

**Consolidated Financial Statements
in Accordance with International
Financial Reporting Standards (IFRS)**

Fiscal Years Ended December 31, 2012 and 2011

Rakuten, Inc. and its Consolidated Subsidiaries



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Consolidated Statement of Financial Position

(Millions of Yen)

	Note	January 1, 2011	December 31, 2011	December 31, 2012
Assets				
Cash and cash equivalents	5	¥105,896	¥152,801	¥270,114
Accounts receivable — trade	6	44,603	48,958	65,493
Financial assets for securities business	7	483,073	415,600	615,703
Loans for credit card business	8	348,791	306,131	402,418
Investment securities for banking business	9	484,530	423,954	296,326
Loans for banking business	10	124,885	154,555	189,669
Investment securities for insurance business	11	—	—	13,623
Derivative assets	12	10,143	9,829	10,674
Investment securities	13	59,754	10,963	23,411
Other financial assets	14	142,556	172,764	123,132
Investments in associates and joint ventures	16	9,454	9,685	6,601
Property, plant and equipment	17	25,885	21,535	24,143
Intangible assets	18	152,215	149,620	188,014
Deferred tax assets	25	47,212	64,579	40,546
Other assets		13,574	18,791	17,767
Total assets		¥2,052,571	¥1,959,765	¥2,287,634
Liabilities				
Accounts payable — trade		¥36,836	¥59,365	¥79,965
Deposits for banking business	19	714,856	742,593	809,531
Financial liabilities for securities business	20	427,440	364,490	558,055
Derivative liabilities	12	2,429	2,861	4,685
Bonds and borrowings	21	377,661	347,983	305,186
Other financial liabilities	22	152,130	176,413	210,048
Income taxes payable		17,590	3,981	2,873
Provisions	23	32,499	23,181	29,614
Policy reserves and others for insurance business	24	—	—	18,496
Deferred tax liabilities	25	6,236	6,054	6,416
Other liabilities		67,435	20,498	20,853
Total liabilities		¥1,835,112	¥1,747,419	¥2,045,722
Net assets				
Equity attributable to owners of the Company				
Common stock	26	¥107,779	¥107,959	¥108,255
Capital surplus	26	117,311	116,864	116,599
Retained earnings	26	(1,656)	3,641	20,873
Treasury stock	26	(3,626)	(3,626)	(3,626)
Other components of equity		(11,032)	(16,471)	(6,159)
Total equity attributable to owners of the Company		208,776	208,367	235,942
Non-controlling interests		8,683	3,979	5,970
Total net assets		¥217,459	¥212,346	¥241,912
Total liabilities and net assets		¥2,052,571	¥1,959,765	¥2,287,634

Consolidated Statement of Income

(Millions of Yen)

	Note	Year ended December 31, 2011	Year ended December 31, 2012
Continuing operations			
Revenue	27	¥346,425	¥400,444
Operating expenses	28	265,463	319,435
Other income	29	1,178	3,365
Other expenses	29	6,004	5,581
Additional line items	30	(75,492)	(28,738)
Operating income		644	50,055
Financial income	31	277	193
Financial expenses	31	2,569	2,565
Share of (loss)/profit of associates	16	463	1,423
(Loss) Income before income tax		(1,185)	49,106
Income tax expense	25	(10,816)	27,970
Net income		¥9,631	¥21,136
Net income attributable to			
Owners of the Company		¥7,986	¥20,489
Non-controlling interests		1,645	647
Net income		¥9,631	¥21,136

(Yen)

Earnings per share attributable to owners of the Company:			
Basic	32	¥6.08	¥15.59
Diluted	32	6.06	15.56

Consolidated Statement of Comprehensive Income

(Millions of Yen)

	Note	Year ended December 31, 2011	Year ended December 31, 2012
Net income		¥9,631	¥21,136
Other comprehensive income			
Items that will not be reclassified to net income:			
Gains and losses on financial assets measured at fair value through other comprehensive income	40	(3,008)	(72)
Income tax relating to gains and losses on financial assets measured at fair value through other comprehensive income	25	815	(51)
Share of other comprehensive income of associates	16	(20)	28
Total items that will not be reclassified to net income		(2,213)	(95)
Items that will be reclassified to net income:			
Foreign currency translation adjustments		(3,708)	10,362
The portion of gains or losses on effective cash flow hedges recognized in other comprehensive income	35	185	(447)
Income tax relating to the portion of gains or losses on effective cash flow hedges recognized in other comprehensive income	25 35	(117)	176
The portion of gains or losses on effective cash flow hedges reclassified from other comprehensive income to net income	35	526	713
Income tax relating to the portion of gains or losses on effective cash flow hedges reclassified from other comprehensive income to net income	25 35	(197)	(271)
Total items that will be reclassified to net income		(3,311)	10,533
Other comprehensive income, net of tax		(5,524)	10,438
Comprehensive income		¥4,107	¥31,574
Total comprehensive income attributable to			
Owners of the Company		¥2,551	¥30,907
Non-controlling interests		1,556	667
Comprehensive income		¥4,107	¥31,574

Consolidated Statement of Changes in Equity

(Millions of Yen)

Note	Other components of equity								Total equity attributable to owners of the Company	Non-controlling interests	Total net assets
	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			
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
Comprehensive income											
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)
Total comprehensive income	—	—	7,986	—	(3,623)	(2,192)	380	(5,435)	2,551	1,556	4,107
Transactions with owners											
Contributions by and distributions to owners of the Company											
Issuance of common stock	26, 37	180	180	—	—	—	—	—	360	—	360
Cash dividends paid	26, 38	—	—	(2,624)	—	—	—	—	(2,624)	—	(2,624)
Others		—	295	(65)	—	—	(4)	(4)	226	—	226
Total contributions by and distributions to owners of the Company		180	475	(2,689)	—	—	(4)	(4)	(2,038)	—	(2,038)
Changes in ownership interests in subsidiaries											
Issuance of common stock		—	—	—	—	—	—	—	—	1,379	1,379
Acquisitions and disposals of non-controlling interests	46	—	(1,692)	—	—	—	—	—	(1,692)	(1,187)	(2,879)
Sales of subsidiaries		—	—	—	—	—	—	—	—	(5,915)	(5,915)
Others		—	770	—	—	—	—	—	770	(537)	233
Total changes in ownership interests in subsidiaries		—	(922)	—	—	—	—	—	(922)	(6,260)	(7,182)
Total transactions with owners		180	(447)	(2,689)	—	—	(4)	(4)	(2,960)	(6,260)	(9,220)
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
Comprehensive income											
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
Total comprehensive income	—	—	20,489	—	10,341	(94)	171	10,418	30,907	667	31,574
Transactions with owners											
Contributions by and distributions to owners of the Company											
Issuance of common stock	26, 37	296	296	—	—	—	—	—	592	—	592
Cash dividends paid	26, 38	—	—	(3,284)	—	—	—	—	(3,284)	—	(3,284)

Others	26	—	334	27	(0)	—	(106)	—	(106)	255	—	255
Total contributions by and distributions to owners of the Company		296	630	(3,257)	(0)	—	(106)	—	(106)	(2,437)	—	(2,437)
Changes in ownership interests in subsidiaries												
Issuance of common stock		—	—	—	—	—	—	—	—	—	30	30
Acquisitions and disposals of non-controlling interests	45, 46	—	(494)	—	—	—	—	—	—	(494)	1,380	886
Sales of subsidiaries		—	—	—	—	—	—	—	—	—	—	—
Others		—	(401)	—	—	—	—	—	—	(401)	(86)	(487)
Total changes in ownership interests in subsidiaries		—	(895)	—	—	—	—	—	—	(895)	1,324	429
Total transactions with owners		296	(265)	(3,257)	(0)	—	(106)	—	(106)	(3,332)	1,324	(2,008)
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

Consolidated Statement of Cash Flows

(Millions of Yen)

	Note	Year ended December 31, 2011	Year ended December 31, 2012
Net cash flows from operating activities			
(Loss) Income before income tax		¥(1,185)	¥49,106
Depreciation and amortization		18,112	21,227
Impairment loss	30	83	24,805
Loss on business restructuring	30	75,492	4,250
Other loss		3,894	955
Decrease (Increase) in operating receivables		(4,283)	(9,379)
Decrease (Increase) in loans for credit card business		(56,195)	(96,287)
Increase (Decrease) in deposits for banking business		27,737	66,941
Decrease (Increase) in call loans for banking business		(24,053)	42,000
Decrease (Increase) in loans for banking business		(29,731)	(35,113)
Increase (Decrease) in operating payables		21,422	14,284
Decrease (Increase) in security deposits		2,137	7,207
Increase (Decrease) in accounts payable — other and accrued expenses		12,396	10,852
Decrease (Increase) in financial assets for securities business		67,473	(200,103)
Increase (Decrease) in financial liabilities for securities business		(62,951)	193,565
Others		8,039	17,294
Income tax paid		(23,165)	(6,917)
Net cash flows from operating activities		¥35,222	¥104,687
Net cash flows from investing activities			
Increase in time deposits		¥5,573	¥12,431
Decrease in time deposits		(9,946)	(6,349)
Purchase of property, plant and equipment		(3,884)	(5,162)
Purchase of intangible assets		(15,102)	(18,949)
Purchase of investment securities for banking business		(382,236)	(253,991)
Proceeds from sales and redemption of investment securities for banking business		446,626	385,115
Acquisition of subsidiaries	45	(10,641)	(35,076)
Purchase of investment securities		(3,199)	(15,637)
Proceeds from sales and redemption of investment securities		1,388	3,324
Proceeds from sales of subsidiaries	47	33,554	—
Other payments		(3,137)	(4,200)
Other proceeds		1,264	5,934

(Millions of Yen)			
	Note	Year ended December 31, 2011	Year ended December 31, 2012
Net cash flows from investing activities		¥60,260	¥67,440
Net cash flows from financing activities			
Net increase (decrease) in short-term borrowings		¥(19,235)	¥6,607
Increase (Decrease) in commercial papers		(30,200)	14,000
Proceeds from long-term debt		173,760	30,100
Repayment of long-term debt		(152,686)	(90,168)
Redemption of bonds		(4,800)	(4,800)
Cash dividends paid		(2,630)	(3,286)
Acquisitions of non-controlling interests		(3,328)	(6,956)
Others		(8,286)	(2,317)
Net cash flows (used in) from financing activities		¥(47,405)	¥(56,820)
Effect of change in exchange rates on cash and cash equivalents		(1,172)	2,006
Net increase (decrease) in cash and cash equivalents		46,905	117,313
Cash and cash equivalents at beginning of the year	5	105,896	152,801
Cash and cash equivalents at end of the year	5	¥152,801	¥270,114

[Notes to the Consolidated Financial Statements]

1. General Information

(1) Reporting Entity

Rakuten, Inc. (hereinafter referred to as the “Company”) is a company incorporated in Japan. The Company and its subsidiaries (hereinafter referred to as the “Group Companies”), providers of wide-range of internet related services, have aligned its businesses along two main axes, internet services and internet financial services; the activities in “Internet Services” segment consist of the operation of EC (e-commerce) sites, including the “Rakuten Ichiba” Internet shopping mall, travel booking sites, portal sites and e-book business, etc., as well as service based on these sites, such as advertising and content, and another activities in “Internet Finance” segment involve internet banking and securities services via the internet, credit card services, life insurance, e-money services and other financial services, and the other activities in “Others” segment consist of communication services and the management of a professional baseball team. Please refer to Note 4. Segment Information below for more details.

(2) Basis of Preparation

The consolidated financial statements have been prepared in conformity with designated International Financial Reporting Standards (hereinafter referred to as the “IFRS”).

The consolidated financial statements are the first ones which the Group Companies have prepared under IFRS, and the date of transition to IFRS is January 1, 2011. Also, the Group Companies have applied IFRS 1 “First-time Adoption of International Financial Reporting Standards.” The effect of transition to IFRS on the financial position, operating results and cash flows of the Group Companies are stated in Note 51. First-time Adoption (Transition to IFRS).

The consolidated financial statements were approved by Representative Director on March 27, 2013.

(3) Functional Currency and Presentation Currency

Items included in the financial statements of each of consolidated subsidiaries and associates are measured using the currency of the primary economic environment in which consolidated subsidiaries and associates operate (the “functional currency”). The consolidated financial statements are presented in Japanese yen, which is functional currency of the Company and presentation currency of the Group Companies, and additionally the figures have been rounded to the nearest million.

(4) Basis of Measurement

The consolidated financial statements have been prepared under the historical cost basis, except for financial instruments measured at fair value.

(5) Use of Estimates and Judgments

The preparation of the consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires the management of the Group Companies to exercise its judgment in the process of applying accounting policies of the Group Companies. The areas involving a higher degree of judgment or complexity, areas where assumptions and estimates are significant to the consolidated financial statements, or information in respect of uncertainties of assumptions and estimates which have a significant risk to cause material adjustment in the next

year are disclosed in Note 3. Significant Accounting Estimates and Judgments.

(6) Early Adoption of Standards and Interpretations

The Group Companies have applied the following standards prior to the mandatory effective date since IFRS adoption date (January 1, 2011).

- IFRS 9, "Financial instruments" (issued Nov. 2009, amended Oct. 2010 and Dec. 2011)
- IFRS 10, "Consolidated financial statements" (issued May 2011, amended June and Oct. 2012)
- IFRS 11, "Joint arrangements" (issued May 2011, amended June 2012)
- IFRS 12, "Disclosure of interests in other entities" (issued May 2011, amended June and Oct. 2012)
- IAS 1, "Presentation of financial statements" (amended June 2011)
- IAS 19, "Employee benefits" (amended June 2011)
- IAS 28, "Investments in associates and joint ventures" (amended May 2011)

(7) New Standards and Interpretations not yet Applied

As of December 31, 2012, the Group Companies have not applied the following standards, interpretations and amendments to standards or interpretations, which have been issued before the approval date of the consolidated financial statements. The Group Companies are analyzing the resulting effect on the presentation of results of operations, financial position or cash flows, and cannot estimate the results currently.

IFRS	Reporting periods on or after which the applications are required	Reporting periods of the application by the Group Companies (The reporting period ended)	Summaries of new IFRSs and amendments	
IFRS 13	Fair value measurement	January 1, 2013	December 31, 2013	Guidance of fair value measurements, which required in other standards.
IFRS 7	Financial instruments: disclosures (Amended Dec. 2011: offsetting financial assets and financial liabilities: disclosures)	January 1, 2013	December 31, 2013	New disclosure for evaluation of the effect and potential effect of offsetting arrangements on an entity's financial position
IAS 32	Financial instruments: presentation (Amended Dec. 2011: offsetting financial assets and financial liabilities)	January 1, 2014	December 31, 2014	Clarifying the meaning of a requirement under IAS 32, "currently has a legally enforceable right," and clarifying the offsetting requirements for settlement systems which apply gross amount mechanisms that are not carried out simultaneously

2. Accounting Policies

(1) Basis of Consolidation

1) Subsidiaries

A subsidiary is an entity that is controlled by the Group Companies including a structured entity. The Group Companies control an entity when the Group Companies are exposed, or have rights, to variable returns from the involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group Companies control another entity or not. Between the beginning date of obtaining control and the date of losing control, the consolidated financial statements of the Group Companies include financial statements of each controlled subsidiary.

The Group Companies apply the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquire and the equity interests issued by the Group Companies. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs of the Group Companies such as agent commissions, legal fees, due diligence costs, other professional fees and other consulting costs, have been recognized as expenses in the period in which they are incurred. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The acquisition date is the date when the control is transferred to the acquirer. Judgments may be required in deciding the acquisition date and as to whether the control is transferred from one party to another. Further, the Group Companies recognize any non-controlling interest in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation, on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Goodwill has been initially measured as the excess of the aggregate of the consideration transferred, the fair value of non-controlling interest and the fair value of existing interest to the acquire at the acquisition date over the net identifiable assets acquired and liabilities assumed. Whereas if the aggregate of the consideration transferred, the fair value of non-controlling interest in the acquiree and the fair value of existing interest to the acquire at the acquisition date is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as a bargain purchase transaction.

Changes in the ownership interest in subsidiaries, if the Group Companies retain control over the subsidiaries, they are accounted for as equity transactions. Any difference between the adjustment to the non-controlling interests and the fair value of the consideration transferred or received is recognized directly in equity attributable to owner of the Company.

Intercompany balances and transactions have been eliminated in consolidation. Unrealized profit and losses included in assets resulting from transactions within the Group Companies are also eliminated. To comply with accounting policies of the Group Companies, financial statements of each subsidiary would be adjusted, if necessary.

2) Associates and Joint Arrangements

Associates are entities over which the Group Companies have significant influence but does not have control to govern the financial and operating policies. Significant influence is presumed to exist when the Group Companies hold 20% to 50% of the voting power of another entity. The factors considered

in determining that the Group Companies have significant influence or not include representation on the board of directors. The existence of these factors could be considered whether the Group Companies have significant influence, even though the investment of the Group Companies is less than 20% of the voting stock.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the activities that have significant influence on variable returns from arrangements require the unanimous consent of the parties sharing control. Investments in joint arrangement are classified as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. A joint operation is a joint arrangement whereby parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investments in associates and joint ventures are accounted for using the equity method, other than a case in which they are classified as assets held for sale according to IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” and recognized at cost on acquisition. The investments include goodwill identified on acquisition (net of accumulated impairment losses). The share of the Group Companies of the operation results of associates and joint ventures is adjusted to conform to the accounting policy of the Group Companies and is reported in the consolidated statement of income as net income (loss) from equity method investments. The share of the Group Companies in the investee’s profits and losses resulting from intercompany transactions is eliminated on consolidation. Under the equity method of accounting, the investment of the Group Companies in associates and joint ventures are initially recorded at cost, and subsequently increased (or decreased) to reflect both the pro-rata share of the post-acquisition net income (or loss) of associates and joint ventures and other movements included directly in the equity of the associates and joint ventures.

Goodwill arising on the acquisition of associates or joint ventures is included in the carrying value of the investment and the Group Companies perform impairment test on all investment that applied for the equity method accounting. The Group Companies assess whether there is any objective evidence that the investment in associates and joint ventures are impaired at each reporting date. If there is any objective evidence of impairment, an impairment test is performed by comparing the investment’s recoverable amount, which is higher of its value in use or fair value less costs to sell, with its carrying amount. An impairment loss recognized in prior periods is only reversed if there has been a change in the estimates used to determine the investment’s recoverable amount since the last impairment loss was recognized. In this case, the carrying amount of the investment is increased to its higher recoverable amount depending on the reversal of the impairment.

The investment in joint operations accounts for the share of the revenues, expenses, assets and liabilities of each joint operation.

(2) Business Combinations

The Group Companies use the acquisition method to account for business combinations.

The identifiable assets, liabilities and contingent liabilities are measured at their fair values at the acquisition date, in accordance with the recognition principles of IFRS 3 “Business Combinations,” except:

- Deferred tax assets or liabilities and liabilities (or assets) related to employee benefit arrangements are recognized and measured in accordance with IAS 12 “Income taxes” and IAS 19 “Employee benefits,” respectively; and liabilities related to share-based payment are recognized and

measured in accordance with IFRS 2 “Share-based Payment;” and

- Non-current assets and operations classified as held for sale are measured in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations.”

If the initial accounting for business combinations is incomplete by the end of the reporting period in which the business combinations occur, the Group Companies report provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are retrospectively adjusted during the measurement period to reflect new information obtained about facts and circumstances that existed at the acquisition date and, if known, would have affected the amounts recognized as of that date. Additional assets or liabilities are recognized if new information, if known, would have resulted in the additional recognition of assets or liabilities. The measurement period does not exceed one year.

Goodwill relating to acquisition on or before the date of transition to IFRSs is reported in accordance with previous accounting standards.

(3) Foreign Currencies

1) Foreign Currency Transactions

Foreign currency transactions are translated into functional currencies of individual foreign subsidiaries using the spot exchange rate at the date of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated into functional currencies using the spot exchange rate at the end of each reporting period. Non-monetary assets and liabilities measured at fair value that are denominated in foreign currencies are retranslated using the spot exchange rates at the date when the fair value was determined.

Exchange differences arising from settlement and translation of foreign currency monetary assets and liabilities, which translated at the period end closing rate, are recognized in profit or loss. However, in case that profit or loss related to non-monetary items is recognized in comprehensive income, the exchange differences are recognized in other comprehensive income.

2) Foreign Operations

Assets and liabilities of foreign operations (including goodwill and fair value adjustments arising on the acquisition of foreign operations) are translated into Japanese yen using the spot exchange rate at the reporting date. Income and expenses are translated into Japanese yen at the average exchange rates for the period.

Exchange differences arising from translation of financial statements of foreign operations are recognized in other comprehensive income.

These differences are presented as “Foreign currency translation adjustments” in other components of equity. On disposal of the entire interest of foreign operations, and on the partial disposal of the interest involving loss of control, significant influence or joint control, the cumulative amount of the exchange differences is reclassified to profit or loss as a part of gains or losses on disposal.

(4) Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less and insignificant risk of changes in the value. However, the short-term highly liquid investments in banking business are excluded.

(5) Financial Instruments

1) Non-derivative Financial Assets

The Group Companies recognize trade and other receivables when they arise. All other financial assets are recognized at contract dates when the Group Companies become a party to the contractual provisions of the instrument.

The following is a summary of the classification and measurement model of the non-derivative financial assets.

Financial Assets Measured at Amortized Cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the instrument give rise on a specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are initially measured at fair value plus directly attributable transaction costs. Subsequently, the carrying amount of the financial assets measured at amortized cost is calculated using the effective interest method, less impairment loss when necessary.

Impairment of Financial Assets Measured at Amortized Cost

Regarding the financial assets measured at amortized cost, in quarterly basis, the Group Companies assess whether there is any objective evidence that financial assets is impaired. Financial assets are impaired and impairment losses are incurred if.

- there is any objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the assets and up to the reporting date,
- the loss event had an impact on the estimated future cash flow of the financial assets and a reliable estimate of the loss amount can be made.

Objective evidence that a financial assets is impaired includes

- a breach of contract, such as a default or delinquency in interest or principal payments;
- extension of receivable collection period under a specific condition, which we would not have performed without such circumstances;
- the indication of borrower's bankruptcy;
- the disappearance of an active market.

The Group Companies review the evidence of impairment for financial assets measured at amortized cost individually or collectively. Regarding the significant financial assets, the Group Companies assess the evidence of impairment individually. If it is not necessary to impair significant financial assets individually, the Group Companies collectively assess whether objective evidence of impairment exists or not that has incurred but not been recognized for the financial assets. Those financial assets are grouped with similar credit risk characteristics and collectively assessed for impairment.

In collective assessment for impairment, the Group Companies adjust the impairment loss if we decide that the actual loss, which reflected the current economic and credit conditions, is more or less than the past trend for the possibility of default, timing of recovery, and expected amount of loss.

The amount of the impairment loss for financial assets is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the financial assets is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Allowance for doubtful accounts is written off when there is no realistic prospect of recovery and all collateral has been realized or has been transferred to the Group Companies. If, in a subsequent period, the amount of the estimated impairment loss decreases and the decrease can be objectively to an event occurring after the impairment was recognized, the impairment loss shall be reversed by adjusting an allowance account in profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

Financial Assets at Fair Value through Profit or Loss (“FVTPL”)

Financial assets other than equity instruments that do not meet the above conditions about amortized cost are measured at fair value with gains or losses on re-measurement recognized in profit or loss. Those financial assets include financial assets held for trading.

Equity investments are measured at fair value with gains or losses on re-measurement recognized in profit or loss unless the Group Companies make an irrevocable election to measure equity investments as at fair value through other comprehensive income (“FVTOCI”) on initial recognition.

Financial assets measured at FVTPL are initially measured at fair value and transaction costs are recognized in profit or loss when they occur.

Financial Assets at FVTOCI

On initial recognition, the Group Companies may make an irrevocable election to measure investments in equity instruments as at FVTOCI. The election is made only for the equity investment other than held for trading.

Financial assets measured at FVTOCI are initially measured at their fair value (including directly attributable transaction costs). Subsequently, they are measured at fair value, and gains and losses arising from changes in fair value are recognized in other comprehensive income and presented as “Gains and losses on financial assets measured at fair value through other comprehensive income” in other components of equity.

However, dividends on financial assets measured at FVTOCI are recognized in profit or loss as “Revenue” or “Financial income”.

Derecognition of Financial Assets

The Group Companies derecognize a financial asset when the contractual rights to the cash flows from the asset expire, or when the Group Companies transfer the contractual right to receive cash flows from financial assets in transactions in which substantially all the risks and rewards of ownership of the asset are transferred to another entity. Any interests in transferred financial assets that qualify for derecognition that is created or retained by the Group Companies are recognized as a separate asset or liability.

2) Non-derivative Financial Liabilities

Debt securities issued are initially recognized on the issue date. All other financial liabilities are recognized when the Group Companies become a party to the contractual provisions of the instruments.

The Group Companies derecognize financial liabilities when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired.

The Group Companies classify accounts payable-trade, deposits for banking business, financial liabilities for securities business, bonds and borrowings and other financial liabilities as non-derivative financial liabilities, initially measure them at fair value, and subsequently measure them at amortized cost using the effective interest method.

To reduce the difference substantially caused by measurement of assets or liabilities or recognition of profit or loss in different basis, some deposits for banking business are designated as financial liabilities at FVTPL. Among fluctuating amounts for the fair values of such financial liabilities, amounts attributable to the fluctuations of credit risk of such liabilities are included in other components of net assets.

3) Derivatives

Derivatives Qualified for Hedge Accounting

The Group Companies utilize derivatives to manage fair value risk that is attributable to changes in interest rates, interest rate risk and foreign currency risk. The primary derivatives used by the Group Companies are interest rate swaps and foreign exchange forward contracts.

At the initial designation of the hedging relationship, the Group Companies document the relationship between the hedging instrument and the hedged item, along with their risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk, and the measurement of ineffectiveness will be assessed.

At the inception of the hedge and on an ongoing basis, the Group Companies assess whether the Group Companies can forecast if the hedging instrument is highly effective in offsetting changes in fair value or cash flows of the hedged item attributable to the hedged risk throughout the period for which the hedge is designated.

