

# Rakuten is Unique

## Annual Report

Fiscal Year Ended December 31, 2012

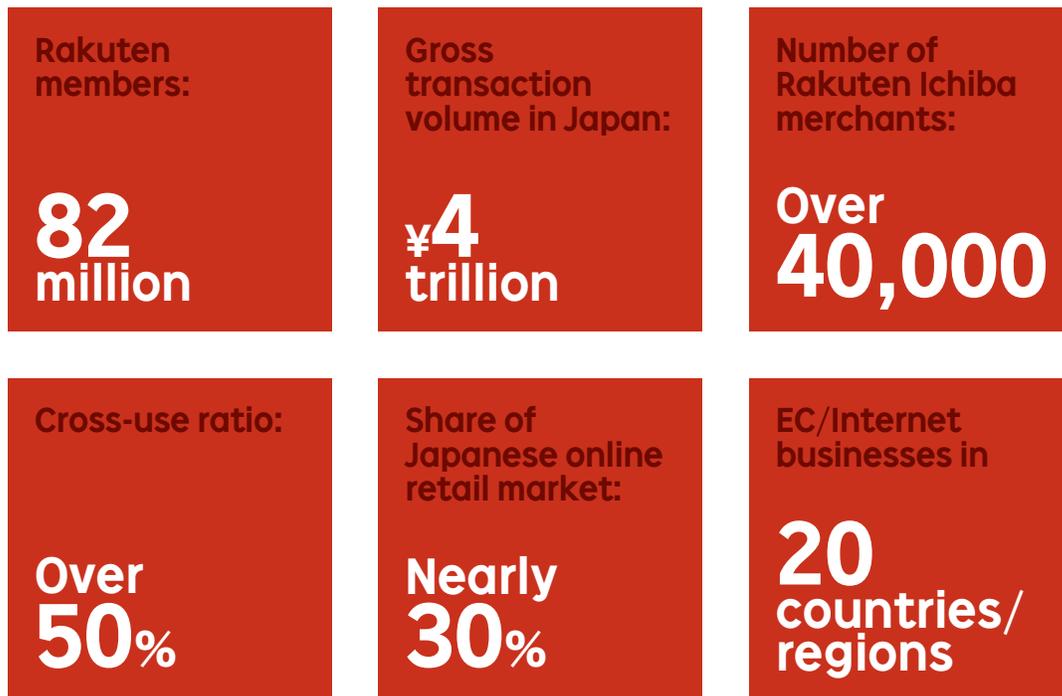
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Rakuten

## Our Mission

Since Rakuten's foundation in 1997, it has been our corporate mission to empower people and society through the Internet, while aiming to become the No. 1 Internet services company in the world. Many online shopping sites at the time of our foundation were little more than online web catalogs, and few believed that consumers would buy products and services on the Internet. It was during such a time that we boldly launched the Internet shopping mall Rakuten Ichiba. Our site was created based on the concept of not having Internet-savvy people run the business, but creating a platform that enabled ordinary people skilled in retail to open their own online shops.

Beyond Rakuten Ichiba, the Rakuten Group has expanded into a diverse array of one-stop online services in Japan, including travel, eBooks & eReading, banking, securities, credit cards, insurance, and professional sports. We are also accelerating our overseas expansion and sharing with our overseas group companies the unique business model and ecosystem that we have built in Japan—starting with our e-commerce, eBooks & eReading, and travel businesses—along with our corporate commitment to the empowerment of individuals and society. We will continue to move forward to the creation of a truly global Rakuten ecosystem.



(As of December 31, 2012)

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To Our Shareholders

# Unique?

## Absolutely, and transferable worldwide

Shop-centric rather than product-centric, the Rakuten Ichiba model is both unique and highly profitable. With our long-term goal to be the global No. 1 Internet services company, we are focusing on our Ichiba marketplace e-commerce to build competitive positions internationally. Signs in 2012 confirm we are on the right track.



**Hiroshi Mikitani**  
Chairman and CEO



## To Our Shareholders

### Results for Fiscal 2012

Our consolidated financial results for fiscal 2012 (the year ended December 31, 2012) included record highs for revenue and operating income, marking our fifth consecutive year of operating income growth excluding additional line items, as well as our 15th consecutive year of revenue growth. On these results, we paid a dividend of ¥3 per share for fiscal 2012 (¥250 per share for fiscal 2011). This is equivalent to ¥300 per share when a 1:100 share split on July 1, 2012 is taken into account.

Net income for fiscal 2012 was ¥21,136 million (IFRS). This result reflects additional line items, including restructuring losses resulting from the reorganization of our U.K. consolidated subsidiary Play.com, as well as a goodwill impairment loss caused by a change in the business model of our U.S. subsidiary Buy.com.

These results emerged from an environment transformed by the spread of the Internet, its evolution as a social infrastructure platform, and its continuing role as a growth driver for the world economy. First, the Rakuten Group has gained an overwhelming advantage in the Japanese e-commerce market, especially through Rakuten Ichiba. Second, solid earnings trends have started to emerge in the Internet finance business. Third, we are starting to reap the benefits of introducing the Rakuten business model in other countries. By introducing our unique corporate philosophy of empowering people and society through the Internet, we hope to continue to grow the Rakuten Group globally and to raise shareholder value.

**“ Rakuten’s domestic e-commerce business generated gross merchandise sales (GMS) of ¥1.4 trillion in 2012, and this growth has continued in the current fiscal year. We are now working toward our next goal, GMS of ¥10 trillion. ”**

### Strengthening our Unique Business Platform

Rakuten aims to introduce consumers to the ‘joy of discovery’ through our Ichiba Internet shopping mall, and to create an environment where merchants and consumers can interact in the same way they might in a real-world marketplace, where transactions can be engaging, exciting, informative and personal.

To do this, we have created a business model that satisfies both consumers and merchants, by using

Rakuten Ichiba to provide a unique merchant-centered Internet shopping mall. We have also developed initiatives based on our “Shopping is Entertainment” concept and developed targets for the realization of the “Happy Merchants + Happy Shoppers = Happy Commerce” formula.

Rakuten’s domestic e-commerce business generated gross merchandise sales (GMS) of ¥1.4 trillion in 2012, and this growth has continued in the

current fiscal year. We are now working toward GMS of ¥10 trillion and sustainable growth.

By providing one-stop access to Internet-based services, we have achieved positions of leadership in all of our business segments in Japan. The growth of Rakuten Ichiba has been paralleled by a sustained rise in the power of the Rakuten brand in Japan.

Awareness of Rakuten is also rising in overseas markets. Rakuten is the only Japanese company selected for inclusion among the 50 globally successful companies whose growth strategies were analyzed in the book *Grow*, by Jim Stengel, a former P&G global marketing executive who is now a well-known marketing consultant.

Over the past few years the Rakuten Group has rapidly expanded its activities globally. However, we regard 2012 as the starting point for our evolution into a truly global company. We apply our B2B2C marketplace business model to every overseas group company that we acquire. At the same time we are ensuring that all overseas employees gain a thorough understanding of the concept of Rakuten Shugi, which is the corporate culture and philosophy developed by the Rakuten Group in Japan, so that they can identify themselves as part of a group organization united by high aspirations and work with us to achieve ambitious goals.

We are also working to develop the Rakuten brand into a strong presence in overseas markets, in part by changing company names to

place greater emphasis on the Rakuten brand.

The development of the global Rakuten ecosystem is expected to accelerate as a result of recent acquisitions, including the Canadian e-book company Kobo, Alpha Direct Services (ADS), which is a major logistics company in France, and the Spanish video streaming company Wuaki.TV. We see these moves as the start of a new transition in our overseas e-commerce activities.

In July 2012, two years after first announcing our Englishization project, English became the official language throughout the Rakuten organization. This change has already produced surprising benefits by stimulating communication among the many nationalities within the Rakuten Group, and by accelerating the introduction of the Rakuten model by overseas group companies. The use of a common language is also helping us to share stories of our successes in Japan, along with our technologies and expertise, with group companies worldwide.

Another benefit is the fusion of Japan's unique culture of *omotenashi* (hospitality) with advanced technologies and development methods from Western countries. We believe that process is starting to generate new, unique values.

In 2013, we aim to transform Rakuten into a truly global organization that is backed by the uniqueness and strengths we have built up in Japan, promote our regional headquarters in Asia, Europe and the Americas, whilst globalizing our human resources platform.

**“ Over the past few years the Rakuten Group has rapidly expanded its activities globally. However, we regard 2012 as the starting point for our evolution into a truly global company. ”**

## To Our Shareholders

**“ In 2012, we continued to enhance services for smartphone and tablet users, while also using campaigns based on the Rakuten Super Points system, to motivate users to make purchases. ”**

## Initiatives and Results in Business Segments

### *Domestic e-Commerce*

Rakuten Ichiba is the global pioneer of the B2B2C marketplace, which provides the platform, traffic and expertise to empower even small-scale retailers to set up their businesses on the Internet. In addition to the overwhelming strength of Rakuten Ichiba, the rapid proliferation of smartphones and tablets and the resulting lifestyle changes also contributed to the sustained expansion of our business in this segment.

In 2012, we continued to enhance the Rakuten Group's services for smartphone and tablet users, while also using campaigns based on the Rakuten Points system, such as Rakuten Super Sales, to motivate users to make purchases. At the same time, we further enhanced merchant support and improved next-day delivery systems and other aspects of our services. In September 2012, we introduced the new “Diamond” rank as the top level in the Rakuten Points Club with the aim of providing users with additional motivation to make purchases.

In December 2012, we launched Rakuten Smart Pay, a credit card settlement service that can be used via small devices, such as smartphones. By keeping installation costs low, we encouraged merchants to introduce smartphone settlement services.

These initiatives were reflected in firm trends in the numbers of both unique purchasers and orders, while

the number of merchants increased to over 40,000. There was also a rapid increase in transactions via mobile devices and tablets as a percentage of the gross transaction volume of Rakuten Ichiba. There was a particularly significant rise in the number of smartphone applications.

We responded to this expansion of our e-commerce business in Japan by further strengthening our domestic logistics systems. In July 2012, we launched our own delivery service for food items ordered from our Internet supermarket, Rakuten Mart. In addition to our existing distribution center in Ichikawa City, Chiba Prefecture, which was opened in 2010, we commenced construction of a new center in Kawanishi City, Hyogo Prefecture. The target date for completion is November 2013. We will use these distribution centers to strengthen the Rakuten Super Logistics system.

In November 2012, we acquired the French logistics company Alpha Direct Services (ADS). We plan to use that company's advanced technology and expertise in our distribution centers.

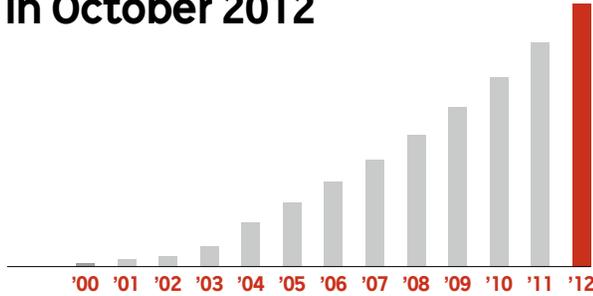
Gross booking transaction volume (GTV) for our travel services grew by 12.9% year on year income. In addition to strong sales of Dynamic Packages, this growth also reflects our efforts to diversify income sources, including improvements to the consolidated settlement service for corporate accommodation bookings.

## Rakuten Ichiba and Books' GMS surpassed

# ¥1 trillion

### in October 2012

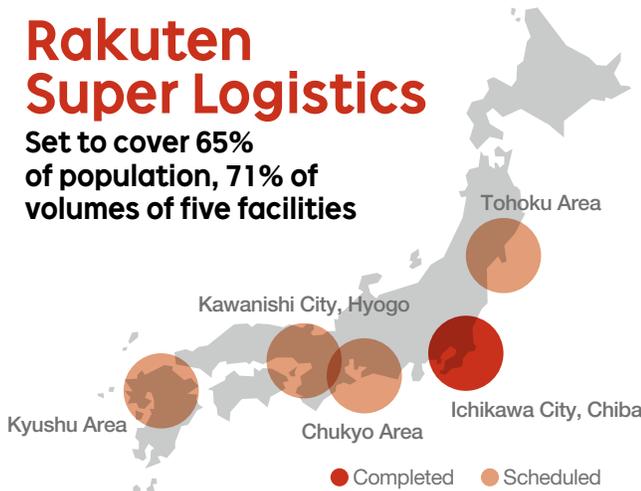
Over  
¥1  
trillion



# Domestic EC Market

## Rakuten Super Logistics

Set to cover 65% of population, 71% of volumes of five facilities



## High Value Added

# Rakuten Super Points



### The No.1 point program

Rakuten Super Points is the most popular loyalty points program in Japan. Points can be earned through shopping and various other services in the Rakuten Group's ecosystem.

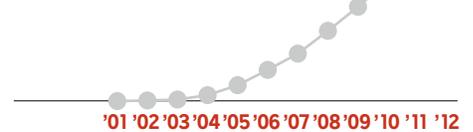
Rank	Company	Score
1	Rakuten	266
2	ANA	200
3	MACROMILL	124
4	JCB Card	121
5	JAL	117

Source: Point "Tanken" Club

## Growth of Mobile GMS in Rakuten Ichiba

674 times

2001=1



## Rakuten Travel's gross booking transaction value increased

# 12.9%

¥475.1 billion

YoY



## To Our Shareholders

**“ The benefits of these changes were apparent from growth in card shopping transactions, which were 36.0% higher year on year. Operating revenues and operating income also showed healthy growth, and Rakuten Securities’ investment trust balance surpassed ¥300 billion. ”**

### *Internet Finance*

Strong growth in the card, banking and securities businesses in 2012 was indicative of a clear expansionary trend in this segment.

