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Financial Report (Consolidated) for the First Half of Fiscal 2011 (for the six months ended June 30, 2011)

Rakuten, Inc.
August 4, 2011

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) Senior Executive Officer and CFO	(Name)	Ken Takayama TEL +81-3-6387-0555
Scheduled date of filing the securities report			August 5, 2011
Scheduled date of commencement of dividend payment			—
Quarterly results supplementary materials to be created		Yes	
Quarterly results investors meeting to be held		Yes	

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

1. Consolidated Results for the Six Months Ended June 30 of Fiscal 2011 (January 1 to June 30, 2011)

(1) Consolidated Operating Results (Percentage figures 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	%
Six months ended June 30, 2011	177,645	8.2	29,211	3.4	29,017	5.4	(41,346)	—
Six months ended June 30, 2010	164,108	17.4	28,247	20.6	27,539	22.8	17,154	(55.0)

	EPS (Earnings per Share)	EPS (Earnings per Share Diluted)
	Yen	Yen
Six months ended June 30, 2011	(3,150.05)	—
Six months ended June 30, 2010	1,309.61	1,304.73

(2) Consolidated Financial Position

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

	Total assets	Net Assets	Equity Ratio	Book-value per Share
	Millions of Yen	Millions of Yen	%	Yen
As of June 30, 2011	1,944,534	200,110	9.9	14,702.20
As of December 31, 2010	1,949,516	249,233	12.2	18,160.62

(Reference) Shareholders' equity: 193,021 million yen (as of year ended June 30, 2011); 238,296 million yen (as of year ended December 31, 2010)

2. Dividend Distribution

	Dividend per Share				
	1st Quarter	2nd Quarter	3rd Quarter	Annual	Year
	Yen	Yen	Yen	Yen	Yen
FY2010	—	—	—	200.00	200.00
FY2011	—	—	—	—	—
FY2011 (Forecast)	—	—	—	—	—

(Note) Revision of forecasts on the Dividends: NO

3. Forecast of Consolidated Operating Results for Fiscal 2011 (January 1 to December 31, 2011)

(Note) Revision of forecasts on the Consolidated Operating Results: NO

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. Others

(1) Significant changes in scope of consolidation: No

(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: Yes

(4) Number of shares issued (Common stock)

1. Common stock (including treasury stock)

13,188,823 shares (Jun 30, 2011)

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

2. Treasury stock

60,079 shares (Jun 30, 2011)

60,079 shares (Dec 31, 2010)

3. Average number of shares issued during the Second Quarter of Fiscal 2011 and the Second Quarter of Fiscal 2010

13,125,565 shares (Jan 1 to Jun 30, 2011)

13,099,081 shares (Jan 1 to Jun 30, 2010)

Qualitative Information, Financial Statements, etc.

1. Qualitative Information Concerning Consolidated Business Results

(1) Business Results for the Second Quarter of the Fiscal Year Ending December 31, 2011

During the first half (January 1 to June 30, 2011), the Japanese economy went into a temporary stall after the Great East Japan Earthquake, but then picked up as supply chain constraints eased. Looking forward, we see a recovery amidst a post-earthquake return in demand, although the risk of power shortages remains.

In the wake of the earthquake, shoppers are rediscovering the advantages of Internet shopping as something that allows purchase and delivery of essential articles without time or place constraints. Gross merchandise sales (GMS) for the Rakuten Group is recovering as well, making a generally quick return to pre-earthquake levels, while we see continued growth in our Internet Services as the behavioral shift in consumer purchases from “real” stores to the Internet gets even stronger.

Under these conditions, the Rakuten Group aims for more user convenience and better consumer satisfaction, and has initiated such programs as expanded smart phone services and coupon-based flash marketing promotions. Our overseas expansion, which has accelerated since last year, includes the opening of an Internet shopping mall in Indonesia and entry into the Brazilian market.

Internet Finance businesses took advantage of Group synergies to achieve continued growth. To focus resources on businesses related to Rakuten Cards, one of our core businesses, we decided in the first half to restructure the Credit Card Business. The essence of this restructuring is that the Rakuten Card-related business of Rakuten KC Co., Ltd. was transferred to Rakuten Credit Co., Ltd. in an absorption-type split. We also took other financial steps, including selling our Rakuten KC stock. (The absorption-type split and sale of stock came into effect on August 1, 2011.)