Derivatives are initially recognized at fair value with transaction costs recognized in profit or loss when they occur. Subsequently derivatives are measured at fair value, and gains and losses arising from changes in the fair value are accounted for as follows:

– Fair Value Hedges

The changes in the fair value of the hedging instrument are recognized in profit or loss. The gains or losses on the hedged items attributable to the hedged risks are recognized in profit or loss, and the carrying amounts of the hedged items are adjusted.

– Cash Flow Hedges

When derivatives are designated as hedging instrument to hedge the exposure to variability in cash flows that are attributable to a particular risk associated with recognized assets or liabilities, "The portion of gains or losses on effective cash flow hedges recognized in other comprehensive income" in the other components of equity. The balances of cash flow hedges are reclassified to profit or loss from other comprehensive income in the periods when the cash flows of hedged items affect profit or loss, in the same line items of the consolidated statement of comprehensive income as those of hedged items. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Hedge accounting is discontinued prospectively when the hedge no longer qualifies for hedge accounting, or when the hedging instrument is expired, sold, terminated or exercised, or when the designation is revoked.

Derivatives not Qualified for Hedge Accounting

The Group Companies hold some derivatives for hedging purposes which do not qualify for hedge accounting. The Group Companies also hold derivatives for trading purposes as opposed to hedging purposes. Any changes in fair value of these derivatives are recognized immediately in profit or loss.

Embedded Derivative

There are some hybrid contracts, which contain both a derivative and a non-derivative component among the financial instruments and other contract. In such cases, the derivative component is termed an embedded derivative, with the non-derivative component representing the host contract. In the case that the host contract is a financial liability, if the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract itself is not classified as FVTPL as financial liability, the embedded derivative is separated from the host contract and accounted for as a derivative. The financial liability of the host contract is accounted for in accordance with the accounting policy, which is applied to the non-derivative financial liability.

4) Presentation for Financial Instruments

Financial assets and liabilities are offset, with the net amount presented in the consolidated statement of financial position, only if the Group Companies hold a currently enforceable legal right to set off the recognized amounts, and there is an intention to settle on a net basis or to realize an asset and settle the liability simultaneously.

5) Financial Guarantee Contracts

Financial guarantee contracts are contracts that require the issuer to make specified payment to reimburse the holder for a loss it incurs because debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument.

Such financial guarantees contracts are measured initially at fair value on the date the guarantee is given. Subsequent to initial recognition, the Group Companies measure the financial guarantee at the higher of the best estimate of expenditure required to settle the obligation under the financial guarantee contract, and the unamortized balance of total amount of future guarantee charges.

(6) Property, Plant and Equipment

All property, plant and equipment are recorded at cost less any accumulated depreciation and accumulated impairment losses.

The cost of items comprises costs directly attributable to the acquiring of the items, costs of dismantling and removing the items, and the initial estimate of the cost of restoring the site on which they are located. Property, plant and equipment are subsequently carried at the historical cost basis.

Depreciation is calculated based on the depreciable amount. Depreciable amount is the cost of an asset, or other amount substituted for cost less its residual value.

Depreciation of property, plant and equipment is mainly computed under the straight-line method based on the estimated useful life of each item. The straight-line method is used because it is considered to be the most closely approximate pattern in which the asset's future economic benefits are expected to be consumed by the Group Companies. Leased assets are depreciated over the shorter of the lease term and their useful lives if there is no reasonable certainty that the Group

Companies will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the year ended December 31, 2011 and 2012 are as follows:

- Buildings and accompanying facilities 10–50 years
- Furniture, fittings and equipment 5–10 years

The depreciation methods, useful lives and residual values are reviewed at the end of each reporting period, and changed when necessary.

(7) Intangible Assets

1) Goodwill

Initial Recognition

Goodwill arising on the acquisition of a subsidiary is recognized as an intangible asset. Measurement of goodwill on initial recognition is described in (1) Basis of Consolidation.

Subsequent Measurement

Goodwill is measured at cost less accumulated impairment losses.

2) Capitalized Software Costs

The Group Companies incur certain costs to purchase or develop software primarily for internal-use.

Expenditures arising from research activities to obtain new scientific or technical knowledge are recognized as expenses when they are occurred. Expenditures arising from development activities are capitalized as internally generated intangible assets, if, and only if, they are reliably measurable, they are technically feasible, it is highly probable to generate future economic benefits, and the Group Companies have an intention and adequate resources to complete their developments and use or sell them.

Capitalized software is measured at cost less any accumulated amortization and accumulated impairment losses.

3) Intangible Assets Acquired in Business Combinations

Intangible assets that are acquired in business combinations, such as trademarks and other, are recognized separately from goodwill, and are initially recognized at the fair value at the acquisition date. Subsequently the intangible assets are measured at cost less any accumulated amortization and accumulated impairment losses.

4) Other Intangible Assets

Other intangible assets with finite useful lives are measured at cost less any accumulated amortization and accumulated impairment losses.

5) Amortization

Amortization is calculated based on the acquisition cost of an asset less its residual value. Among intangible assets with definite useful lives, value of business acquired and value of customer relationship acquired through business combinations are amortized based on calculating the occurrence ratio of insurance revenue over the expected period of insurance revenue, while other intangible assets are amortized under the straight-line method. These methods are used because they are considered to be the most closely approximate pattern in which the intangible assets' future economic benefits are expected to be consumed by the Group Companies.

Estimated useful lives of primary intangible assets with definite useful lives are as follows:

- Software mainly 5 years
- Value of business acquired and value of customer relationship acquired 30 years

The amortization methods, useful lives and residual values are reviewed at the end of each reporting period, and changed when necessary.

(8) Leases as Lessee

Leasing Transaction

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. In the case that fulfillment of the arrangement is dependent on the use of a specific assets or assets or the arrangement conveys a right to use the asset, such assets are defined as the lease transaction.

Finance Lease

Leases that transfer all risks and benefits of ownership of the leased item to lessee are classified as Finance leases.

Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. After the commencement, the arrangement has been treated under the accounting policy.

The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used.

The minimum lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

A leased asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating Lease

All the lease arrangements except finance leases that have not been capitalized in the consolidated statement of financial position are classified as operating leases.

In operating lease transactions, lease payments are recognized as an expense using the straight-line method over the lease term in the consolidated statement of income.

(9) Impairment of Non-financial Assets

The Group Companies assess at each reporting date whether there is an indication that a non-financial asset except inventories and deferred tax asset may be impaired. If any indication exists, the Group Companies estimate the recoverable amount of the asset. Regarding goodwill, intangible assets with indefinite useful lives, and intangible assets not yet available for use, the recoverable amount is estimated at the same timing every year.

A recoverable amount of an asset or cash-generating unit (CGU) is the higher of its value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. A CGU is the smallest group of assets, which generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or group of assets.

Although CGU of goodwill is determined based on the unit, by which the goodwill is monitored

for internal management purposes, as a rule, each entity becomes one CGU.

Since the corporate assets do not generate independent cash inflows, if there is an indication that corporate assets may be impaired, the recoverable amount is determined for the CGU, to which the corporate assets belong.

Impairment losses are recognized in profit or loss when the carrying amount of an asset or CGU exceeds its recoverable amount. The impairment loss recognized related to a CGU is allocated first reducing the carrying amount of any goodwill allocated to the unit and then allocated to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit.

An impairment loss recognized for goodwill is not allowed to reverse. Assets other than goodwill are reviewed at the end of each reporting period to assess whether there is any indication that an impairment loss recognized in prior years may no longer exist or may have decreased. An impairment loss recognized is reversed if an indication of reversal of impairment losses exists and the event occurs to change the estimates used to determine the asset's recoverable amount. A reversal of impairment loss does not exceed the carrying amount, net of depreciation and amortization, which would have been determined if any impairment loss had never been recognized for the asset for prior years.

(10) Provisions

Provisions are recognized when the Group Companies have present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

(11) Insurance

General Insurance Accounting

The accounting treatments which have been applied for insurance contracts in Japan are applied for the insurance contract an insurer issues and the reinsurance contract an insurer holds in conformity with IFRS 4 "Insurance contracts."

Policy reserves and others for insurance business

The Group Companies apply the measurement of Insurance liabilities which has been applied for insurance contracts in Japan. The liability adequacy test is performed in consideration of current estimates of cash inflows such as related insurance premium and investment income, and cash outflows such as insurance claims and benefits and operating expenses. If the test shows that the liability is inadequate, the entire deficiency is recognized in profit and loss.

(12) Equity

Common Stock

Proceeds of issuance of equity instruments by the Company are included in "Common stock" and "Capital surplus." The direct issuing costs (net of tax) are deducted from "Common stock" and "Capital surplus" in proportion to its proceeds.

Treasury Stock

When the Company acquires its treasury stocks, the consideration paid, including direct transaction costs (net of tax), is recognized as deduction from equity. When the Company sells treasury stocks, the consideration received is recognized as addition to equity.

(13) Share-based Payments

The Group Companies have stock option plans as incentive plans for directors, executive officers, and employees. The fair value of stock options at the grant date is recognized as an employee expense over the vesting period from the grant date as a corresponding increase in capital surplus. The fair value of the stock options is measured using the Black-Scholes model or other models, taking into account for the terms of the options granted. The Group Companies regularly review the assumptions made regularly and revise its estimates of the number of options that are expected to vest, when necessary.

(14) Revenue

The Group Companies mainly provide kinds of EC (e-commerce) services such as internet travel bookings, portal websites including Rakuten Ichiba, and selling advertising and content on these websites. Additionally, the Group Companies also provide several internet finance services such as credit card, banking, securities, insurance and so on. Revenue is measured at the fair value of the consideration for goods sold and services provided in the ordinary course of business, less sales related taxes. The revenue of the Group Companies is recognized when the following conditions are met.

Sales of Goods

Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

- the Group Companies have transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group Companies retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group Companies; and
- the cost incurred in respect of the transaction can be measured reliably.

Rendering Services

The outcome of a transaction involving rendering services can be estimated reliably, and revenue is recognized by reference to the stage of completion of the transaction at the end of each reporting period, when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group Companies;
- the stage of completion of the transaction at the end of each reporting period can be measured reliably; and
- the cost incurred for the transaction and the cost to complete the transaction can be measured reliably.

Interest Income

Revenue arising from interest is recognized using the effective interest method on the following bases:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group Companies.

(15) Financial Income and Expenses

Financial income mainly comprises interest income, dividend income and changes in fair value of financial assets measured at FVTPL. Interest income is accrued using the effective interest method. Dividend income is recognized on the date when the right of the Group Companies to receive the dividend is established.

On the other hand, financial expenses mainly comprise interest expense and impairment loss on financial assets measured at amortized cost. Interest expense is accrued using the effective interest method.

Financial income and expenses incurred from the finance business of the subsidiaries are included in “Revenue” and “Operating expenses.”

(16) Short-term Employee Benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed during the period when the service is rendered. Bonus accrual and expense for compensated absence are recognized as a liability, when the Group Companies have present legal or constructive obligations, and when reliable estimates of the obligation can be made.

(17) Additional Line Items

The Group Companies disclose temporarily generated certain revenues and expenses separately in the consolidated statement of income when the amounts are material in order to make the effect on business result clearly.

(18) Current and Deferred Income Tax

The income taxes expense comprises current and deferred taxes. These are recognized in profit or loss, except for income taxes which arise from business combinations or are recognized either in other comprehensive income or directly in equity.

Current taxes are calculated by the expected taxes payables or receivables on the taxable income, using the tax rates enacted or substantially enacted by the end of the reporting period.

Deferred tax assets and liabilities are recognized on temporary differences between the carrying amounts of assets and liabilities on the consolidated statement of financial position and the tax bases of them. Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of an asset or liability in a transaction, which is not a business combination and, at the time of transaction, affects neither net income in the consolidated statement of income nor taxable income.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the period when the related deferred tax assets is realized or the deferred tax liability is settled, based on tax laws that have been enacted or substantively enacted by the end of reporting period.

Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary

differences, only to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are recognized for taxable temporary difference associated with investments in subsidiaries, associates, and joint ventures. However if the Group Companies are able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future, deferred tax liabilities are not recognized. Deferred tax assets are recognized only to the extent that it is probable that there will be sufficient taxable income against which the benefit of temporary differences can be utilized and the temporary differences will reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset when: there is a legally enforceable right to offset current tax assets against current tax liabilities; and deferred tax assets and deferred tax liabilities are for those related to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to settle current tax assets and liabilities on a net basis.

(19) Earnings Per Share

The Group Companies disclose basic and diluted earnings per share (attributable to owners of the Company) related to common stock. Basic earnings per share is calculated by dividing profit and loss (attributable to owners of the Company) by the weighted average number of common stock outstanding during the reporting period, adjusted for the number of treasury stock acquired. Potential common stock of the Group Companies is related to the stock option plan.

The Company has made the share splitting, one share into 100 shares at July 1, 2012. Earnings per share (attributable to owners of the Company) of each reporting period are calculated by the number of common stock outstanding after considering the share splitting.

(20) Operating Segments

Operating segments are components of business activities, from which the Group Companies may earn revenues and incur expenses, including revenues and expenses relating to transactions with other operating segments. Discrete financial information for operating results of all operating segments is available, and is regularly reviewed by the Board of Directors of the Group Companies in order to determine the allocation of resources to the segment and assess its performance.

3. Significant Accounting Estimates and Judgments

(1) Significant Accounting Estimates and Assumptions

In the preparation of the consolidated financial statements in accordance with IFRS, the Group Companies make estimates and assumptions concerning future events. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the following reporting period are addressed below.

(a) Goodwill Evaluation (Note 2 “Accounting Policies” (9) and Note 18 “Intangible Assets”)

Regarding the goodwill, which the Group Companies recognize, an impairment test is conducted at least once a year, regardless of whether there is an indication of impairment or not. Recoverable amounts of goodwill are mainly calculated by the combination of estimated future cash flow, estimated growth rate, and discount rate. This calculation is based on judgments and assumptions that are made by the managements of the Group Companies, considering business and market conditions. The Group Companies consider these assumptions are significant because if the assumed conditions on the Group Companies change, the recoverable amount calculated might be significantly different.

(b) Recoverability of Deferred Tax Assets (Note 2 “Accounting Policies” (18) and Note 25 “Deferred Income Tax and Income Tax Expense”)

Regarding temporary differences that are differences between carrying value of an asset or liability in the consolidated statement of financial position and its tax base, the Group Companies recognize deferred tax assets and deferred tax liabilities. The deferred tax assets and deferred tax liabilities are calculated using the tax rates based on tax laws that have been enacted or substantively enacted by the end of the reporting period and the tax rates that are expected to apply to the period when the deferred tax asset is realized or the deferred tax liability is settled. Deferred tax assets are recognized for all deductible temporary differences, the unused tax losses carried forward and the unused tax credit carried forward to the extent that it is probable that taxable income will be available. The estimation of the taxable income for the future is calculated based on the business plan approved by the managements of the Group Companies, and it is based on the managements’ subjective judgments and assumptions. The Group Companies consider these assumptions are significant, because changes in the assumed conditions and amendments of tax laws in the future might significantly affect amounts of deferred tax assets and deferred tax liabilities.

(c) Methods of Determining Fair Value for Financial Instruments Measured at Fair Value Including Derivative Instruments (Note 2 “Accounting Policies” (5) and Note 41 “Fair Value of Financial Instruments”)

Financial assets and financial liabilities including derivatives, which the Group Companies hold, are measured at the following fair values,

- quoted prices in active markets for identical assets or liabilities;
- fair value calculated in observable inputs other than quoted prices for the assets or liability, either directly or indirectly;
- fair value calculated in valuation techniques incorporated with unobservable inputs.

Especially, the fair value estimated in valuation techniques incorporated with unobservable inputs are premised on the decisions and assumptions of the managements of the Group Companies, such as appropriate experience assumptions, suppositions, and adopted numerical calculation model. The Group Companies evaluate that the estimations are significant as it is probable that the changes

of estimations and assumptions will have significant influence on the calculation of fair value for financial instruments.

(d) Impairment of Financial Assets Measured at Amortized Cost (Note 2 “Accounting Policies” (5) and Note 42 “Financial Risk Management”)

Regarding the financial assets measured at amortized cost, the Group Companies assess whether there is any objective evidences that financial assets are impaired quarterly. If there are any objective evidences, the Group Companies recognize the difference between carrying value of the asset and the present value of estimated future cash flows as impairment losses.

When the Group Companies estimate the future cash flows, the managements consider the probability of default, time of recovery and past trend of losses, and decide that the actual loss, which reflects the current economic and credit condition, is more or less than the past trend. If these estimations and assumptions are changed as given, the amount of impairment losses for the financial assets measured at amortized cost might vary widely, the Group Companies conclude that these estimations are significant.

(e) Provisions (Note 2 “Accounting Policies” (10) and Note 23 “Provisions”)

The Group Companies have some provisions such as provision for point card certificates and provision for loss on interest repayment. Regarding provision for point card certificates, in preparation for the point used by our customers in the future, the Group Companies consider the past experiences and estimates the provision for Rakuten Super Point Program. Additionally, the Group Companies estimate the future interest repayment according to past experiences and calculates the provision. These provisions are estimated on the premise of the management’s decisions and assumptions of the Group Companies. The Group Companies conclude that the estimations are significant as it is probable that the changes of estimations and assumptions will have significant influence on the amount of provision.

(f) Liability Adequacy Test in Respect of Insurance Contracts (Note 2 “Accounting Policies” (11) and Note 24 “Policy reserves and others for insurance business”)

The Group Companies perform the liability adequacy test in respect of insurance contracts in consideration of current estimates of all contractual cash flows, and of related cash flows such as insurance claims and other payments.

(2) Significant Judgment in Applying the Accounting Policies of the Group Companies

In the process of applying the accounting policies, the managements of the Group Companies have made a decision, which has a significant influence on the amount recognized on the consolidated financial statements.

The Group Companies, mainly in banking business and credit card business, are involved with structured entity, which is designed so that voting rights or similar rights are not the dominant factor in deciding who controls the entities. The managements of the Group Companies decide whether the Group Companies are controlling the entities or not. All related facts and circumstances on the involvement with the structured entity are considered in deciding control over such entity.

4. Segment Information

(1) General Information

As a comprehensive Internet service provider engaged in two main activities of Internet Services and Internet Finance Services, the Group Companies embrace three reportable segments that are "Internet Services," "Internet Finance" and "Others."

Discrete financial information for operating results of all operating segments is available, and is regularly reviewed by the Board of Directors of the Group Companies in order to determine the allocation of resources to the segment and assess its performance.

"Internet Services" segment comprises businesses running various EC (e-commerce) sites including an internet shopping mall Rakuten Ichiba, travel booking sites, portal sites and e-book business, along with business for advertising and sales of content on these sites.

"Internet Finance" segment engages in businesses providing services over the internet related to banking and securities, credit cards, life insurance and electronic money.

"Others" segment comprises businesses involving provision of communication services and management of a professional baseball team.

(2) Measurement of Profits and Losses by Operating Segments

The reported operating segments have been accounted for in accordance with corporate accounting standards generally accepted in Japan (hereinafter referred to as "JGAAP"), and the operating segment revenue and profit or loss are those before intersegment eliminations without consolidation adjustments in consideration, except for certain consolidated subsidiaries. Operating segment profit or loss is based on operating income or loss in accordance with JGAAP with allocation of corporate expenses.

The differences in accounting standards between JGAAP and IFRS are included in the reconciliation made from segment revenue to consolidated revenue; and the reconciliation made from segment profit or loss to income before income tax. The Group Companies do not allocate assets and liabilities to operating segments used by the chief operating decision maker.

For the year ended December 31, 2011

	(Millions of yen)			
	Internet Services	Internet Finance	Others	Total
Segment revenue	¥228,568	¥141,161	¥34,175	¥403,904
Segment profit or loss	65,584	12,970	1,142	79,696
Other items				
Depreciation and amortization	8,086	6,819	1,831	16,736

For the year ended December 31, 2012

	(Millions of yen)			
	Internet Services	Internet Finance	Others	Total
Segment revenue	¥285,815	¥156,430	¥33,270	¥475,515
Segment profit or loss	58,639	23,714	1,586	83,939
Other items				
Depreciation and amortization	11,785	6,928	1,972	20,685

The reconciliation made from segment revenue to consolidated revenue is as follows.

	(Millions of yen)	
	Year ended December 31, 2011	Year ended December 31, 2012
Segment revenue	¥403,904	¥475,515
Intercompany transactions, etc.	(24,003)	(32,040)
Differences of accounting standards between JGAAP and IFRS	(33,476)	(43,031)
Consolidated revenue	¥346,425	¥400,444

The reconciliation made from segment profit or loss to (loss) income before income tax is as follows.

	(Millions of yen)	
	Year ended December 31, 2011	Year ended December 31, 2012
Segment profit or loss	¥79,696	¥83,939
Amortization of goodwill and other items not allocated to reporting segments	(8,907)	(11,680)
Differences of accounting standards between JGAAP and IFRS	10,173	8,750
Other income	1,178	3,365
Other expenses	(6,004)	(5,581)
Additional line items	(75,492)	(28,738)
Operating income	644	50,055
Financial income and expenses	(2,292)	(2,372)
Share of (loss)/profit of associates	463	1,423
(Loss) Income before income tax	¥(1,185)	¥49,106

(3) Products and Services

Revenue from external customers gained from the major products and services of the Group Companies are as follows.

	(Millions of yen)				
	Rakuten Ichiba	Rakuten Card	Rakuten Bank	Others	Revenue from external customers
Year ended December 31, 2011	¥85,921	¥44,054	¥34,517	¥181,933	¥346,425
Year ended December 31, 2012	106,998	44,474	32,175	216,797	400,444

(4) Geographic Information

For the year ended December 31, 2011

(Millions of yen)

	Japan	Americas	Europe	Others	Total
Revenue from external customers	¥314,386	¥11,221	¥20,001	¥817	¥346,425
Property, plant and equipment and intangible assets	105,566	30,433	33,364	1,792	171,155

For the year ended December 31, 2012

(Millions of yen)

	Japan	Americas	Europe	Others	Total
Revenue from external customers	¥346,264	¥29,454	¥23,573	¥1,153	¥400,444
Property, plant and equipment and intangible assets	132,638	45,943	31,753	1,823	212,157

(5) Major Customers

For the year ended December 31, 2011

Disclosure of major customers is omitted because revenue from any external customer does not exceed 10% of consolidated revenue from external customers.

For the year ended December 31, 2012

Disclosure of major customers is omitted because revenue from any external customer does not exceed 10% of consolidated revenue from external customers.

5. Cash and Cash Equivalents

Details of Cash and Cash Equivalents

(Millions of yen)

	January 1, 2011	December 31, 2011	December 31, 2012
Cash and deposits	¥70,386	¥76,801	¥266,614
Negotiable deposits	35,510	76,000	3,500
Cash and cash equivalents	¥105,896	¥152,801	¥270,114

Funds (cash and cash equivalents) stated in the Group Companies' Consolidated Statement of Cash Flows include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less and insignificant risk of changes in the value. However, the short-term highly liquid investments in banking business are excluded.

6. Accounts Receivable — Trade

Details of Accounts Receivable — Trade

	(Millions of yen)		
	January 1, 2011	December 31, 2011	December 31, 2012
Gross amount of notes and accounts receivable — trade	¥45,847	¥50,492	¥67,515
Allowance for doubtful accounts	(1,244)	(1,534)	(2,022)
Net amount of notes and accounts receivable — trade	¥44,603	¥48,958	¥65,493

Accounts receivable — trade is mainly generated from sales relating to Internet Services business and is measured at amortized cost.

7. Financial Assets for Securities Business

Details of Financial Assets for Securities Business

	(Millions of yen)		
	January 1, 2011	December 31, 2011	December 31, 2012
Financial assets measured at amortized cost			
Cash segregated as deposits	¥223,114	¥207,503	¥252,308
Accounts receivable relating to investment securities transactions	97,516	61,210	201,589
Margin transactions assets	126,779	115,634	130,165
Short-term guarantee deposits	31,851	27,385	26,664
Others	4,477	5,691	6,206
Gross amount of financial assets measured at amortized cost	483,737	417,423	616,932
Allowance for doubtful accounts	(728)	(1,951)	(1,670)
Net amount of financial assets measured at amortized cost	483,009	415,472	615,262
Financial assets measured at FVTPL	64	128	441
Total financial assets for securities business	¥483,073	¥415,600	¥615,703

Investment securities held for trading purposes are included in financial assets measured at FVTPL.

Derivative assets held for trading purposes are included in “Derivative assets,” while operating investment securities are included in “Investment securities.”

8. Loans for Credit Card Business

Details of Loans for Credit Card Business

	(Millions of yen)		
	January 1, 2011	December 31, 2011	December 31, 2012
Gross amount of loans for credit card business	¥369,871	¥329,819	¥422,955
Allowance for doubtful accounts	(21,080)	(23,688)	(20,537)
Net amount of loans for credit card business	¥348,791	¥306,131	¥402,418

Loans for credit card business mainly comprise accounts receivables from the credit card use of customers based on installment contracts.

Loans for credit card business are measured at amortized cost because they are defined as financial assets held within the Group Companies' business model with the objective of collecting contractual cash flows, and such cash flows are limited to solely payments of principal and interest on the principal amount outstanding.

9. Investment Securities for Banking Business

Details of Investment Securities for Banking Business

	(Millions of yen)		
	January 1, 2011	December 31, 2011	December 31, 2012
Financial assets measured at amortized cost			
Trust beneficiary right	¥117,016	¥100,790	¥62,164
Domestic bonds	59,315	58,883	100,961
Foreign bonds	115,800	110,349	88,306
Gross amount of financial assets measured at amortized cost	292,131	270,022	251,431
Allowance for doubtful accounts	(1,907)	(426)	(247)
Net amount of financial assets measured at amortized cost	290,224	269,596	251,184
Financial assets measured at FVTPL			
Trust beneficiary right	8,131	4,173	1,552
Domestic bonds	153,217	121,523	15,678
Foreign bonds	32,648	28,388	27,912
Investment trust	220	202	—
Total financial assets measured at FVTPL	194,216	154,286	45,142
Financial assets measured at FVTOCI	90	72	0
Total investment securities for banking business	¥484,530	¥423,954	¥296,326

Among investment securities for banking business, investment securities which are held within the Group Companies' business model with the objective of collecting contractual cash flows limited to

solely payments of principal and interest on the principal amount outstanding on a specified date according to the contractual terms, are classified as financial assets measured at amortized cost, while all other investment securities are classified as financial assets measured at fair value. Among the financial assets measured at fair value, investments in equity instruments are designated as financial assets measured at FVTOCI.