We reorganized our card business in 2011. The benefits of these changes were apparent from growth in card shopping transactions in 2012, which were 36.0% higher year on year at ¥1,802 billion. Both operating revenues and operating income also showed healthy growth.

There was further expansion of the contribution made by the Super Loan business of the Rakuten Bank as an income growth driver. The balance of loans outstanding reached ¥181.8 billion, while total loan customers climbed to 216,000.

Rakuten Securities recorded a substantial increase in domestic share trading, and the number of new accounts opened reached 10,000 per month. The number of accounts registered for the Money Bridge service, which links accounts with Rakuten Bank accounts, reached 130,000. In February 2013, Rakuten

Securities’ investment trust balance surpassed ¥300 billion.

In June 2012, Rakuten Edy changed its trading and service names from Bit Wallet to Rakuten Edy. Since then it has provided e-money services as Rakuten Edy. Rakuten Edy has begun to install multi-e-money terminals that can also be used to access e-money services provided by transportation and distribution companies, in retail outlets, restaurants and other locations. It recorded quarterly profits for the first time since its establishment. In January 2013 it launched a coupon site, Rakuten Edy Smart Coupon, as a new online to offline (O2O) service.

Airio Life Insurance, which became a consolidated subsidiary in October 2012, achieved healthy growth in the number of insurance policies and annualized insurance premiums. In April 2013 it changed its company name to Rakuten Life Insurance, allowing it to use the power of the Rakuten brand to strengthen its sales of insurance products.

Profits from Internet Finance business surged by

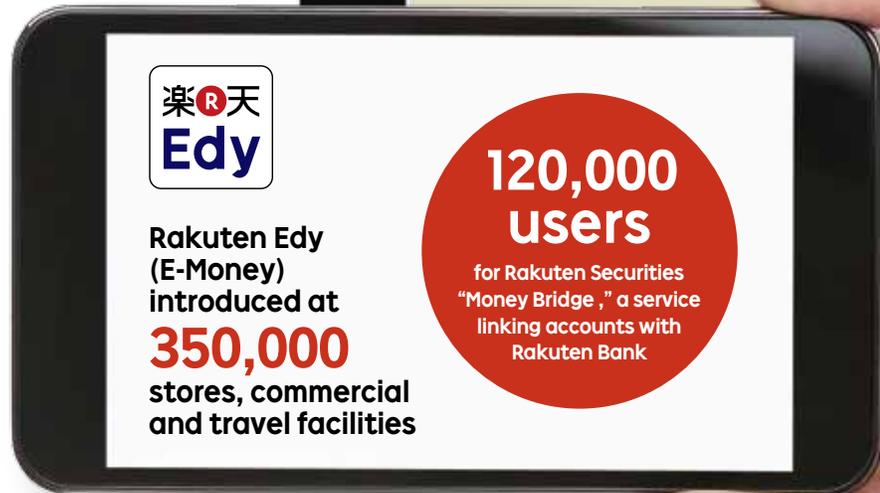
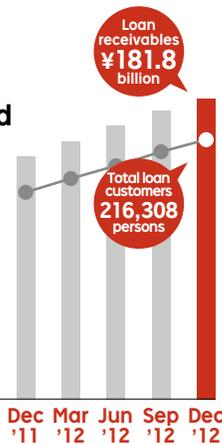
**82.8%** YoY

## Internet Finance



Rakuten Card Shopping transaction value exceeded **¥1,800 billion** and revolving balance **¥160 billion**

Rakuten Bank's "Super Loan" receivables exceeded **¥181 billion** and Super Loan customers reached **216,000**



Rakuten Edy (E-Money) introduced at **350,000** stores, commercial and travel facilities

**120,000 users**

for Rakuten Securities "Money Bridge," a service linking accounts with Rakuten Bank

## Rakuten acquired AIRIO Life Insurance

a mid-sized insurance company, and aims to transform its internet presence, renaming it Rakuten Life Insurance



## To Our Shareholders

**“ Our overseas marketplace e-commerce transaction value grew by 49% YoY due to the success of the unique and highly profitable Rakuten Ichiba model. ”**

### *Overseas e-Commerce Business*

We continued to develop the Rakuten Group’s overseas activities dynamically in the year under review. In April 2012, we launched Rakuten.com.br Shopping, a new Internet shopping mall in Brazil. This was followed in November by the launch of Rakuten Online Shopping in Malaysia as our first overseas greenfield venture established by Rakuten without the help of a local partner.

We also continued to expand our activities beyond the e-commerce field, and to develop a major involvement in the digital content business. For example, in May we acquired an equity stake in Pinterest, a major SNS site in the United States, while in June we acquired the Spanish video streaming company Wuaki.TV as a wholly owned subsidiary.

These initiatives were paralleled by the continuing process of applying the Rakuten Ichiba business model that has evolved in Japan to the companies that we have acquired overseas. Our overseas marketplace e-commerce transaction value grew by 49% YoY in 2012 to ¥45.7 billion, which confirmed the growth potential of the unique and highly profitable Rakuten Ichiba model in other countries. We aim to maintain income growth over the medium- to long-term future by focusing on the transition to marketplace-based e-commerce in our overseas activities, and by capitalizing on our competitive advantage.

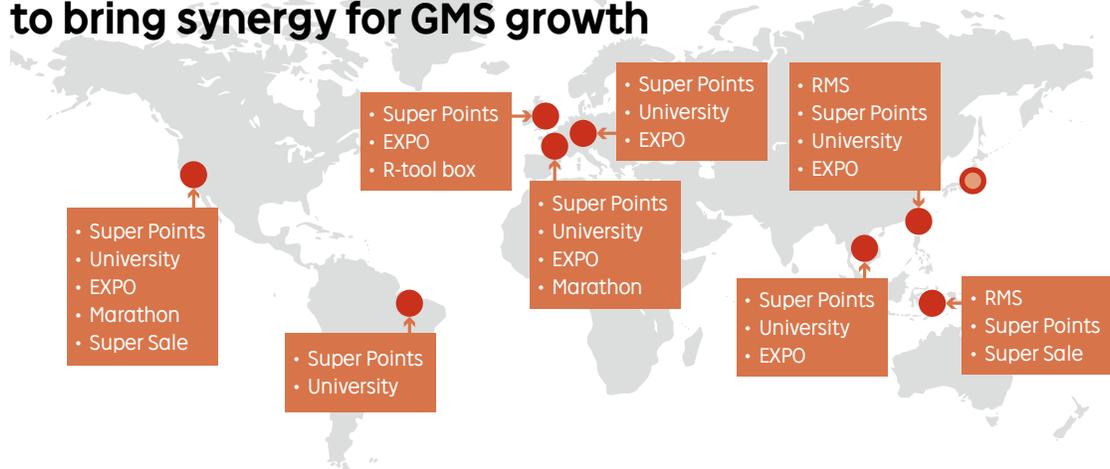
Specifically, we are extending the Rakuten model to overseas markets through regional headquarters. Our aim is to provide consumers with opportunities to enjoy shopping by continually enhancing our product lineups, price competitiveness and delivery services. We are also introducing the Rakuten Super Points system aggressively, while using KPI management to strengthen cost control.

Another focus will be the creation of a global IT development organization to enhance our ability to keep pace with the global growth of mobile e-commerce.

We expanded our involvement in overseas logistics with the acquisition of the French logistics company, Alpha Direct Services (ADS), in November 2012. ADS automation technology, which spans all stages from inventory management to delivery services, will be used to provide efficient fulfillment services to overseas group companies.

We are also actively expanding our overseas activities in the area of travel. Rakuten Travel opened sales offices in Nanjing, Hangzhou and Tsingtao, China in February 2012, and in Manila in the Philippines and Ho Chi Minh City, Vietnam in January and Malaysia in February 2013. In March, it established Rakuten Travel Singapore Pte. Ltd. as its first local subsidiary in Southeast Asia.

## Sharing marketplace know-how (yokoten) to bring synergy for GMS growth



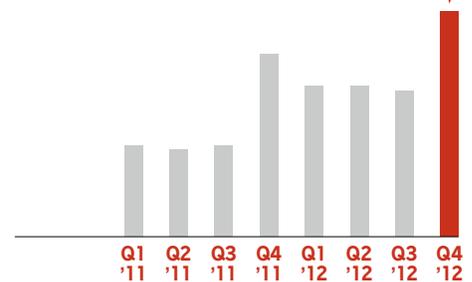
### Initiatives for Growth of Global E-commerce

- ➔ **Attractive shopping destination via Happy Commerce**
  - Entertaining consumers
  - Improving product lineup, price competitiveness and delivery quality
- ➔ **Rakuten Model Integration through Regional HQs**
  - Branding, Storefront, R-mail (EDM), Rakuten Super Points
- ➔ **Offering fulfillment services with ADS**
- ➔ **Higher take rate**
  - Adoption of fixed fees at Buy.com
- ➔ **Lean and strong operation**
  - Cost control under KPI management
  - Promoting Agile IT development and mobile commerce

### Quarterly Marketplace GMS

## Overseas Companies

+23.4%



# Global Marketplace

Marketplace = Rakuten Ichiba Taiwan + Tarad Premium Mall + Lekutian + Buy.com marketplace + PriceMinister marketplace + Rakuten Belanja Online + Rakuten Deutschland + Play.com marketplace + Rakuten Brasil marketplace (from Q2/12).

## To Our Shareholders

**“ The company plans to develop a highly sophisticated e-book business model by adding unique social functions, an expanding range of devices and languages and building win-win relationships with leading local retailers and publishers. ”**

### *e-Books*

In January 2012, we acquired Kobo Inc., which is involved in the e-book reader and content business. At the time of the acquisition Kobo was active in eight countries, but the business expanded rapidly in fiscal 2012, and a further seven countries were added. Kobo also released three new devices. According to the IT industry newspaper Digitimes, Kobo gained a 20% share of global e-book reading device shipments in 2012, after only three years since its establishment in 2009. Its content has expanded to 3.2 million titles in 68 languages, and there has also been strong growth in the company’s content sales, which more than doubled in fiscal 2012. The cumulative number of users reached 12 million at the end of 2012, and there was an increase of 4 million in between July and December 2012.

In Japan, Kobo launched the Kobo Touch in July 2012 and began to distribute content. The Kobo Glo went on sale in November, followed by the Kobo Mini in December. Kobo continues to enhance its range of devices and functions for readers, including the introduction of an Android app for Japanese users in December. By the end of 2012, Kobo

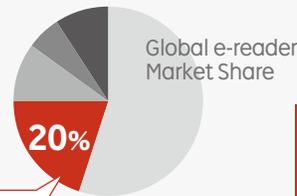
was distributing over 100,000 titles in Japan.

Kobo’s e-book business has continued to expand steadily in Japan and in overseas markets. The company plans to develop a highly sophisticated e-book business model by adding unique social functions to its services, and by providing support for an expanding range of devices and languages. It will also step up its efforts to build win-win relationships with leading local retailers and publishers. We see Kobo as a trailblazer for the overseas expansion of the Rakuten Group, since our entry into many markets is likely to begin with e-books rather than e-commerce.

The global expansion of the Rakuten Group is reflected in the growth of our worldwide membership. We will continue to realize our commitment to the empowerment of individuals and communities by increasing our efforts to bring increased vitality to communities in Japan and in the overseas countries where we are active. Our aim is to contribute to economic prosperity in Japan and globally through the growth of the Rakuten Group in the medium- to long-term future.

Kobo has  
**12 Million users**  
 in **197 countries.**  
 Kobo's growth rate  
 significantly outpaces  
 the competition.

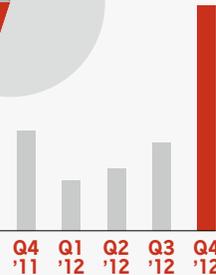
- ➔ Global content store with 3.2 Mil. titles in 68 languages
- ➔ A family of award-winning e-reading devices and apps provide universal access to content & industry leading experience
- ➔ A unique global model that has created the world's largest network of exclusive retail partners providing access to the best customers



kobo™

Kobo Quarterly Revenues

(As of December 31, 2012)



Japanese market deployment of e-book business

- ➔ E-book reader "Kobo Touch" sales and service in Japan was started in July 2012.
- ➔ November 2012, a tie-up with Digital Publishing Initiatives Japan Co., Ltd.
- ➔ November 2012 "Kobo Glo" and December "Kobo Mini" sales start.
- ➔ The number of Japanese-language titles reached 100,000 in December 2012



**E-book Business**

## A CSR Partnership for Sustained Growth

### Renewed Vitality for Japan, and for the World

Rakuten's founding philosophy is empowering people and society through the Internet. This commitment has been a driving force for the growth and evolution of our business activities. We define and clarify what we mean by "Empowerment" with the expression, "Renewed Vitality for Japan, and for the World." This remains our foremost corporate value, a determination to contribute to society

through our core business activities. Every employee in every Rakuten business in Japan and overseas shares a strong awareness of the values of the Rakuten Group and is helping to achieve sustainable growth for Rakuten and build a sustainable society by putting the principle of empowerment to productive use.