As a result of the above, net sales in the first half grew steadily despite the short-term effect of the earthquake and related damage, amounting to ¥177,645 million for the period (8.2% year-on-year growth). Operating income was ¥29,211 million (up 3.4% year on year) after recording a ¥4,264 million provision as a result of recalculation on interest repayment prior to the reorganization of the Credit Card Business. Ordinary income was ¥29,017 million (up 5.4% year on year). All three results represent record-high results. Income before income taxes, on the other hand, showed a net loss of ¥51,703 million as a result of the ¥81,380 million in extraordinary losses mainly from the restructuring of the Credit Card Business. Net income showed a loss of ¥41,346 million after realizing ¥13,828 million in deferred income taxes (compared with net income of ¥17,154 million in the same period of the previous year).

(2) 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 ending 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

The flagship Rakuten Ichiba Internet shopping mall suffered a slowdown immediately after the earthquake, but then saw GMS quickly recover as customers realized the convenience of Internet shopping and made greater use of it for daily consumables. The E-Commerce Business promoted marketing including private sales, aggressively expanded services that leverage smart phones and social media, and made great efforts to enrich its listing of Rakuten Ichiba tenants and enhance delivery service. These efforts led to firm growth in unique users and number of orders, leading to another period of high growth with a 16.0% year-on-year rise in domestic e-commerce GMS.

In the Travel Business, a fuller set of products in the Dynamic Packages category and a marketing strategy making successful use of coupons and similar discounts overcame the effect of post-earthquake cancellations to achieve a 14.2% year-on-year increase in gross bookings. In overseas e-commerce, the Rakuten Belanja Online Internet shopping mall, an Indonesian joint venture with PT Global Mediacom Tbk, had its grand opening and Ikeda Internet Software LTDA, a leading e-commerce platform in Brazil, became a consolidated subsidiary in the first half.

These actions helped Internet Services to achieve healthy growth, with net sales rising to ¥99,434 million and operating income amounting to ¥28,543 million.

■ Internet Finance

Rakuten Card membership applications from other Rakuten group services showed strong growth along with increased shopping transaction volume and healthy growth in the revolving shopping balance, leading to greater commission revenues. The Banking Business saw positive benefits from effective marketing programs to Rakuten members and solid growth in loan balances, leading to increased interest income from loans. In the Securities Business, we implemented planned enhancements to trading tools, but trading commission income did not develop as planned due to the post-earthquake mood in the stock market. Also during the first half, the Securities Business initiated programs to create synergies with financial services, such as Money Bridge, a service to link accounts between Rakuten Securities, Inc. and Rakuten Bank Co., Ltd.

As a result of the above, the Internet Finances segment reported ¥71,870 million in net sales. Segment results were affected by a ¥4,264 million provision as a result of recalculation of interest repayment prior to the reorganization of the Credit Card Business, but still achieved segment operating income of ¥4,318 million.

■ Others

Rakuten began providing new IP telephony services, such as cloud telephony. Together with measures to reduce fixed costs and retroactive settlements on interconnect fees with other carriers, this generated a record high for operating income. However, as for pro-sports related business, the delayed opening of the baseball season reduced the number of official games in the first half, resulting in lower professional sports-related sales.

These factors led to net sales of ¥16,693 million and segment operating income of ¥167 million.

(3) Balance Sheet

■ Assets

Total assets at the end of the first half (until June 30, 2011), amounted to ¥1,944,534 million. This figure represents a decrease of ¥4,982 million from the ¥1,949,516 million at the end of the previous fiscal year (ended December 31, 2010). The major factors behind this change include increases of ¥17,823

million in cash and deposits; ¥26,789 million in short-term investment securities, including negotiable certificates of deposits; and ¥15,048 million in loans and bills discounted for the Banking Business. Major asset decreases include ¥52,352 million in investment securities from the sale of shares in Tokyo Broadcasting System Holdings, Inc. and ¥14,762 million in goodwill mainly from the reorganization of the Credit Card Business.