10. Loans for Banking Business

Details of Loans for Banking Business

	(Millions of yen)		
	January 1, 2011	December 31, 2011	December 31, 2012
Gross amount of loans for banking business	¥126,317	¥156,308	¥190,321
Allowance for doubtful accounts	(1,432)	(1,753)	(652)
Net amount of loans for banking business	¥124,885	¥154,555	¥189,669

Loans for banking business mainly comprise loan receivables from private customers.

Loans for banking business are measured at amortized cost because they are defined as financial assets held within the Group Companies' business model with the objective of collecting contractual cash flows and such cash flows are limited to solely payments of principal and interest on the principal amount outstanding.

11. Investment Securities for Insurance Business

Details of Investment Securities for Insurance Business

	(Millions of yen)
	December 31, 2012
Domestic bonds	¥13,623
Total investment securities for insurance business	¥13,623

Investment securities for insurance business are measured at amortized cost because they are defined as financial assets held within the Group Companies' business model with the objective of collecting contractual cash flows and such cash flows are limited to solely payments of principal and interest on the principal amount outstanding.

12. Derivative Assets and Derivative Liabilities

The fair values and notional principal amounts of derivatives qualified for hedge accounting and derivatives not qualified for hedge accounting are as follows.

Derivatives Qualified for Hedge Accounting

(Millions of yen)

	January 1, 2011			December 31, 2011			December 31, 2012		
	Notional principal amount	Fair value		Notional principal amount	Fair value		Notional principal amount	Fair value	
		Assets	Liabilities		Assets	Liabilities		Assets	Liabilities
Fair-value hedges									
Interest rate swap contracts	¥—	¥—	¥—	¥8,200	¥—	¥334	¥12,500	¥—	¥566
Cash-flow hedges									
Foreign exchange forward contracts	198	—	25	21,948	91	—	—	—	—
Interest rate swap contracts	74,550	5	1,278	55,087	9	787	37,324	1	378
Subtotal of cash-flow hedges	74,748	5	1,303	77,035	100	787	37,324	1	378
Total	¥74,748	¥5	¥1,303	¥85,235	¥100	¥1,121	¥49,824	¥1	¥944

Derivatives not Qualified for Hedge Accounting

(Millions of yen)

	January 1, 2011			December 31, 2011			December 31, 2012		
	Notional principal amount	Fair value		Notional principal amount	Fair value		Notional principal amount	Fair value	
		Assets	Liabilities		Assets	Liabilities		Assets	Liabilities
Foreign currency contracts									
Foreign exchange forward contracts	¥105,329	¥231	¥6	¥106,990	¥18	¥808	¥110,130	¥3,173	¥55
Foreign exchange margin contracts	331,913	6,392	855	263,752	6,743	575	402,150	4,442	3,608
Subtotal of foreign currency contracts	437,242	6,623	861	370,742	6,761	1,383	512,280	7,615	3,663
Interest rate contracts									
Interest rate swaption contracts	84,709	3,486	236	119,584	2,930	319	128,353	3,035	55
Others	1,880	29	29	2,112	38	38	572	23	23
Total	¥523,831	¥10,138	¥1,126	¥492,438	¥9,729	¥1,740	¥641,205	¥10,673	¥3,741

13. Investment Securities

Details of Investment Securities

	(Millions of yen)		
	January 1, 2011	December 31, 2011	December 31, 2012
Financial assets measured at amortized cost	¥3	¥1,607	¥7,639
Financial assets measured at FVTPL			
Listed (Note 1)	48,875	—	—
Unlisted	50	50	50
Total financial assets measured at FVTPL	48,925	50	50
Financial assets measured at FVTOCI			
Listed	7,608	4,454	3,687
Unlisted	3,218	4,852	12,035
Total financial assets measured at FVTOCI	10,826	9,306	15,722
Total investment securities	¥59,754	¥10,963	¥23,411

(Note) 1. As of the date of transition to IFRS (January 1, 2011), the amount deposited (¥48,875 million) through partial repayment accompanying share purchase demand of investment securities was included in “Other liabilities.”

14. Other Financial Assets

Details of Other Financial Assets

	(Millions of yen)		
	January 1, 2011	December 31, 2011	December 31, 2012
Financial assets measured at amortized cost			
Accounts receivable — other	¥31,649	¥34,646	¥38,238
Call loans for banking business	29,000	53,000	11,000
Security deposits	13,616	11,599	4,441
Guarantee deposits	25,103	21,979	29,224
Others	43,345	51,779	40,524
Gross amount of financial assets measured at amortized cost	142,713	173,003	123,427
Allowance for doubtful accounts	(169)	(242)	(298)
Net amount of financial assets measured at amortized cost	142,544	172,761	123,129
Financial assets measured at FVTPL	9	0	0
Financial assets measured at FVTOCI	3	3	3
Total other financial assets	¥142,556	¥172,764	¥123,132

15. Allowance for Doubtful Accounts

Changes in allowance for doubtful accounts by type of financial assets measured at amortized cost are as follows.

For the year ended December 31, 2011

	(Millions of yen)						
	Accounts receivable — trade	Financial assets for securities business	Loans for credit card business	Investment securities for banking business	Loans for banking business	Other financial assets	Total
January 1, 2011	¥1,244	¥728	¥21,080	¥1,907	¥1,432	¥169	¥26,560
Increases during the period (allowance for doubtful accounts charged to expenses)	1,008	2,266	24,312	651	330	76	28,643
Increases during the period (others)	568	—	—	176	—	29	773
Decreases during the period (utilized)	(611)	(984)	(15,095)	(2,132)	(9)	(11)	(18,842)
Decreases during the period (reversals)	(135)	(59)	—	—	—	(1)	(195)
Decrease during the period (others)	(540)	—	(6,609)	(176)	—	(20)	(7,345)
December 31, 2011	¥1,534	¥1,951	¥23,688	¥426	¥1,753	¥242	¥29,594

The increases during the period of allowance for doubtful accounts charged to expenses are recorded in “Allowance for doubtful accounts charged to expenses” under “Operating expenses” in the consolidated statement of income.

However, among the increases during the period of allowance for doubtful accounts charged to expenses relating to financial assets for securities business, ¥2,151 million represents the allowance for doubtful accounts charged to expenses recorded against a large amount of advances paid as a result of shortfalls in customers’ settlement funds following sudden price movements in the wake of the Great East Japan Earthquake, which occurred in March 2011, and are recorded in “Allowance for doubtful accounts charged to expenses” under “Other expenses.”

Additionally, among the increases during the period of allowance for doubtful accounts charged to expenses relating to loans for credit card business, ¥11,870 million represents the additional allowance for doubtful accounts charged to expenses recorded in conjunction with the business restructuring in which the Rakuten Card-related business of the former Rakuten KC Co., Ltd., a consolidated subsidiary, was transferred to Rakuten Credit Co., Ltd. (another consolidated subsidiary, which changed its name to Rakuten Card Co., Ltd. on August 1, 2011), and thereupon Rakuten KC stock was sold. Amount is recorded under “Additional line items.”

Furthermore, ¥14 million among the increases during the period of allowance for doubtful accounts charged to expenses relating to accounts receivable — trade, ¥409 million among the increases during the period of allowance for doubtful accounts charged to expenses relating to loans for credit card business, and ¥330 million among the increases during the period of allowance for doubtful accounts charged to expenses relating to loans for banking business represent additional allowances recorded taking financial conditions of counterparties into consideration in the wake of the Great East Japan Earthquake, which occurred in March 2011. Amounts are recorded in “Loss on disaster” under “Other expenses.”

The decreases during the period (others) of allowance for doubtful accounts relating to loans for credit card business are due to the elimination of the Rakuten KC Co., Ltd. from the scope of consolidation, effective August 1, 2011, as described above. For further details, please refer to Note 47. Sale of Subsidiary through Business Restructuring.

For the year ended December 31, 2012

(Millions of yen)

	Accounts receivable — trade	Financial assets for securities business	Loans for credit card business	Investment securities for banking business	Loans for banking business	Other financial assets	Total
January 1, 2012	¥1,534	¥1,951	¥23,688	¥426	¥1,753	¥242	¥29,594
Increases during the period (allowance for doubtful accounts charged to expenses)	1,124	15	9,446	201	—	125	10,911
Increases during the period (others)	316	—	76	—	—	54	446
Decreases during the period (utilized)	(737)	(245)	(12,673)	—	(1,087)	(54)	(14,796)
Decreases during the period (reversals)	(161)	(51)	—	(380)	(14)	(69)	(675)
Decrease during the period (others)	(54)	—	—	—	—	—	(54)
December 31, 2012	¥2,022	¥1,670	¥20,537	¥247	¥652	¥298	¥25,426

Among the increases during the period of allowance for doubtful accounts charged to expenses relating to accounts receivable — trade, ¥213 million represents the allowance for doubtful accounts charged to expenses at Play Holdings Limited (U.K.) which was incurred from the reorganization following the changes in local regulations, and is recorded in “Loss on business restructuring” under “Additional line items.”

The increases during the period of other allowance for doubtful accounts charged to expenses are recorded in “Allowance for doubtful accounts charged to expenses” under “Operating expenses” in the consolidated statement of income.

16. Investments in Associates and Joint Ventures

(1) Investments in Associates

The Group Companies account for investments in associates using the equity method.

The carrying amounts of investments in individually insignificant associates are as follows.

Name	(Millions of yen)		
	January 1, 2011	December 31, 2011	December 31, 2012
Total carrying amount	¥8,984	¥9,227	¥6,175

Financial information on individually insignificant associates is as follows. The amounts indicated below take into account the Group Companies' percentage of ownership.

	(Millions of yen)	
	Year ended December 31, 2011	Year ended December 31, 2012
Net income	¥825	¥857
Other comprehensive income	(20)	28
Comprehensive income	¥805	¥885

Among the investments in associates, the recoverable amount of investments in certain companies were found to have fallen below the carrying amounts as of the end of December 2011, and thus an impairment loss of ¥449 million was recognized and presented as part of "Share of (loss)/profit of associates" in the consolidated statement of income. As of the end of December 2012, the recoverable amount recovered to the carrying amount, which would have been determined if any impairment loss had never been recognized, and thus an impairment loss of ¥449 million was reversed and included in "Share of (loss)/profit of associates" in the consolidated statement of income.

(2) Investments in Joint Ventures

In the investments in certain companies, the Group Companies have entered into contracts with the counterparties which require unanimous agreement among the counterparties in terms of the decision making regarding activities that significantly affect the investees' returns. Moreover, as the Group Companies exercise joint control with the other counterparties and hold rights to the net assets, such companies are deemed as joint ventures and the investments are accounted for using the equity method.

The carrying amounts of investments in individually insignificant joint ventures are as follows.

	(Millions of yen)		
	January 1, 2011	December 31, 2011	December 31, 2012
Total carrying amount	¥470	¥458	¥426

Financial information on individually insignificant joint ventures is as follows. The amounts indicated below take into account the Group Companies' percentage of ownership.

	(Millions of yen)	
	Year ended December 31, 2011	Year ended December 31, 2012
Net income	¥72	¥38
Other comprehensive income	—	—
Comprehensive income	¥72	¥38

17. Property, Plant and Equipment

(1) Statement of Changes in Property, Plant and Equipment

(Millions of yen)

	Buildings and accompanying facilities	Furniture, fittings and equipment	Others	Total
January 1, 2011				
Cost	¥18,455	¥35,725	¥12,224	¥66,404
Accumulated depreciation and accumulated impairment losses	(7,036)	(25,827)	(7,656)	(40,519)
Carrying amount	11,419	9,898	4,568	25,885
Increase	986	2,673	1,194	4,853
Acquisition through business combinations	68	215	370	653
Disposal	(40)	(201)	(11)	(252)
Sales of subsidiaries	(1,506)	(20)	(2,153)	(3,679)
Depreciation	(784)	(4,021)	(577)	(5,382)
Exchange rate differences	(35)	(52)	(22)	(109)
Other changes	44	(99)	(379)	(434)
December 31, 2011				
Cost	14,997	30,527	9,971	55,495
Accumulated depreciation and accumulated impairment losses	(4,845)	(22,134)	(6,981)	(33,960)
Carrying amount	10,152	8,393	2,990	21,535
Increase	1,827	3,703	1,862	7,392
Acquisition through business combinations	784	266	133	1,183
Disposal	(33)	(243)	(24)	(300)
Impairment loss	(53)	(131)	(186)	(370)
Depreciation	(1,115)	(3,269)	(910)	(5,294)
Exchange rate differences	70	156	18	244
Other changes	41	241	(529)	(247)
December 31, 2012				
Cost	17,890	26,855	11,015	55,760
Accumulated depreciation and accumulated impairment losses	(6,217)	(17,739)	(7,661)	(31,617)
Carrying amount	¥11,673	¥9,116	¥3,354	¥24,143

Depreciation is recorded under "Operating expenses" in the consolidated statement of income.

(2) Impairment of Property, Plant and Equipment

The Group Companies assess at each reporting date whether there is an indication that property, plant and equipment may be impaired. If any indication exists, the Group Companies estimate the recoverable amount of the asset.

As a general rule, the Group Companies estimate the recoverable amount for the individual asset but if estimation of the recoverable amount of each asset is not possible, then estimation is conducted of the recoverable amount for the CGU to which asset belongs. The CGU is the smallest identifiable group of assets that generates cash inflows, and that are largely independent of the cash inflows from other assets or groups of assets. The Group Companies consider each company to be a CGU in principle. Idle assets not anticipated for future use form a group of individual assets. The impairment loss which has been recognized in this manner is recorded under "Other expenses."

For the year ended December 31, 2011

No impairment loss on property, plant and equipment was reported in the previous fiscal year.

For the year ended December 31, 2012

Impairment loss for the year ended December 31, 2012 mainly incurred from the business restructuring of Play Holdings Limited.

(3) Property, Plant and Equipment Pledged as Collateral

As of January 1, 2011

Not applicable.

As of December 31, 2011

Not applicable.

As of December 31, 2012

Buildings and accompanying facilities of ¥609 million are pledged as collateral for borrowings.

(4) Finance Leases (as Lessee)

Carrying amounts of assets used through finance leases are as follows.

	January 1, 2011	December 31, 2011	(Millions of yen) December 31, 2012
Buildings	¥6,393	¥6,169	¥5,898
Furniture, fittings and equipment	2,990	1,793	1,599
Others	1,600	865	960
Total	¥10,983	¥8,827	¥8,457

Included in the above is the baseball park facility, which has been donated to Miyagi Prefecture based on a franchise contract, and which is treated as a finance lease due to the Group Companies holding the use right thereof. The carrying amounts of facility as of January 1, 2011, December 31, 2011 and December 31, 2012 were ¥6,679 million, ¥6,370 million and ¥6,053 million, respectively. There are no lease obligations associated with lease.

Lease obligations based on finance lease contracts as of January 1, 2011, December 31, 2011 and December 31, 2012 were ¥5,336 million, ¥2,699 million and ¥2,431 million, respectively.

18. Intangible Assets

(1) Statement of Changes in Intangible Assets

(Millions of yen)

	Goodwill	Software	Other	Total
January 1, 2011				
Cost	¥118,840	¥74,179	¥18,196	¥211,215
Accumulated amortization and accumulated impairment losses	(15,669)	(41,671)	(1,660)	(59,000)
Carrying amount	103,171	32,508	16,536	152,215
Increase	—	15,373	87	15,460
Acquisition through business combinations	9,373	205	4,669	14,247
Disposal	—	(1,003)	(2)	(1,005)
Sales of subsidiaries	—	(19)	(265)	(284)
Impairment loss	(14,723)	(51)	(49)	(14,823)
Amortization	—	(11,717)	(1,013)	(12,730)
Exchange rate differences	(2,129)	(83)	(999)	(3,211)
Other changes	—	(187)	(62)	(249)
December 31, 2011				
Cost	110,639	84,970	21,552	217,161
Accumulated amortization and accumulated impairment losses	(14,947)	(49,944)	(2,650)	(67,541)
Carrying amount	95,692	35,026	18,902	149,620
Increase	—	17,852	1,533	19,385
Acquisition through business combinations	25,128	1,683	28,248	55,059
Disposal	—	(1,217)	(16)	(1,233)
Sales	—	(723)	(1)	(724)
Impairment loss	(18,984)	(517)	(7,925)	(27,426)
Amortization	—	(12,169)	(3,764)	(15,933)
Exchange rate differences	6,528	299	2,961	9,788
Other changes	(469)	(227)	174	(522)
December 31, 2012				
Cost	145,093	99,441	55,538	300,072
Accumulated amortization and accumulated impairment losses	(37,198)	(59,434)	(15,426)	(112,058)
Carrying amount	¥107,895	¥40,007	¥40,112	¥188,014

Software under intangible assets mainly comprises internally generated software.

Amortization of intangible assets is recorded under “Operating expenses” in the consolidated statement of income.

Research and development expenses recognized as expenses for the years ended December 31, 2011 and 2012 were ¥540 million and ¥614 million, respectively.

Increase in goodwill for the year ended December 31, 2012 is mainly attributable to the acquisition of Kobo Inc. and AIRIO Life Insurance Co., Ltd. Please refer to Note 45. Business Combinations.

Increase in others under intangible assets for the year ended December 31, 2012 is mainly attributable to trademarks and technology incurred from the acquisition of Kobo Inc. of ¥11,056 million, and value of business acquired and value of customer relationship acquired incurred from the acquisition of AIRIO Life Insurance Co., Ltd. of ¥14,629 million.

(2) Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives

The balance of goodwill and intangible assets with indefinite useful lives of each CGU is as follows. Intangible assets with indefinite useful lives mainly comprise trademarks. These trademarks, which were acquired in business combinations, will basically continue to exist as long as the business continues and thus are considered to be intangible assets with indefinite useful lives.

(Millions of yen)

Operating segment	CGU	January 1, 2011		December 31, 2011		December 31, 2012	
		Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives
Internet Services	PRICEMINISTER S.A.S.	¥16,508	¥5,735	¥15,408	¥4,487	¥12,273	¥5,110
	Buy.com Inc.	14,322	4,946	13,715	4,719	—	—
	Kobo Inc.	—	—	—	—	17,483	29
	Others	12,165	2	21,116	644	28,980	732
	Total	42,995	10,683	50,239	9,850	58,736	5,871
Internet Finance	Rakuten Bank, Ltd.	34,386	—	34,386	—	34,386	—
	Rakuten KC Co., Ltd. (Note)	14,723	—	—	—	—	—
	Others	7,881	—	7,881	—	11,587	—
	Total	56,990	—	42,267	—	45,973	—
Others	Others	3,186	—	3,186	—	3,186	—
	Total other	3,186	—	3,186	—	3,186	—
Total		¥103,171	¥10,683	¥95,692	¥9,850	¥107,895	¥5,871

(Note) Please refer to Note 47. Sale of Subsidiary through Business Restructuring.

As of January 1, 2011

On January 1, 2011, LinkShare Corporation (CGU), which was engaged in affiliate services,

conducted a review of its expected profit plan assumed in its business plan, which was considered at the acquisition of shares. As a result, the carrying amount of goodwill was decreased to the recoverable amount and an impairment loss of ¥15,669 million was recognized. In addition, outstanding goodwill after recognizing impairment loss of LinkShare Corporation was included under “Others” of Internet Services.

For the year ended December 31, 2011

On August 1, 2011, an impairment loss of ¥14,723 million on goodwill for Rakuten KC Co., Ltd. (CGU), following the restructuring of credit card business, was recorded under “Additional line items” of the consolidated statement of income.

For the year ended December 31, 2012

Following a review of the business plan in December 2012, impairment losses of ¥14,004 million on goodwill and of ¥4,818 million on intangible assets with indefinite useful lives for Buy.com Inc. (CGU) were recognized. For the similar reason, an impairment loss of ¥4,706 million on goodwill for PRICEMINISTER S.A.S. (CGU) was recognized. These impairment losses were recorded under “Additional line items” of the consolidated statement of income.

When conducting an impairment test for goodwill and intangible assets with indefinite useful lives, the Group Companies, as a general rule, consider each company to be a CGU and allocate goodwill and intangible assets with indefinite useful lives to those expected to benefit from the synergy associated with business combinations.

The CGU is the smallest identifiable group of assets that generates cash inflows, and that are largely independent of the cash inflows from other assets or groups of assets.

The Group Companies perform impairment test of goodwill once a year, regardless of whether there is any indication of impairment. Intangible assets with indefinite useful lives are not amortized; instead they are tested for impairment on a yearly basis. The Group Companies individually determine the timing of impairment tests for goodwill and intangible asset with an indefinite useful life by taking into account the period in which they formulate the relevant business plan. Indications of impairment are also assessed every quarter; and if such indication becomes evident, impairment test is performed.

The recoverable amount of a CGU is the higher of its value in use and fair value less costs to sell. The recoverable amount of a CGU as of December 31, 2011 was determined based on the calculation of value in use, with the exception of Buy.com, Inc., whose recoverable amount was determined by fair value less costs to sell.

Value in use is calculated based on the business plans approved by the management of each CGU, by using three- to five-years worth of pre-tax, estimated future cash flows and other materials. These business plans have been drawn up based primarily on gross merchandise sales in Internet Services segment, and the number of accounts and the number of members in Internet Finance segment. For periods beyond those covered by the business plans, the continuing value is assessed.

The continuing value is calculated using the estimated growth rate of each CGU. Moreover, the pre-tax discount rate used in the assessment of value in use is calculated for each CGU.

The growth rate used in predicting cash flows for periods beyond those covered by the business plans of each CGU takes into account the status of the country and the industry to which the CGU belongs and does not exceed the average long-term growth rate of the industry in which the CGU is

active. Pre-tax discount rates used in calculating continuing value reflect the inherent risks of the relevant businesses of each CGU. Discount rates are determined based on the comparable companies of each CGU, by taking into account market interest rates, the size of the subsidiary which forms the CGU, and other factors.

Fair value less costs to sell is determined by adjusting the market capitalization of comparable companies and the trading prices of recent transactions to net sales and gross profit commensurate with the size of the entity. Such calculations, which are based on business plans approved by the management of each CGU, use two years-worth of estimated net sales and gross profit; while such business plans are drawn up based primarily on gross merchandise sales in Internet Services segment.

Additionally, each CGU at the Group Companies takes the business plan, which forms the basis for the measurement of the recoverable amount in the impairment test of goodwill and intangible assets with indefinite useful lives, and compares it with past performance, as well as determines whether business plan may be considered a reasonable basic assumption in predicting future cash flows.

Significant assumptions used in the calculation of value in use as of January 1, 2011, and for the years ended December 31, 2011 and 2012 are as follows. The following estimates have been used in the analysis of each CGU.

Operating segment	CGU	January 1, 2011		December 31, 2011		December 31, 2012	
		Growth rate used in the calculation of continuing value	Discount rate	Growth rate used in the calculation of continuing value	Discount rate	Growth rate used in the calculation of continuing value	Discount rate
Internet Services	PRICEMINISTER S.A.S.	2.0%	15.3%	2.0%	13.8%	2.0%	12.3%
	Buy.com Inc.	3.0%	17.6%	—	—	3.0%	20.1%
	Kobo Inc.	—	—	—	—	2.0%	14.5%
	Others	2.0%~3.0%	14.8%~23.8%	2.0%~3.0%	12.4%~19.6%	2.0%~5.5%	8.6%~25.3%
Internet Finance	Rakuten Bank, Ltd.	2.0%	14.5%	2.0%	8.1%	2.0%	11.8%
	Rakuten KC Co., Ltd. (Note)	2.0%	19.4%	—	—	—	—
	Others	2.0%	9.1%~16.2%	2.0%	9.2%~13.3%	2.0%	7.4%~14.6%
Others	Others	2.0%	9.6%	2.0%	11.6%	2.0%	9.1%~9.6%

(Note) Please refer to Note 47. Sale of Subsidiary through Business Restructuring.

Sensitivity Analysis of Goodwill

As a result of impairment test on goodwill and intangible assets with indefinite useful lives, the Group Companies have recognized impairment in certain CGUs. Recoverable amount has considerably exceeded the carrying amount in the CGUs with the exception of the CGUs which had recognized impairment loss. Even if the major assumptions used in impairment test were changed within a reasonably predictable range, the Group Companies have determined the possibility of significant impairment occurring at CGUs would be low.

(3) Impairment of Intangible Assets (Except for Goodwill and Intangible Assets with Indefinite Useful Lives)

The Group Companies assess at each reporting date whether there is an indication that intangible assets (except for goodwill and intangible assets with indefinite useful lives) may be impaired. If any indication exists, the Group Companies estimate the recoverable amount of the assets.

As a general rule, the Group Companies estimate the recoverable amount for the individual asset, but if estimation of the recoverable amount of each asset is not possible, then estimation is conducted of the recoverable amount for the CGU to which asset belongs. Idle assets not anticipated for future use form a CGU of individual assets. An impairment loss of ¥960 million on intangible assets (except for goodwill and intangible assets with indefinite useful lives) arose from Buy.com Inc. for the year ended December 31, 2012 was recorded under “Additional line items” of consolidated statement of income, while all other impairment losses were recorded under “Other expenses” of consolidated statement of income.

19. Deposits for Banking Business

Details of Deposits for Banking Business

	(Millions of yen)		
	January 1, 2011	December 31, 2011	December 31, 2012
Financial liabilities measured at amortized cost			
Demand deposits	¥366,520	¥434,678	¥492,395
Time deposits	286,571	241,481	237,055
Total financial liabilities measured at amortized cost	653,091	676,159	729,450
Financial liabilities measured at FVTPL			
Time deposits	61,765	66,434	80,081
Total deposits for banking business	¥714,856	¥742,593	¥809,531

20. Financial Liabilities for Securities Business

Details of Financial Liabilities for Securities Business

	(Millions of yen)		
	January 1, 2011	December 31, 2011	December 31, 2012
Accounts payable relating to investment securities transactions	¥97,827	¥61,770	¥200,962
Margin transactions liabilities	55,328	38,230	41,778
Deposits received	145,973	139,483	177,516
Borrowings secured by securities	32,775	28,735	37,465
Guarantee deposits received	95,084	95,666	99,709
Others	453	606	625
Total financial liabilities for securities business	¥427,440	¥364,490	¥558,055

Financial liabilities for securities business are measured at amortized cost.