#### Rakuten brand philosophy a global standout

Rakuten's philosophy, expressed in the formula "Happy Merchants + Happy Customers = Happy Commerce," is also reflected in assessments of its brand value.

Rakuten was the only Japanese company selected as one of 50 global brands listed in "Grow: How Ideals Power Growth and Profit at the World's Greatest Companies" by leading international marketer Jim Stengel\*. An extremely high value was placed on the Rakuten Ichiba brand because of its success in fostering partnerships between businesses and consumers. Other brands listed in Stengel's book include Accenture, Apple, Coca-Cola, Google, Mercedes Benz, Starbucks and Visa.

\*Jim Stengel is an American businessman, author, professor, and public speaker. He served as the global marketing officer of Procter & Gamble from 2001 to 2008. Stengel is currently the president and CEO of The Jim Stengel Company, where he advocates for ideals-driven businesses and brands.

### Empowering Merchants

#### Partnership Approach

We recognize that the birth and growth of the Rakuten Group would never have been possible without the strong support of our business partners, who have worked alongside us and shared our belief in the future of the Internet. Since the opening of Rakuten Ichiba in 1997, we have worked to make the operation of shops as easy as possible by repeatedly introducing a variety of enhancements to our system and marketing approaches and continually providing the best possible services to meet changing needs.

#### Conferences

Rakuten holds Rakuten Expos annually in countries where we operate e-commerce business as opportunities for

direct contact with Rakuten Ichiba merchants. Each year, a theme linked to current trends is selected for these events, which are used not only to share Rakuten strategies, but also to find solutions to merchants' problems and foster communications among partners. Approximately 5,000 merchants in Japan attended Rakuten Expo 2013 in January 2013.

Rakuten Travel hosts the Rakuten Travel New Year Conference for the same purposes. This event, which targets hotels, inns and other accommodation facilities, is held annually at seven venues.



### EC Consultants

Rakuten employs EC (e-commerce) consultants whose task is to help merchants with businesses operating on Rakuten Ichiba to increase their sales and solve problems affecting their activities. After first gaining a shared understanding of each merchant’s goals and vision, our consultants help merchants to achieve their sales targets by providing wide-ranging advice, including suggestions on ways to expand sales, marketing strategies for each type of goods and sharing best practices and success stories.

### Rakuten University and Rakuten Travel College

Rakuten University was opened in 2000 as a provider of EC service expertise for Rakuten Ichiba merchants. In 2004, Rakuten Travel established Rakuten Travel College for operators of hotels, inns and other accommodation facilities. Both institutions help merchants to solve problems through their own efforts by building databases of merchants’ success stories and problems, and by sharing that information in a structured way.



## Entertaining and Secure Shopping for Consumers

### Customer Satisfaction

“Shopping is Entertainment”—This core belief of the Rakuten Group is behind our ongoing efforts to provide an entertaining and pleasant shopping experience through innovations that include the points program and customer review system. These efforts are reflected in the high scores achieved by Rakuten Group companies in customer satisfaction surveys in Japan and overseas.

### Nikkei BP—Brand Japan

Rakuten Ichiba’s rating as a consumer brand has risen steadily, reaching tenth place in 2012. Our points program has also been rated as the most user-friendly loyalty program in Japan.

### Rakuten Card

Rakuten Card has achieved the number-one ranking in the credit card category of the Japanese Customer Satisfaction Index (JCSI) for three consecutive years.



### Rakuten Bank

Rakuten Bank has won the Asian Banker magazine’s “Best Direct Bank” award three years in a row.



### Kobo Inc.

Wired Magazine included the Kobo Touch in its Editor’s Pick for 2012 as the best e-book reader. PC World gave it five stars out of a possible six and described it as “a real eye-opener” and “a lovely piece of hardware.” The Kobo Glo was selected by Computer Bild as its “Test Winner.”



### Rakuten LinkShare

Rakuten LinkShare was the top-ranked affiliate network in mThink’s “Blue Book” survey in two consecutive years.



## Technology and Information Security

### *Global R&D Network*

As a provider of Internet-based services ranging from e-commerce to finance, the Rakuten Group aims to provide both consumers and merchants with innovative services backed by a strong commitment to advanced research and development. Our personalization technology allows us to combine information about over 100 million registered products supplied by over 40,000 Rakuten Ichiba businesses with membership information for more than 80 million people, while our product search engine can combine prices, delivery and payment terms, reviews and other information for over 100 million items. We use big data analysis systems, parallel and distributed computer systems and other technologies capable of processing some of the biggest data resources in Japan. Our innovative services are the result of R&D based on information sharing among our development organization and Rakuten Institute of Technology in Japan, as well as our research center in New York, and engineering staff in overseas subsidiaries.

### *System Security*

We are keenly aware that the ongoing development of the Rakuten Group's business activities depends on our information assets, including customer data and other information, as well as the hardware and software that make up our data systems. One of our most important management priorities is the steady reinforcement of the security measures used to protect these information assets.

Rakuten Group Companies are continually developing security management structures based on the relevant standards. The following types of certification have been obtained on the basis of third-party audits.

### **ISMS Certification—ISO/IEC 27001**

Information security management system (ISMS) certification is granted to organizations that comply with the relevant international standards. Eighteen Rakuten Group companies have obtained this certification.

Businesses operating in Rakuten Ichiba are required to undergo information security testing and are only allowed to operate after passing these tests. As part of our efforts to ensure that consumers can enjoy Internet shopping with confidence, we also encourage businesses to publish information on privacy policies for each outlet, and to appoint store security officers.



### **PrivacyMark**

The PrivacyMark system provides certification for businesses that have established systems to protect personal information. Seven Rakuten Group companies have obtained PrivacyMark certification.

### **PCI DSS**

We have obtained full compliance certification for the Rakuten Card under the Payment Card Industry Data Security Standard (PCI DSS), which is the international standard for credit card information security.

## Engagement with Stakeholders

### *For Greatest Possible Value*

The mission of the Rakuten Group is to empower people and society through the Internet, and to transform and enrich society through its own success. The Rakuten Group

is determined develop its business activities in ways that meet the expectations of all stakeholders who place their confidence in it, and to provide the greatest possible value according to the needs of each stakeholder.

## Employees

Solidarity is a key brand concept for the Rakuten Group. We provide a variety of information-sharing opportunities to enable all Rakuten Group employees to work together toward the same goal as one big team. These information-sharing opportunities include the morning meetings held at 8 a.m. every Tuesday, and the half-yearly operating plan presentation meetings. We believe that it is important for all employees to share information and strategies at the same time, and for that reason we ensure that every employee is able to attend these meetings by streaming them live to over 50 offices in Japan and overseas.



## Shareholders

The Rakuten Group works actively to meet its information disclosure requirements as a listed company. To ensure that investors can assess our business performance accurately, we provide fair access to the wide-ranging information needed to support investment decisions, including management strategies, financial results and key indicators, such as gross merchandise sales. In addition to meetings with institutional investors and analysts, we also disclose information actively, accurately and promptly through our investor relations website.

We also receive a variety of shareholder input on matters that include shareholder returns, policies on the allocation of management resources, and governance. When necessary, we discuss issues with shareholders with the aim of improving reciprocal understanding and improving both management quality and shareholder value.

## Society and the Environment

We aim to contribute to society through the business activities of the Rakuten Group in a number of priority areas, including community revitalization, education for children, and the solution of energy problems. Our priority is to use the strengths of the Rakuten Group to contribute in ways that reflect our unique characteristics.

### • Establishment of Machiraku

The Machiraku site is dedicated to the revitalization of local communities in Japan's 47 prefectures. It is used to distribute information about the attractions of individual communities for the enjoyment not only of people who live outside of the prefectures concerned, but also of local residents and people who originally came from the areas covered. The site also introduces local products that can be bought through Rakuten Ichiba, as well as travel and accommodation information from Rakuten Travel. Local government organizations are also able to supply information directly through Machiraku, including seasonal updates and blogs by local government staff.



### • Contributing with Kobo e-Books

Rakuten has worked in various ways to contribute to recovery and community revitalization efforts, including the promotion of educational initiatives, in areas affected by the Great East Japan Earthquake of March 2011. One unique form of assistance involves the use of Kobo e-books supplied by the Rakuten Group as the basis for a mobile library service. Launched in December 2012 in Fukushima Prefecture, the service is based on mobile libraries equipped with up to 40 Kobo Touch e-book readers and around 500 books for children. In January 2013, we donated Kobo Touch readers to 1,644 young people who had just come of age in seven municipalities in Iwate Prefecture.



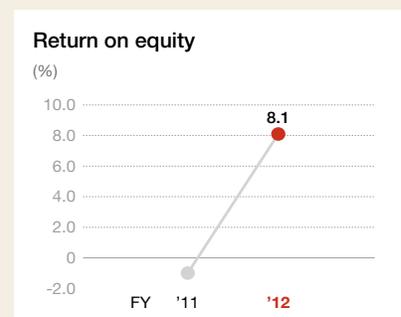
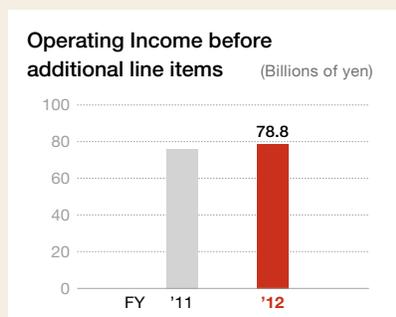
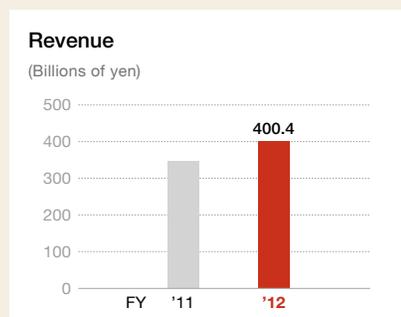
### • Rakuten Solar Club Membership Service—Solar Mileage Club

The Solar Mileage Club is a membership service for users of solar power systems installed by Rakuten Solar. Modeled on airline frequent flyer systems, this is the first system in the solar power industry that allows members to earn rewards based on the amount of solar power (kWh) that they produce. For every 10,000kWh generated, members can choose from among four rewards: a solar panel inspection, a module cleaning service, or an energy-saving cleaning service for either an air conditioner or range hood.

## Financial Highlights (IFRS)

Fiscal Year	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
<b>Income and Loss</b>			
Revenue	¥ 346,425	¥ 400,444	\$ 4,625,129
Operating Income before additional line items	76,136	78,793	910,056
Operating income	644	50,055	578,134
Net income	9,631	21,136	244,123
<b>Cash Flows</b>			
Net cash flows from operating activities	¥35,222	¥104,687	\$ 1,209,131
Net cash flows from investing activities	60,260	67,444	778,936
Net cash flows used in financing activities	(47,405)	(56,820)	(656,268)
<b>Assets and Liabilities</b>			
Total assets	¥1,959,765	¥2,287,634	\$26,422,199
Total liabilities	1,747,419	2,045,722	23,628,114
Total net assets	212,346	241,912	2,794,085
<b>Earnings Per Share Attributable to Owners of the Company</b>			
Net income (basic)	¥6.08	¥15.59	\$0.18
Net income (diluted)	6.06	15.56	0.18

Notes: U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥86.58 to US\$1, the approximate rate of exchange at December 31, 2012.



## Overview

- Consolidated financial results for the fiscal year ended December 31, 2012 included revenue of ¥400.4 billion together with operating income before additional line items at ¥78.8 billion (IFRS).
- Rakuten Ichiba and other services grew 15% year on year in domestic e-commerce gross merchandise sales (transaction value), lifting our share\* of the Japan e-commerce market

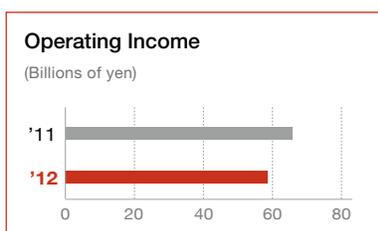
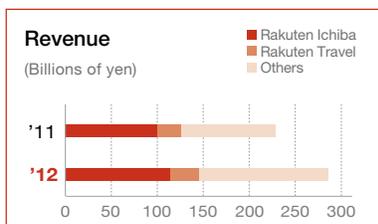
from 28% to 29% to fortify our hold on the No. 1 position.

- Internet Finance income sharply jumped owing to aggressive promotion of the segment centering on Rakuten Card for its notable synergies with Internet Services.

\* From a Ministry of Economy, Trade, and Industry (METI) survey of the retail e-commerce market. Assumes 2012 year-on-year growth rate is the same as 2011.

# Internet Services

Rakuten Ichiba, Travel Business, Other Domestic Internet Services, Overseas Businesses, E-book Business



In the Internet Services segment for fiscal 2012, Rakuten advanced its growth strategy with increased strength by actively promoting the Rakuten Ichiba B2B2C marketplace model. Rakuten focused on deepening its product lineup, enhancing services for smartphones and tablet devices, expanding next-day delivery and running the Rakuten Super Sale large-scale sales events, among other initiatives, which included empowerment of merchants.

Overseas, Rakuten is proceeding to roll out its business model by focusing on marketplace-model services while actively implementing points programs and other initiatives that have proven successful in Japan.

During the first quarter, Rakuten made Canadian-based Kobo Inc., a worldwide operator in the e-book market experiencing continuous high sales growth, into a consolidated subsidiary.