■ Liabilities

Total liabilities at the end the first half were ¥1,744,424 million, an increase of ¥44,141 million from ¥1,700,282 million at the previous fiscal year-end. The primary factors were decreases of ¥36,007 million for other current liabilities in conjunction with the sale of common stock in Tokyo Broadcasting System Holdings, increases of ¥48,400 million due to the allowance for business transfer loss (in conjunction with the reorganization of the Credit Card Business) and ¥22,358 million in short-term loans payable.

■ Net Assets

Net assets at the end of the first half stood at ¥200,110 million, a decrease of ¥49,123 million compared with ¥249,233 million at the end of the previous fiscal year. Major contributors include a net loss of ¥41,346 million for the first half, which led to a ¥43,784 million fall in shareholders' equity.

(4) Cash Flows

Cash and cash equivalents at the end of the first half was ¥138,976 million, an increase of ¥38,240 million from the end of the previous fiscal year. Cash flow components and their major factors in the first half are as follows:

■ Cash Flows from Operating Activities

Net cash from operating activities saw an outflow of ¥51,703 million for income before income taxes, a reversal of the net inflow of ¥27,682 million in the same period of the previous year. This loss includes a non-cashflow item of ¥75,939 million for extraordinary losses arising from the reorganization of the Credit Card Business.

As a result of the above, net cash flows from operating activities amounted to ¥23,418 million for the first half, compared with a ¥35,078 million net outflow in the same period for the previous fiscal year.

■ Cash Flows from Investing Activities

Cash flows from investment activities included outflows of ¥163,398 million for acquisition of securities for the Banking Business (compared with ¥200,919 million for the same period in the previous year) and ¥7,529 million for purchase of intangible fixed assets such as softwares (compared with ¥6,952 million for the same period in the previous year). Major inflows included proceeds from the sale and redemption of securities for the Banking Business, which accounted for ¥157,607 million compared with ¥208,951 million for the same period in the previous year.

In total, cash flows from investment activities for first half came to a net outflow of ¥17,166 million, compared with ¥5,302 million for the same period in the previous year.

■ Cash Flows from Financing Activities

Net cash from financing activities included a ¥27,812 million inflow from an increase in short-term loans payable and a ¥10,100 million inflow from additional commercial paper. (The same period in the previous fiscal year had corresponding cash inflows of ¥62,878 million and ¥28,900 million, respectively).

In total, cash flows from financing activities during the first half came to a net inflow of ¥30,690 million, compared with a ¥88,770 million net inflow in the first half of the previous fiscal year.

2. Qualitative Information about Consolidated Business Forecasts

In the year ending December 31, 2011, we expect the Great East Japan Earthquake to have a temporary impact, and we anticipate further expansion in the use of our services in Japan including e-commerce and travel, resulting in continued high growth. We will also actively develop our strategy to pursue growth in overseas markets, with the aim of expanding income streams in the medium- to long-term perspective. As for Internet Finance, many factors including financial markets and changes of business environments may affect its business performance, but we expect sustained growth in earnings generated by synergies within the Rakuten Group. We therefore aim to surpass our financial results for the year ended December 31, 2010 through continued efforts to improve existing services and create new ones. We do, however, think that net income for the fiscal year ending December 31, 2011, could possibly come to a net loss, on both a consolidated and unconsolidated basis. This is due to the extraordinary losses associated with the reorganization of the Credit Card Business, even though we expect operating income to be at the same level as the previous fiscal year.

In addition, 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.

3. Other Information

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

Since the first quarter of the fiscal year ending 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 quarterly income before income taxes and minority interests by this application.

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

Since the first quarter of the fiscal year ending 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 impact on operating income and ordinary income is small, 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.

(3) 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 ending December 31, 2011, we have switched to straight-line 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 link the apportionment of costs more accurately to earnings.

As a result of this change, depreciation expenses has been reduced by ¥514 million while operating income, ordinary income and net quarterly income before income taxes and minority interests are all ¥514 million higher compared with the previous method.