Derivative liabilities classified as held for trading purposes are included in “Derivative liabilities.”

21. Bonds and Borrowings

Details of Bonds

		(Millions of yen)			
Name	Type	Interest rate	January 1, 2011	December 31, 2011	December 31, 2012
Rakuten, Inc.	The 2nd unsecured bond Currency: JPY Maturity: five years	—	¥7,964	¥3,990	¥—
Fusion Communications Corporation	The 1st unsecured bond Currency: JPY Maturity: three years	—	987	494	—
Fusion Communications Corporation	The 2nd unsecured bond subject to redemption before maturity Currency: JPY Maturity: three years	0.54%	167	100	33
Fusion Communications Corporation	The 3rd unsecured bond Currency: JPY Maturity: five years	0.64%	1,200	960	720
Total bonds		—	¥10,318	¥5,544	¥753

All bonds are measured at amortized cost.

The nominal interest rates applied for each bond in the year ended December 31, 2012 are stated in the “Interest rate” column, which will differ from the effective interest rate.

Details of Borrowings

		(Millions of yen)		
	Interest rate	January 1, 2011	December 31, 2011	December 31, 2012
Short-term debts	0.32% ~3.90%	¥93,507	¥77,242	¥84,340
Long-term debts				
Floating rate debts Maturity: 1 to 10 years (JPY) (Note)	0.53% ~2.70%	154,973	186,090	184,019
Fixed rate debts Maturity: 1 to 10 years (JPY)	1.04% ~3.56%	68,863	59,307	2,274
Commercial paper	0.28% ~0.80%	50,000	19,800	33,800
Total borrowings	—	¥367,343	¥342,439	¥304,433

All borrowings are measured at amortized cost.

The nominal interest rates applied for each borrowing in the year ended December 31, 2012 are stated in the “Interest rate” column, which will differ from the effective interest rate.

(Note) The above borrowings include hedged items of cash flow hedges in which floating rate debts are swapped for fixed rate debts, and the interest rates stated in the “Interest rate” column

take into account the effect of the cash flow hedge.

22. Other Financial Liabilities

Details of Other Financial Liabilities

(Millions of yen)

	January 1, 2011	December 31, 2011	December 31, 2012
Other payable	¥47,109	¥58,344	¥63,575
Accrued expenses	14,447	16,917	21,234
Deposits received	44,146	52,288	73,535
Margin deposits received	33,917	39,477	36,867
Others	12,511	9,387	14,837
Total other financial liabilities	¥152,130	¥176,413	¥210,048

Other financial liabilities are measured at amortized cost.

23. Provisions

(1) Statement of Changes in Provisions

(Millions of yen)

	Provision for point card certificates	Provision for loss on interest repayment	Others	Total
January 1, 2011	¥17,008	¥14,194	¥1,297	¥32,499
Increases during the period (provisions made)	20,336	4,264	2	24,602
Increases during the period (others)	3	—	463	466
Decreases during the period (provisions used)	(16,928)	(6,442)	(25)	(23,395)
Decreases during the period (others)	(78)	(10,858)	(55)	(10,991)
December 31, 2011	¥20,341	¥1,158	¥1,682	¥23,181
Increases during the period (provisions made)	25,672	—	2,030	27,702
Increases during the period (others)	16	—	185	201
Decreases during the period (provisions used)	(20,350)	(267)	(829)	(21,446)
Decreases during the period (others)	(3)	—	(21)	(24)
December 31, 2012	¥25,676	¥891	¥3,047	¥29,614

Decrease during the period (others) for provision for loss on interest repayment for the year ended December 31, 2011 is mainly due to the elimination of Rakuten KC Co., Ltd. from the scope of consolidation following the business restructuring. For details, please refer to Note 47. Sale of Subsidiary through Business Restructuring.

(2) Provision for Point Card Certificates

The Group Companies operate points programs including the Rakuten Super Points program and grants points to customers as part of sales of its products, provision of services, customer usage of its assets, the completion of various membership registrations, customer referrals and sales promotions

for a limited period of time. Using such points, the customer is able to receive products and services free of charge or at a discounted price, or transfer to the points programs of other companies. Points granted to customers have an expiry date and once the points expire the customer forfeits the right to use such points.

The Group Companies, in light of the fact that the majority of points granted to customers are borne by the registered retailers in the Rakuten Ichiba that have no capital relationships with the Group Companies, in preparation for the future use of points by the customers, have recorded a provision for point card certificates, an estimated amount for future use, under liabilities based on past usage in the prior periods. It should be noted that there is an uncertainty regarding the usage of such points by the customers.

(3) Provision for Loss on Interest Repayment

There are two laws that regulate interest rates in Japan. The Interest Rate Restriction Law imposes an interest rate ceiling at 15% to 20%, while the Investment Law sets the interest rate ceiling at 29.2%. Interest rates between these two sets of rates are called as grey-zone interest rates and most obligors had been making repayments at the grey-zone interest rates. Subsequently, in January 2006, the Supreme Court ruled that interest paid above the interest rates set forth in the Interest Rate Restriction Law that did not meet certain conditions were invalid. And as a result of this ruling, there have been an increasing number of demands for interest repayment from the obligors who had been making repayments at grey-zone interest rates.

Provision for loss on interest repayments is calculated by estimating future demand for interest repayments based on experience from prior periods. However, the period for actual payments is uncertain.

It should be noted that due to the revisions made to the laws in December 2006, grey-zone interest rates were abolished. Accordingly, interest rates have been capped at 15% to 20%.

(4) Other Provisions

Other provisions include asset retirement obligations.

Provisions are attributable to regular transactions and, taken individually, are not significant.

24. Policy Reserves and Others for Insurance Business

(1) Details of Policy reserves and others for insurance business

	(Millions of yen)
	December 31, 2012
Reserve for outstanding claims	¥1,658
Liability reserves	16,838
Total Policy reserves and others for insurance business	¥18,496

Regarding the funding method for liability reserves, the method stipulated in the Notification No. 48 of the Ministry of Finance, 1996 is applied for contracts subject to standard liability reserves, and level premium method is applied for contracts not subject to standard liability reserves. For the year ended December 31, 2012, mortality rate based on Standard Mortality Table 2007 (Standard Mortality Table 1996 for contracts with a contract date prior to March 31, 2007) and product crediting rate of 1.5% (2.0% for contracts with a contract date prior to March 31, 2001) are used for the funding of liability reserves.

(2) Liability Adequacy Test in Respect of Insurance Contracts

The Group Companies perform the liability adequacy test in consideration of current estimates of cash inflows such as related insurance premium and investment income, and cash outflows such as insurance claims and benefits and operating expenses. As a result of the test for the year ended December 31, 2012, the amount of liability was adequate, requiring no additional recognition of liability and expense.

(3) Insurance Risk

For sound and appropriate insurance business operation, it is important to accurately comprehend and adequately manage increasingly diversified and complex risks. Therefore, a cross-functional risk management framework was developed, and the role and process at departments responsible for risk management were clarified. The Group Companies will thoroughly ensure appropriate business operation by having all employees and officers fully understand the importance of risk management. Specifically, the Group Companies established a cross-functional "Risk Management Committee," and engaged in the following overall risk management activities: appointing departments responsible for risk management according to the type of risk; developing risk management framework; comprehending, analyzing and assessing risk status; and instructing operational departments.

Concerning insurance underwriting risk as a major risk in insurance business, the Group Companies have identified and analyzed risks through regular monitoring of frequency of insured events and surrender ratio. In developing new products, risk analysis is carried out in consideration of balance with profitability.

Under the Japanese laws and regulations, life insurance companies are required to calculate risks associated with payment of insurance claims and benefits and risks associated with asset management in preparation for the occurrence of various risks life insurance companies are exposed to on a scale beyond normally predictable level. The amounts equivalent to risks before tax are as follows, which are recognized to represent the amounts of impact on profit or loss and equity in the event of occurrence of such risks. Confidence level of risk quantity is generally assumed to be 95%, with variance depending on the type of risk.

	(Millions of yen)
	December 31, 2012
Insurance risks	¥955
The third-sector insurance risk	949
Product crediting rate risks	3
Minimum guarantee risk	—
Investment risks	378
Minimum business risk	46

The Group Companies only handle traditional products and insured events are mainly death (first sector product), hospitalization and operations, etc. (third sector product). Policy period of insurance products is mainly 10 years and lifetime, and insurance liabilities vary with the acquisition of new contracts, occurrence of insured events and contract cancellation, etc.

In the future period subject to liability adequacy test, insurance revenue is expected to exceed the insurance benefit.

25. Income Tax Expense

The deferred tax assets and liabilities as of January 1, 2011, December 31, 2011 and December 31, 2012 were attributable to the following items.

	(Millions of yen)		
	January 1, 2011	December 31, 2011	December 31, 2012
Deferred tax assets			
Tax losses carried forward	¥14,953	¥49,569	¥26,362
Depreciation	1,546	1,612	1,730
Loss on valuation of investment securities	18,765	114	115
Allowance for doubtful accounts	3,375	5,486	3,474
Enterprise tax payable	1,354	338	388
Provision for point card certificates	7,033	7,879	9,786
Provision for loss on interest repayment	4,121	452	337
Accrued interest	1,778	2	3
Tax goodwill	—	6,566	4,916
Investments in subsidiaries	—	—	3,161
Others	7,525	5,912	8,606
Total	¥60,450	¥77,930	¥58,878
Deferred tax liabilities			
Tax deductible losses due to transfer of shares	¥(8,465)	¥(7,568)	¥(7,568)
Gains and losses of financial assets measured at FVTOCI	(2,737)	(1,483)	(1,233)
Intangible assets	(6,833)	(6,732)	(12,199)
Others	(1,439)	(3,622)	(3,748)
Total	¥(19,474)	¥(19,405)	¥(24,748)
Net amount of deferred tax assets			
Deferred tax assets	¥47,212	¥64,579	¥40,546
Deferred tax liabilities	(6,236)	(6,054)	(6,416)
Net	¥40,976	¥58,525	¥34,130

Deferred tax assets related to tax losses carried forward as of January 1, 2011 mainly recognized by Rakuten KC Co., Ltd., the Company's former subsidiary. Such tax losses carried forward were recognized as a result of unusual factors, the past organizational restructuring in Rakuten KC Co., Ltd. and revisions of laws including the Money Lending Business Act. As of January 1, 2011, exclusive of these unusual factors, it is probable that future taxable income will be available in

Rakuten KC Co., Ltd., and in the future tax losses carried forward due to these unusual factors will not be expected. While, the Group Companies recognize deferred tax assets that it is probable that future taxable income will be available against which such tax losses carried forward can be utilized, based on the management judgments and assumptions.

Deferred tax assets related to tax losses carried forward during the year ended December 31, 2011 were mainly recognized by the Company and the Company's subsidiaries, Rakuten Card Co., Ltd. and Rakuten Bank, Ltd. Tax losses carried forward recognized by the Company and Rakuten Card Co., Ltd. as a result of unusual factors, the disposal of assets in the restructuring of businesses and past organizational restructuring. As of December 31, 2011, exclusive of these unusual factors, it is probable that future taxable income will be available and in the future tax losses carried forward due to unusual factors will not be expected. In Rakuten Bank, Ltd., non-performing loans and investment securities, related to tax losses carried forward, have been reduced to controllable levels, and as a result of joining the Group Companies, an environment has been set for earning sustainable and stable profits through initiatives toward capturing customers and ensuring stable performance. Now it is probable that future taxable income will be available in Rakuten Bank, Ltd.

Deferred tax assets related to tax losses carried forward during the year ended December 31, 2012 were mainly recognized by the Company and a Company's subsidiary, Rakuten Bank, Ltd. Tax losses carried forward recognized by the Company as a result of unusual factors, the disposal of assets in the restructuring of businesses and past organizational restructuring. Such tax losses carried forward were partially utilized by taxable income for the current year, and it is highly probable that future taxable income will be available. Tax losses carried forward are not expected to be generated from unusual factors. In Rakuten Bank, Ltd., non-performing loans and investment securities, which used to be the reasons to record tax losses carried forward in the past, have now been reduced to controllable levels. As a result of joining the Group Companies, an environment has been set for earning sustainable and stable profits through initiatives toward capturing customers and ensuring stable performance. Tax losses carried forward were partially utilized by taxable income for the current year, and it is highly probable that future taxable income will be available in Rakuten Bank, Ltd.

The changes of net deferred tax assets and liabilities were as follows:
For the year ended December 31, 2011

(Millions of yen)

	January 1, 2011	Amounts recorded under net profit or loss	Amounts recognized under other comprehensive income	Changes in scope of consolidation	Others	December 31, 2011
Tax losses carried forward	¥14,953	¥34,616	¥—	¥—	¥—	¥49,569
Depreciation and amortization	1,546	66	—	—	—	1,612
Loss on valuation of investment securities	18,765	(18,651)	—	—	—	114
Allowance for doubtful accounts	3,375	2,111	—	—	—	5,486
Enterprise tax payable	1,354	(1,016)	—	—	—	338
Provision for point card certificates	7,033	846	—	—	—	7,879
Provision for loss on interest repayment	4,121	(3,669)	—	—	—	452
Accrued interest	1,778	(1,776)	—	—	—	2
Tax goodwill	—	6,566	—	—	—	6,566
Tax deductible losses due to transfer of shares	(8,465)	897	—	—	—	(7,568)
Gains and losses of financial assets measured at FVTOCI	(2,737)	—	1,254	—	—	(1,483)
Intangible assets	(6,833)	101	—	—	—	(6,732)
Others	6,086	(2,283)	(753)	(861)	101	2,290
Total	¥40,976	¥17,808	¥501	¥(861)	¥101	¥58,525

For the year ended December 31, 2012

(Millions of yen)

	January 1, 2012	Amounts recorded under net profit or loss	Amounts recognized under other comprehensive income	Changes in scope of consolidation	Others	December 31, 2012
Tax losses carried forward	¥49,569	¥(28,185)	¥—	¥4,625	¥353	¥26,362
Depreciation and amortization	1,612	91	—	15	12	1,730
Loss on valuation of investment securities	114	1	—	—	—	115
Allowance for doubtful accounts	5,486	(2,018)	—	1	5	3,474
Enterprise tax payable	338	36	—	14	—	388
Provision for point card certificates	7,879	1,907	—	—	—	9,786
Provision for loss on interest repayment	452	(115)	—	—	—	337
Accrued interest	2	1	—	—	—	3
Tax goodwill	6,566	(1,650)	—	—	—	4,916
Investments in subsidiaries	—	3,161	—	—	—	3,161
Tax deductible losses due to transfer of shares	(7,568)	—	—	—	—	(7,568)
Gains and losses of financial assets measured at FVTOCI	(1,483)	—	250	—	—	(1,233)
Intangible assets	(6,732)	3,089	—	(7,721)	(835)	(12,199)
Others	2,290	2,255	(481)	826	(32)	4,858
Total	¥58,525	¥(21,427)	¥(231)	¥(2,240)	¥(497)	¥34,130

The breakdown of deductible temporary differences and tax losses carried forward for which no deferred tax asset is recognized in the consolidated statement of financial position is as follows.

(Millions of yen)

	January 1, 2011	December 31, 2011	December 31, 2012
Deductible temporary differences	¥12,851	¥7,246	¥5,151
Unused tax losses carried forward	40,445	25,327	25,134
Total	¥53,296	¥32,573	¥30,285

Deferred tax assets associated with the above are not recognized, as it is unlikely that future taxable income necessary for the Group Companies to utilize its benefits would be generated.

The breakdown by expiry date of tax losses carried forward for which no deferred tax asset is recognized in the consolidated statement of financial position is as follows.

(Millions of yen)

	January 1, 2011	December 31, 2011	December 31, 2012
1st year	¥1,461	¥2,325	¥2,198
2nd year	3,086	2,262	2,220
3rd year	6,905	2,868	3,948
4th year	3,950	5,480	1
5th year and thereafter	25,043	12,392	16,767
No term of expiry date	—	—	—
Total	¥40,445	¥25,327	¥25,134

There are no deductible temporary differences with an expiry date, and significant temporary differences associated with investments in subsidiaries and associates accounted for using the equity method for which no deferred tax liability is recognized.

There will be no significant impact on the Group Companies' tax payment, even if the retained earnings of the subsidiaries or associates are remitted to the Group Companies in the future.

Breakdown of income tax expense recognized through profit or loss is as follows.

(Millions of yen)

	Year ended December 31, 2011	Year ended December 31, 2012
(Loss) Income before income tax	¥(1,185)	¥49,106
Current tax expense		
Income tax expense (income) for net income	6,992	6,543
Subtotal	6,992	6,543
Deferred tax expense		
Generation and reversal of temporary difference	14,689	(6,758)
Effect of changes in tax rate (corporation tax law)	2,119	—
Changes in unused tax losses carried forward	(34,616)	28,185
Subtotal	(17,808)	21,427
Total income tax expense	¥(10,816)	¥27,970

The relationship between income before income tax and income tax expense is as follows.

	Year ended December 31, 2011		Year ended December 31, 2012	
	(Millions of yen)	(%)	(Millions of yen)	(%)
(Loss) Income before income tax	¥(1,185)		¥49,106	
Income tax expense based on the applicable income tax rate (Note 1)	(486)	(41.0)	20,133	41.0
(Reconciliations)				
Permanent non-deductible items	434	36.6	970	2.0
Permanent non-taxable items	(5,488)	(462.8)	(315)	(0.6)
Inhabitant tax, etc. on per capita basis	123	10.3	128	0.3
Changes in unrecognized deferred tax assets (Note 2)	(15,248)	(1,286.1)	(833)	(1.7)
Elimination of unrealized profit	637	53.7	0	0.0
Difference due to tax rate changes	2,119	178.7	—	—
Effects on sale of subsidiary through business restructuring (Note 3)	6,897	581.7	—	—
Impairment loss of goodwill (Note 4)	—	—	7,784	15.9
Others	196	16.6	103	0.1
Income tax expense	¥(10,816)	(912.3)	¥27,970	57.0

(Notes) 1 Income tax expense based on the applicable income tax rate refers to income tax expense based on the effective tax rate of Japan, where the Company is located.

2 This is mainly the amount of previously unrecognized tax losses carried forward used to reduce deferred tax expense, and benefits generated from temporary differences in prior periods.

3 Please refer to Note 47. Sale of Subsidiary through Business Restructuring.

4 Please refer to Note 18. (2) Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives.

26. Common Stock, Capital Surplus, Retained Earnings and Treasury Stock

Common Stock

The Company's total number of shares authorized to be issued and total number of shares issued are as follows.

	(Thousands of shares)	
	Total number of shares authorized (Common stock with no-par value)	Total number of shares issued (Common stock with no-par value)
January 1, 2011	3,941,800	1,318,170
Changes during the period: Increases due to issuance of common stock	—	1,288
December 31, 2011	3,941,800	1,319,458
Changes during the period: Increases due to issuance of common stock	—	1,169
December 31, 2012	3,941,800	1,320,627

(Note) The Company has made the share splitting, one share into 100 shares for shares at July 1, 2012. Total number of shares authorized to be issued and total number of shares issued for each year are the total number of shares after considering the share splitting.

Capital Surplus

The Corporate Law of Japan (hereinafter referred to as the “Corporate Law”) requires that at least 50% of the proceeds of certain issues of common shares shall be credited to common stock, while the remainder of the proceeds shall be credited to capital reserve included in capital surplus. The Corporate Law permits, upon approval at the General Shareholders’ Meeting, the transfer of amounts from capital reserve to common stock.

Retained Earnings

The Corporate Law requires that an amount equal to one tenth of dividends of retained earnings shall be appropriated as capital reserve (one item of capital surplus) or as appropriated for legal reserve (one item of retained earnings) until the aggregate amount of the capital reserve and the appropriated for legal reserve equals to one fourth of common stock. The appropriated for legal reserve may be used to eliminate or reduce a deficit or be transferred to retained earnings upon approval at the General Shareholders’ Meeting.

Retained earnings available for dividends under the Corporate Law is based on the amount recorded in the Company’s general accounting records maintained in accordance with accounting principles generally accepted in Japan.

Treasury Stock

Changes in Treasury Stock

	(Thousands of shares)	
	Year ended December 31, 2011	Year ended December 31, 2012
January 1	6,008	6,008
Acquisition	—	0
Disposal	—	—
December 31	6,008	6,008

(Note) The Company has made the share splitting, one share into 100 shares at July 1, 2012. Total number of treasury stock of each reporting period is the number of shares after considering the share splitting.

27. Revenue

Revenue for the years ended December 31, 2011 and 2012 are attributable to the following items:
(Millions of yen)

	Year ended December 31, 2011	Year ended December 31, 2012
Sales of goods	¥30,925	¥54,815
Rendering services	259,702	292,411
Interest income	51,976	50,805
Others	3,822	2,413
Total	¥346,425	¥400,444

28. Operating Expenses

Operating expenses for the years ended December 31, 2011 and 2012 are attributable to the following items:

	Year ended December 31, 2011	Year ended December 31, 2012
Advertising and promotion expenditures	¥36,290	¥49,611
Employee benefits expenses	63,384	70,098
Depreciation and amortization	18,112	21,227
Communication and maintenance expenses	14,692	15,355
Consignment and subcontract expenses	19,081	22,666
Allowance for doubtful accounts charged to expenses	13,675	10,023
Cost of sales of merchandise	26,518	50,297
Interest expense for finance business	7,787	5,512
Commission fee expense for finance business	5,533	5,002
Insurance claims and other payments, and provision of policy reserves and others for insurance business	—	1,857
Others	60,391	67,787
Total	¥265,463	¥319,435

Details of employee expenses (employee benefits expenses) are as follows.

1) Details of Employee Expenses

	(Millions of yen)	
	Year ended December 31, 2011	Year ended December 31, 2012
Wages and salaries	¥54,060	¥60,834
Retirement benefits	2,996	3,412
Legal welfare expenses	4,204	3,631
Expense of stock option granted to directors and employees (Note)	295	651
Other salaries	1,829	1,570
Total	¥63,384	¥70,098

(Note) Please refer to Note 37. Share-based Payments.

2) Number of Employees

	December 31, 2011	December 31, 2012
Number of employees (persons)	7,615	9,311

(Note) Number of employees represents the number of persons engaged in the Group Companies.

29. Other Income and Other Expenses

(1) Details of Other Income

	(Millions of yen)	
	Year ended December 31, 2011	Year ended December 31, 2012
The resulting gain in the business combination achieved in steps (Note)	¥—	¥2,382
Gain on sales of subsidiaries	374	—
Others	804	983
Total	¥1,178	¥3,365

(Note) Please refer to Note 45. Business Combinations.

(2) Details of Other Expenses

	(Millions of yen)	
	Year ended December 31, 2011	Year ended December 31, 2012
Allowance for doubtful accounts charged to expenses (Note 1)	¥2,151	¥—
Loss on disaster (Note 2)	1,725	—
Retired or disposed property, plant and equipment or intangible assets	1,157	1,533
Loss on liquidation of business (Note 3)	—	808
Others	971	3,240
Total	¥6,004	¥5,581

- (Notes) 1 Please refer to Note 15. Allowance for Doubtful Accounts.
 2 Losses incurred as a result of the Great East Japan Earthquake which occurred in March 2011 are reported.
 3 It is due to the liquidation of EC service in China.

30. Additional Line Items

(Millions of yen)

	Year ended December 31, 2011	Year ended December 31, 2012
Additional line items (expenses)		
Loss on business restructuring (Note 1)	¥75,492	¥4,250
Impairment loss on goodwill and other (Note 2)	—	24,488
Total	¥75,492	¥28,738

- (Notes) 1 For the year ended December 31, 2011, please refer to Note 47. Sale of Subsidiaries through Business Restructuring.
 For the year ended December 31, 2012, loss on business restructuring of ¥4,250 million was recorded with the view of future business development for Play Holdings Limited.
 2 Impairment losses of ¥19,782 million for Buy.com Inc. and of ¥4,706 million for PRICEMINISTER S.A.S. were recognized. For detail, please refer to Note 18. Intangible Assets.

31. Financial Income and Financial Expenses

(1) Details of Financial Income

(Millions of yen)

	Year ended December 31, 2011	Year ended December 31, 2012
Interest income	¥133	¥162
Dividend income	144	31
Total	¥277	¥193

(2) Details of Financial Expenses

(Millions of yen)

	Year ended December 31, 2011	Year ended December 31, 2012
Interest expense	¥2,348	¥2,220
Commission fee	221	345
Total	¥2,569	¥2,565

32. Earnings per Share

Basic earnings per share are calculated by dividing the net income attributable to owners of the Company by the weighted average number of common stock outstanding during the year. The weighted average number of common stock outstanding during the year does not include common stock purchased by the Company and held as treasury stock.

Diluted earnings per share are calculated on the assumption of full conversion of the dilutive potential common stock, adjusted for the weighted average number of common stock outstanding.

The Company has dilutive potential common stock related to stock options. The number of shares that may be acquired through these stock options is calculated at fair value (annual average

stock price of the Company) based on the value of the stock acquisition rights granted to the unexercised stock options.

The Company has made the share splitting, one share into 100 shares at July 1, 2012. Earnings per share of each reporting period are calculated by the number of common stock outstanding after considering the share splitting.

The status of net income attributable to owners of the Company and the weighted average number of shares used in the calculation of earnings per share are as follows.

	Year ended December 31, 2011			Year ended December 31, 2012		
	Basic	Adjustments	Diluted	Basic	Adjustments	Diluted
Net income attributable to owners of the Company (Millions of yen)	¥7,986	¥(2)	¥7,984	¥20,489	¥(0)	¥20,489
Weighted average number of shares (Thousands of shares)	1,312,810	3,559	1,316,369	1,313,987	3,036	1,317,023
Earnings per share (yen)	¥6.08	¥(0.02)	¥6.06	¥15.59	¥(0.03)	¥15.56

The summary of potential shares not included in the calculation of diluted earnings per share since there are no dilutive effects is as follows.