As a result, revenue for the segment rose to ¥285,815 million, a 25.0% year-on-year increase, while segment operating income was down 10.6% year on year to ¥58,639 million due to our continued forward-looking investments, mainly in overseas businesses.

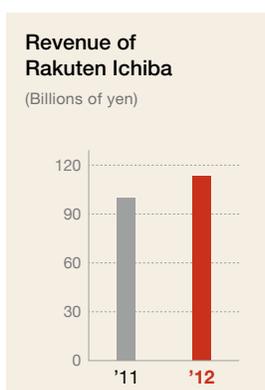
## Rakuten Ichiba

### Maintaining No.1 E-commerce Marketplace Status in Japan

On top of these successful initiatives, the expanding use of e-commerce in daily consumption raised the numbers of unique buyers and orders to a new plateau. Rakuten's domestic e-commerce GMS grew 15.3% to ¥1,446 billion, furthering an uninterrupted record of high growth.

Unique buyers of Rakuten Ichiba (buyers who made at least one purchase during a

quarter) grew to over 13 million buyers. There are over 81 million Rakuten members today, and indications show that the number of active buyers among them is expanding steadily. As a result, Rakuten Ichiba retained its No.1 share in the Japanese E-commerce market, and revenue of Rakuten Ichiba showed a 13.8% increase.



## Rakuten Travel

### Strengthening Domestic and Overseas Operations

Rakuten Travel, one of Japan's largest travel companies, stands apart from its competitors through its use of Rakuten Super Points and practical smartphone applications. In fiscal 2012, gross transaction value increase by 12.9% year on year. Dynamic Packages had solid sales as it upgraded its single-payment service for combined corporate air travel, hotel

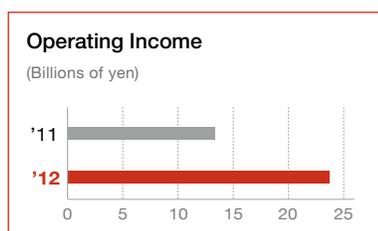
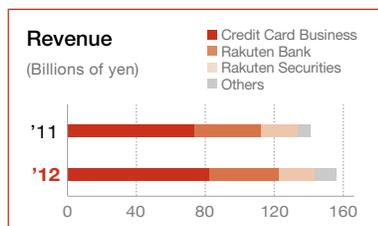
reservations and car rentals in pursuit of a more diversified earnings base.

During the fiscal year, Rakuten Travel established three branches in China, a branch in the U.S. and a subsidiary in Indonesia, to enhance its overseas operations. Revenue of Rakuten Travel grew 18.7% year on year.



# Internet Finance

Credit Card Business, Banking Business, Securities Business, E-money Business and Others



In the Internet Finance segment, credit card and related services led profit growth, as rising credit card membership boosted shopping transaction value, and the resulting rise in revolving shopping balances lifted commission income. Banking services benefited from marketing to Rakuten members and healthy growth in loan balances to achieve increased interest income from loans. In securities services, a fourth quarter resurgence in the domestic market brought a sharp increase in stock trading commissions. In our aim to enrich financial service offerings, we made AIRIO Life Insurance Co., Ltd.\* a consolidated subsidiary in the fourth quarter.

As a result, the Internet Finance segment recorded ¥156,430 million in revenue, a 10.8% increase over the previous year. Segment operating income was ¥23,714 million, 82.8% growth over the previous fiscal year in which results were depressed.

\* Renamed Rakuten Life Insurance Co., Ltd. in April 2013.

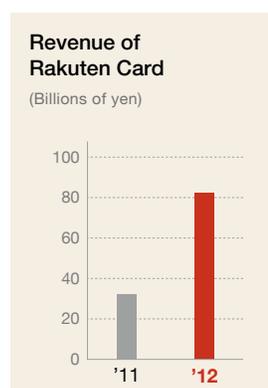
## Rakuten Card No.1 Card in Customer Satisfaction\*

Rakuten Card is highly valued by its cardholders for the Rakuten Super Points Program linkage and other attractive services. Also, Rakuten Card receives high marks from the mass media in the area of customer satisfaction. As a result, Rakuten Card shopping transaction value increased by 36.0% year on year to ¥1,802.3 billion and shopping revolving balance increased

by 34.6% year on year to ¥161.2 billion. Due to these, Rakuten Card performance was expanded significantly in both revenue and income terms.

Revenue of Rakuten Card showed a 156.3% increase year on year to ¥82,161 million. Operating income also increased dramatically by 169.4% to ¥10,878 million.

\* See P13

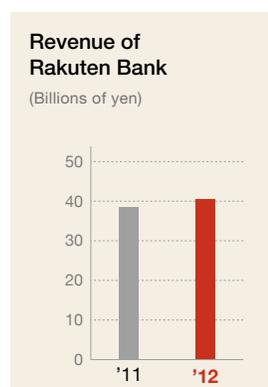


## Rakuten Bank Success from Effective Group Synergies

In fiscal 2012, Rakuten Bank concentrated on programs to create synergies within the Group, such as launching the Money Bridge service to link accounts with Rakuten Securities and marketing campaigns aimed at Rakuten Ichiba members. These initiatives brought an increase in the number of accounts, which rose to 4 million as of April

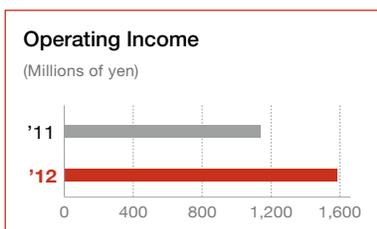
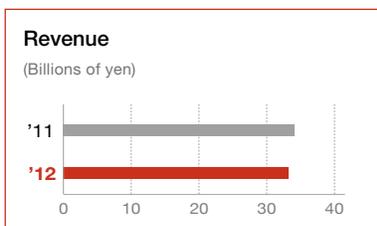
2012. Furthermore, the Rakuten Bank Super Loans saw rapid growth in the balance of loan receivables, which grew 23.8% year on year to ¥181.8 billion.

Revenue of Rakuten Bank were ¥40,502 million or 5.2% over the total for the previous year. Operating income increased by 40.5% year on year to ¥8,183 million.



# Others

Telecommunications Business, Professional Sports and Others



Operating income in the Others segment firmed during the year, despite lower telecommunications sales stemming from the shift to a new business model that emphasizes new, high-growth ventures such as cloud services, while moving away from a traditional landline operator providing bypass services. The professional sports division lifted revenue through year-on-year revenue increases in both advertising and tickets.

As a result of the above, revenue for the segment were ¥33,270 million, a 2.6% year-on-year decrease, while segment operating income grew 38.8% to ¥1,585 million.

## Fusion Communications and Rakuten Baseball

In fiscal 2012, Fusion Communications enhanced its business including the release of the first cloud linkage platform service in Japan, “FUSION iPaaS”, to EC merchants and launch of the Rakuten Broadband LTE service.

As in the previous year, the Tohoku Rakuten Golden Eagles baseball club

adopted the slogan “Gambarou Tohoku!” (We’re Behind You Tohoku!) for a series of support activities created for earthquake recovery efforts. Annual season tickets sales reached a record high and sponsorships and broadcasting sales stayed healthy.

### Tohoku Rakuten Golden Eagles A Local Project—“Making Spectators into Participants”

The Tohoku Rakuten Golden Eagles (the Rakuten Eagles) philosophy reads, “The Baseball Entertainment Company—We are a ball club that creates thrills and inspires dreams through the game of baseball.” Since the team’s establishment, the Rakuten Eagles have promoted regionally centered communication to be a ball club that is loved and supported by local fans.

Special pre-game events give local fans the chance to participate, under the banner “Spectators Becoming Participants.”

A Rakuten Eagles volunteer program enables fans to participate directly in ball club operations, the first in professional baseball. The team also reaches out to future Eagles fans through visits to schools and similar activities.



## Board of Directors

(As of March 28, 2013)



**Hiroshi Mikitani**  
Chairman and CEO



**Atsushi Kunishige**  
Executive Vice President  
and Representative  
Director



**Masatada Kobayashi**  
Senior Executive Officer  
and Director



**Toru Shimada**  
Senior Executive Officer  
and Director



**Akio Sugihara**  
Senior Executive Officer  
and Director



**Kazunori Takeda**  
Senior Executive Officer  
and Director



**Hiroaki Yasutake**  
Senior Executive Officer  
and Director



**Yoshihisa Yamada**  
CFO, Senior Executive  
Officer and Director



**Kentaro Hyakuno**  
Senior Executive Officer  
and Director



**Charles B. Baxter**  
Director



**Koichi Kusano**  
Director



**Ken Kutaragi**  
Director



**Joshua G. James**  
Director



**Hiroshi Fukino**  
Director



**Jun Murai**  
Director



**Tanekiyo Kunitake**  
Company Auditor



**Yoshiaki Senoo**  
Company Auditor



**Takeo Hirata**  
Company Auditor



**Katsuyuki Yamaguchi**  
Company Auditor

## Board of Directors and Company Auditors

(As of March 28, 2013)

Position	Name	Shares owned (Thousands)
Chairman and CEO	Hiroshi Mikitani	199,062
Executive Vice President and Representative Director	Atsushi Kunishige	20
Senior Executive Officer and Director	Masatada Kobayashi	2,366
Senior Executive Officer and Director	Toru Shimada	402
Senior Executive Officer and Director	Akio Sugihara	5,839
Senior Executive Officer and Director	Kazunori Takeda	359
Senior Executive Officer and Director	Hiroaki Yasutake	460
CFO, Senior Executive Officer and Director	Yoshihisa Yamada	20
Senior Executive Officer and Director	Kentaro Hyakuno	340
Director	Charles B. Baxter	—
Director	Koichi Kusano *1	20
Director	Ken Kutaragi *1	10
Director	Joshua G. James *1	—
Director	Hiroshi Fukino *1	140
Director	Jun Murai *1	—
Company Auditor	Tanekiyo Kunitake *2	5
Company Auditor	Yoshiaki Senoo *2	—
Company Auditor	Takeo Hirata *2	—
Company Auditor	Katsuyuki Yamaguchi *2	20

\*1: Outside director

\*2: Outside company auditor

# Corporate Governance

## 1. Basic Approach to Corporate Governance

The Rakuten Group gives top priority to effective corporate governance. The Group has implemented a range of measures to strengthen its competitiveness and maximize corporate value by maintaining effective internal control and risk management systems, with a view to realizing its goal of becoming the world's leading Internet services company.

### Corporate Governance

#### 1. Basic Structure of Corporate Governance and Reasons for Adoption

Rakuten, Inc. supervises management by using a Company Auditor System. In March 2003, the Company adopted an Executive Officer System to separate the supervisory and executive roles of management. Under that system, functions previously performed by the Board of Directors were separated,

with directors retaining responsibility for management decision-making and supervision, while executive functions were transferred to the Executive Officers.

In April 2012, the Company revised the Executive Officers' scope of duties with the aim of quickening business execution and reinforced its group-wide internal controls through the application of Functional Teams operating across all Rakuten Group businesses.

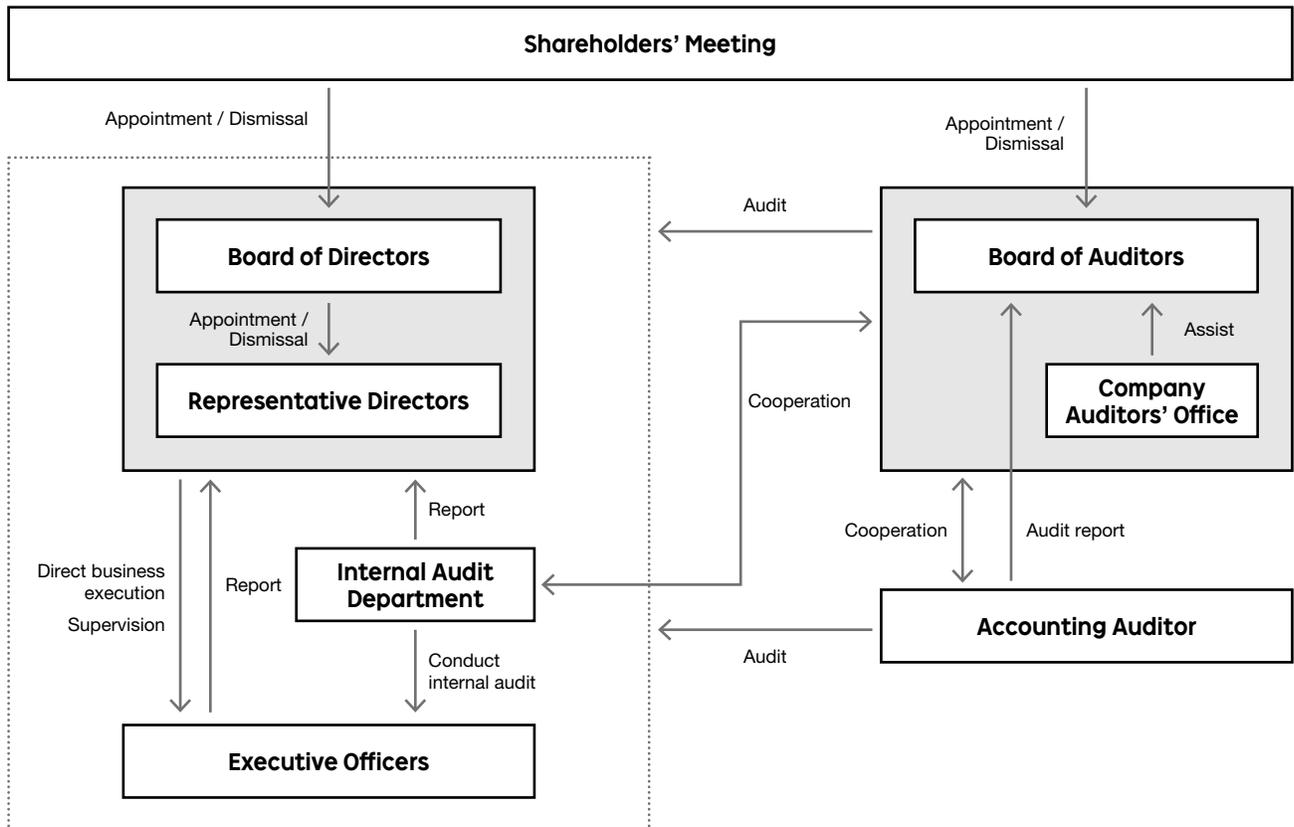
#### 2. Corporate Organization

(1) Directors, Board of Directors, Executive Officers, etc.