(4) Allowance for Doubtful Accounts

In the first half Rakuten decided to restructure the Credit Card Business. The decision means that this business will shift to a business model based on unsecured credit and settlement operations conducted mainly over the Internet. In line with this change, we will conduct an organizational review of the credit control system, and concentrate more resources on recovery of first-time uncollected receivables. For long-term outstanding receivables, we have set up a collectibles system that aligns collection effectiveness and costs given the limited staffing after restructuring.

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

Based on a review of these estimation methods, we have transferred ¥11,700 million to the allowance for doubtful accounts and recorded a corresponding extraordinary loss that had an equivalent negative effect on income before income taxes and contributed to the ¥6,900 million loss charged to net income.

(5) Allowance for Business Transfer Loss

As a result of transferring the Rakuten Card business of the Rakuten KC subsidiary, we recorded a prospective loss based on a reasonable cost estimate prepared in consideration of future likelihoods.

First Half of Fiscal Year 2011 Financial Results
(1) Consolidated Balance Sheets

(Millions of yen)

	As of June 30, 2011	As of December 31, 2010
(Assets)		
Current assets		
Cash and deposits	90,689	72,866
Notes and accounts receivable-trade	42,223	45,353
Accounts receivable-installment	108,370	100,908
Accounts receivable-installment sales-credit guarantee	2,310	2,465
Beneficial interests in securitized assets	58,701	66,601
Cash segregated as deposits for securities business	219,407	223,113
Margin transaction assets for securities business	131,195	126,779
Operating loans	147,617	156,949
Short-term investment securities	62,300	35,510
Securities for bank business	546,200	535,087
Loans and bills discounted for banking business	140,929	125,880
Deferred tax assets	50,299	13,340
Other	151,341	151,586
Allowance for doubtful accounts	(36,869)	(27,011)
Total current assets	1,714,718	1,629,432
Noncurrent assets		
Property, plant and equipment	23,546	21,890
Intangible assets		
Goodwill	112,693	127,455
Other	55,035	54,040
Total intangible assets	167,728	181,496
Investments and other assets		
Investment securities	15,481	67,834
Deferred tax assets	1,027	25,458
Other	27,115	26,453
Allowance for doubtful accounts	(5,083)	(3,049)
Total investments and other assets	38,540	116,697
Total noncurrent assets	229,815	320,084
Total assets	1,944,534	1,949,516
(Liabilities)		
Current liabilities		
Notes and accounts payable-trade	35,007	36,835
Accounts payable-credit guarantee	2,310	2,466
Commercial papers	60,100	50,000
Short term loans payable	202,798	180,439
Deposits for banking business	723,850	713,272
Current portion of bonds	4,800	4,800
Income taxes payable	3,203	17,590
Deferred tax liabilities	91	2,716
Deposits received for securities business	147,653	145,973
Margin transaction liabilities for securities business	42,517	55,328
Guarantee deposits received for securities business	81,918	77,772
Payable secured by securities for securities business	37,676	32,775
Provision for loss on transfer of business	48,400	—

	As of June 30, 2011	As of December 31, 2010
Other Provision	16,516	15,685
Other	172,096	208,103
Total current liabilities	1,578,940	1,543,759
Noncurrent liabilities		
Bonds payable	3,153	5,553
Long-term loans payable	136,071	127,482
Deferred tax liabilities	4,659	4,693
Provision for loss on interest repayment	11,259	10,175
Other provision	414	393
Other	8,051	6,246
Total noncurrent liabilities	163,609	154,545
Reserves under the special laws		
Reserve for financial products transaction liabilities	1,838	1,964
Reserve for commodities transaction liabilities	35	12
Total reserves under the special laws	1,873	1,977
Total liabilities	1,744,424	1,700,282
(Net assets)		
Shareholders' equity		
Capital stock	107,872	107,779
Capital surplus	119,943	119,850
Retained earnings	(30,787)	13,183
Treasury stock	(3,625)	(3,625)
Total shareholders' equity	193,403	237,187
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	2,697	6,000
Deferred gains or losses on hedges	0	(198)
Foreign currency translation adjustment	(3,080)	(4,693)
Total valuation and translation adjustments	(381)	1,108
Subscription rights to shares	1,070	957
Minority interests	6,017	9,979
Total net assets	200,110	249,233
Total liabilities and net assets	1,944,534	1,949,516