	Year ended December 31, 2011	Year ended December 31, 2012
Subscription Rights to Shares of the Company Stock options in accordance with the provisions of Article 280-20 and Article 280-21 of the former Commercial Code March 30, 2005		
Resolution at General Shareholders' Meeting March 30, 2006	5,641 thousand shares	5,641 thousand shares
Resolution at General Shareholders' Meeting	3,000 thousand shares	3,000 thousand shares

There was no transaction that materially impacted earnings per share during the period from December 31, 2012 to the date of approval of the consolidated financial statements.

33. Transfers of Financial Assets

The Group Companies engage in the securitization of card loan receivables and card shopping receivables of its customers derived from credit card business. When securitizing the receivables, the Group Companies transfer such receivables to trusts and acquire senior and subordinated beneficial interests collateralized by the trusted assets. The Group Companies then transfer the

senior beneficial interests to third parties or redeem the beneficial interests for borrowings secured by the trusted assets. Since the Group Companies continue to retain substantially all the credit risks related to the underlying receivables and the rewards through holding subordinated beneficial interests, the transferred receivables do not qualify for derecognition.

The carrying amount of the financial assets that did not qualify for derecognition and their associated liabilities, and their fair values for those liabilities that have only recourse to the transferred assets as of January 1, 2011, December 31, 2011 and December 31, 2012 are as follows.

The counterparty of the associated liabilities to transferred assets has rights of recourse that is only to the transferred assets.

	(Millions of yen)		
	January 1, 2011	December 31, 2011	December 31, 2012
Carrying amount of transferred assets	¥26,572	¥23,416	¥100
Carrying amount of the associated liabilities	9,242	2,000	100
Fair value of transferred assets	26,568	23,416	100
Fair value of the associated liabilities	9,242	2,000	100
Net position	¥17,326	¥21,416	¥—

Creditors of the associated liabilities to transferred assets have rights to the reimbursement of the only transferred assets.

The difference between the transferred assets and the associated liabilities occurred mainly as a result of certain beneficial interests through securitization being held within the Group Companies.

34. Assets Pledged as Collateral and Assets Received as Collateral

(1) Assets Pledged as Collateral

The Group Companies pledge assets mainly to secure debts in borrowing contracts, deposits received of e-money, margin trading and security lending transactions conducted under customary conditions, and as monetary deposits in derivative transactions.

The carrying amounts of assets pledged as collateral for liabilities and contingent liabilities by the Group Companies are as follows.

	(Millions of yen)		
	January 1, 2011	December 31, 2011	December 31, 2012
Cash and cash equivalents	¥100	¥1,000	¥1,097
Loans for credit card business (Note)	106,397	41,968	47,310
Investment securities	2,201	—	6,836
Total	¥108,698	¥42,968	¥55,243

(Note) Loans for credit card business include securitized receivables.

In addition to the above, investment securities for banking business, which were pledged as collateral for foreign exchange settlements, derivative trading and other transactions, and for commitment lines as of January 1, 2011, December 31, 2011 and December 31, 2012, were ¥72,063 million, ¥74,084 million and ¥57,105 million, respectively.

Among other financial assets, guarantee deposits for futures trading held by a consolidated subsidiary conducting banking business as of January 1, 2011, December 31, 2011 and December 31, 2012, were ¥8,402 million, ¥9,557 million and ¥8,837 million, respectively.

Among financial assets for securities business, short-term guarantee deposits as of January 1, 2011, December 31, 2011 and December 31, 2012, were ¥31,851 million, ¥27,385 million and ¥26,664 million, respectively.

Among assets pledged as collateral, there are no assets to which the transferee has the right to sell or repledge the collaterals.

(2) Assets Received as Collateral

The Group Companies receive securities pledged as collateral in lieu of guarantee deposits and collateral for other transactions, which are conducted under customary conditions. The Group Companies hold the right to sell or repledge the received assets, on condition of returning back securities of equal value at the time the relevant transactions are completed. The fair values of securities received by the Group Companies as collateral to which the Group Companies held the right to sell or repledge collateral as of January 1, 2011, December 31, 2011 and December 31, 2012 were ¥337,275 million, ¥306,346 million and ¥384,219 million, respectively. Among collateral, the fair value of collateral that were actually sold or pledged as of January 1, 2011, December 31, 2011 and December 31, 2012, were ¥120,830 million, ¥91,436 million and ¥105,968 million, respectively.

35. Hedge Accounting

(1) Fair Value Hedges

In order to offset the risk of fair value fluctuation of certain fixed rate bonds as a result of fluctuating interest rates, the Group Companies' subsidiaries have entered into fixed-for-floating interest rate swap contracts with financial institutions and applied fair value hedges. The fair values of the interest rate swaps, which constitute the hedging instruments, are stated in Note 12. Derivative Assets and Derivative Liabilities.

Gains or losses from remeasuring interest rate swaps, which constitute the hedging instruments measured at fair value were a loss of ¥281 million for the year ended December 31, 2011 and a loss of ¥210 million for the year ended December 31, 2012. Additionally, gains or losses associated with the hedged items stemming from the hedged risks were a gain of ¥281 million for the year ended December 31, 2011 and a gain of ¥210 million for the year ended December 31, 2012.

(2) Cash Flow Hedges

In order to offset the risk of fluctuations of future cash flows from floating rate borrowings, the Group Companies' subsidiaries have entered into fixed-for-floating interest rate swap contracts with financial institutions and applied cash flow hedges. The purpose of these hedges is to hedge the future fluctuations of cash flows from borrowings by effectively converting floating rate borrowings into fixed rate borrowings. As a result of these hedges, it will become possible to offset the fluctuations of cash flows from floating rate borrowings with the fluctuations of cash flows from the interest rate swaps. The hedging relationship within the Group Companies is expected to be terminated by the year

ended December 31, 2017.

The fair values of the interest rate swaps, which constitute the hedging instruments, are stated in Note 12. Derivative Assets and Derivative Liabilities.

Changes of the amounts recognized in other comprehensive income are stated below.

(Millions of yen)

	Year ended December 31, 2011	Year ended December 31, 2012
January 1	¥(771)	¥(374)
Changes for the period	68	(271)
Reclassification to net (loss) income	329	442
December 31	¥(374)	¥(203)

(Note) The amounts reclassified to net (loss) income are included in "Revenue" in the consolidated statement of income.

36. Contingent Liabilities and Commitments

(1) Commitment Line Lending Contracts and Guarantee Obligations

A certain entity of the consolidated subsidiaries is engaged in the lending business through cash advances and credit card loans, which are incidental to the credit cards.

Since these contracts expire without the actual loan being drawn, in addition to the Group Companies being able to increase or decrease the limits on the loan amounts at its discretion, the unused balance of these loans do not necessarily have material impact on the Group Companies' cash flows.

Certain consolidated subsidiaries are engaged in the credit guarantee business providing the general customers with guarantees on the liabilities associated with loans which the general customers have received from the business partners of the subsidiaries.

The balance of the unused lending commitment lines and the balance of guarantee obligations in the credit guarantee business stated above are as follows:

(Millions of yen)

	January 1, 2011	December 31, 2011	December 31, 2012
Commitment lines	¥1,613,494	¥1,474,923	¥1,666,455
Financial guarantee contracts	28,646	24,460	20,839
Total	¥1,642,140	¥1,499,383	¥1,687,294

(2) Commitment Line Borrowing Contracts

The Company and certain consolidated subsidiaries have entered in commitment line borrowing contracts with multiple financial institutions and the balance of the unused portions of such commitment lines are as follows.

(Millions of yen)

	January 1, 2011	December 31, 2011	December 31, 2012
Total commitment line borrowings	¥109,737	¥148,032	¥141,620
Amounts borrowed	39,979	13,695	21,583
Unused commitment line	69,758	134,337	120,037

(3) Commitments (Contracts)

As of January 1, 2011, December 31, 2011 and December 31, 2012, there were no significant capital expenditures (commitments) for which contracts had been entered into and unrecognized on the consolidated financial statements.

37. Share-based Payments

Employee expenses relating to stock options recognized by the Group Companies during the year ended December 31, 2011 and December 31, 2012 were ¥295 million and ¥651 million, respectively. The Group Companies have taken advantage of the exemption provided under IFRS 1 and have consequently accounted for the 2008 and 2009 stock options and 2012 stock option 1) to 5) granted by the Company, and 2012 stock option 1) to 6) granted by Kobo Inc. in accordance with IFRS 2.

The Company has granted equity-settled stock options to the executives and employees of the Company, its subsidiaries, and associates. Kobo Inc. has granted stock options with cash option to the executives and employees of Kobo Inc. and its subsidiaries. Conditions for vesting of the stock options require that those who received the allotment of stock options continue to be employed by the Company, its subsidiaries or associates from the grant date to the vesting date.

The Company has made the share splitting, one share into 100 shares at July 1, 2012. The number of stock options issued for each year had been adjusted for share splitting. The following is a summary of the Company's stock options.

Name	Grant date	Vesting date	Exercise price (Yen)	Balance of outstanding options (Note)	Exercise period
2002 stock option	April 30, 2002	March 28, 2006	¥110	—	From March 29, 2006 to March 27, 2012
2003 stock option 1)	July 14, 2003	March 27, 2007	193	308,000	From March 28, 2007 to March 26, 2013
2003 stock option 2)	August 29, 2003	March 27, 2007	275	43,000	From March 28, 2007 to March 26, 2013
2004 stock option	September 7, 2004	March 30, 2008	755	1,978,000	From March 31, 2008 to March 29, 2014
2005 stock option 1)	December 15, 2005	March 30, 2009	913	3,571,500	From March 31, 2009 to March 29, 2015
2005 stock option 2)	February 13, 2006	March 30, 2009	1,038	200,000	From March 31, 2009 to March 29, 2015
2006 stock option 1)	April 20, 2006	March 30, 2010	1,010	1,978,400	From March 31, 2010 to March 29, 2016
2006 stock option 2)	December 14, 2006	March 30, 2010	559	663,000	From March 31, 2010 to March 29, 2016
2008 stock option	January 19, 2009	March 27, 2012	563	2,370,200	From March 28, 2012 to March 26, 2018
2009 stock option	February 12, 2010	March 27, 2013	707	933,100	From March 28, 2013 to March 26, 2019
2012 stock option 1) A	April 20, 2012	April 19, 2014	0.01	364,500	From April 20, 2014 to April 20, 2022
2012 stock option 1) B	April 20, 2012	April 19, 2015	0.01	364,500	From April 20, 2015 to April 20, 2022
2012 stock option 1) C	April 20, 2012	April 19, 2016	0.01	365,800	From April 20, 2016 to April 20, 2022
2012 stock option 2)	July 1, 2012	March 29, 2016	0.01	333,800	From March 30, 2016 to March 28, 2022
2012 stock option 3)	August 1, 2012	March 29, 2016	0.01	106,800	From March 30, 2016 to March 28, 2022
2012 stock option 4)	August 20, 2012	March 29, 2016	0.01	500	From March 30, 2016 to March 28, 2022
2012 stock option 5) A	November 21, 2012	November 20, 2014	0.01	34,400	From November 21, 2014 to November 21, 2022
2012 stock option 5) B	November 21, 2012	November 20, 2015	0.01	34,400	From November 21, 2015 to November 21, 2022
2012 stock option 5) C	November 21, 2012	November 20, 2016	0.01	34,500	From November 21, 2016 to November 21, 2022

(Note) The balance of outstanding options has been converted into the number of shares.

The following is a summary of Kobo Inc.'s stock options.

Name	Grant date	Vesting date	Exercise price (Canadian dollar)	Balance of outstanding options (Note)	Exercise period
Kobo Inc. 2012 stock option 1) A	January 11, 2012	January 10, 2014	1.00	5,318,842	From January 11, 2014 to January 11, 2018
Kobo Inc. 2012 stock option 1) B	January 11, 2012	January 10, 2015	1.00	5,318,840	From January 11, 2015 to January 11, 2018
Kobo Inc. 2012 stock option 1) C	January 11, 2012	January 10, 2016	1.00	5,318,842	From January 11, 2016 to January 11, 2018
Kobo Inc. 2012 stock option 2) A	February 27, 2012	February 26, 2014	1.00	158,333	From February 27, 2014 to February 27, 2018
Kobo Inc. 2012 stock option 2) B	February 27, 2012	February 26, 2015	1.00	158,334	From February 27, 2015 to February 27, 2018
Kobo Inc. 2012 stock option 2) C	February 27, 2012	February 26, 2016	1.00	158,333	From February 27, 2016 to February 27, 2018
Kobo Inc. 2012 stock option 3) A	April 9, 2012	April 8, 2014	1.00	121,667	From April 9, 2014 to April 9, 2018
Kobo Inc. 2012 stock option 3) B	April 9, 2012	April 8, 2015	1.00	121,666	From April 9, 2015 to April 9, 2018
Kobo Inc. 2012 stock option 3) C	April 9, 2012	April 8, 2016	1.00	121,667	From April 9, 2016 to April 9, 2018
Kobo Inc. 2012 stock option 4) A	April 23, 2012	April 22, 2014	1.00	121,667	From April 23, 2014 to April 23, 2018
Kobo Inc. 2012 stock option 4) B	April 23, 2012	April 22, 2015	1.00	121,666	From April 23, 2015 to April 23, 2018
Kobo Inc. 2012 stock option 4) C	April 23, 2012	April 22, 2016	1.00	121,667	From April 23, 2016 to April 23, 2018
Kobo Inc. 2012 stock option 5) A	July 9, 2012	July 8, 2014	1.00	780,683	From July 9, 2014 to July 9, 2018
Kobo Inc. 2012 stock option 5) B	July 9, 2012	July 8, 2015	1.00	780,683	From July 9, 2015 to July 9, 2018
Kobo Inc. 2012 stock option 5) C	July 9, 2012	July 8, 2016	1.00	780,683	From July 9, 2016 to July 9, 2018
Kobo Inc. 2012 stock option 6) A	October 5, 2012	December 30, 2013	1.00	400,000	From December 31, 2013 to October 5, 2018
Kobo Inc. 2012 stock option 6) B	October 5, 2012	December 30, 2014	1.00	400,000	From December 31, 2014 to October 5, 2018

(Note) The balance of outstanding options has been converted into the number of shares.

The number of options and the weighted average exercise price related to stock options granted by the Company are as follows.

	Year ended December 31, 2011		Year ended December 31, 2012	
	Number of options (Note)	Weighted average exercise price (Yen)	Number of options (Note)	Weighted average exercise price (Yen)
Balance at beginning of the year	15,897,900	¥706	13,883,300	¥747
Granted during the year	—	—	1,670,800	0.01
Forfeited during the year	726,500	764	700,900	774
Exercised during the year	1,288,100	226	1,168,800	375
Expired during the year	—	—	—	—
Balance at end of the year	13,883,300	747	13,684,400	687
Exercisable amount at end of the year	10,075,000	802	11,112,100	786
Weighted average remaining contract years		4.07 years		3.89 years

(Note) The number of options has been converted into the number of shares.

The number of options and the weighted average exercise price related to stock options granted by Kobo Inc. are as follows.

	Year ended December 31, 2011		Year ended December 31, 2012	
	Number of options (Note)	Weighted average exercise price (Canadian dollar)	Number of options (Note)	Weighted average exercise price (Canadian dollar)
Balance at beginning of the year	—	—	—	—
Granted during the year	—	—	20,303,573	1.00
Forfeited during the year	—	—	—	—
Exercised during the year	—	—	—	—
Expired during the year	—	—	—	—
Balance at end of the year	—	—	20,303,573	1.00
Exercisable amount at end of the year	—	—	—	—
Weighted average remaining contract years		—		5.18 years

(Note) The number of options has been converted into the number of shares.

The weighted average stock prices of the Company as of the exercise date were ¥788 for the year

ended December 31, 2011 and ¥779 for the year ended December 31, 2012.

The expiration dates and the exercise prices of the outstanding options related to stock options granted by the Company are as follows.

	Exercise price (Yen)	Number of options (Note)		
		January 1, 2011	December 31, 2011	December 31, 2012
2011	¥112	321,200	—	—
2012	110	353,700	81,000	—
2013	193~275	1,323,000	864,000	351,000
2014	755	2,230,000	2,111,000	1,978,000
2015	913~1,039	4,159,000	3,986,000	3,771,500
2016	559~1,010	3,379,500	3,033,000	2,641,400
2018	563	2,994,000	2,780,400	2,370,200
2019	707	1,137,500	1,027,900	933,100
2022	0.01	—	—	1,639,200
Balance at end of the period	—	15,897,900	13,883,300	13,684,400

(Note) The number of options has been converted into the number of shares.

The expiration dates and the exercise prices of the outstanding options related to stock options granted by Kobo Inc. are as follows.

	Exercise price (Canadian dollar)	Number of options (Note)		
		January 1, 2011	December 31, 2011	December 31, 2012
2018	1.00	—	—	20,303,573
Balance at end of the period	—	—	—	20,303,573

(Note) The number of options has been converted into the number of shares.

The Company has granted equity-settled stock options to the executives and employees of the Company, its subsidiaries, and associates during the year ended December 31, 2012. Kobo Inc. has granted stock options with cash option to the executives and employees of Kobo Inc. and its subsidiaries during the year ended December 31, 2012. The fair value of the options granted has been calculated using the Black-Scholes model which is adjusted to take dividend into account. The fair value and assumptions used in the calculation are as follows.

Expected volatility of the Company has been calculated as an annual rate based on the historical period of stock price corresponding to the expected remaining period and weekly data (weekly closing price versus volatility of the previous week), assuming 52 weeks in a year.

Expected volatility of Kobo Inc. is based on the stock price volatility of a similar company as it is not listed.

	December 31, 2012		
	The Company 2012 stock option 1) A, B, C	The Company 2012 stock option 2)	The Company 2012 stock option 3)
Weighted average stock prices (Yen)	893	824	779
Exercise price (Yen)	0.01	0.01	0.01
Expected volatility (%)	25.8~33.5	29.6	26.8
Remaining terms of the options (Years)	2~4	3.75	3.66
Expected dividend (Yen)	2.5	2.5	2.5
Risk-free rate (%)	0.11~0.21	0.13	0.11
Fair value per option (Yen)	883~888	814	769

	December 31, 2012	
	The Company 2012 stock option 4)	The Company 2012 stock option 5) A, B, C
Weighted average stock prices (Yen)	779	652
Exercise price (Yen)	0.01	0.01
Expected volatility (%)	26.8	25.9~26.9
Remaining terms of the options (Years)	3.66	2~4
Expected dividend (Yen)	2.5	2.5
Risk-free rate (%)	0.11	0.09~0.13
Fair value per option (Yen)	769	641~646

	December 31, 2012		
	Kobo Inc.	Kobo Inc.	Kobo Inc.
	2012 stock option 1) A, B, C	2012 stock option 2) A, B, C	2012 stock option 3) A, B, C
Weighted average stock prices (Canadian dollar)	1.00	1.00	1.00
Exercise price (Canadian dollar)	1.00	1.00	1.00
Expected volatility (%)	56.8~57.5	57.1~57.5	56.9~57.1
Remaining terms of the options (Years)	4~5	4~5	4~5
Expected dividend (Canadian dollar)	—	—	—
Risk-free rate (%)	1.11~1.26	1.30~1.42	1.47~1.58
Fair value per option (Canadian dollar)	0.45~0.49	0.45~0.50	0.45~0.50

	December 31, 2012		
	Kobo Inc.	Kobo Inc.	Kobo Inc.
	2012 stock option 4) A, B, C	2012 stock option 5) A, B, C	2012 stock option 6) A, B
Weighted average stock prices (Canadian dollar)	1.00	1.00	1.00
Exercise price (Canadian dollar)	1.00	1.00	1.00
Expected volatility (%)	56.7~57.0	57.8~58.3	56.6
Remaining terms of the options (Years)	4~5	4~5	6
Expected dividend (Canadian dollar)	—	—	—
Risk-free rate (%)	1.54~1.62	1.09~1.17	1.45
Fair value per option (Canadian dollar)	0.45~0.50	0.45~0.50	0.99

38. Dividends

	Year ended December 31, 2011		Year ended December 31, 2012	
	Dividends per share (Yen)	Amount of dividends (Millions of yen)	Dividends per share (Yen)	Amount of dividends (Millions of yen)
Dividends paid for the current year				
Dividends by resolution at the Board of Directors in the previous year	¥200	¥2,624	¥250	¥3,284
Dividends paid during the current year	—	—	—	—
Total dividends paid for the current year	¥200	¥2,624	¥250	¥3,284

The Company continues to make stable dividend payment under the principle to return profits with the maximization of corporate value in mind, while maintaining a sound financial position and enhancing retained earnings to be prepared for proactive business development.

Furthermore, the Board of Directors of the Company determines the payment of dividends. The principle in dividends of the Company is to distribute dividends once a year as year-end dividends, and as for the dividends due to matters stipulated in each item of Article 459, Paragraph 1 of the Corporate Law, the Company will determine flexibly with the business environment, etc. in consideration.

The Company has made the share splitting, one common stock into 100 shares on July 1, 2012.

(Note) Cash dividends paid with the record date during the current year are as follows.

Date of resolution	Total dividends (Millions of yen)	Dividends per share (Yen)
Resolution at the Board of Directors on February 14, 2013	¥3,944	¥3

39. Classification of Financial Instruments

The Group Companies' financial instruments are classified in the following manner.

As of January 1, 2011

(Financial Assets)

(Millions of yen)

	Financial assets measured at fair value		Financial assets measured at amortized cost	Total
	Financial assets measured at FVTPL	Financial assets measured at FVTOCI		
Cash and cash equivalents	¥—	¥—	¥105,896	¥105,896
Accounts receivable — trade	—	—	44,603	44,603
Financial assets for securities business	64	—	483,009	483,073
Loans for credit card business	—	—	348,791	348,791
Investment securities for banking business	194,216	90	290,224	484,530
Loans for banking business	—	—	124,885	124,885
Derivative assets	10,143	—	—	10,143
Investment securities	48,925	10,826	3	59,754
Other financial assets	9	3	142,544	142,556
Total	¥253,357	¥10,919	¥1,539,955	¥1,804,231

(Financial Liabilities)

(Millions of yen)

	Financial liabilities measured at fair value		Financial liabilities measured at amortized cost	Total
	Financial liabilities subject to mandatory measurement at fair value	Financial liabilities designated as being measured at FVTPL		
Accounts payable — trade	¥—	¥—	¥36,836	¥36,836
Deposits for banking business	—	61,765	653,091	714,856
Financial liabilities for securities business	—	—	427,440	427,440
Derivative liabilities	2,429	—	—	2,429
Bonds and borrowings	—	—	377,661	377,661
Other financial liabilities	—	—	152,130	152,130
Total	¥2,429	¥61,765	¥1,647,158	¥1,711,352

As of December 31, 2011
(Financial Assets)

(Millions of yen)

	Financial assets measured at fair value		Financial assets measured at amortized cost	Total
	Financial assets measured at FVTPL	Financial assets measured at FVTOCI		
Cash and cash equivalents	¥—	¥—	¥152,801	¥152,801
Accounts receivable — trade	—	—	48,958	48,958
Financial assets for securities business	128	—	415,472	415,600
Loans for credit card business	—	—	306,131	306,131
Investment securities for banking business	154,286	72	269,596	423,954
Loans for banking business	—	—	154,555	154,555
Derivative assets	9,829	—	—	9,829
Investment securities	50	9,306	1,607	10,963
Other financial assets	0	3	172,761	172,764
Total	¥164,293	¥9,381	¥1,521,881	¥1,695,555

(Financial Liabilities)

(Millions of yen)

	Financial liabilities measured at fair value		Financial liabilities measured at amortized cost	Total
	Financial liabilities subject to mandatory measurement at fair value	Financial liabilities designated as being measured at FVTPL		
Accounts payable — trade	¥—	¥—	¥59,365	¥59,365
Deposits for banking business	—	66,434	676,159	742,593
Financial liabilities for securities business	—	—	364,490	364,490
Derivative liabilities	2,861	—	—	2,861
Bonds and borrowings	—	—	347,983	347,983
Other financial liabilities	—	—	176,413	176,413
Total	¥2,861	¥66,434	¥1,624,410	¥1,693,705

As of December 31, 2012
(Financial Assets)

(Millions of yen)

	Financial assets measured at fair value		Financial assets measured at amortized cost	Total
	Financial assets measured at FVTPL	Financial assets measured at FVTOCI		
Cash and cash equivalents	¥—	¥—	¥270,114	¥270,114
Accounts receivable — trade	—	—	65,493	65,493
Financial assets for securities business	441	—	615,262	615,703
Loans for credit card business	—	—	402,418	402,418
Investment securities for banking business	45,142	0	251,184	296,326
Loans for banking business	—	—	189,669	189,669
Investment securities for insurance business	—	—	13,623	13,623
Derivative assets	10,674	—	—	10,674
Investment securities	50	15,722	7,639	23,411
Other financial assets	0	3	123,129	123,132
Total	¥56,307	¥15,725	¥1,938,531	¥2,010,563

(Financial Liabilities)

(Millions of yen)

	Financial liabilities measured at fair value		Financial liabilities measured at amortized cost	Total
	Financial liabilities subject to mandatory measurement at fair value	Financial liabilities designated as being measured at FVTPL		
Accounts payable — trade	¥—	¥—	¥79,965	¥79,965
Deposits for banking business	—	80,081	729,450	809,531
Financial liabilities for securities business	—	—	558,055	558,055
Derivative liabilities	4,685	—	—	4,685
Bonds and borrowings	—	—	305,186	305,186
Other financial liabilities	—	—	210,048	210,048
Total	¥4,685	¥80,081	¥1,882,704	¥1,967,470

(1) Investments in Equity Instruments Designated as being Measured at FVTOCI

Since shares held by the Group Companies are held in the long-term for the purpose of investments for strengthening business relationships or in anticipation of synergistic effects in business rather than only for trading purposes, such shares are designated as financial assets measured at FVTOCI.