The Board of Directors consists of 15 Directors, including five Outside Directors. Resolutions to appoint Directors must be approved by a majority of voting rights at a General Meeting of Shareholders attended by shareholders holding at least one-third of voting rights.

In addition to regular monthly meetings, the Board of Directors holds extraordinary meetings as required. At these

## Corporate Governance Structure



meetings, Directors make decisions on important management matters and supervise Executive Officers' activities. To ensure appropriate decision-making by the Board of Directors, medium- and long-term management plans, basic policies and other key strategies are first discussed at Corporate Strategy Meetings, which are held before the Board of Directors meetings and consists mainly of executives at Senior Executive Officer level and above.

Board decisions are delegated to the Executive Officers' Meeting, which consists of Executive Officers. Individual Executive Officers carry out their respective duties in accordance with these decisions. To ensure appropriate and efficient conduct of business operations, activities in individual segments are supervised by management councils convened within each segment, as well as by Functional Teams responsible for human resources, financial management, accounting, organizational management and other management aspects across the Rakuten Group.

## **(2) Company Auditors and the Board of Auditors**

Rakuten, Inc. has four Company Auditors, including two full-time auditors. All four are outside auditors.

A two-member Company Auditors' Office assists the Company Auditors in the performance of their duties. In addition to its regular meetings, the Board of Auditors holds extraordinary meetings as required.

In accordance with audit policies and plans established by the Board of Auditors, the Company Auditors attend Board of Directors meetings and other important management meetings, and receive reports about the state of the Company's operations from Directors, the Internal Audit Department and other sources. In addition, they conduct on-site inspections of the Company's head office and other important business sites, and check the operations of subsidiaries. In addition, the Company Auditors receive audit reports from the independent auditors and peruse financial statements and business reports. They also discuss various matters with the CEO.

## **3. Internal Control Systems**

Basic internal control policies for Rakuten, Inc. are determined by the Board of Directors. The Company has declared its intention to comply with all regulatory requirements, and to apply high ethical standards to its business activities.

The performance of business operations by Directors and employees is subject to regular operational audits by the Internal Audit Department, an independent unit reporting directly to the CEO. The Compliance Committee also helps to ensure that all operations are conducted appropriately by implementing group-wide compliance initiatives.

Compliance training is provided for all Directors and employees to enable them to develop the knowledge and ethical perceptions needed to perform their duties. In addition, Rakuten

has set up a hotline, the Rakuten Hotline, for reporting of compliance violations.

Directors are closely supervised in the performance of their duties by the Outside Directors and Outside Company Auditors. Attorneys have been appointed to help each of the outside directors and outside auditors verify compliance with the Articles of Incorporation and regulatory requirements from an objective perspective based on expert knowledge.

Rakuten, Inc. is also expanding the Rakuten Group Regulations (RGR) as the basis for integrated group management, with the aim of strengthening corporate governance and paving the way for further growth.

## **4. Risk Management Systems**

Rakuten has established a Group Risk Management Committee chaired by the CEO for the comprehension of risks, from a unified perspective, that may have a material adverse effect on the Rakuten Group and for providing an appropriate response to such risks. Under the Group Risk Management Committee, we have established risk control sections within business units, responsible for 10 risk categories including compliance risk, information security risk, and disaster, dispute and accident risk. Each section conducts regular risk assessments and related measures through the leadership of the Risk Management Department, a group-wide department in charge of risk management. In accordance with these assessments, the Group Risk Management Committee examines policies to reinforce risk management, ensures that policies are made into concrete measures by the Risk Management Department and risk control sections, and develops and implements measures at each business unit and group company.

Rakuten, Inc., in accordance with RGR, consolidates risk information and ensures thorough and consistent application of risk management through such actions as obtaining approval from the Board of Directors for proposed business investments by each business unit that exceed a set amount, and receives reports on risks related to business execution presented at the Management Conferences held in each business unit.

Each group subsidiary, including the finance businesses, has also established its own risk management system and instituted the PDCA cycle to handle company-specific risks other than group-wide risks.

The Development Unit has taken measures to handle risks related to information security and information systems. Our efforts to minimize this risk factor throughout the Rakuten Group include acquisition of Information Security Management System (ISMS) certification (ISO/IEC 27001).

## **Internal Audits, Company Auditor Organization, Personnel and Procedures**

Internal audits are conducted by the 20-member Internal Audit Department, which is an independent unit reporting directly to

the CEO. Head office divisions, business units and group companies are all subject to internal auditing. Audits are implemented under plans approved by the Board of Directors with the aim of verifying the legality, appropriateness and efficiency of operations. The purpose of the internal audit process is to ensure that business operations are conducted in an appropriate manner by identifying any improvements that may be required, and by monitoring the implementation of those improvements. Audit results are reported to the Board of Directors, the CEO, the Compliance Committee responsible for areas covered by audits. The Internal Audit Department also cooperates with the Board of Auditors.

The Internal Audit Department is also working to enhance the effectiveness of internal audits throughout the Rakuten Group by working closely with audit units in group companies.

Information about audits by Company Auditors can be found under Corporate Organization 2-(2) Company Auditors and the Board of Auditors.

### **Outside Directors and Outside Auditors**

Rakuten's 15-member Board of Directors currently includes five Outside Directors, and all four Company Auditors are Outside Auditors. An Outside Director, Mr. Koichi Kusano, is a representative partner in Nishimura & Asahi, a law firm with which Rakuten has a business relationship that includes the provision of services. An Outside Auditor, Mr. Katsuyuki Yamaguchi, is a partner in the same firm. A Director, Mr. Ken Kutaragi is an Outside Director of Kadokawa Group Holdings, Inc., and Rakuten has a business relationship with a subsidiary of this company that includes the provision of services. A Director, Mr. Jun Murai, is an Outside Director of BroadBand Tower, Inc., a company with which Rakuten has a business relationship that includes the provision of services. He is a relative within the third degree of kinship to an employee of the Company. There are no other personal, capital or business relationships or significant interests.

As described above, Rakuten appoints highly independent Outside Directors and Outside Auditors whose expertise and objective viewpoints strengthen supervision of the Board of Directors in the performance of its duties. They also enhance the effectiveness of corporate governance by allowing a wide range of discussion with the Board of Directors.

The five Outside Directors include attorneys, notably Mr. Koichi Kusano, who can contribute wide-ranging knowledge and experience of corporate law. Another, Mr. Ken Kutaragi, has extensive knowledge of the entertainment business and technology and wide-ranging experience in business management. Mr. Hiroshi Fukino also has extensive experience of business management and expertise as a business consultant. Mr. Joshua G. James has specialized knowledge of Internet services and a wealth of experience in management of Internet service businesses in North America; Mr. Murai has a distinguished background as an academic expert in Internet technology.

There are four Outside Auditors. Mr. Takekiyo Kunitake has wide-ranging expertise and experience, especially in the fields of business management and finance. Mr. Yoshiaki Senoo has extensive knowledge and experience relating primarily to finance, business management and compliance. Mr. Takeo Hirata brings wide-ranging expert knowledge and experience relating to sport and education. Mr. Katsuyuki Yamaguchi was selected as a person who could contribute to Rakuten's audit systems through his extensive knowledge and experience, especially as an attorney, and through his perspectives as an expert on corporate law.

Documents for meetings of the Board of Directors are forwarded in advance to the Outside Directors and Outside Auditors, who, if necessary, can also seek advance briefings from and consultations with the units concerned. As noted above, the Outside Auditors also actively exchange views with the Internal Audit Department and the independent auditors.

Rakuten, Inc. has signed an agreement with each of its Outside Directors and Outside Auditors under the provisions of Article 427, Paragraph 1 of the Corporate Law. This agreement is summarized below:

Provided that duties have been carried out in good faith and without gross negligence, the total liability in situations as defined in Article 423, Paragraph 1 of the Corporate Law will be limited to the sum of the amounts stipulated in the following items:

- i. Two times the bigger of the sum of fees, bonuses and other payments received or asset benefits received in the year that includes the date on which the event that resulted in the liability occurred, and in the preceding year, or the value of asset benefits to be received (excluding benefits stipulated under Item ii below).
- ii. Two times the smaller of the sum of retirement bonuses or asset benefits that are in the nature of retirement bonuses, or that amount divided by the number of years during which the office of Outside Director was held.
- iii. The amounts stipulated below if stock options, as defined in Article 238, Paragraph 3 of the Corporate Law, were exercised or transferred after the person was appointed as an Outside Director.
  1. If the options have been exercised  
An amount calculated by subtracting the sum of the issue price of the stock options and the paid-in value per share on the exercise date from the market price per share on the exercise date and multiplying the result by the number of shares granted through the exercise of the stock options.
  2. If the options have been transferred  
An amount calculated by subtracting the issue price of the options from the transfer price and multiplying the result by the number of stock options.

## Remuneration for Directors and Auditors

1. Total amounts of fees, etc., for each category of the filing company's officers, total amount of each type of remuneration paid, and number of officers eligible

Category of officer	Total amount of fees, etc. (millions of yen)	Total amount of each type of remuneration (millions of yen)			Number of recipients
		Basic fees	Stock options	Bonuses	
Directors (excluding Outside Directors)	408	305	22	80	12
Auditors (excluding Outside Auditors)	—	—	—	—	—
Outside Directors and Auditors	108	108	0	—	9

2. Consolidated total amount of fees, etc., for directors and auditors of the filing company

For purposes of full disclosure, we declare that no person in the filing company received a consolidated total amount of fees of more than 100 million yen this fiscal year.

3. Total amount of significant items included in salaries and bonuses paid to directors who are also employees

Total amount (millions of yen)	Number of recipients	Details
359	9	Salaries (including bonuses) paid to directors who are also employees

4. Policies concerning amounts of remuneration for Directors and Auditors, the adoption of methods for calculating those amounts, and the establishment of those policies

Business performance is taken into account in decisions concerning remuneration for Directors and Auditors. A resolution of the 13th Regular General Meeting of Shareholders, held on March 30, 2010, set the upper limit for total remuneration over the year at ¥1,100 million (including ¥100 million for Outside Directors). Total remuneration for Company Auditors is within the upper limit of ¥120 million as stipulated in a resolution of the 10th Regular General Meeting of Shareholders, held on March 29, 2007.

## Shareholdings

1. Shares held for purposes other than pure investment

Number of companies: 11

Total amount shown in balance sheet: ¥2,697 million

2. Name of company, number of shares held, amount shown in balance sheet and purpose of holding for each shareholding held for reasons other than pure investment

December 31, 2011

Company	Shares held	Amount shown in balance sheet (millions of yen)	Reason for holding
Synergy Marketing, Inc.	1,136,000	1,217	Reinforcement of business relationship
F@N Communications, Inc.	5,779	533	Reinforcement of business relationship
FreeBit Co., Ltd.	498	107	Reinforcement of business relationship
IMJ Corporation	5,500	93	Reinforcement of business relationship
Alpen Co., Ltd.	18,000	24	Reinforcement of business relationship

December 31, 2012

Company	Shares held	Amount shown in balance sheet (millions of yen)	Reason for holding
F@N Communications, Inc.	5,779	1,039	Reinforcement of business relationship
Synergy Marketing, Inc.	1,136,000	580	Reinforcement of business relationship
FreeBit Co., Ltd.	199,200	83	Reinforcement of business relationship
Alpen Co., Ltd.	18,000	27	Reinforcement of business relationship

3. There are no investment stocks held purely for investment purposes.

## Audits by Independent Auditors

Rakuten, Inc. has entered into an auditing agreement with Ernst & Young ShinNihon LLC, which conducts financial audits in accordance with Japan's Corporate Law and the Financial Instruments and Exchange Law.

In fiscal 2012, audits were conducted by the following chartered public accountants and assistants.

### [Chartered public accountants]

Designated limited liability partner, executive partner	Masaharu Sugiyama
Designated limited liability partner, executive partner	Kenichi Ishida
Designated limited liability partner, executive partner	Kenji Takagi

\* Since these accountants have conducted audits for fewer than seven years, the number of years has been omitted.