(2) Consolidated Income Statements

For the six months ended June 30, 2011

	(Millions of yen)	
	Six months ended June 30, 2010 (January 1 to June 30, 2010)	Six months ended June 30, 2011 (January 1 to June 30, 2011)
Net sales	164,108	177,645
Cost of sales	35,578	36,151
Gross profit	128,529	141,494
Selling, general and administrative expenses	*1 100,281	*1 112,282
Operating income	28,247	29,211
Non-operating income		
Interest income	45	23
Dividends income	93	134
Equity in earnings of affiliates	145	326
Foreign exchange gains	76	—
Other	393	333
Total non-operating income	754	818
Non-operating expenses		
Interest expenses	788	730
Commission fee	337	91
Foreign exchange losses	—	36
Other	337	153
Total extraordinary losses	1,463	1,011
Ordinary income	27,539	29,017
Extraordinary income		
Gain on step acquisitions	1,700	—
Gain on change in equity	—	173
Reversal of reserve for financial products transaction liabilities	763	125
Gain on sale of subsidiaries and affiliates' stocks	—	351
Other	383	8
Total extraordinary income	2,847	658
Extraordinary loss		
Impairment loss	152	—
Loss on disaster	—	*2 1,688
Loss on investment securities	1,866	—
Restructuring loss	—	*3 75,939
Bad debts written off	—	*4 2,209
Other	685	1,543
Total extraordinary losses	2,704	81,380
Income (loss) before income taxes and minority interests	27,682	(51,703)
Income taxes-current	11,054	3,530
Income taxes-deferred	(1,079)	(13,828)
Total income taxes	9,975	(10,297)
Loss before minority interests	17,707	(41,406)
Minority interests in income (loss)	552	(59)
Net income (loss)	17,154	(41,346)

For the three months ended June 30, 2011

(Millions of yen)

	Three months ended June 30, 2010		Three months ended June 30, 2011
	(April 1 to June 30, 2010)		(April 1 to June 30, 2011)
Net sales	84,916		90,724
Cost of sales	17,752		18,187
Gross profit	67,163		72,536
Selling, general and administrative expenses	*1 51,902	*1	57,399
Operating income	15,261		15,137
Non-operating income			
Interest income	14		12
Dividends income	79		118
Equity in earnings of affiliates	—		218
Foreign exchange gains	126		27
Other	219		123
Total non-operating income	440		500
Non-operating expenses			
Interest expenses	380		364
Commission fee	319		76
Other	102		51
Total extraordinary losses	802		491
Ordinary income	14,899		15,146
Extraordinary income			
Gain on step acquisitions	1,700		—
Gain on change in equity	—		173
Reversal of reserve for financial products transaction liabilities	766		135
Gain on sale of subsidiaries and affiliates' stocks	—		351
Other	494		8
Total extraordinary income	2,961		669
Extraordinary loss			
Loss on investment securities	1,866		—
Restructuring loss	—	*2	75,939
Other	340		1,009
Total extraordinary losses	2,206		76,948
Income (loss) before income taxes and minority interests	15,653		(61,132)
Income taxes-current	5,782		(2,399)
Income taxes-deferred	(523)		(9,991)
Total income taxes	5,258		(12,390)
Loss before minority interests	10,395		(48,742)
Minority interests in income (loss)	61		(480)
Net income (loss)	10,334		(48,261)