Equity instruments designated as measured at FVTOCI as of January 1, 2011 and December 31, 2011 mainly comprise shares of Synergy Marketing, Inc., and its fair value was ¥3,709 million and ¥1,218 million, respectively. Equity instruments designated as measured at FVTOCI as of December 31, 2012 mainly comprise shares of Pinterest, Inc., and its fair value was ¥7,191 million.

As of December 31, 2011, shares of investment targets from which synergistic effects in business could no longer be anticipated were sold. The fair value of such investments at the time of sales was ¥190 million and the gain on sales was ¥5 million. Similarly, as of December 31, 2012, shares of investment targets from which synergistic effects in business could no longer be anticipated were sold. The fair value of such investments at the time of sales was ¥1,147 million and the gain on sales was ¥157 million.

Additionally, during the year ended December 31, 2011, dividend income recognized from shares designated as financial assets measured at FVTOCI was ¥140 million, and the amount associated with shares held as of December 31, 2011 was ¥129 million. Furthermore, during the year ended December 31, 2012, dividend income recognized from shares designated as financial assets measured at FVTOCI was ¥98 million, and the amount associated with shares held as of December 31, 2012 was ¥85 million.

During the year ended December 31, 2011, the Group Companies reclassified ¥4 million in cumulative gains in equity, associated with shares designated as financial assets measured at FVTOCI, to retained earnings due to sales of shares, etc. Furthermore, during the year ended December 31, 2012, the Group Companies reclassified ¥106 million in cumulative gains in equity, associated with shares designated as financial assets measured at FVTOCI, to retained earnings due to sales of shares, etc.

(2) Financial Liabilities Designated as being Measured at FVTPL

The Group Companies classify certain time deposits with special clauses included in “Deposits for banking business” as financial liabilities measured at FVTPL.

Fair value of such deposits of the Group Companies is measured at the present value calculated by discounting each portion of future cash flows as sorted into certain periods, for the corresponding remaining maturity, using the interest rate with credit risk taken into consideration.

(Millions of yen)

	January 1, 2011			December 31, 2011			December 31, 2012		
	Carrying amount (Fair value)	Contractual obligations at maturity	Difference	Carrying amount (Fair value)	Contractual obligations at maturity	Difference	Carrying amount (Fair value)	Contractual obligations at maturity	Difference
Deposits for banking business	¥61,765	¥60,181	¥1,584	¥66,434	¥65,343	¥1,091	¥80,081	¥78,630	¥1,451
Total	¥61,765	¥60,181	¥1,584	¥66,434	¥65,343	¥1,091	¥80,081	¥78,630	¥1,451

The amount of payment demanded at maturity has been calculated assuming that the liabilities will be repaid on the earliest maturity date on which the Group Companies will be demanded for repayment.

40. Gains and Losses Generated from Financial Instruments

The analysis of the gains and losses generated from financial instruments held by the Group Companies is as follows.

For the year ended December 31, 2011

(1) Breakdown of Net Gains and Losses Generated from Financial Assets by Type of Financial Instruments

(Millions of yen)

	Financial assets measured at fair value		Financial assets measured at amortized cost	Total
	Financial assets measured at FVTPL	Financial assets measured at FVTOCI		
Revenue	¥5,288	¥110	¥441	¥5,839
Operating expenses	—	—	13,675	13,675
Other expenses	—	—	2,903	2,903
Financial income	113	31	—	144
Other comprehensive income	711	(3,008)	—	(2,297)

Net gains generated from financial assets measured at fair value include interest income, dividend income and commission received relating to such assets.

In addition to the above, allowance for doubtful accounts charged to expenses of ¥11,870 million is recorded under additional line items. For detail, please refer to Note 47. Sale of Subsidiary through Business Restructuring.

(2) Breakdown of Net Gains and Losses Generated from Financial Liabilities by Type of Financial Instruments

(Millions of yen)

	Financial liabilities measured at fair value		Financial liabilities measured at amortized cost	Total
	Financial liabilities subject to mandatory measurement at fair value	Financial liabilities designated as being measured at fair value		
Revenue	¥—	¥493	¥—	¥493
Operating expenses	—	682	—	682

Net gains generated from financial liabilities measured at fair value include interest expenses and commission fees expense associated with such liabilities.

(3) Total Interest Income and Interest Expenses (Calculated Using the Effective Interest Method) Associated With Financial Assets Measured at Amortized Cost or Financial Liabilities Measured at Amortized Cost

	(Millions of yen)	
	Total interest income associated with financial assets measured at amortized cost	Total interest expenses associated with financial liabilities measured at amortized cost
Revenue	¥49,254	¥—
Operating expenses	—	6,762
Financial income	133	—
Financial expenses	—	2,348
Total	¥49,387	¥9,110

(4) Commission Revenue and Commission Fees Expense Generated from Financial Assets Measured at Amortized Cost, Financial Liabilities Measured at Amortized Cost, and Trust and Other Trustee Operations

	(Millions of yen)				
	Commission revenue generated from financial assets measured at amortized cost	Commission fees expenses generated from financial assets measured at amortized cost	Commission fees expenses generated from financial liabilities measured at amortized cost	Commission revenue generated from trust and other trustee operations	Commission fees expenses generated from trust and other trustee operations
Financial expenses	¥—	¥—	¥221	¥—	¥—

(5) Impairment Loss by Type of Financial Assets

	(Millions of yen)
	Impairment loss
Accounts receivable — trade	¥873
Financial assets for securities business	2,206
Loans for credit card business	24,312
Investment securities for banking business	651
Loans for banking business	330
Other financial assets	76
Total	¥28,448

(6) Analysis of Gains and Losses Arising from Derecognition of Financial Assets Measured at Amortized Cost and Reason for Derecognition

(Millions of yen)

	Gains arising from derecognition of financial assets measured at amortized cost	Losses arising from derecognition of financial assets measured at amortized cost
Investment securities for banking business	¥161	¥—

Reason for Derecognition

The Rakuten Bank, Ltd. has derecognized investment securities for banking business due to the repurchase by the issuer and the sales in order to reduce interest rate risks.

For the year ended December 31, 2012

(1) Breakdown of Net Gains and Losses Generated from Financial Assets by Type of Financial Instruments

(Millions of yen)

	Financial assets measured at fair value		Financial assets measured at amortized cost	Total
	Financial assets measured at FVTPL	Financial assets measured at FVTOCI		
Revenue	¥4,591	¥67	¥210	¥4,868
Operating expenses	—	—	10,243	10,243
Other income	—	—	—	—
Financial income	—	31	—	31
Other comprehensive income	266	(72)	—	194

Net gains generated from financial assets measured at fair value include interest income, dividend income and commission received relating to such assets.

(2) Breakdown of Net Gains and Losses Generated from Financial Liabilities by Type of Financial Instruments

(Millions of yen)

	Financial liabilities measured at fair value		Financial liabilities measured at amortized cost	Total
	Financial liabilities subject to mandatory measurement at fair value	Financial liabilities designated as being measured at fair value		
Revenue	¥—	¥(359)	¥—	¥(359)
Operating expenses	—	652	—	652

(3) Total Interest Income and Interest Expenses (Calculated Using the Effective Interest Method) Associated With Financial Assets Measured at Amortized Cost or Financial Liabilities Measured at Amortized Cost

	(Millions of yen)	
	Total interest income associated with financial assets measured at amortized cost	Total interest expenses associated with financial liabilities measured at amortized cost
Revenue	¥48,960	¥—
Operating expenses	—	4,536
Financial income	162	—
Financial expenses	—	2,220
Total	¥49,122	¥6,756

(4) Commission Revenue and Commission Fees Expense Generated from Financial Assets Measured at Amortized Cost, Financial Liabilities Measured at Amortized Cost, and Trust and Other Trustee Operations

	(Millions of yen)				
	Commission revenue generated from financial assets measured at amortized cost	Commission fees expense generated from financial assets measured at amortized cost	Commission fees expense generated from financial liabilities measured at amortized cost	Commission revenue generated from trust and other trustee operations	Commission fees expense generated from trust and other trustee operations
Financial expenses	¥—	¥—	¥344	¥—	¥—

(5) Impairment Loss (or Reversal of Impairment Loss) by Type of Financial Assets

	(Millions of yen)
	Impairment loss (or reversal of impairment loss)
Accounts receivable — trade	¥963
Financial assets for securities business	(36)
Loans for credit card business	9,446
Investment securities for banking business	(179)
Loans for banking business	(14)
Other financial assets	56
Total	¥10,236

(6) Analysis of Gains and Losses Arising from Derecognition of Financial Assets Measured at Amortized Cost and Reason for Derecognition

(Millions of yen)

	Gains arising from derecognition of financial assets measured at amortized cost	Losses arising from derecognition of financial assets measured at amortized cost
Investment securities for banking business	¥—	¥220

Reason for Derecognition

The Rakuten Bank, Ltd. has derecognized investment securities for banking business due to the sales for the reason of downgrading of the issuer.

41. Fair Value of Financial Instruments

(1) Fair Value and Carrying Amount of Financial Instruments

The following table indicates the comparison between carrying amounts and fair values of the financial instruments held by the Group Companies.

(Millions of yen)

	January 1, 2011		December 31, 2011		December 31, 2012	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
(Financial assets)						
Cash and cash equivalents	¥105,896	¥105,896	¥152,801	¥152,801	¥270,114	¥270,114
Accounts receivable — trade	44,603	44,603	48,958	48,958	65,493	65,493
Financial assets for securities business	483,073	483,073	415,600	415,600	615,703	615,703
Loans for credit card business	348,791	360,375	306,131	320,687	402,418	412,615
Investment securities for banking business	484,530	486,345	423,954	423,500	296,326	296,829
Loans for banking business	124,885	126,325	154,555	156,156	189,669	190,663
Investment securities for insurance business	—	—	—	—	13,623	13,778
Derivative assets	10,143	10,143	9,829	9,829	10,674	10,674
Investment securities	59,754	59,754	10,963	10,962	23,411	23,425
Total	¥1,661,675	¥1,676,514	¥1,522,791	¥1,538,493	¥1,887,431	¥1,899,294
(Financial liabilities)						
Accounts payable — trade	¥36,836	¥36,836	¥59,365	¥59,365	¥79,965	¥79,965
Deposits for banking business	714,856	716,065	742,593	746,870	809,531	808,576
Financial liabilities for securities business	427,440	427,440	364,490	364,490	558,055	558,055
Derivative liabilities	2,429	2,429	2,861	2,861	4,685	4,685
Bonds and borrowings	377,661	377,312	347,983	348,128	305,186	305,188
Total	¥1,559,222	¥1,560,082	¥1,517,292	¥1,521,714	¥1,757,422	¥1,756,469

Measurement of Fair Values

- Cash and cash equivalents, and accounts receivable — trade
As these financial instruments are subject to short-term settlement, their fair values approximate their carrying amounts.
- Financial assets for securities business
As financial assets for securities business are subject to short-term settlement, their fair values approximate their carrying amounts.
- Loans for credit card business, loans for banking business
Fair value of loans for credit card business and loans for banking business is measured at the present value calculated by discounting each portion of receivables as sorted into certain periods, for the corresponding remaining maturity using the interest rate with credit risk taken into consideration.
- Investment securities, investment securities for banking business, investment securities for insurance business
Of these investment securities, fair value of listed shares is measured at closing price of the market at the end of year, while fair value of unlisted shares is measured by using appropriate valuation technique such as a method of comparison with similar sectors. Fair value of bonds is measured by reasonable valuation methods based on available information, including reference trading statistics and brokers' quotes.
- Derivative assets and liabilities
Among derivative assets and liabilities, forward exchange contracts are measured at fair value at the end of year based on the forward exchange rates. Fair value of interest rate swap is measured at the present value calculated by discounting future cash flows for the remaining maturity using the rate of interest rate swap at the end of year. Since counterparties of interest rate swap contracts are limited to financial institutions with superior credit rating, credit risk is not added in the calculation of fair value as it is minimal.
- Accounts payable — trade
As accounts payable — trade is subject to short-term settlement, its fair value approximates its carrying amount.
- Deposits for banking business
For demand deposits of the deposits for banking business, amount payable on request at the consolidation closing date (carrying amount) is measured as fair value. Fair value of time deposits is measured at the present value calculated by discounting each portion of future cash flows as sorted into certain periods, for the corresponding remaining maturity, using the interest rate with credit risk taken into consideration. For time deposits with short remaining maturity (one year or less), carrying amount is deemed as fair value as such fair value approximates its carrying amount.
- Financial liabilities for securities business
As financial liabilities for securities business are subject to short-term settlement, their fair values approximate their carrying amounts.
- Bonds and borrowings
Among bonds and borrowings, fair value of those with longer remaining maturity is measured at the present value calculated by discounting each portion of payables as sorted into certain periods, for the corresponding remaining maturity, using the interest rate with credit risk taken into consideration.

(2) Fair Value Hierarchy Classified by Level

Among financial instruments, those measured at fair value after initial recognitions are analyzed. Below is fair value classified into the three levels from Level 1 to Level 3 based on the fair value hierarchy.

[Definition of Each Level of Hierarchy]

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Fair value calculated by using the inputs that are directly or indirectly observable for the assets or liabilities, other than quoted prices included within Level 1

Level 3: Fair value calculated by using the valuation technique including the inputs that are unobservable

As of January 1, 2011

	(Millions of yen)			
	Level 1	Level 2	Level 3	Total
Financial assets for securities business	¥—	¥64	¥—	¥64
Investment securities for banking business	—	144,434	49,872	194,306
Investment securities	56,483	—	3,268	59,751
Deposits for banking business	—	61,765	—	61,765
Derivative assets/liabilities	—	7,710	4	7,714

As of December 31, 2011

	(Millions of yen)			
	Level 1	Level 2	Level 3	Total
Financial assets for securities business	¥—	¥128	¥—	¥128
Investment securities for banking business	—	114,888	39,470	154,358
Investment securities	4,454	1,785	3,117	9,356
Deposits for banking business	—	66,434	—	66,434
Derivative assets/liabilities	—	6,976	(8)	6,968

There was no transfer between Level 1 and Level 2 during the year ended December 31, 2011.

As of December 31, 2012

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets for securities business	¥—	¥441	¥—	¥441
Investment securities for banking business	—	6,283	38,859	45,142
Investment securities	3,687	1,736	10,349	15,772
Deposits for banking business	—	80,081	—	80,081
Derivative assets/liabilities	—	6,007	(18)	5,989

There was no transfer between Level 1 and Level 2 during the year ended December 31, 2012.

(3) Reconciliation of Level 3 of the Hierarchy

The following reconciliation table indicates changes in the balances, from the beginning to the end of each year, of the financial instruments classified as Level 3, with one or more significant inputs not supported by observable market data.

For the year ended December 31, 2011

(Millions of yen)

	Investment securities for banking business	Investment securities	Derivative assets/liabilities	Total
January 1, 2011	¥49,872	¥3,268	¥4	¥53,144
Gains or losses				
Net profit and loss	(2,166)	0	(12)	(2,178)
Other comprehensive income	(14)	(360)	—	(374)
Acquisition	—	1,302	—	1,302
Disposal	(3,079)	(0)	—	(3,079)
Issuance	—	—	—	—
Settlement	—	—	—	—
Redemption	(5,411)	—	—	(5,411)
Others	268	(27)	—	241
Transfer to Level 3	—	—	—	—
Transfer from Level 3 (Note)	—	(1,066)	—	(1,066)
December 31, 2011	¥39,470	¥3,117	¥(8)	¥42,579
Total net profit and loss on financial instruments held at the end of previous year	¥(2,148)	¥0	¥(12)	¥(2,160)

(Note) These are the transfers due to significant inputs used for fair value measurement becoming observable.

Gains or losses included in net profit and loss during the year ended December 31, 2011 are

included in “Revenue.”

For the year ended December 31, 2012

(Millions of yen)

	Investment securities for banking business	Investment securities	Derivative assets/liabilities	Total
January 1, 2012	¥39,470	¥3,117	¥(8)	¥42,579
Gains or losses				
Net profit and loss	1,483	0	(10)	1,473
Other comprehensive income	(31)	(422)	—	(453)
Acquisition	4,000	8,038	—	12,038
Disposal	(3,244)	(143)	—	(3,387)
Issuance	—	—	—	—
Settlement	—	—	—	—
Redemption	(3,461)	(0)	—	(3,461)
Others	642	(73)	—	569
Transfer to Level 3	—	—	—	—
Transfer from Level 3 (Note)	—	(168)	—	(168)
December 31, 2012	¥38,859	¥10,349	¥(18)	¥49,190
Total net profit or loss on financial instruments held at the end of current year	¥1,304	¥0	¥(10)	¥1,294

(Note) These are the transfers due to significant inputs used for fair value measurement becoming observable.

Gains or losses included in net profit and loss during the year ended December 31, 2012 are included in “Revenue.”

For investment securities for banking business classified as Level 3, changes in fair value are not deemed significant in case each input is changed to reasonably possible alternative assumptions. Additionally, for other financial assets classified as Level 3, significant change in fair value is not anticipated in case each input is changed to reasonably possible alternative assumptions.

42. Financial Risk Management

The Group Companies' investment activities are based on the security confirmation of principal and efficient use of fund, fully taking into account the various risks including credit risk, market risks and liquidity risk. In addition, in view of factors such as economic environment at that time, the Group Companies' fund-raising activities are based on the choice of the best conceivable alternatives among direct as well as indirect financing methods.

The Group Companies' subsidiaries engage in banking business with primary focus on deposit-taking, foreign exchange business, and lending to individual customers, and they offer ordinary deposits to individual as well as corporate customers, time deposits and foreign currency deposits to individual customers. In addition, using such financial liabilities as major resources, the subsidiaries provides unsecured card loans and residential mortgage to individual customers, as well as acquiring investment securities and monetary claims, establishing monetary trusts, engaging in market transactions such as call loans, along with derivative transactions and foreign exchange transactions associated with the sales of financial instruments to customers. The subsidiaries are always aware of the significance of a bank's social responsibility and public mission, thus strictly restraining it from committing to the investment deals beyond its management capacity in the undue pursuit of profit, with particular attention to investing the deposits trusted by customers with full consideration to their safety. Furthermore, to ensure optimum asset and liability structure along with appropriate capital adequacy over the entire financial operations from funding to investment, the subsidiaries engage in Asset and Liability Management (ALM) focused on interest sensitivity, funding liquidity and market liquidity.

The Group Companies' subsidiaries engaged in securities business primarily focus on stock brokerage for individual investors, segregate the deposits and guarantee deposits received from customers in trusts for the separate management of money and securities, under the Financial Instruments and Exchange Act, and invest in accordance with laws and regulations. The usage of funds places importance on the safety of investment, such as bank deposits and financial assets with high liquidity, while fund-raising is conducted mainly by borrowing from financial institutions.

The Group Companies' subsidiaries engaged in credit card business (including comprehensive credit purchase intermediation business, individual credit purchase intermediation business, credit guarantee business and loan business) restrict their investment of funds to short-term deposits, while funding through borrowings from banks and other financial institutions, and directly financing by issuance of commercial paper and securitization of receivables.

The Group Companies' subsidiaries engaged in insurance business consider ensuring safety and profitability as their priority mission in asset management, in order to honor their commitment to the reliable payment of insurance claims and benefits over the years to come. Their principle in asset management is to invest mainly in domestic public and corporate bonds seeking to disperse risks, focusing primarily on government bonds and industrial bonds with superior credit rating aiming at constant investment yield over the medium- to long-term, in an effort to develop a safety-first liquidity-oriented investment portfolio. Under the corporate policy, derivative transactions are handled with caution, never to be treated as speculative instruments.

These financial assets are well diversified both in the investees' types of business and their geographical locations, avoiding particular concentration of credit risk.

(1) Credit Risk

1) Outline of Credit Risk Associated with Financial Instruments

Financial assets held by the Group Companies are mainly accounts receivable — installment, operating loans, investment securities, banking business-related assets held by the subsidiaries engaged in banking business, and securities business-related assets held by the subsidiaries engaged in securities business.

Accounts receivable — installment and operating loans include credit card receivables, loan receivables, consumer loans and secured loans held by the subsidiaries engaged in credit card business, all of which are presented as “Loans for credit card business.” These are exposed to credit risk associated with respective debtors.

“Investment securities” include debt instruments which are exposed to credit risk.

Banking business-related assets include “Investment securities for banking business” and “Loans for banking business.” “Investment securities for banking business” mainly include securities in shares, domestic bonds and foreign bonds, as well as trust beneficiary rights. Such securities are exposed to credit risk subject to the financial position of issuers, while trust beneficiary rights are exposed to credit risk of the issuers as well as underlying assets. “Loans for banking business” include unsecured card loans and residential mortgage from individual customers that are exposed to credit risk of individual customers.

“Investment securities for insurance business” mainly include government bonds, municipal bonds and bonds, and are exposed to credit risk subject to the financial position of issuers.

Securities business-related assets include cash segregated as deposits for securities business and margin transactions assets, which are presented as “Financial assets for securities business.” Cash segregated as deposits for securities business are primarily trusts for the separate management of money and securities, which are invested in bank deposits, thus exposed to the credit risk of the deposit-taking financial institutions. Margin transactions assets are exposed to customers’ credit risk.

2) Management System of Credit Risks Associated with Financial Instruments

Specific methods and systems to manage various risks within the Group Companies are set out under various risk management regulations established at each Group Company.

Credit risks are managed under the above regulations, through establishing credit limits by individual case, understanding the credit status of individual customers, and controlling due dates and loan balances on a regular basis, while efforts are made on early understanding and mitigation of the risk of default resulting from deterioration of borrowers’ financial conditions and other factors. Meanwhile, derivative transactions are managed based on “the Detailed Regulations for Group Derivative Transactions”. Derivative transactions are exposed to the risk of financial loss resulting from counterparty’s contractual default, though credit risk is deemed to be minimal, because counterparties are mainly financial institutions with superior credit rating.

3) Exposure to Credit Risks

The Group Companies’ maximum exposure to credit risk is as follows.

The maximum credit risk exposure (gross) represents the maximum exposure to credit risk without taking into account the collateral held by the Group Companies and any other credit enhancement. The maximum credit risk exposure (net) represents the maximum credit risk exposure, after reflecting the amount of credit risk mitigation through the collateral held by the Group Companies and any other credit enhancement.

The maximum exposure to credit risk (gross) associated with financial assets stated as on-balance sheet items in the table below, are the same as their carrying amounts. The maximum

exposure to credit risk associated with the provision of financial guarantee stated as off-balance sheet items in the table below, are the maximum amount payable in the event that exercise of the guarantee is requested. Meanwhile, the maximum exposure to credit risk associated with commitment line agreements is the unused portion of such commitment lines.

As of January 1, 2011

(Millions of yen)

	Classification by creditworthiness			Total	Allowance for doubtful accounts	Maximum credit risk exposure (gross)	Total amount of collateral and credit enhancement	Maximum credit risk exposure (net)
	Financial assets neither past due nor impaired	Financial assets past due but not impaired	Financial assets impaired					
On-balance sheet items:								
Cash and cash equivalents	¥105,896	¥—	¥—	¥105,896	¥—	¥105,896	¥—	¥105,896
Accounts receivable — trade	40,487	3,347	2,013	45,847	(1,244)	44,603	—	44,603
Financial assets for securities business	482,989	46	766	483,801	(728)	483,073	125,247	357,826
Loans for credit card business	318,245	17,379	34,247	369,871	(21,080)	348,791	—	348,791
Investment securities for banking business	482,713	—	3,724	486,437	(1,907)	484,530	—	484,530
Loans for banking business	125,415	132	770	126,317	(1,432)	124,885	—	124,885
Investment securities	3	—	—	3	—	3	—	3
Derivative assets	10,143	—	—	10,143	—	10,143	—	10,143
Other financial assets	142,465	55	205	142,725	(169)	142,556	0	142,556
Total on-balance sheet items	¥1,708,356	¥20,959	¥41,725	¥1,771,040	¥(26,560)	¥1,744,480	¥125,247	¥1,619,233
Off-balance sheet items:								
Commitment lines	¥—	¥—	¥—	¥—	¥—	¥1,613,494	¥—	¥1,613,494
Financial guarantee agreements	—	—	—	—	—	28,646	—	28,646
Total off-balance sheet items	¥—	¥—	¥—	¥—	¥—	¥1,642,140	¥—	¥1,642,140
Total	¥1,708,356	¥20,959	¥41,725	¥1,771,040	¥(26,560)	¥3,386,620	¥125,247	¥3,261,373

As of December 31, 2011

(Millions of yen)

	Classification by creditworthiness			Total	Allowance for doubtful accounts	Maximum credit risk exposure (gross)	Total amount of collateral and credit enhancement	Maximum credit risk exposure (net)
	Financial assets neither past due nor impaired	Financial assets past due but not impaired	Financial assets impaired					
On-balance sheet items:								
Cash and cash equivalents	¥152,801	¥—	¥—	¥152,801	¥—	¥152,801	¥—	¥152,801
Accounts receivable — trade	47,031	1,055	2,406	50,492	(1,534)	48,958	—	48,958
Financial assets for securities business	415,391	71	2,089	417,551	(1,951)	415,600	102,773	312,827
Loans for credit card business	296,208	10,924	22,687	329,819	(23,688)	306,131	—	306,131
Investment securities for banking business	424,380	—	—	424,380	(426)	423,954	—	423,954
Loans for banking business	155,270	268	770	156,308	(1,753)	154,555	—	154,555
Investment securities	1,607	—	—	1,607	—	1,607	—	1,607
Derivative assets	9,829	—	—	9,829	—	9,829	—	9,829
Other financial assets	172,687	117	202	173,006	(242)	172,764	—	172,764
Total on-balance sheet items	¥1,675,204	¥12,435	¥28,154	¥1,715,793	¥(29,594)	¥1,686,199	¥102,773	¥1,583,426
Off-balance sheet items:								
Commitment lines	¥—	¥—	¥—	¥—	¥—	¥1,474,923	¥—	¥1,474,923
Financial guarantee agreements	—	—	—	—	—	24,460	—	24,460
Total off-balance sheet items	¥—	¥—	¥—	¥—	¥—	¥1,499,383	¥—	¥1,499,383
Total	¥1,675,204	¥12,435	¥28,154	¥1,715,793	¥(29,594)	¥3,185,582	¥102,773	¥3,082,809

As of December 31, 2012

(Millions of yen)

	Classification by creditworthiness			Total	Allowance for doubtful accounts	Maximum credit risk exposure (gross)	Total amount of collateral and credit enhancement	Maximum credit risk exposure (net)
	Financial assets neither past due nor impaired	Financial assets past due but not impaired	Financial assets impaired					
On-balance sheet items:								
Cash and cash equivalents	¥270,114	¥—	¥—	¥270,114	¥—	¥270,114	¥—	¥270,114
Accounts receivable — trade	63,947	1,140	2,428	67,515	(2,022)	65,493	—	65,493
Financial assets for securities business	615,525	59	1,789	617,373	(1,670)	615,703	130,165	485,538
Loans for credit card business	391,853	10,206	20,896	422,955	(20,537)	402,418	—	402,418
Investment securities for banking business	296,573	—	—	296,573	(247)	296,326	—	296,326
Loans for banking business	190,163	158	—	190,321	(652)	189,669	—	189,669
Investment securities	7,639	—	—	7,639	—	7,639	—	7,639
Investment securities for insurance business	13,623	—	—	13,623	—	13,623	—	13,623
Derivative assets	10,674	—	—	10,674	—	10,674	—	10,674
Other financial assets	123,114	31	285	123,430	(298)	123,132	—	123,132
Total on-balance sheet items	¥1,983,225	¥11,594	¥25,398	¥2,020,217	¥(25,426)	¥1,994,791	¥130,165	¥1,864,626
Off-balance sheet items:								
Commitment lines	¥—	¥—	¥—	¥—	¥—	¥1,666,455	¥—	¥1,666,455
Financial guarantee agreements	—	—	—	—	—	20,839	—	20,839
Total off-balance sheet items	¥—	¥—	¥—	¥—	¥—	¥1,687,294	¥—	¥1,687,294
Total	¥1,983,225	¥11,594	¥25,398	¥2,020,217	¥(25,426)	¥3,682,085	¥130,165	¥3,551,920

In respect of the credit characteristics of loans for banking business and investment securities for banking business, borrowers are classified to determine repayment capability based on their financial conditions, cash flow and earnings capacity, while debts are classified according to the probability of recovery from each borrower as well as the level of associated value impairment risk.