### [Names of assistants]

20 chartered public accountants and 29 others

## Other Provisions of the Articles of Incorporation

### 1. Matters Requiring Resolutions of General Meetings of Shareholders that Can Be Implemented by Resolutions of the Board of Directors

The Articles of Incorporation of Rakuten, Inc. state that, unless otherwise stipulated in laws and regulations, the Board of Directors is authorized to pass resolutions on matters pertaining to the distribution of surpluses and other matters, as stipulated in the items of Article 459, Paragraph 1 of the Corporate Law, without resolutions of General Meetings of Shareholders. The purpose of this provision is to allow the Board of Directors to implement a flexible dividend policy.

### 2. Items Requiring Special Resolutions of General Meetings of Shareholders

The Articles of Incorporation of Rakuten, Inc. state that matters requiring resolutions of General Meetings of Shareholders, as stipulated in Article 309, Paragraph 2 of the Corporate Law, require resolutions supported by at least two-thirds of voting rights at General Meetings of Shareholders attended by shareholders holding at least one-third of voting rights. The purpose of this provision is to facilitate the administration of General Meetings of Shareholders by easing the quorum requirements for special resolutions.

## 2. Audit Fees, etc.

### Audit Fees Paid to Chartered Public Accountants, etc.

Item	Fiscal year ended December 31, 2011		Fiscal year ended December 31, 2012	
	millions of yen		millions of yen	
	Fees paid for audit certification services	Fees paid for non-audit services	Fees paid for audit certification services	Fees paid for non-audit services
Company submitting financial reports	128	72	178	36
Consolidated subsidiaries	176	19	203	11
Total	304	91	381	47

### Other Important Matters Pertaining to Fees

#### Fiscal year ended December 31, 2012

Some consolidated subsidiaries of Rakuten, Inc. are audited by Ernst & Young, which belongs to the same network as Ernst & Young ShinNihon LLC, the company providing certified public accountants and other audit personnel for Rakuten, Inc. Fees paid to Ernst & Young in fiscal 2012 amounted to ¥61 million.

### Non-Audit Services Provided to the Company Submitting Financial Reports by Certified Public Accountants and Other Audit Personnel

#### Fiscal year ended December 31, 2012

The non-audit services for which Rakuten, Inc. pays fees to certified public accountants and other audit personnel consist primarily of advisory services relating to advice on IFRS.

### Policy on Setting of Audit Fees

The policy of Rakuten, Inc. regarding audit fees paid to certified public accountants and other audit personnel is to pay fees that are appropriate based on relevant factors, including the size of Rakuten, Inc., the characteristics of its business activities, and the number of days required for audits.

# Financial Section

## Results of Operations and Financial Condition (IFRS)

For the fiscal year ended December 31, 2012

### Business Performance

Rakuten seeks to shift growth to a higher gear through vigorous international expansion of Rakuten Ichiba's BtoBtoC marketplace model and service enhancements for smartphones and tablets. We also aim for a leap in delivery quality through a major buildout of our logistics infrastructure and related measures. We are aggressively promoting the Internet Finance business segment, centering on Rakuten Card for its notable synergies with Internet Services.

As a result, the Rakuten Group achieved solid growth for the twelve months ended December 31, 2012, with revenue of ¥400,444 million (up 15.6% from the previous fiscal year) and operating income before additional line items of ¥78,793 million (up 3.5% from the previous fiscal year). However, we recorded an extraordinary loss of ¥28,738 million, which included the loss from the restructuring of overseas businesses and impairment of goodwill. This was mainly attributable to a loss from business restructuring at Play.com in the U.K. due to an organizational restructuring carried out amidst local regulatory changes, and the recording of an impairment of goodwill and other intangible assets at Buy.com in the U.S. due to the income plan falling below initial forecasts after reprioritizing the business model to raise medium-term competitiveness. As a result of these factors, net income attributable to owners of the company amounted to ¥20,489 million (a 156.6% increase from the previous fiscal year).

### Financial Position

#### Assets

Total assets at the end of the fiscal year on December 31, 2012 amounted to ¥2,287,634 million, an increase of ¥ 327,869 million from ¥1,959,765 million on December 31, 2011. Primary factors were a decrease of ¥127,628 million in investment securities for banking business from the sale of government bonds, which was offset by increases of ¥200,103 million in financial assets for securities business amidst active trading in the capital markets and ¥96,287 million in loans for credit card business in conjunction with increased credit card use for shopping. Other increases include ¥38,395 million in intangible assets from the acquisition of Kobo Inc. etc., and ¥13,623 million in securities for insurance business from the acquisition of AIRIO Life Insurance Co., Ltd.\*

#### Liabilities

Total liabilities at the end of the fiscal year were ¥2,045,722 million, ¥298,303 million greater than at the end of the previous fiscal year. Major factors were a decrease of ¥42,796 million in bonds and borrowing, which was offset by increases of ¥193,565 million in financial liabilities for securities business, ¥66,938 million in deposits for banking business resulting from an increase in accounts at Rakuten Bank Co, Ltd., and ¥18,496 million in policy reserves and others for insurance business from the acquisition of AIRIO Life Insurance Co., Ltd.

#### Net Assets

Net assets at the end of the fiscal year were, at ¥241,912 million, ¥29,566 million higher than at the end of the previous fiscal year. A major component was total equity attributable to owners of the

Company, which grew by ¥17,233 million during the period after recording ¥21,136 million in net income for the period. Other contributors include an increase of ¥10,311 million for other components of equity.

### Cash Flows

Cash and cash equivalents for the fiscal year ended December 31, 2012 was ¥270,114 million, an increase of ¥117,313 million from the end of the previous fiscal year. Cash flow conditions and their major factors are as follows.

**Cash Flows from Operating Activities**—resulted in a cash inflow of ¥104,687 million (compared with a cash inflow of ¥35,222 million for the previous fiscal year). Primary factors on the cash outflow side include ¥96,287 million for an increase in loans for credit card business (compared with a cash outflow of ¥56,195 million for the previous fiscal year) and ¥35,113 million for an increase in loans for banking business (compared with a cash outflow of ¥29,731 million for the previous fiscal year). On the cash inflow side, primary factors include ¥49,106 million in income before income tax (compared with a cash outflow of ¥1,185 million for the previous fiscal year), ¥66,941 million for an increase in deposits for banking business (compared with \$27,737 million cash inflow for the previous fiscal year), ¥21,227 million for depreciation and amortization, a non-cash flow item (compared with ¥18,112 million for the previous fiscal year), and ¥24,805 million for an impairment loss (compared with ¥83 million for the previous fiscal year).

**Cash Flows from Investing Activities**—resulted in a cash inflow of ¥67,440 million (compared with a cash inflow of ¥60,260 million for the previous fiscal year). Primary factors on the cash outflow side include ¥253,991 million for purchase of investment securities for banking business (compared with a cash outflow of ¥382,236 million for the previous fiscal year), ¥35,076 million for acquisition of subsidiaries including Kobo Inc. (compared with a ¥10,641 million cash outflow for the previous fiscal year), and ¥18,949 million for purchase of intangible assets including software (compared with a cash outflow of ¥15,102 million for the previous fiscal year). On the cash inflow side, a primary factor was ¥385,115 million for proceeds from sale and redemption of investment securities for banking business (compared with a cash inflow of ¥446,626 million for the previous fiscal year).

**Cash Flows from Financing Activities**—resulted in a cash outflow of ¥56,820 million (compared with a cash outflow of ¥47,405 million for the previous fiscal year). Primary factors on the cash inflow side include ¥14,000 million for an increase in commercial paper (compared with a cash outflow of ¥30,200 million for the previous fiscal year) and ¥30,100 million for proceeds from long-term debt (compared with a cash inflow of ¥173,760 million for the previous fiscal year). On the cash outflow side, major factors include ¥90,168 million in repayment of long-term debt (compared with a cash outflow of ¥152,686 million for the previous fiscal year).

\* AIRIO Life Insurance Co., Ltd. changed its name to Rakuten Life Insurance Co., Ltd. on April 1, 2013.

## Consolidated Statement of Financial Position

Rakuten, Inc. and Consolidated Subsidiaries  
December 31, 2012 and 2011

	Millions of yen			Thousands of U.S. dollars
	January 1, 2011	December 31, 2011	December 31, 2012	December 31, 2012
<b>ASSETS</b>				
Cash and cash equivalents	¥ 105,896	¥ 152,801	¥ 270,114	\$ 3,119,822
Accounts receivable — trade	44,603	48,958	65,493	756,444
Financial assets for securities business	483,073	415,600	615,703	7,111,375
Loans for credit card business	348,791	306,131	402,418	4,647,933
Investment securities for banking business	484,530	423,954	296,326	3,422,566
Loans for banking business	124,885	154,555	189,669	2,190,673
Investment securities for insurance business	—	—	13,623	157,351
Derivative assets	10,143	9,829	10,674	123,288
Investment securities	59,754	10,963	23,411	270,396
Other financial assets	142,556	172,764	123,132	1,422,172
Investments in associates and joint ventures	9,454	9,685	6,601	76,241
Property, plant and equipment	25,885	21,535	24,143	278,855
Intangible assets	152,215	149,620	188,014	2,171,566
Deferred tax assets	47,212	64,579	40,546	468,309
Other assets	13,574	18,791	17,767	205,208
Total assets	2,052,571	1,959,765	2,287,634	26,422,199
<b>LIABILITIES</b>				
Accounts payable — trade	36,836	59,365	79,965	923,602
Deposits for banking business	714,856	742,593	809,531	9,350,088
Financial liabilities for securities business	427,440	364,490	558,055	6,445,545
Derivative liabilities	2,429	2,861	4,685	54,112
Bonds and borrowings	377,661	347,983	305,186	3,524,905
Other financial liabilities	152,130	176,413	210,048	2,426,056
Income taxes payable	17,590	3,981	2,873	33,184
Provisions	32,499	23,181	29,614	342,041
Policy reserves and others for insurance business	—	—	18,496	213,624
Deferred tax liabilities	6,236	6,054	6,416	74,103
Other liabilities	67,435	20,498	20,853	240,854
Total liabilities	1,835,112	1,747,419	2,045,722	23,628,114
<b>NET ASSETS</b>				
Equity attributable to owners of the Company				
Common stock	107,779	107,959	108,255	1,250,351
Capital surplus	117,311	116,864	116,599	1,346,715
Retained earnings	(1,656)	3,641	20,873	241,089
Treasury stock	(3,626)	(3,626)	(3,626)	(41,876)
Other components of equity	(11,032)	(16,471)	(6,159)	(71,148)
Total equity attributable to owners of the Company	208,776	208,367	235,942	2,725,131
Non-controlling interests	8,683	3,979	5,970	68,954
Total net assets	217,459	212,346	241,912	2,794,085
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>¥2,052,571</b>	<b>¥1,959,765</b>	<b>¥2,287,634</b>	<b>\$26,422,199</b>

The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at ¥86.58 to \$1, the rate of exchange prevailing at December 31, 2012.

## Consolidated Statement of Income

Rakuten, Inc. and Consolidated Subsidiaries  
Years ended December 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars
	Year ended December 31, 2011	Year ended December 31, 2012	Year ended December 31, 2012
<b>CONTINUING OPERATIONS</b>			
Revenue	¥346,425	¥400,444	\$4,625,129
Operating expenses	265,463	319,435	3,689,481
Other income	1,178	3,365	38,865
Other expenses	6,004	5,581	64,457
Operating income before additional line items	76,136	78,793	910,056
Additional line items	(75,492)	(28,738)	(331,922)
Operating income	644	50,055	578,134
Financial income	277	193	2,228
Financial expenses	2,569	2,565	29,621
Share of (loss) / profit of associates	463	1,423	16,431
(Loss) Income before income tax	(1,185)	49,106	567,172
Income tax expense	(10,816)	27,970	323,049
Net income	¥ 9,631	¥ 21,136	\$ 244,123
<b>NET INCOME ATTRIBUTABLE TO</b>			
Owners of the Company	¥ 7,986	¥ 20,489	\$ 236,651
Non-controlling interests	1,645	647	7,472
Net income	¥ 9,631	¥ 21,136	\$ 244,123
<b>EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY:</b>			
Basic	¥ 6.08	¥ 15.59	\$ 0.18
Diluted	6.06	15.56	0.18

## Consolidated Statement of Comprehensive Income

Rakuten, Inc. and Consolidated Subsidiaries  
Years Ended December 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars
	Year ended December 31, 2011	Year ended December 31, 2012	Year ended December 31, 2012
<b>NET INCOME</b>	¥ 9,631	¥21,136	\$244,123
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO NET INCOME:</b>			
Gains and losses on financial assets measured at fair value through other comprehensive income	(3,008)	(72)	(833)
Income tax relating to gains and losses on financial assets measured at fair value through other comprehensive income	815	(51)	(588)
Share of other comprehensive income of associates	(20)	28	327
Total items that will not be reclassified to net income	(2,213)	(95)	(1,094)
<b>ITEMS THAT WILL BE RECLASSIFIED TO NET INCOME:</b>			
Foreign currency translation adjustments	(3,708)	10,362	119,674
The portion of gains or losses on effective cash flow hedges recognized in other comprehensive income	185	(447)	(5,160)
Income tax relating to the portion of gains or losses on effective cash flow hedges recognized in other comprehensive income	(117)	176	2,028
The portion of gains or losses on effective cash flow hedges reclassified from other comprehensive income to net income	526	713	8,240
Income tax relating to the portion of gains or losses on effective cash flow hedges reclassified from other comprehensive income to net income	(197)	(271)	(3,135)
Total items that will be reclassified to net income	(3,311)	10,533	121,647
Other comprehensive income, net of tax	(5,524)	10,438	120,553
<b>COMPREHENSIVE INCOME</b>	¥ 4,107	¥31,574	\$364,676
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO</b>			
Owners of the Company	¥ 2,551	¥30,907	\$356,974
Non-controlling interests	1,556	667	7,702
Comprehensive income	¥ 4,107	¥31,574	\$364,676

The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at ¥86.58 to \$1, the rate of exchange prevailing at December 31, 2012.