(3) Consolidated Statements of Cash Flows

	(Millions of yen)	
	Six months ended June 30, 2010 (January 1 to June 30, 2010)	Six months ended June 30, 2011 (January 1 to June 30, 2011)
Net cash provided by (used in) operating activities		
Income (loss) before income taxes and minority interests	27,682	(51,703)
Depreciation and amortization	7,813	8,249
Amortization of goodwill	3,170	3,809
Increase (decrease) in allowance for doubtful accounts	(4,586)	186
Increase (decrease) in provision for loss on interest repayment	(1,976)	1,083
Loss on valuation of securities for banking business	749	803
Loss on securities for banking business	37	—
Loss on business restructuring	—	75,939
Other loss	2,901	741
Decrease (increase) in notes and accounts receivable-trade	1,264	3,163
Increase in accounts receivable-installment	(14,667)	(7,461)
Decrease in beneficial interests in securitized assets	7,382	7,899
Decrease (increase) in operating loans receivable	(2,615)	9,332
Decrease in notes and accounts payable-trade	(2,370)	(1,781)
Decrease in accounts payable-other and accrued expenses	(3,076)	—
Increase in advances received	1,772	—
Increase in deposits for banking business	6,529	10,577
Increase in call loans for banking business	(18,000)	(2,500)
Increase in cash loans and bills discounted for banking business	(8,697)	(15,048)
Decrease (increase) in operating receivables for securities business	(31,390)	4,103
Decrease in operating payable for securities business	(20,256)	(6,985)
Increase in loans payable secured by securities for securities business	19,880	4,901
Other, net	7,589	(3,994)
Subtotal	(20,861)	41,317
Payments for guarantee deposits for business operation	(4,341)	(333)
Proceeds from guarantee deposits for business operation	3,010	2,088
Income taxes paid	(12,685)	(19,653)
Other, net	(200)	—
Net cash provided by (used in) operating activities	(35,078)	23,418
Net cash provided by (used in) investing activities		
Acquisition of securities for banking business	(200,919)	(163,398)
Proceeds from sales and redemption of securities for banking business	208,951	157,607

	Six months ended June 30, 2010 (January 1 to June 30, 2010)	Six months ended June 30, 2011 (January 1 to June 30, 2011)
Proceeds from partial payment due to share purchase demand	8,875	—
Purchase of investments in subsidiaries	(17,488)	(273)
Proceeds from transfer of business	—	4,200
Purchase investments in subsidiaries resulting in change in scope of consolidation	—	(1,678)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	7,038	—
Purchase of property, plant and equipment	(3,109)	(2,028)
Purchase of intangible assets	(6,952)	(7,529)
Other payments	(6,214)	(8,838)
Other proceeds	3,920	4,496
Interest and dividends income received	596	276
Net cash used in investing activities	(5,302)	(17,166)
Net cash provided by (used in) financing activities		
Net increase in short-term loans payable	62,878	27,812
Increase in commercial papers	28,900	10,100
Proceeds from long-term loans payable	45,400	55,350
Repayment of long-term loans payable	(39,996)	(52,207)
Redemption of bonds	(6,000)	(2,400)
Purchase of treasury stock of subsidiaries in consolidation	(29)	—
Interest expenses paid	(797)	(743)
Purchase of preferred stock of subsidiaries	—	(5,000)
Proceeds from stock issuance to minority shareholders	31	1,250
Cash dividends paid	(1,311)	(2,625)
Cash dividends paid to minority shareholders	(292)	—
Other, net	(12)	(846)
Net cash provided by financing activities	88,770	30,690
Effect of exchange rate change on cash and cash equivalents	(729)	399
Net increase in cash and cash equivalents	47,660	37,341
Cash and cash equivalents at beginning of period	103,618	100,736
Increase in cash and cash equivalents from newly consolidated subsidiary	680	898
Cash and cash equivalents at end of period	151,959	138,976

(4) Business Segment Information

For the six months ended June 30, 2010 (From January 1 to June 30, 2010)

(Millions of yen)

	E-Commerce	Credit Card	E-Money	Banking	Portal Media	Travel	Securities
Sales to customers	64,883	30,562	2,394	16,768	10,945	10,197	12,816
Intersegment sales	1,412	1,574	11	966	3,727	273	93
Total Sales	66,296	32,137	2,406	17,735	14,673	10,470	12,909
Operating Income (loss)	18,555	263	(350)	1,278	1,108	4,110	3,016

	Professional Sports	Telecommunications	Total	Eliminations	Consolidated
Sales to customers	3,773	11,764	164,108	—	164,108
Intersegment sales	254	71	8,385	(8,385)	—
Total Sales	4,027	11,835	172,493	(8,385)	164,108
Operating Income (loss)	(896)	589	27,676	571	28,247