In respect of the credit characteristics of loans for credit card business, debts are classified in consideration of the delinquency status and repayment capability of each debtor.

4) Aging Analysis of Past due but not Impaired Financial Assets

Aging analysis of past due but not impaired financial assets is as follows.

In this aging analysis, amounts of financial assets, for which the payment has been overdue or the payment has not been made since the contractual due dates, are stated by length of overdue period from due dates to the end of the year.

As of January 1, 2011

	(Millions of yen)		
	Six months or less	Over six months to one year	Over one year
Accounts receivable — trade	¥3,299	¥26	¥22
Financial assets for securities business	16	8	22
Loans for credit card business (Note)	12,524	4,852	3
Loans for banking business	132	—	—
Other financial assets	55	0	0
Total	¥16,026	¥4,886	¥47

(Note) Among the loans for credit card business, those past due for three months or less is ¥8,396 million, while those past due for over three months to six months is ¥4,128 million.

As of December 31, 2011

	(Millions of yen)		
	Six months or less	Over six months to one year	Over one year
Accounts receivable — trade	¥954	¥53	¥48
Financial assets for securities business	23	25	23
Loans for credit card business (Note)	7,379	3,545	—
Loans for banking business	268	—	—
Other financial assets	109	0	8
Total	¥8,733	¥3,623	¥79

(Note) Among the loans for credit card business, those past due for three months or less is ¥5,328 million, while those past due for over three months to six months is ¥2,051 million.

As of December 31, 2012

	(Millions of yen)		
	Six months or less	Over six months to one year	Over one year
Accounts receivable — trade	¥1,053	¥61	¥26
Financial assets for securities business	20	8	31
Loans for credit card business (Note)	7,014	3,192	—
Loans for banking business	158	—	—
Other financial assets	30	—	1
Total	¥8,275	¥3,261	¥58

(Note) Among the loans for credit card business, those past due for three months or less is ¥5,023 million, while those past due for over three months to six months is ¥1,991 million.

5) Financial Assets Individually Assessed as Impaired

Analysis of the financial assets individually assessed as impaired is as follows.

As of January 1, 2011

	(Millions of yen)		
	Carrying amount	Allowance for doubtful accounts	Carrying amount less allowance for doubtful accounts
Accounts receivable — trade	¥2,013	¥(818)	¥1,195
Financial assets for securities business	766	(708)	58
Loans for credit card business	34,247	(15,404)	18,843
Investment securities for banking business	3,724	(1,299)	2,425
Loans for banking business	770	(770)	—
Other financial assets	205	(111)	94
Total	¥41,725	¥(19,110)	¥22,615

As of December 31, 2011

	(Millions of yen)		
	Carrying amount	Allowance for doubtful accounts	Carrying amount less allowance for doubtful accounts
Accounts receivable — trade	¥2,406	¥(1,144)	¥1,262
Financial assets for securities business	2,089	(1,951)	138
Loans for credit card business	22,687	(16,779)	5,908
Loans for banking business	770	(770)	—
Other financial assets	202	(190)	12
Total	¥28,154	¥(20,834)	¥7,320

As of December 31, 2012

	(Millions of yen)		
	Carrying amount	Allowance for doubtful accounts	Carrying amount less allowance for doubtful accounts
Accounts receivable — trade	¥2,428	¥(1,112)	¥1,316
Financial assets for securities business	1,789	(1,667)	122
Loans for credit card business	20,896	(13,922)	6,974
Loans for banking business	—	—	—
Other financial assets	285	(279)	6
Total	¥25,398	¥(16,980)	¥8,418

(2) Liquidity Risk

1) Outline of Liquidity Risk Associated with Financial Instruments

Among the financial liabilities held by the Group Companies, those exposed to market risks are mainly borrowings and banking business-related liabilities which are exposed to liquidity risk.

2) Management of Liquidity Risk Associated with Financial Instruments

Liquidity risk associated with funding is managed by the methods including the development of cash management plan to ensure adequate liquidity on hand according to the regulations established at each Group Company. Liquidity risk associated with factors such as investment securities is managed by the minimum necessary acquisition of securities from a business standpoint, and understanding the financial conditions of issuers.

3) Analysis of Maturity of Financial Liabilities

The balances by maturity of financial liabilities (including derivatives) are as follows.

As of January 1, 2011

(Millions of yen)

	One year or less	Over one year to two years	Over two years to three years	Over three years to four years	Over four years to five years	Over five years
Financial liabilities other than derivatives						
Accounts payable — trade	¥36,836	¥—	¥—	¥—	¥—	¥—
Deposits for banking business	611,997	25,287	14,816	9,894	7,391	55,968
Financial liabilities for securities business	427,440	—	—	—	—	—
Bonds and borrowings	249,690	68,104	43,232	16,189	6,651	7
Other financial liabilities	141,328	2,827	5,522	1,079	866	565
Derivative liabilities	1,531	442	212	76	12	3
Derivative associated with cover deals of special time deposits	(731)	(437)	(234)	(286)	(995)	(3,150)
Off-balance sheet items						
Commitment lines	1,613,494	—	—	—	—	—
Financial guarantee agreements	28,646	—	—	—	—	—

(Note) Financial liabilities payable on demand are included in “One year or less.” “Deposits for banking business” include ¥366,520 million of demand deposits.

“Derivative associated with cover deals of special time deposits” are those related to “Deposits for banking business.”

As of December 31, 2011

(Millions of yen)

	One year or less	Over one year to two years	Over two years to three years	Over three years to four years	Over four years to five years	Over five years
Financial liabilities other than derivatives						
Accounts payable — trade	¥59,365	¥—	¥—	¥—	¥—	¥—
Deposits for banking business	622,134	24,305	12,403	7,051	5,259	80,412
Financial liabilities for securities business	364,490	—	—	—	—	—
Bonds and borrowings	160,914	64,381	51,066	32,773	25,836	22,308
Other financial liabilities	166,961	5,916	1,530	1,324	284	400
Derivative liabilities	1,799	457	190	85	57	67
Derivative associated with cover deals of special time deposits	(418)	(138)	(348)	(1,012)	(453)	(3,416)
Off-balance sheet items						
Commitment lines	1,474,923	—	—	—	—	—
Financial guarantee agreements	24,460	—	—	—	—	—

(Note) Financial liabilities payable on demand are included in “One year or less.” “Deposits for banking business” include ¥434,678 million of demand deposits.

“Derivative associated with cover deals of special time deposits” are those related to “Deposits for banking business.”

As of December 31, 2012

(Millions of yen)

	One year or less	Over one year to two years	Over two years to three years	Over three years to four years	Over four years to five years	Over five years
Financial liabilities other than derivatives						
Accounts payable — trade	¥79,965	¥—	¥—	¥—	¥—	¥—
Deposits for banking business	674,270	22,517	8,498	4,765	9,158	99,000
Financial liabilities for securities business	558,055	—	—	—	—	—
Bonds and borrowings	181,638	47,010	31,147	26,672	23,696	405
Other financial liabilities	203,867	3,339	1,899	707	228	8
Derivative liabilities	3,996	232	167	142	120	420
Derivative associated with cover deals of special time deposits	(90)	(301)	(956)	(421)	(548)	(3,929)
Off-balance sheet items						
Commitment lines	1,666,455	—	—	—	—	—
Financial guarantee agreements	20,839	—	—	—	—	—

(Note) Financial liabilities payable on demand are included in “One year or less.” “Deposits for banking business” include ¥492,395 million of demand deposits.

“Derivative associated with cover deals of special time deposits” are those related to “Deposits for banking business.”

(3) Market Risk

1) Outline of Market Risk Associated with Financial Instruments

The Group Companies’ activities are exposed mainly to risks associated with changes in economic environment and financial market environment. Risks associated with changes in financial market environment are specifically, 1) exchange rate risk, 2) interest rate risk and 3) price fluctuation risk.

Financial assets held by the Group Companies that are exposed to market risks are mainly investment securities, investment securities for banking business, and investment securities for insurance business. Investment securities include shares that are exposed to price fluctuation risk. Investment securities for banking business mainly include investment securities such as shares, government bonds, municipal bonds and foreign securities as well as various trust beneficiary rights, with exposure to interest rate risk and exchange rate risk, along with exposure to price fluctuation risk which, however, is minimal as there are no listed shares. Investment securities for insurance business mainly include government bonds, municipal bonds and bonds, for which exposure to price fluctuation risk is minimal.

Among the financial liabilities held by the Group Companies, those exposed to market risks are mainly borrowings and banking business-related liabilities, which are exposed primarily to interest

rate risk. Banking business-related liabilities include, ordinary deposits for individual and corporate customers, general time deposits for individual customers, new type time deposits, as well as foreign currency ordinary deposits, foreign currency time deposits and interest rate swap transactions as part of derivative transactions, all of which are exposed to interest rate risk. Among the banking business-related liabilities, foreign currency ordinary deposits and foreign currency time deposits, as well as certain derivative transactions including forward exchange contracts and exchange swap transactions, are exposed to exchange rate risk.

2) Management System of Market Risks Associated with Financial Instruments

Among the financial instruments associated with market risks, investment securities are subject to investment decisions based on the consultation with the Board of Directors, as part of the management to ensure that such investment securities are adequately evaluated according to certain regulations. As for foreign currency receivables for sale to customers, the Group Companies' own positions are under control by establishing position limits and maximum allowable loss for the prevention of any loss in excess of certain level, along with monitoring daily sales conditions. As for financial assets held by the subsidiaries engaged in banking business, such financial assets and liabilities are measured at market value, given certain fluctuations in interest rate and exchange rate, to calculate effect of the net balance after offsetting the financial assets and liabilities (hereinafter referred to as "the present value"), which is used in a quantitative analysis as part of the process to manage interest rate risk and exchange rate risk. In addition, the amount of capital in use as a credit risk is calculated, by using the standard method to calculate the capital requirements for credit risk under the asserted First Pillar of Basel II (minimum capital requirements ratio), specified in the Notification No. 19 of the Financial Services Agency, dated March 27, 2006.

3) Interest Rate Risk (Excluding the Subsidiaries Engaged in Banking Business)

The Group Companies' main financial liabilities are borrowings from financial institutions, of which borrowings at floating interest rates are exposed to interest rate risk.

Exposures associated with the Group Companies' financial liabilities are as follows.

(Millions of yen)

	December 31, 2011	December 31, 2012
Bonds and borrowings	¥347,983	¥305,186
Floating interest rate	239,830	226,339
Fixed interest rate	108,153	78,847

In respect of the above exposures, given all the risk variables remaining constant except for interest rate, when all the key interest rates have changed upward by 10 basis points (0.1%) for the year ended December 31, 2011, it is recognized that effect of profit or loss and equity would decrease by ¥185 million, conversely in the event of downward change by 0.1%, it would increase by ¥185 million, from the amounts as of December 31, 2011. Similarly, given all the risk variables remaining constant except for interest rate, when all the key interest rates have changed upward by 10 basis points (0.1%) for the year ended December 31, 2012, it is recognized that effect of profit or loss and equity would decrease by ¥189 million, conversely in the event of downward change by 0.1%, it would increase by ¥189 million, from the amounts as of December 31, 2012.

Among bonds and borrowings with floating interest rate, the Group Companies have implemented interest rate swap transactions to reduce interest rate fluctuation risk and have fixed

interest expense for ¥55,087 million and ¥37,324 million for the years ended December 31, 2011 and 2012, respectively.

4) Price Fluctuation Risk

The Group Companies are exposed to share price fluctuation risk associated with equity instruments. Equity instruments are not held for short-term trading purpose, but for the efficient implementation of business strategies. As for equity instruments, the Group Companies regularly check their market prices and financial conditions of their issuers.

The Group Companies implemented sensitivity analysis as follows, based on the price risk of equity instruments at the end of the year.

In the event of 5% rise in share prices for the year ended December 31, 2011, it is recognized that, due to changes in fair value, accumulated other comprehensive income (before tax effect) would increase by ¥222 million, conversely in the event of 5% fall, it would decrease by ¥222 million, from the amounts as of December 31, 2011. Similarly, in the event of 5% rise in share prices for the year ended December 31, 2012, it is recognized that, due to changes in fair value, accumulated other comprehensive income (before tax effect) would increase by ¥184 million, conversely in the event of 5% fall, it would decrease by ¥184 million, from the amounts as of December 31, 2012.

5) Management of Market Risks for the Subsidiaries Engaged in Banking Business (Interest Rate Risk)

At the Group Companies' subsidiaries engaged in banking business, financial assets exposed to interest rate risk, one of the significant risk variables, are mainly investment securities for banking business and loans for banking business.

Financial liabilities include, ordinary deposits for individual and corporate customers, general time deposits and new type time deposits for individual customers, as well as foreign currency ordinary deposits, foreign currency time deposits and interest rate swap transactions of all derivative transactions.

In the subsidiaries engaged in banking business, these financial assets and liabilities are measured at market value, given certain fluctuations in interest rate, to calculate effect of the net balance after offsetting the financial assets and liabilities (hereinafter referred to as "the present value"), which is used in quantitative analysis as part of the process to manage interest rate risk.

In calculating the effect of the present value, affected financial assets and financial liabilities are classified into fixed rate group and floating rate group, and then the balance of each group is allocated to appropriate period according to its own maturity with a fluctuation range of the interest rate for the period. Specifically, given all the risk variables remaining constant except for interest rate, when all the key interest rates have changed upward by 10 basis points (0.1%) for the year ended December 31, 2011, it is recognized that the present value as of December 31, 2011 would decrease by ¥667 million, conversely in the case of downward change by 10 basis points (0.1%), it would increase by ¥667 million. Similarly, given all the risk variables remaining constant except for interest rate, when all the key interest rates have changed upward by 10 basis points (0.1%) for the year ended December 31, 2012, it is recognized that the present value as of December 31, 2012 would decrease by ¥996 million, conversely in the case of downward change by 10 basis points (0.1%), it would increase by ¥996 million.

These effects do not take into account correlation between interest rate and other risk variables, while foreign currency-denominated assets and liabilities are calculated in Japanese yen as translated by the exchange rates on December 31, 2011 and December 31, 2012. Additionally, the

cases of 10 basis points decline amounting to negative interest rate in certain period have not been excluded.

(Exchange Rate Risk)

Of the Group Companies' subsidiaries engaged in banking business, financial assets exposed to exchange rate risk, one of the significant risk variables, are foreign securities and foreign exchange.

Financial liabilities exposed to exchange risk include, foreign currency ordinary deposits and foreign currency time deposits of all deposits, and forward exchange contracts of all derivative transactions.

In the subsidiaries engaged in banking business, effect of the present value of these financial assets and liabilities from exchange fluctuations, is used for a quantitative analysis as part of the process to manage exchange rate risk.

In calculating the effect of the present value, affected financial assets and financial liabilities are classified by currency and the respective currency's fluctuation range is used as the basis for analysis. Specifically, given all the risk variables remaining constant except for exchange rate, when each foreign currency to Japanese yen has fluctuated upward by 10% for the year ended December 31, 2011, it is recognized that the present value as of December 31, 2011 would decrease by ¥22 million, conversely in the case of downward fluctuation by 10%, it would increase by ¥22 million. Similarly, given all the risk variables remaining constant except for exchange rate, when each foreign currency to Japanese yen has fluctuated upward by 10% for the year ended December 31, 2012, it is recognized that the present value as of December 31, 2012 would decrease by ¥21 million, conversely in the case of downward fluctuation by 10%, it would increase by ¥21 million.

These effects do not take into account correlation between exchange rate and other risk variables, while the effect of the present value by currency is calculated in Japanese yen as translated by the exchange rates on December 31, 2011 and December 31, 2012.

43. Capital Management

The Group Companies' capitalization structure is as follows.

	(Millions of yen)		
	January 1, 2011	December 31, 2011	December 31, 2012
Total liabilities	¥1,835,112	¥1,747,419	¥2,045,722
Less: Cash and cash equivalents	105,896	152,801	270,114
Net liabilities	1,729,216	1,594,618	1,775,608
Total net assets	¥217,459	¥212,346	¥241,912

The Company's subsidiaries, Rakuten Bank, Ltd., Rakuten Securities, Inc. and AIRIO Life Insurance Co., Ltd. are subject to regulations by the Financial Services Agency over their equity ratio, capital-to-risk ratio and solvency margin ratio, which are duly complied.

44. Related Parties

Transactions and the balances of receivables and payables between the Group Companies and other related parties are as follows. Although the Group Companies' subsidiaries are related parties of the Company, transactions with the subsidiaries are not subject to disclosure as they are eliminated for the purpose of consolidated financial statements.

(1) Related Party Transactions

(Millions of yen)

	January 1, 2011			December 31, 2011			December 31, 2012		
	Associates	Executives	Group Total	Associates	Executives	Group Total	Associates	Executives	Group Total
Revenue	¥—	¥—	¥—	¥1,498	¥—	¥1,498	¥1,845	¥51	¥1,896
Operating expenses	—	—	—	274	—	274	1,111	—	1,111
Deposits for banking business	100	218	318	102	135	237	—	201	201
Financial liabilities for securities business	—	—	—	—	—	—	—	16	16
Common stock	—	—	—	—	—	—	—	39	39
Capital reserve	—	—	—	—	—	—	—	39	39

(Note) There are no collateral and guarantee transactions, while allowance for doubtful accounts is not recorded for the receivables.

(2) Transactions with Companies in which Majority of Voting Rights are Held by the Group Companies' Principal Shareholders (Individuals) and Their Close Relatives

(Millions of yen)

	January 1, 2011	December 31, 2011	December 31, 2012
Revenue (Note 1)	¥—	¥—	¥24
Operating expenses (Note 2)	—	281	329
Other assets (Note 3)	21	20	21
Deposits for banking business	—	—	74
Accounts payable — trade (Note 4)	5	1	2

(Notes) 1 Revenue is commission on ticket sales, and the ticket sales are entrusted by Crimson Football Club, Inc. Commission on ticket sales is determined similarly as the general business terms and conditions. Chairman and CEO of the Company, Hiroshi Mikitani indirectly owns 100% of the voting rights in Crimson Football Club, Inc.

2 Operating expenses are sponsorship fees payable to Crimson Football Club, Inc. for planning and organizing football matches and other events. The amount of sponsorship fees is determined in view of the past transactions at other football clubs.

3 Other assets are prepaid expenses resulting from advertising transactions. These receivables are unsecured in effect, charging no interest. Allowance for doubtful accounts is not recorded for the receivables from related parties.

4 Accounts payable — trade is accounts payable resulting from advertising transactions, due one month after the purchase date. No interest is charged to these payables.

(3) Executive Compensation

Executive compensation is as follows.

(Millions of yen)

	Year ended December 31, 2011	Year ended December 31, 2012
Short-term employee benefits (Note)	¥904	¥883
Share-based payments	60	25
Total	¥964	¥908

(Note) Short-term employee benefits include salaries and bonuses for the employee portion of those serving concurrently as employees and Directors.

45. Business Combinations

For the year ended December 31, 2011

Business Combination with Play Holdings Limited

(1) Outline of the business combination is as follows.

1) Name of the Acquiree and the Description of its Business

Name of the Acquiree: Play Holdings Limited (hereinafter refer to as “Play Holdings”) and its ten subsidiaries

Description of the Business: Management of companies engaged in e-commerce websites

2) Reason for the Business Combination

The Company decided that in line with the accelerating global development of various businesses of the Company, making Play Holdings, the UK’s fourth largest EC operator and the group running an EC site “Play.com,” as a subsidiary will enable full-scale participation of the Company in the UK market, on top of the French and German markets where we have already established presence, and play a core role in the Company’s European strategy.

3) Acquisition Date: October 3, 2011

4) Type of the Business Combination: Acquisition of shares

5) Name after the Business Combination: No change in the name of the company after the business combination

6) Ratio of Acquired Voting Rights: 100.0%

7) Rationale behind the Decision on the Acquisition

Through the Company’s acquisition of all shares in Play Holdings in exchange for the payment of cash

(2) Details of the consideration of the Acquiree

(Millions of yen)

Consideration paid:	
Payment in cash	¥2,916
Total consideration paid	¥2,916

(3) Cost directly associated with the acquisition was ¥113 million, which was accounted as “Operating expenses.”

(4) The amount of, and reason for goodwill recognized are as follows.

1) Amount of Goodwill: 32 million pound

2) Reason for goodwill recognized: Goodwill has been recognized through the reasonable estimation of excess earning power anticipated in association with the future business development.

(5) Assets acquired and liabilities assumed at the acquisition date are as follows.

(Millions of pound)

	Fair Value
Total assets	64
Total liabilities	73

(6) Revenue of the acquiree after the acquisition date, as recognized in the consolidated statement of income for the year ended December 31, 2011 was ¥13,928 million, while net income was ¥219 million.

- (7) Revenue of the Group Companies on the assumption that the business combination had taken place at January 1, 2011 would have been ¥368,426 million, while net income would have been ¥6,703 million.

For the year ended December 31, 2012

Business Combination with Kobo Inc.

- (1) Outline of the business combination is as follows.

- 1) Name of the Acquiree and the Description of its Business

Name of the Acquiree: Kobo Inc.

Description of the Business: Sales of e-book readers and contents, etc.

- 2) Reason for the Business Combination

By making Kobo Inc. its subsidiary as part of its full-scale measures for the future e-book era, the Company will not only have a proprietary brand of e-book readers named “Kobo eReader,” but also obtain a network with right holders including overseas publishing companies mainly in North America and Europe, as well as retailers who sell the e-book readers and ODMs. As a result, Kobo Inc. will be able to seek further growth and business expansion, and merge with the Group Companies’ global services such as EC business. By making Kobo Inc. its subsidiary, the Group Companies will aim to provide digital content to global users, as well as new e-commerce services applicable to various mobile devices.

- 3) Acquisition Date: January 11, 2012

- 4) Type of the Business Combination: Acquisition of shares

- 5) Name after the Business Combination: No change in the name of the company after the business combination

- 6) Ratio of Acquired Voting Rights: 100.0%

- 7) Rationale behind the Decision on the Acquisition

Through the Company’s acquisition of all shares in Kobo Inc. in exchange for the payment of cash

- (2) Details of the consideration of the Acquiree

(Millions of yen)

Consideration paid:	
Payment in cash	¥24,390
Total consideration paid	¥24,390

- (3) Cost directly associated with the acquisition was ¥188 million, which was accounted as “Operating expenses.”

- (4) The amount of, and reason for goodwill recognized are as follows.

- 1) Amount of Goodwill: 201 million Canadian dollar

- 2) Reason for goodwill recognized: Goodwill has been recognized through the reasonable estimation of excess earning power anticipated in association with the future business development.

(5) Assets acquired and liabilities assumed at the acquisition date are as follows.
(Millions of Canadian dollar)

	Fair Value
Assets	
Cash and cash equivalents	34
Intangible assets	152
Others	77
Total assets	263
Liabilities	
Accounts payable — trade	39
Others	54
Total liabilities	93

(6) Revenue of the acquiree after the acquisition date, as recognized in the consolidated statement of income for the year ended December 31, 2012 was ¥20,659 million, while net loss was ¥8,481 million.

(7) The impact on the Group Companies' revenue and net income on the assumption that the business combination had taken place on January 1, 2012 would be insignificant, and thus the description is omitted.

Business Combination with AIRIO Life Insurance Co., Ltd.

(1) Outline of the business combination is as follows.

1) Name of the Acquiree and the Description of its Business

Name of the Acquiree: AIRIO Life Insurance Co., Ltd.

Description of the Business: Life insurance business

2) Reason for the Business Combination

Insurance business of the Group Companies is expanding steadily such as handling 133 life and non-life insurance products at 44 companies (as of September 30, 2012). AIRIO Life Insurance Co., Ltd., which was an associate accounted for using the equity method, and the Company, have engaged in development of new internet-based products, as we have established a close collaboration framework to mutually utilize our various expertise and functions.