# Consolidated Statement of Changes in Equity

Rakuten, Inc. and Consolidated Subsidiaries  
Years Ended December 31, 2012 and 2011

Millions of yen

	Other components of equity										
	Common stock	Capital surplus	Retained earnings	Treasury stock	Foreign currency translation adjustments	Financial instruments measured at fair value through other comprehensive income	Cash flow hedges	Total other components of equity	Total equity attributable to owners of the Company	Non-controlling interests	Total net assets
As of January 1, 2011	¥107,779	¥117,311	¥ (1,656)	¥(3,626)	¥(14,500)	¥ 4,222	¥(754)	¥(11,032)	¥208,776	¥ 8,683	¥217,459
<b>Comprehensive income</b>											
Net income	—	—	7,986	—	—	—	—	—	7,986	1,645	9,631
Other comprehensive income, net of tax	—	—	—	—	(3,623)	(2,192)	380	(5,435)	(5,435)	(89)	(5,524)
<b>Total comprehensive income</b>	<b>—</b>	<b>—</b>	<b>7,986</b>	<b>—</b>	<b>(3,623)</b>	<b>(2,192)</b>	<b>380</b>	<b>(5,435)</b>	<b>2,551</b>	<b>1,556</b>	<b>4,107</b>
<b>Transactions with owners</b>											
Contributions by and distributions to owners of the Company											
Issuance of common stock	180	180	—	—	—	—	—	—	360	—	360
Cash dividends paid	—	—	(2,624)	—	—	—	—	—	(2,624)	—	(2,624)
Others	—	295	(65)	—	—	(4)	—	(4)	226	—	226
<b>Total contributions by and distributions to owners of the Company</b>	<b>180</b>	<b>475</b>	<b>(2,689)</b>	<b>—</b>	<b>—</b>	<b>(4)</b>	<b>—</b>	<b>(4)</b>	<b>(2,038)</b>	<b>—</b>	<b>(2,038)</b>
Changes in ownership interests in subsidiaries											
Issuance of common stock	—	—	—	—	—	—	—	—	—	1,379	1,379
Acquisitions and disposals of non-controlling interests	—	(1,692)	—	—	—	—	—	—	(1,692)	(1,187)	(2,879)
Sales of subsidiaries	—	—	—	—	—	—	—	—	—	(5,915)	(5,915)
Others	—	770	—	—	—	—	—	—	770	(537)	233
<b>Total changes in ownership interests in subsidiaries</b>	<b>—</b>	<b>(922)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(922)</b>	<b>(6,260)</b>	<b>(7,182)</b>
<b>Total transactions with owners</b>	<b>180</b>	<b>(447)</b>	<b>(2,689)</b>	<b>—</b>	<b>—</b>	<b>(4)</b>	<b>—</b>	<b>(4)</b>	<b>(2,960)</b>	<b>(6,260)</b>	<b>(9,220)</b>
As of December 31, 2011	¥107,959	¥116,864	¥ 3,641	¥(3,626)	¥(18,123)	¥ 2,026	¥(374)	¥(16,471)	¥208,367	¥ 3,979	¥212,346
<b>Comprehensive income</b>											
Net income	—	—	20,489	—	—	—	—	—	20,489	647	21,136
Other comprehensive income, net of tax	—	—	—	—	10,341	(94)	171	10,418	10,418	20	10,438
<b>Total comprehensive income</b>	<b>—</b>	<b>—</b>	<b>20,489</b>	<b>—</b>	<b>10,341</b>	<b>(94)</b>	<b>171</b>	<b>10,418</b>	<b>30,907</b>	<b>667</b>	<b>31,574</b>
<b>Transactions with owners</b>											
Contributions by and distributions to owners of the Company											
Issuance of common stock	296	296	—	—	—	—	—	—	592	—	592
Cash dividends paid	—	—	(3,284)	—	—	—	—	—	(3,284)	—	(3,284)
Others	—	334	27	(0)	—	(106)	—	(106)	255	—	255
<b>Total contributions by and distributions to owners of the Company</b>	<b>296</b>	<b>630</b>	<b>(3,257)</b>	<b>(0)</b>	<b>—</b>	<b>(106)</b>	<b>—</b>	<b>(106)</b>	<b>(2,437)</b>	<b>—</b>	<b>(2,437)</b>
Changes in ownership interests in subsidiaries											
Issuance of common stock	—	—	—	—	—	—	—	—	—	30	30
Acquisitions and disposals of non-controlling interests	—	(494)	—	—	—	—	—	—	(494)	1,380	886
Others	—	(401)	—	—	—	—	—	—	(401)	(86)	(487)
<b>Total changes in ownership interests in subsidiaries</b>	<b>—</b>	<b>(895)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(895)</b>	<b>1,324</b>	<b>429</b>
<b>Total transactions with owners</b>	<b>296</b>	<b>(265)</b>	<b>(3,257)</b>	<b>(0)</b>	<b>—</b>	<b>(106)</b>	<b>—</b>	<b>(106)</b>	<b>(3,332)</b>	<b>1,324</b>	<b>(2,008)</b>
As of December 31, 2012	¥108,255	¥116,599	¥20,873	¥(3,626)	¥ (7,782)	¥ 1,826	¥(203)	¥ (6,159)	¥235,942	¥ 5,970	¥241,912
As of December 31, 2012 Thousands of U.S. dollars	\$1,250,351	\$1,346,715	\$241,089	\$(41,876)	\$(89,884)	\$21,079	\$(2,343)	\$(71,148)	\$2,725,131	\$68,954	\$2,794,085

# Consolidated Statement of Cash Flows

Rakuten, Inc. and Consolidated Subsidiaries  
Years Ended December 31, 2012 and 2011

	Millions of yen	Thousands of U.S. dollars	
	Year ended December 31, 2011	Year ended December 31, 2012	Year ended December 31, 2012
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>			
(Loss) Income before income tax	¥ (1,185)	¥ 49,106	\$ 567,172
Depreciation and amortization	18,112	21,227	245,177
Impairment loss	83	24,805	286,497
Loss on business restructuring	75,492	4,250	49,082
Other loss	3,894	955	11,028
Decrease (Increase) in accounts receivables	(4,283)	(9,379)	(108,324)
Decrease (Increase) in loans for credit card business	(56,195)	(96,287)	(1,112,119)
Increase (Decrease) in deposits for banking business	27,737	66,941	773,173
Decrease (Increase) in call loans for banking business	(24,053)	42,000	485,100
Decrease (Increase) in loans for banking business	(29,731)	(35,113)	(405,561)
Increase (Decrease) in operating payables	21,422	14,284	164,982
Decrease (Increase) in security deposits	2,137	7,207	83,246
Increase (Decrease) in accounts payable — other and accrued expenses	12,396	10,852	125,343
Decrease (Increase) in financial assets for securities business	67,473	(200,103)	(2,311,188)
Increase (Decrease) in financial liabilities for securities business	(62,951)	193,565	2,235,679
Others	8,039	17,294	199,740
Income tax paid	(23,165)	(6,917)	(79,896)
Net cash flows from operating activities	¥ 35,222	¥ 104,687	\$ 1,209,131
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Increase in time deposits	5,573	12,431	143,579
Decrease in time deposits	(9,946)	(6,349)	(73,337)
Purchase of property, plant and equipment	(3,884)	(5,162)	(59,624)
Purchase of intangible assets	(15,102)	(18,949)	(218,861)
Purchase of investment securities for banking business	(382,236)	(253,991)	(2,933,598)
Proceeds from sales and redemption of investment securities for banking business	446,626	385,115	4,448,079
Acquisition of subsidiaries	(10,641)	(35,076)	(405,132)
Purchase of investment securities	(3,199)	(15,637)	(180,608)
Proceeds from sales and redemption of investment securities	1,388	3,324	38,388
Proceeds from sales of subsidiaries	33,554	—	—
Other payments	(3,137)	(4,200)	(48,512)
Other proceeds	1,264	5,934	68,562
Net cash flows from investing activities	¥ 60,260	¥ 67,440	\$ 778,936
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net increase (decrease) in short-term borrowings	¥ (19,235)	¥ 6,607	\$ 76,309
Increase (Decrease) in commercial papers	(30,200)	14,000	161,700
Proceeds from long-term debt	173,760	30,100	347,651
Repayment of long-term debt	(152,686)	(90,168)	(1,041,444)
Redemption of bonds	(4,800)	(4,800)	(55,445)
Cash dividends paid	(2,630)	(3,286)	(37,949)
Acquisitions of non-controlling interests	(3,328)	(6,956)	(80,346)
Others	(8,286)	(2,317)	(26,744)
Net cash flows (used in) from financing activities	(47,405)	(56,820)	(656,268)
<b>EFFECT OF CHANGE IN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS</b>	(1,172)	2,006	23,166
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	46,905	117,313	1,354,965
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	105,896	152,801	1,764,857
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	¥ 152,801	¥ 270,114	\$ 3,119,822

The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at ¥86.58 to \$1, the rate of exchange prevailing at December 31, 2012.

## Consolidated Subsidiaries and Affiliated Companies

(As of December 31, 2012)

Name	Location	Ownership (%)	Note
<b>Consolidated Subsidiaries</b>			
<b>Internet Services</b>			
Rakuten Auction, Inc.	Japan	60.0	
Signature Japan Co., Ltd.	Japan	100.0	
Fine Trading Co., Ltd.	Japan	100.0	
LinkShare Corporation	U.S.A.	100.0	2
LinkShare International LLC	U.S.A.	100.0	2
LinkShare Ltd.	U.K.	100.0	2
Rakuten USA, Inc.	U.S.A.	100.0	
Keiba Mall, Inc.	Japan	100.0	
Rakuten Europe S.a.r.l.	Luxembourg	100.0	17
Taiwan Rakuten Ichiba Inc.	Taiwan	51.0	
FreeCause, Inc.	U.S.A.	100.0	2
Rakuten (Thailand) Co., Ltd.	Thailand	100.0	
TARAD Dot Com Co., Ltd.	Thailand	67.0	3
Rakuten Shigoto Shoukai, Inc.	Japan	100.0	
LinkShare Hong Kong Ltd.	Hong Kong	100.0	2
LinkShare Japan K.K.	Japan	100.0	
Rakuten Logistics, Inc.	Japan	100.0	
Buy.com Inc.	U.S.A.	100.0	2
BuyServices Inc.	U.S.A.	100.0	2
PRICEMINISTER S.A.S.	France	100.0	4
Voyager moins Cher S.A.S.	France	100.0	4
TMG MEDIA GROUP S.A.S.	France	100.0	4
Target, Inc.	Japan	100.0	
Rakuten Research, Inc.	Japan	100.0	
Rakuten Shashinkan, Inc.	Japan	100.0	
RAKUTEN SHOWTIME, Inc.	Japan	100.0	
PT RAKUTEN INDONESIA	Indonesia	100.0	
PT. Rakuten-MNC	Indonesia	51.0	6
China Rakuten Network Science and Technology Co.,Ltd	China	100.0	
Rakuten Brazil Holdings LTDA.	Brazil	100.0	
RAKUTEN BRASIL INTERNET SERVICE LTDA.	Brazil	90.0	7
Rakuten Deutschland GmbH	Germany	100.0	4
Ticket Star Inc.	Japan	66.7	8
Play Holdings Limited	Jersey Island	100.0	
Play European Holdings Limited	Jersey Island	100.0	9
Vanilla Limited	Jersey Island	100.0	9
Play Trade S.a.r.l.	Luxembourg	100.0	9
Play Media S.a.r.l.	Luxembourg	100.0	9
Webworks Development Limited	Jersey Island	100.0	9
Play Limited	Jersey Island	100.0	9
Boa Limited	Jersey Island	100.0	9
The Web Factory Limited	Jersey Island	100.0	9
Play Direct Limited	Jersey Island	100.0	9
Play Payments Limited	Jersey Island	100.0	9
Rakuten Travel, Inc.	Japan	100.0	
RAKUTEN TRAVEL KOREA CO., LTD.	Korea	100.0	10
Rakuten Bus Services Inc.	Japan	100.0	10
Rakuten Travel Guam, Inc.	U.S.A.	100.0	10
RAKUTEN TRAVEL USA, INC.	U.S.A.	100.0	10
China Online Travel, Inc.	Japan	100.0	10
ET MOBILE (CHINA) CO., LTD	China	100.0	10
ET Solution (China) Co., Ltd.	China	100.0	
Beijing Happy Travel Business Service Co.,Ltd.	China	100.0	
Beijing Happy Travel International Hotel Management Co.,Ltd.	China	100.0	
Rakuten Travel Singapore Pte. Ltd.	Singapore	100.0	1, 10
Kobo Inc.	Canada	100.0	1, 17
Kobo Europe S.A.	Luxembourg	100.0	1, 13
KOBO (US) INC.	U.S.A.	100.0	1, 13
Kobo Software Ireland Limited	Ireland	100.0	1, 13
KOBO LIVROS DO BRASIL LTDA.	Brazil	100.0	1, 13
Aquafadas S.A.S.	France	100.0	1, 13

