary loss | 3,287 |
| Income before income taxes and minority interests | 6,262 |
| Income taxes-current | 4,312 |
| Income taxes-deferred | (22,713) |
| Income taxes | (18,400) |
| Minority interests in income (loss) | (555) |
| Net income | 25,218 |

(3) Consolidated Statements of Cash Flows

(Million Yen)

1st Quarter Fiscal 2009
(Jan. 1– Mar. 31, 2009)

| | |
|---|-----------------|
| Net cash provided by (used in) operating activities | |
| Income before income taxes and minority interests | 6,262 |
| Amortization of goodwill | 1,191 |
| Depreciation and amortization | 3,497 |
| Loss (gain) on valuation of securities for Bank Business | 812 |
| Loss (gain) on sales of securities for Bank Business | 169 |
| Increase (decrease) in allowance for doubtful accounts | (2,451) |
| Increase (decrease) in provision for loss on interest repayment | (1,465) |
| Other loss (gain) | 2,486 |
| Decrease (increase) in notes and accounts receivable-trade | 2,564 |
| Decrease (increase) in accounts receivable-installment | (1,239) |
| Decrease (increase) in beneficial interests in securitized assets | 31,992 |
| Decrease (increase) in operating loans receivable | (40,668) |
| Increase (decrease) in notes and accounts payable-trade | (2,915) |
| Increase (decrease) in accounts payable-other and accrued expenses | (4,949) |
| Increase (decrease) in advances received | 1,686 |
| Increase (decrease) in deposits for Bank Business | (41,714) |
| Decrease (increase) in call loans for Bank Business | 54,000 |
| Decrease (increase) in operating receivables for security business | 5,166 |
| Increase (decrease) in deposits held in separate accounts for Securities Business | 4,700 |
| Increase (decrease) in operating payable for security business | (13,640) |
| Increase (decrease) in loans payable secured by securities for Securities Business | 4,356 |
| Other, net | 4,093 |
| Subtotal | <u>13,937</u> |
| Income taxes paid | (10,719) |
| Other | (300) |
| Net cash provided by (used in) operating activities | <u>2,917</u> |
| Net cash provided by (used in) investment activities | |
| Acquisition of securities for Bank Business | (225,647) |
| Proceeds from sales and redemption of securities for Bank Business | 346,244 |
| Purchase of investments in subsidiaries | (701) |
| Purchase of investments in subsidiaries resulting in change in scope of consolidation | (1,170) |
| Purchase of property, plant and equipment | (1,202) |
| Purchase of intangible assets | (2,124) |
| Other payments | (1,622) |
| Other proceeds | 932 |
| Interest and dividends income received | 256 |
| Net cash provided by (used in) investment activities | <u>114,965</u> |
| Net cash provided by (used in) financing activities | |
| Net increase (decrease) in short-term loans payable | (21,398) |
| Increase (decrease) in commercial papers | 6,000 |
| Proceeds from long-term loans payable | 16,450 |
| Repayment of long-term loans payable | (73,988) |
| Redemption of bonds | (4,010) |
| Interest expenses paid | (633) |
| Proceeds from stock issuance to minority shareholders | 388 |
| Cash dividends paid | (1,200) |
| Cash dividends paid to minority shareholders | (228) |
| Other | (221) |
| Net cash provided by (used in) financing activities | <u>(78,842)</u> |
| Effect of exchange rate change on cash and cash equivalents | <u>480</u> |
| Net increase (decrease) in cash and cash equivalents | <u>39,520</u> |
| Cash and cash equivalents | <u>81,283</u> |
| Increase in cash and cash equivalents from newly consolidated subsidiary | 34,713 |
| Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation | (169) |
| Cash and cash equivalents | <u>155,348</u> |

(4) Business segment information

For the First Quarter of Fiscal 2009 (Jan 1, 2009 through March 31, 2009)

(Million of Yen)

| | E-Commerce | Credit Card | Bank | Portal Media | Travel | Securities | Professional Sports | Telecommunications | Total | Elimination | Consolidated |
|-------------------------|------------|-------------|-------|--------------|--------|------------|---------------------|--------------------|--------|-------------|--------------|
| Sales to customers | 25,208 | 13,972 | 6,713 | 3,424 | 4,148 | 5,288 | 710 | 6,898 | 66,364 | — | 66,364 |
| Intersegment sales | 403 | 334 | 136 | 1,417 | 75 | 1 | 117 | 8 | 2,494 | (2,494) | — |
| Total Sales | 25,611 | 14,307 | 6,850 | 4,841 | 4,223 | 5,289 | 828 | 6,906 | 68,859 | (2,494) | 66,364 |
| Operating Income (loss) | 7,714 | 901 | (503) | 292 | 1,812 | 448 | (1,185) | 225 | 9,707 | 118 | 9,825 |