For the three months ended June 30, 2010 (From April 1 to June 30, 2010)

(Millions of yen)

	E-Commerce	Credit Card	E-Money	Banking	Portal Media	Travel	Securities
Sales to customers	33,428	15,647	1,233	8,480	5,458	5,190	6,852
Intersegment sales	893	867	6	485	2,003	131	57
Total Sales	34,321	16,514	1,239	8,965	7,462	5,322	6,909
Operating Income (loss)	9,711	176	(159)	738	348	2,040	1,812

	Professional Sports	Telecommunications	Total	Eliminations	Consolidated
Sales to customers	2,890	5,734	84,916	—	84,916
Intersegment sales	134	44	4,623	(4,623)	—
Total Sales	3,024	5,779	89,539	(4,623)	84,916
Operating Income (loss)	302	59	15,030	230	15,261

For the Six Months Ended Jun 30 of Fiscal 2011 (January to June 30, 2011)

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 ending 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.

For the six months ended June 30, 2011 (From January 1 to June 30, 2011)

(Millions of Yen)

	Reporting Segment				Adjustment (Note 1)	Amount shown in quarterly consolidated statements of income (Note 2)
	Internet Services	Internet Finance	Others	Total		
Sales	99,434	71,870	16,693	187,999	(10,353)	177,645
Segment Operating Income	28,543	4,318	167	33,028	(3,817)	29,211

Notes

1. The ¥3,817 million negative adjustment to segment income or losses consist mainly of a negative figure of ¥3,775 million for goodwill amortization that has not been allocated to the reporting segments, and a positive figure of ¥789 million for the elimination of internal transactions.
2. Segment income or losses are reconciled to operating income in the quarterly statements of income.

For the three months ended June 30, 2011 (From April 1 to June 30, 2011)

(Millions of Yen)

	Reporting Segment				Adjustment (Note 1)	Amount shown in quarterly consolidated statements of income (Note 2)
	Internet Services	Internet Finance	Others	Total		
Sales	50,999	35,827	9,350	96,178	(5,454)	90,724
Segment Operating Income	15,888	656	685	17,230	(2,092)	15,137

Notes

1. The ¥2,092 million negative adjustment to segment income or losses consist mainly of a negative figure of ¥1,894 million for goodwill amortization that has not been allocated to the reporting segments, and a positive figure of ¥489 million for the elimination of internal transactions.
2. Segment income or losses are reconciled to operating income in the quarterly statements of income.

(Note) Consolidated Financial Statements

(Millions of yen)