Name	Location	Ownership (%)	Note
Aquafadas Inc.	U.S.A.	100.0	1, 13
AVE! Comics Production SASU	France	100.0	1, 13
LINKSHARE AUSTRALIA PTY LIMITED	Australia	100.0	1, 2
Rakuten Mart, Inc.	Japan	100.0	1
Wuaki TV, S.L.	Spain	100.0	1, 4
Kenko.com, Inc.	Japan	51.8	1, 16
Shareee, Inc.	Japan	90.0	1
Rakuten EMOBILE, Inc.	Japan	51.0	1
Media Forum, Inc.	U.S.A.	100.0	1, 2
<b>Internet Finance</b>			
Rakuten Bank, Ltd.	Japan	100.0	17
eBANK Capital Management (Cayman) Ltd.	Cayman Islands	100.0	11
Rakuten Securities, Inc.	Japan	100.0	
Rakuten Card Co., Ltd.	Japan	100.0	17
Kajiyama Warehouse Co., Ltd.	Japan	100.0	12
Rakuten Insurance Planning Co., Ltd.	Japan	100.0	
Rakuten Investment Management, Inc.	Japan	100.0	
Dot Commodity, Inc.	Japan	97.1	
RS Empowerment, Inc.	Japan	100.0	
Rakuten Edy, Inc.	Japan	85.0	
Rakuten Sales solution, Inc.	Japan	100.0	1
Rakuten Card Services Co.,Ltd.	Japan	100.0	1, 12
Market brokerage & futures systems, Inc.	Japan	100.0	1, 5
AIRIO Life Insurance Co., Ltd.	Japan	100.0	1, 18
<b>Others</b>			
Rakuten Baseball, Inc.	Japan	100.0	
FUSION COMMUNICATIONS CORPORATION	Japan	54.8	
O-net, Inc.	Japan	100.0	
Rakuten Sociobusiness, Inc.	Japan	100.0	
<b>Equity-method Affiliates</b>			
OKWave	Japan	18.5	16
Drecom Co., Ltd	Japan	19.7	16
WORLD TRAVEL SYSTEMS INC.	Japan	27.0	
Rakuten ANA Travel Online Co., Ltd.	Japan	50.0	
TECHMATRIX CORPORATION	Japan	32.0	16
NEXT Co., Ltd.	Japan	16.0	16
SOURCENEXT CORPORATION	Japan	28.1	14, 16
Stylife Corporation	Japan	32.5	1, 16
Daily Grommet Inc.	U.S.A.	29.1	1, 15

- Notes:**
- The company became a group member during the fiscal year ended December 31, 2012.
  - LinkShare Corporation, FreeCause, Inc. and Buy.com Inc. are subsidiaries of Rakuten USA, Inc. LinkShare International, LLC and Media Forum, Inc. are subsidiaries of LinkShare Corporation, and LinkShare Ltd., LinkShare Hong Kong Ltd. and LINKSHARE AUSTRALIA PTY LIMITED are subsidiaries of LinkShare International, LLC., BuyServices Inc. is a subsidiary of Buy.com Inc.
  - Trad Dot Com Co., Ltd is a subsidiary of Rakuten (Thailand) Co., Ltd.
  - PRICEMINISTER S.A.S., Rakuten Deutschland GmbH and Wuaki TV, S.L. are subsidiaries of Rakuten Europe S.a.r.l. In addition, Voyager moins Cher S.A.S. and TMG MEDIA GROUP S.A.S. are subsidiaries of PRICEMINISTER S.A.S.
  - Market brokerage & futures systems, Inc. is a subsidiary of Dot Commodity, Inc.
  - PT.Rakuten-MNC is a subsidiary of PT RAKUTEN INDONESIA.
  - RAKUTEN BRASIL INTERNET SERVICE LTDA. is a subsidiary of Rakuten Brazil Holdings LTDA.
  - Ticket Star Inc. is a subsidiary of Rakuten Baseball, Inc.
  - Play European Holdings Limited and Vanilla Limited are subsidiaries of Play Holdings Limited. Play Trade S.a.r.l., Play Media S.a.r.l., Webworks Development Limited, Play Limited, Boa Limited, The Web Factory Limited, Play Direct Limited and Play Payments Limited are subsidiaries of Play European Holdings Limited.
  - RAKUTEN TRAVEL KOREA CO., LTD., Rakuten Bus Services Inc., Rakuten Travel Guam Inc., Rakuten Travel USA, Inc., China Online Travel Inc. and Rakuten Travel Singapore Pte. Ltd. are subsidiaries of Rakuten Travel Inc. In addition, ET MOBILE (CHINA) CO., LTD is a subsidiary of China Online Travel Inc.
  - eBANK Capital Management (Cayman) Ltd. is a subsidiary of Rakuten Bank Ltd.
  - Kajiyama Warehouse Co., Ltd. and Rakuten Card Services Co., Ltd. are subsidiaries of Rakuten Card Co., Ltd.
  - Kobo Europe S.A., KOBO (US) INC., Kobo Software Ireland Limited, KOBO LIVROS DO BRASIL LTDA. and Aquafadas S.A.S. are subsidiaries of Kobo Inc. In addition, Aquafadas Inc. and AVE! Comics Production SASU are subsidiaries of Aquafadas S.A.S.
  - SOURCENEXT CORPORATION is an equity-method affiliate of RS Empowerment, Inc.
  - Daily Grommet Inc. is an equity-method affiliate of Rakuten USA, Inc.
  - Denotes companies required to submit financial reports and securities registration statements according to Japanese securities and exchange legislation.
  - This is a special-purpose company.
  - AIRIO Life Insurance Co., Ltd. changed its name to Rakuten Life Insurance Co., Ltd. on April 1, 2013.

## Corporate History

<b>1997</b>	Rakuten Ichiba, the Internet shopping mall, commences operation.	<b>2010</b>	bitWallet, Inc., the Edy e-money system operator, becomes a subsidiary.  LinkShare Japan K.K. becomes a subsidiary through a merger with Traffic Gate, Ltd.  Buy.com Inc. becomes a subsidiary through Rakuten USA, Inc.  PRICEMINISTER S.A. (now PRICEMINISTER S.A.S.), an e-commerce site operator in France, becomes a wholly owned subsidiary through Rakuten Europe S.a.r.l.  Rakuten Bank Ltd. is made a wholly owned subsidiary through a stock swap.  Rakuten launches an Internet shopping mall in China as a joint venture with Baidu, Inc.
<b>2000</b>	Rakuten, Inc. goes public through an IPO on the JASDAQ market.  Rakuten Books is founded as a joint venture with Nippon Shuppan Hanbai inc.  Infoseek Japan K.K. is acquired by Rakuten, Inc. to create a portal service.	<b>2011</b>	Rakuten, Inc. and Indonesia's largest media group, PT Global Mediacom Tbk., launched an Indonesia-based Internet shopping mall, "Rakuten Belanja Online."  Ikeda Internet Software LTDA., one of Brazil's leading e-commerce platform providers, becomes a subsidiary of Rakuten, Inc.  Tradoria GmbH., one of Germany's leading online e-commerce platform providers, becomes a subsidiary of Rakuten, Inc.  Play Holdings Limited, one of the UK's most successful e-commerce businesses, becomes a subsidiary of Rakuten, Inc.  Rakuten, Inc. announces the acquisition of Kobo, Inc., based in Canada, a leading global e-book business.
<b>2001</b>	Rakuten Travel starts online hotel reservation services.	<b>2012</b>	Kobo, Inc. acquisition completed and Kobo made a wholly owned subsidiary.  Rakuten Malaysia Sdn. Bhd. established in preparation for local e-commerce service launch.  Kenko.com Inc., operator of a healthcare goods online shopping site, acquired through a third-party allocation of shares.  Wuaki.TV, S.L. (Spain), an emerging European provider of on-demand video services, acquired and made a wholly owned subsidiary.  Acquisition of majority interest in equity-method affiliate, AIRIO Life Insurance Co., Ltd. (now renamed Rakuten Life Insurance Co., Ltd.), which became a consolidated subsidiary.  Rakuten Austria GmbH is established through Rakuten Europe S.a.r.l. to operate an e-commerce site in Austria.
<b>2003</b>	MyTrip.net is acquired by Rakuten, Inc. to spearhead the travel business; later merged with Rakuten Travel, Inc. in 2004.  Rakuten, Inc. acquires 96.7% of shares in DLJdirect SFG Securities to create the current Rakuten Securities, Inc.		
<b>2004</b>	Rakuten, Inc. acquires 96.5% of shares in Aozora Card; the company is later renamed Rakuten Credit, Inc.  Rakuten Baseball, Inc. is founded to start a professional sports business.		
<b>2005</b>	Rakuten, Inc. acquires 100% of shares in LinkShare Corporation to spearhead overseas push.  Rakuten Auction, Inc. is founded as a joint venture with NTT Docomo, Inc.  Kokunai Shinpan Co., Ltd. (later named Rakuten KC Co., Ltd.) is included in the consolidation as a subsidiary of Rakuten Inc.		
<b>2006</b>	Rakuten KC Co., Ltd. transfers its auto loan business to Orient Corporation to streamline its business.		
<b>2007</b>	Rakuten, Inc. acquires 73.5% of the shares in Fusion Communications to commence an IP telephony business.  Rakuten Books is integrated into Rakuten Ichiba.		
<b>2008</b>	Rakuten Logistics, Inc. is founded to commence new logistics business.  Rakuten, Inc. and President Chain Store establish a joint venture and start a Taiwan-based internet shopping mall business: Rakuten Ichiba Taiwan.  Rakuten, Inc. signs an agreement with eBANK Corporation (now Rakuten Bank, Ltd.) regarding a strategic and capital alliance.		
<b>2009</b>	Rakuten Bank, Ltd. becomes a subsidiary.  TARAD Dot Com Co., Ltd., an Internet shopping mall operator in Thailand, becomes a subsidiary through Rakuten (Thailand) Co., Ltd.		

## Corporate Information

### Company Overview

Name	Rakuten, Inc.
Founded	February 7, 1997
Service Launched	May 1, 1997
IPO	April 19, 2000
Capital	108,255 million yen (As of December 31, 2012)
Employees	9,311 (Consolidated)
Headquarters	Shinagawa Seaside Rakuten Tower, 4-12-3 Higashishinagawa, Shinagawa-ku, Tokyo 140-0002, Japan

### Stock Information

Stock Code	4755 (JASDAQ Tokyo Stock Exchange)
Fiscal Year	January 1 to December 31
Month of Annual General Shareholders' Meeting	March
Shareholder Record Date	December 31
Transfer Agent	Sumitomo Mitsui Trust Bank, Limited
Contact	Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Department 2-8-4 Izumi, Suginami-ku, Tokyo 168-0063, Japan

### Inquiry

Investor Relations, Rakuten, Inc.  
URL <http://global.rakuten.com/corp/investors/>



#### Origins of the Name Rakuten

Rakuten Ichiba is named after *Rakuichi-Rakuza*, the first free and open marketplace in Japan, opened in the 16th century.

When used as a verb, *raku* is written with a Chinese character meaning to enjoy oneself (楽). The same character is used in Rakuten, which means "positive spirit." The name Rakuten Ichiba literally means a "market of positive spirit," where shopping is entertainment. These words symbolize the driven, forward-looking nature of our business. That is why we named our company Rakuten, Inc.

### Number of Shares and Shareholders

(As of December 31, 2012)

Number of Shares Authorized	3,941,800,000
Total Number of Shares Issued	1,320,626,600
Number of Shareholders	83,450

The Company split one share into 100, and adopted Share Unit System, which defines 100 shares as one trading unit, on July 1, 2012.

### Major Shareholders

(As of December 31, 2012)

Name	Number of shares	Percentage held
Crimson Group, Inc.	226,419,000	17.14
Hiroshi Mikitani	203,072,000	15.38
Haruko Mikitani	141,125,000	10.69
JP MORGAN CHASE BANK 380055	63,428,463	4.80
Masuda and Partners Inc.	33,161,000	2.51
THE CHASE MANHATTAN BANK 385036	30,171,300	2.28
STATE STREET BANK AND TRUST COMPANY	25,926,963	1.96
CBNY-ORBIS FUNDS	23,878,903	1.81
MELLON BANK, N.A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION	21,006,741	1.59
JP MORGAN CHASE BANK 385164	19,991,600	1.51

Notes: Crimson Group, Inc. implemented an organizational change as of December 27, 2012, and structured as Crimson Group, LLC.

### Classification by Type of Shareholder

(As of December 31, 2012)



#### Cautionary Statement

In this report, unless indicated otherwise, references to "Rakuten", "Rakuten Group", "we", "our" and "us" are to Rakuten, Inc. and its consolidated subsidiaries and consolidated affiliates. Statements regarding current plans, strategies, beliefs and other statements that are not historical facts of the Rakuten Group are forward-looking statements.

Such forward-looking statements are based on management's assumptions and beliefs in light of information currently available, and it should be noted that risks and unforeseen factors could cause actual results to differ significantly from those discussed in the report. We do not intend to update these forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable laws.

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**Annual Report | Fiscal Year Ended December 31, 2012**

**Rakuten, Inc.**

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