For the six months ended June 30, 2010 (From January 1 to June 30, 2010)	For the six months ended June 30, 2011 (From January 1 to June 30, 2011)																																																						
<p>*1 The breakdown of selling, general and administrative expenses is as follows.</p> <table> <tr> <td>Point Costs</td> <td style="text-align: right;">5,192</td> </tr> <tr> <td>Advertisement and promotion expenses</td> <td style="text-align: right;">12,070</td> </tr> <tr> <td>Personnel expenses</td> <td style="text-align: right;">22,701</td> </tr> <tr> <td>Provision for bonuses</td> <td style="text-align: right;">2,214</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">7,073</td> </tr> <tr> <td>Communications and Maintenance expenses</td> <td style="text-align: right;">7,190</td> </tr> <tr> <td>Outsourcing expenses</td> <td style="text-align: right;">12,041</td> </tr> <tr> <td>Expenses for doubtful accounts</td> <td style="text-align: right;">8,858</td> </tr> </table> <hr/> <hr/> <hr/>	Point Costs	5,192	Advertisement and promotion expenses	12,070	Personnel expenses	22,701	Provision for bonuses	2,214	Depreciation	7,073	Communications and Maintenance expenses	7,190	Outsourcing expenses	12,041	Expenses for doubtful accounts	8,858	<p>*1 The breakdown of selling, general and administrative expenses is as follows.</p> <table> <tr> <td>Point Costs</td> <td style="text-align: right;">5,268</td> </tr> <tr> <td>Advertisement and promotion expenses</td> <td style="text-align: right;">14,540</td> </tr> <tr> <td>Personnel expenses</td> <td style="text-align: right;">25,300</td> </tr> <tr> <td>Provision for bonuses</td> <td style="text-align: right;">2,425</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">7,634</td> </tr> <tr> <td>Communications and Maintenance expenses</td> <td style="text-align: right;">7,416</td> </tr> <tr> <td>Outsourcing expenses</td> <td style="text-align: right;">12,023</td> </tr> <tr> <td>Expenses for doubtful accounts</td> <td style="text-align: right;">9,002</td> </tr> <tr> <td>Reserve for loss on interest repayments</td> <td style="text-align: right;">4,264</td> </tr> </table> <p>*2 The effects of the Great East Japan Earthquake are shown as disaster-related losses. They consist of the following items.</p> <table> <tr> <td>Provision for Doubtful accounts</td> <td style="text-align: right;">790</td> </tr> <tr> <td>Donations</td> <td style="text-align: right;">305</td> </tr> <tr> <td>Repair-related expenses</td> <td style="text-align: right;">263</td> </tr> <tr> <td>Other items</td> <td style="text-align: right;">329</td> </tr> <tr> <td style="border-top: 1px solid black;">Total</td> <td style="text-align: right; border-top: 1px solid black;">1,688</td> </tr> </table> <p>*3 The effects of losses from the credit card business reorganization are shown as business reorganization losses. They consist of the following items.</p> <table> <tr> <td>Allowance for business transfer loss</td> <td style="text-align: right;">48,400</td> </tr> <tr> <td>Impairment loss (*)</td> <td style="text-align: right;">14,230</td> </tr> <tr> <td>Expenses for doubtful accounts</td> <td style="text-align: right;">11,700</td> </tr> <tr> <td>Other items</td> <td style="text-align: right;">1,608</td> </tr> <tr> <td style="border-top: 1px solid black;">Total</td> <td style="text-align: right; border-top: 1px solid black;">75,939</td> </tr> </table> <p>(*) Impairment of goodwill in the consolidated financial statements for the former Rakuten KC</p> <p>*4 These figures include losses on doubtful accounts resulting from the payment of substantial advances to cover shortfalls in customers' settlement funds as a result of price movements after the Great East Japan Earthquake, and provision for doubtful accounts.</p>	Point Costs	5,268	Advertisement and promotion expenses	14,540	Personnel expenses	25,300	Provision for bonuses	2,425	Depreciation	7,634	Communications and Maintenance expenses	7,416	Outsourcing expenses	12,023	Expenses for doubtful accounts	9,002	Reserve for loss on interest repayments	4,264	Provision for Doubtful accounts	790	Donations	305	Repair-related expenses	263	Other items	329	Total	1,688	Allowance for business transfer loss	48,400	Impairment loss (*)	14,230	Expenses for doubtful accounts	11,700	Other items	1,608	Total	75,939
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For the three months ended June 30, 2010 (From April 1, 2010 to June 30, 2010)	For the three months ended June 30, 2011 (From April 1, 2011 to June 30, 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 2,543	Point Costs 2,064
Advertisement and promotion expenses 5,899	Advertisement and promotion expenses 7,058
Personnel expenses 12,779	Personnel expenses 13,681
Provision for bonuses 285	Provision for bonuses 550
Depreciation 3,622	Depreciation 3,820
Communications and Maintenance expenses 3,651	Communications and Maintenance expenses 3,694
Outsourcing expenses 6,275	Outsourcing expenses 6,008
Expenses for doubtful accounts 5,063	Expenses for doubtful accounts 3,968
	Reserve for loss on interest repayments 4,264
	*2 The effects of losses from the credit card business reorganization are shown as business reorganization losses. They consist of the following items.
	Allowance for business transfer loss 48,400
	Impairment loss (*) 14,230
	Expenses for doubtful accounts 11,700
	Other items 1,608
	Total 75,939
	(*) Impairment of goodwill in the consolidated Financial statements for the former Rakuten KC