On the other hand, while the method of information provision and business is diversified and technology is improved, the use of internet in life insurance business is expected to grow further. Given this business environment, the insurance business area will be enhanced by making AIRIO Life Insurance Co., Ltd. a subsidiary, aiming at enhancing the financial services to be provided by the Group Companies.

3) Acquisition Date: October 31, 2012

4) Type of the Business Combination: Acquisition of shares

5) Name after the Business Combination: No change in the name of the company after the business combination

AIRIO Life Insurance Co., Ltd. will change its name to Rakuten Life Insurance Co., Ltd. on April 1, 2013.

6) Ratio of Acquired Voting Rights:

Voting rights ratio held before the business combination 33.9%

Voting rights ratio acquired on the acquisition date 53.9%

Total Voting rights ratio 87.8%

After the acquisition date, the voting rights ratio at the end of the year ended December 31, 2012 is 99.9% as a result of the additional acquisition.

7) Rationale behind the Decision on the Acquisition

Through the Company's acquisition of shares in AIRIO Life Insurance Co., Ltd. in exchange for the payment of cash

(2) Details of the consideration of the Acquiree

	(Millions of yen)
Consideration paid:	
Payment in cash	¥11,516
Total consideration transferred	11,516
Fair value of equity interest in AIRIO Life Insurance Co., Ltd. held before the business combination	7,250
Total consideration paid	¥18,766

(3) Cost directly associated with the acquisition was ¥12 million, which was accounted as "Operating expenses."

(4) The amount of, and reason for goodwill recognized are as follows.

- 1) Amount of Goodwill: ¥3,719 million
- 2) Reason for goodwill recognized: Goodwill has been recognized through the reasonable estimation of excess earning power anticipated in association with the future business development.

(5) Assets acquired and liabilities assumed at the acquisition date are as follows.
(Millions of yen)

	Fair Value
Assets	
Cash and cash equivalents	¥3,903
Other receivable	3,929
Investment securities for insurance business	13,914
Intangible assets	15,685
Others	4,600
Total assets	¥42,031
Liabilities	
Policy reserves and others for insurance business	¥18,344
Others	6,557
Total liabilities	¥24,901

(6) The carrying amount of non-controlling interests in the acquiree recognized as of the acquisition date was ¥2,083 million. This carrying amount is calculated by multiplying the ratio of non-controlling interests after acquisition with identifiable net assets acquired on the acquisition date. Furthermore,

non-controlling interests in the acquiree measured at fair value was ¥2,598 million. This fair value is estimated based on the purchase amount paid upon additional acquisition of shares in AIRIO Life Insurance Co., Ltd.

- (7) As a result of measuring the fair value of 33.9% of equity interest in AIRIO Life Insurance Co., Ltd. held prior to acquisition, the Group Companies have recognized the resulting gain in the business combination achieved in steps of ¥2,382 million. This income is included in “Other income” in the consolidated statement of income.
- (8) Revenue of the acquiree after the acquisition date, as recognized in the consolidated statement of income for the year ended December 31, 2012 was ¥4,454 million, while net income was ¥110 million.
- (9) Revenue of the Group Companies on the assumption that the business combination had taken place on January 1, 2012 would have been ¥423,032 million, while net income would have been ¥22,540 million.
- (10) As a result of the additional acquisition on December 18, 2012, ¥2,595 million in cash was paid to its non-controlling shareholders, and additional acquired equity interest was ¥2,089 million. As a result, capital surplus decreased by ¥506 million, which is the difference between the consideration for additionally acquired equity interests and their carrying amounts.

46. Major Subsidiaries

(1) Major Subsidiaries

Major subsidiaries of the Group Companies are as follows.

Name	Location	Capital (Millions of yen)	January 1, 2011		December 31, 2011		December 31, 2012		Notes
			Voting rights ratio	Ownership	Voting rights ratio	Ownership	Voting rights ratio	Ownership	
Internet Services Segment:									
Rakuten Travel, Inc.	Tokyo	¥213	100%	100%	100%	100%	100%	100%	
LinkShare Corporation	U.S.	1 U.S. dollar	100%	100%	100%	100%	100%	100%	
Buy.com Inc.	U.S.	0.01 U.S. dollar	100%	100%	100%	100%	100%	100%	
PRICEMINISTER S.A.S.	France	356 thousand euros	100%	100%	100%	100%	100%	100%	
Play Holdings Limited	U.K.	29 thousand pounds	—	—	100%	100%	100%	100%	
Rakuten Auction, Inc.	Tokyo	¥1,650	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	
Taiwan Rakuten Ichiba, Inc.	Taiwan	554 million NT dollars	51.0%	51.0%	51.0%	51.0%	51.0%	51.0%	
TARAD Dot Com Co., Ltd.	Thailand	11 million Thai baht	67.0%	67.0%	67.0%	67.0%	67.0%	67.0%	
LinkShare Japan K.K.	Tokyo	¥259	63.8%	63.8%	63.8%	63.8%	100%	100%	
Kobo Inc.	Canada	528 million Canadian dollar	—	—	—	—	100%	100%	
Kenko.com, Inc.	Tokyo	¥2,023	—	—	18.6%	18.6%	51.8%	51.8%	(Note 5)
RAKUTEN BRASIL INTERNET SERVICE LTDA.	Brazil	13,342 thousand Brazilian real	—	—	90.0%	90.0%	90.0%	90.0%	
Internet Finance Segment:									
Rakuten Card Co., Ltd.	Tokyo	¥19,324	100%	100%	100%	100%	100%	100%	(Note 1)
Rakuten Securities, Inc.	Tokyo	¥7,496	100%	100%	100%	100%	100%	100%	
Rakuten Bank, Ltd.	Tokyo	¥25,954	100%	100%	100%	100%	100%	100%	
Rakuten KC Co., Ltd.	Fukuoka	—	97.3%	96.3%	—	—	—	—	(Note 2)
Rakuten Edy, Inc.	Tokyo	¥1,840	55.4%	55.4%	85.0%	85.0%	85.0%	85.0%	(Note 3)
AIRIO Life Insurance Co., Ltd.	Tokyo	¥2,500	34.0%	34.0%	34.0%	34.0%	99.9%	99.9%	(Note 5)
Dot Commodity, Inc.	Tokyo	¥1,900	58.1%	58.1%	97.1%	97.1%	97.1%	97.1%	
Others Segment:									
Fusion Communications Corporation	Tokyo	¥2,026	75.1%	75.2%	50.0%	50.3%	54.8%	55.0%	(Note 4)

(Notes) 1. Rakuten Credit Co., Ltd. was renamed as Rakuten Card Co., Ltd. on August 1, 2011.

2. Discrepancy between the voting rights ratio and ownership of Rakuten KC Co., Ltd. is due primarily to the fact that the company had issued preferred shares. In addition, the shares in Rakuten KC Co., Ltd. were sold on August 1, 2011.

3 bitWallet, Inc. was renamed as Rakuten Edy, Inc. on June 1, 2012.

4 Discrepancy between the voting rights ratio and ownership of Fusion Communications Corporation is due primarily to the fact that the company has issued preferred shares.

5 Kenko.com, Inc. and AIRIO Life Insurance Co., Ltd. have become consolidated subsidiaries from the current year.

(2) Changes in Holdings

For the year ended December 31, 2011

The Group Companies acquired control over Play Holdings Limited on October 3, 2011, making it a subsidiary. The transaction associated with this acquisition is described in Note 45. Business Combinations. Other changes in holdings are as follows.

Fusion Communications Corporation, the Group Companies' subsidiary conducted an allocation of new shares to a third party on April 28, 2011. As a result of this allocation, the Group Companies' equity interest in Fusion Communications Corporation was reduced to 50.3%, and still maintains control over the company. Surplus resulting from this allocation has been recognized as "Capital surplus" under net assets. The effects from this transaction were as follows.

	(Millions of yen)
	Year ended December 31, 2011
Amount of the allocation of new shares to a third party	¥1,250
Increase in non-controlling interests	1,014
Surplus of the allocation of new shares to a third party	236

On September 1, 2011, the Group Companies additionally acquired 29.6% of voting shares in a subsidiary, bitWallet, Inc. (changed its trade name to Rakuten Edy, Inc. on June 1, 2012). As a result, the Group Companies' equity interest in bitWallet, Inc. increased to 85.0%. In this additional acquisition, a consideration in cash of ¥1,771 million was paid to non-controlling shareholders, at which point carrying amount of bitWallet, Inc.'s net assets (excluding goodwill at the initial acquisition) was ¥2,171 million, while carrying amount of the additionally acquired equity interest was ¥643 million. The difference of ¥1,128 million between the consideration for the additionally acquired equity interest and its carrying amount has been recognized as "Capital surplus" under net assets. The effects from this transaction were as follows.

	(Millions of yen)
	Year ended December 31, 2011
Consideration in cash	¥1,771
Carrying amount of additionally acquired equity interest	643
Decrease in capital surplus	1,128

The Group Companies additionally acquired voting shares in a subsidiary, Dot Commodity, Inc. for 15.0% and 24.1% on March 24, 2011 and September 1, 2011, respectively. As a result, the Group Companies' equity interest in Dot Commodity, Inc. increased to 97.1%. In these additional acquisitions, considerations in cash of ¥263 million and ¥757 million, respectively were paid to its non-controlling shareholders, at which points carrying amounts of Dot Commodity, Inc.'s net assets (excluding goodwill at the initial acquisition) were ¥1,059 million and ¥1,585 million, respectively, while carrying amounts of the additionally acquired equity interest were ¥158 million and ¥382 million, respectively. The differences of ¥105 million and ¥375 million between the considerations for the

additionally acquired equity interests and their carrying amounts have been recognized as “Capital surplus” under net assets. The effects from these transactions were as follows.

	(Millions of yen)
	Year ended December 31, 2011
Consideration in cash	¥1,020
Carrying amount of additionally acquired equity interest	540
Decrease in capital surplus	480

On December 29, 2011, the Group Companies additionally acquired 41.7% of voting shares in a subsidiary, Rakuten Bank Systems, Ltd. As a result, the Group Companies’ equity interest in Rakuten Bank Systems, Ltd. increased to 100%. In this additional acquisition, a consideration in cash of ¥537 million was paid to its non-controlling shareholders, at which point carrying amount of Rakuten Bank Systems, Ltd.’s net assets (excluding goodwill at the initial acquisition) was ¥519 million, while carrying amount of the additionally acquired equity interest was ¥216 million. The difference of ¥321 million between the consideration for the additionally acquired equity interest and its carrying amount has been recognized as “Capital surplus” under net assets. The effects from this transaction were as follows.

	(Millions of yen)
	Year ended December 31, 2011
Consideration in cash	¥537
Carrying amount of additionally acquired equity interest	216
Decrease in capital surplus	321

For the year ended December 31, 2012

The Group Companies acquired control over Kobo Inc. on January 11, 2012 and AIRIO Life Insurance Co., Ltd. on October 31, 2012, making them subsidiaries. The transactions associated with these acquisitions are described in Note 45. Business Combinations. Other changes in holdings are as follows.

On June 29, 2012, the Group Companies additionally acquired 36.2% of voting shares in a subsidiary, LinkShare Japan K.K. with cash consideration of ¥4,125 million. As a result, the Group Companies’ equity interest in LinkShare Japan K.K. increased to 100%. Put options are granted to non-controlling interests in LinkShare Japan K.K., and prior to the additional acquisition of equity interest, the Group Companies recognized them as financial liabilities in accordance with IAS 32 “Financial instruments: presentation.” Therefore, there was no impact on capital surplus from the additionally acquired equity interest.

47. Sale of Subsidiary through Business Restructuring

For the year ended December 31, 2011

On August 1, 2011, the Group Companies transferred the Rakuten Card-related business of Rakuten KC Co., Ltd., which was a former subsidiary of the Company, to another subsidiary, Rakuten Credit Co., Ltd. (changed its trade name to Rakuten Card Co., Ltd. on August 1, 2011), through absorption-type company split, and later on the same day, sold all of the shares in Rakuten KC Co., Ltd. to a company outside the Group Companies, J Trust Co., Ltd. Businesses of Rakuten KC Co.,

Ltd. on sale were legacy card business, money card business and real estate business.

The sale of the subsidiary was carried out to further concentrate management resources to the Rakuten Card-related business, in view of the recent drastic change in the environment surrounding credit card business, including tightening of regulations through revisions of the Money-Lending Control Law, notwithstanding Rakuten KC Co., Ltd., as an internet-based credit provider, has been constantly developing the membership and actual usage of its mainstay Rakuten Card.

Rakuten KC Co., Ltd. changed its trade name to KC Card Co., Ltd. on August 1, 2011.

Assets and liabilities excluded from consolidation associated with the loss of control and the consideration for the transfer of shares (proceeds from sales of investments in subsidiaries), as part of the aforementioned business restructuring are as follows.

	(Millions of yen)
	Amounts
Assets and liabilities excluded from consolidation associated with the loss of control	
Cash and cash equivalents	¥8,460
Loans for credit card business	93,596
Allowance for doubtful accounts	(6,611)
Others	8,376
Total assets	103,821
Provision for loss on interest repayment	(10,858)
Others	(4,775)
Total liabilities	(15,633)
Loss on transfer of business	(46,739)
Total	¥41,449
Cash and cash equivalents inflows from sales of investments in subsidiaries	¥4,449
Cash and cash equivalents inflows from repayment of borrowings to the Company	37,000
Total	41,449
Cash and cash equivalents held by Rakuten KC Co., Ltd.	(8,460)
Proceeds from sales of investments in subsidiaries	¥32,989

Loss on business restructuring including the above loss on transfer of business is presented as “Additional line items” in the consolidated statement of income. The details are as follows.

	(Millions of yen)
	Amounts
Loss on transfer of business	¥46,739
Impairment loss (Note 1)	14,723
Allowance for doubtful accounts charged to expenses (Note 2)	11,870
Others	2,160
Total	¥75,492

- (Notes) 1. Impairment loss of goodwill of ¥14,723 million has been recognized for Rakuten KC Co., Ltd. following the aforementioned business restructuring.
2. The provision was newly recorded by the Group Companies following the aforementioned business restructuring.

For the year ended December 31, 2012

Not applicable.

48. Structured Entities

Consolidated Structured Entities

In credit card business, the Group Companies consolidate certain trusts for securitization of own credit card loan and credit card shopping receivables. In addition, the Group Companies engage in offering investment trust funds activities in their banking business. The Group Companies consolidate certain investment trusts which are set up and managed by the Group Companies and an investment trust which is set up for the Group Companies.

These investment trust funds and trusts for securitization are structured entities, which have been designed so that voting or similar rights are not the dominant factor in deciding who controls these entities.

The Group Companies have the right to direct the investment or servicing activities by these structured entities. In addition, the Group Companies are exposed to variable returns through holding subordinated beneficial interests that are collateralized by trusted assets and holding interests in investment trust funds. Accordingly, it is determined that the Group Companies have control over these structured entities.

In accordance with the contractual arrangements with the structured entities, use of assets and settlement of liabilities of these consolidated structured entities are restricted to the purposes for which they are structured.

The carrying amounts of assets and liabilities of the consolidated structured entities for the Group Companies are as follows.

Carrying amounts of assets and liabilities of the consolidated structured entities
(Millions of yen)

	January 1, 2011	December 31, 2011	December 31, 2012
Assets			
Loans for credit card business	¥26,572	¥23,416	¥25,791
Investment securities for banking business	5,315	3,889	733
Others	3,465	1,477	581
Total assets	¥35,352	¥28,782	¥27,105
Liabilities			
Bonds and borrowings	¥10,064	¥2,728	¥11,080
Others	25	21	26
Total liabilities	¥10,089	¥2,749	¥11,106

Unconsolidated Structured Entities

The Group Companies in their banking business engage in investment activities to structured entities. These structured entities are associated with the securitization products that are set up by third parties and pledged as collateral by the assets including various real estates, monetary claims such as auto loans and consumer loans, credit derivatives, and other bonds. The Group Companies have interests in these structured entities by holding their bonds issued and their trust beneficiary interests. The risks of these products are managed on a regular basis by individual case under the Group Management Regulations in banking business, for early understanding on, and mitigation of the risk of default resulting from deterioration of the debtors' financial conditions and other factors.

Additionally, the Group Companies in their investment management business set up investment trust funds that meet the demand of, and are offered to investors. However, the Group Companies do not hold their interests of these investment trust funds.

The Group Companies do not provide any guarantee or commitment to these structured entities. As a result, the maximum exposure to loss associated with the Group Companies' interests in these unconsolidated structured entities is limited to the carrying amount of the investments in bonds and trust beneficiary interests held therein. The maximum exposure to loss represents the potential maximum loss the Group Companies could incur and does not reflect the likelihood of such a loss being incurred.

The following table shows the summary of the Group Companies' maximum exposure to loss from its interests in these structured entities by class of asset held therein.

Carrying amount of unconsolidated structured entities and maximum exposure to loss from its interests in such entities

(Millions of yen)

The line item in the consolidated statement of financial position	Class of asset held by structured entities	January 1, 2011	December 31, 2011	December 31, 2012
Investment securities for banking business	Securitization products set up by third parties			
	Public and corporate bonds	¥77,535	¥64,730	¥14,498
	Real estates	16,842	5,098	2,371
	Monetary claims for consumer	120,819	100,054	72,073
	Others	5,964	4,400	521
Total		¥221,160	¥174,282	¥89,463

49. Subsequent Events

Not applicable.

50. Classification of Current and Non-current
As of January 1, 2011

(Millions of yen)

	Collection or settlement period		Total
	12 months or less	Over 12 months	
Assets			
Cash and cash equivalents	¥105,896	¥—	¥105,896
Accounts receivable — trade	43,126	1,477	44,603
Financial assets for securities business	483,015	58	483,073
Loans for credit card business	191,389	157,402	348,791
Investment securities for banking business	76,654	407,876	484,530
Loans for banking business	26,087	98,798	124,885
Derivative assets	6,751	3,392	10,143
Investment securities	—	59,754	59,754
Other financial assets	114,517	28,039	142,556
Investments in associates and joint ventures	—	9,454	9,454
Property, plant and equipment	—	25,885	25,885
Intangible assets	—	152,215	152,215
Deferred tax assets	—	47,212	47,212
Other assets	6,154	7,420	13,574
Total assets	¥1,053,589	¥998,982	¥2,052,571
Liabilities			
Accounts payable — trade	¥36,836	¥—	¥36,836
Deposits for banking business	608,072	106,784	714,856
Financial liabilities for securities business	427,440	—	427,440
Derivative liabilities	1,340	1,089	2,429
Bonds and borrowings	246,036	131,625	377,661
Other financial liabilities	140,664	11,466	152,130
Income taxes payable	17,590	—	17,590
Provisions	17,117	15,382	32,499
Deferred tax liabilities	—	6,236	6,236
Other liabilities	66,199	1,236	67,435
Total liabilities	¥1,561,294	¥273,818	¥1,835,112

As of December 31, 2011

(Millions of yen)

	Collection or settlement period		Total
	12 months or less	Over 12 months	
Assets			
Cash and cash equivalents	¥152,801	¥—	¥152,801
Accounts receivable — trade	47,696	1,262	48,958
Financial assets for securities business	415,462	138	415,600
Loans for credit card business	215,702	90,429	306,131
Investment securities for banking business	99,439	324,515	423,954
Loans for banking business	23,729	130,826	154,555
Derivative assets	7,575	2,254	9,829
Investment securities	600	10,363	10,963
Other financial assets	154,969	17,795	172,764
Investments in associates and joint ventures	—	9,685	9,685
Property, plant and equipment	—	21,535	21,535
Intangible assets	—	149,620	149,620
Deferred tax assets	—	64,579	64,579
Other assets	11,619	7,172	18,791
Total assets	¥1,129,592	¥830,173	¥1,959,765
Liabilities			
Accounts payable — trade	¥59,365	¥—	¥59,365
Deposits for banking business	620,125	122,468	742,593
Financial liabilities for securities business	364,490	—	364,490
Derivative liabilities	1,612	1,249	2,861
Bonds and borrowings	156,839	191,144	347,983
Other financial liabilities	166,962	9,451	176,413
Income taxes payable	3,981	—	3,981
Provisions	20,624	2,557	23,181
Deferred tax liabilities	—	6,054	6,054
Other liabilities	20,047	451	20,498
Total liabilities	¥1,414,045	¥333,374	¥1,747,419

As of December 31, 2012

(Millions of yen)

	Collection or settlement period		Total
	12 months or less	Over 12 months	
Assets			
Cash and cash equivalents	¥270,114	¥—	¥270,114
Accounts receivable — trade	64,177	1,316	65,493
Financial assets for securities business	615,580	123	615,703
Loans for credit card business	284,672	117,746	402,418
Investment securities for banking business	141,268	155,058	296,326
Loans for banking business	23,911	165,758	189,669
Investment securities for insurance business	3,060	10,563	13,623
Derivative assets	7,350	3,324	10,674
Investment securities	800	22,611	23,411
Other financial assets	82,697	40,435	123,132
Investments in associates and joint ventures	—	6,601	6,601
Property, plant and equipment	—	24,143	24,143
Intangible assets	—	188,014	188,014
Deferred tax assets	—	40,546	40,546
Other assets	14,579	3,188	17,767
Total assets	¥1,508,208	¥779,426	¥2,287,634
Liabilities			
Accounts payable — trade	¥79,965	¥—	¥79,965
Deposits for banking business	673,126	136,405	809,531
Financial liabilities for securities business	558,055	—	558,055
Derivative liabilities	3,913	772	4,685
Bonds and borrowings	179,253	125,933	305,186
Other financial liabilities	204,230	5,818	210,048
Income taxes payable	2,873	—	2,873
Provisions	26,167	3,447	29,614
Policy reserves and others for insurance business	—	18,496	18,496
Deferred tax liabilities	—	6,416	6,416
Other liabilities	20,192	661	20,853
Total liabilities	¥1,747,774	¥297,948	¥2,045,722

51. First-time Adoption (Transition to IFRS)

The current year is the first year in which financial statements are disclosed in accordance with IFRS, and the date of transition to IFRS was January 1, 2011.

IFRS 1 “First-time Adoption of International Financial Reporting Standards,” in principle, require a company adopting IFRS for the first time (hereinafter referred to as “first-time adopter”) to retrospectively apply the standards in force as of the end of the first IFRS reporting period, provided however that IFRS 1 prohibits retrospective application of certain standards required in accordance with IFRS (mandatory exceptions in accordance with IFRS 1). Meanwhile, voluntary exemptions from full retrospective application are allowed for certain standards required in accordance with IFRS (exemptions in accordance with IFRS 1). These adjustments as a result of the initial application of IFRS are recognized directly through retained earnings and other components of equity at the date of transition to IFRS.

Exemptions in accordance with IFRS 1

The following standards were exempted from retrospective application by the Group Companies at the transition to IFRS from JGAAP.

(Business Combinations)

A first-time adopter may elect not to retrospectively apply IFRS 3 “Business Combinations” to business combinations that occurred before the date of transition to IFRS. The Group Companies, on the basis of this exemption, elected not to retrospectively apply IFRS 3 to business combinations that occurred before the date of transition to IFRS. Consequently, any goodwill arising from business combinations which occurred before the date of transition to IFRS was not restated from the carrying value previously determined in accordance with JGAAP. In accordance with IAS 21 “The Effects of Changes in Foreign Exchange Rates,” however, any goodwill arising on the acquisition of a foreign operation and any fair value adjustment to the carrying amounts of assets and liabilities arising on the acquisition of such foreign operation (foreign currency-denominated goodwill and fair value adjustments) are presented in functional currency as assets and liabilities of the foreign operation, as translated by the exchange rate as of the closing date. Furthermore, the Group Companies performed an impairment test on goodwill at the date of transition to IFRS regardless of whether there was an indication that the goodwill may be impaired.

(Share-based Payment Transactions)

In respect of share-based payment transactions, the first-time adopter is encouraged but not required to apply IFRS 2 “Share-based Payment,” to the equity instruments granted on or after November 7, 2002 and vested before the date of transition to IFRS or January 1, 2005, whichever later. The Group Companies elected not to apply IFRS 2 to the equity instruments granted on or after November 7, 2002 and vested before the date of transition to IFRS. Consequently, IFRS 2 was applied only to the stock options not yet vested at the date of transition to IFRS.

(Leases)

In accordance with IFRS 1, the first-time-adopter may apply the transition provision in accordance with IFRIC 4 “Determining Whether an Arrangement Contains a Lease,” in which case whether an arrangement in force as of the date of transition to IFRS contains a lease is determined based on the facts and circumstances that exist at the date of transition to IFRS. The Group Companies have applied this exemption and made such a decision based on the facts and circumstances that existed at the date of transition to IFRS.

(Asset Retirement Obligations Included in the Cost of Property, Plant and Equipment)

When the Group Companies newly record asset retirement obligations in accordance with IFRS, acquisition cost of the related assets will be adjusted retrospectively, in principle, at the acquisition date, and depreciated based on such acquisition cost in accordance with IFRIC 1 “Changes in Existing Decommissioning, Restoration and Similar Liabilities.” Meanwhile however, in accordance with IFRS 1, exemption of IFRIC 1 is allowed in respect of changes in asset retirement obligations that occurred prior to the date of transition to IFRS, and the Group Companies have applied this exemption on the date of transition to IFRS.

(Designation of Previously Recognized Financial Instruments)

The first-time-adopter has an option in accordance with paragraphs 4.1.5 and 5.7.5 of IFRS 9 “Financial Instruments,” to designate financial assets as those measured at FVTPL, or as those measured at FVTOCI, depending on the facts and circumstances that exist as of the date of transition to IFRS.

The Group Companies have applied this exemption, and designated the financial assets they hold either as those subject to fair value measurement or those subject to amortized cost measurement, depending on the circumstances as of the date of transition to IFRS. Furthermore as of the date of transition to IFRS, the Group Companies designated investments in a part of equity instruments as the financial assets measured at FVTOCI.

Mandatory Exceptions in accordance with IFRS 1

In accordance with IFRS 1, retrospective application of IFRS is prohibited in respect of the items including “estimates,” “derecognition of financial assets and financial liabilities,” “hedge accounting” and “non-controlling interest.” The Group Companies have applied the requirements of IFRS on these items prospectively from the date of transition to IFRS.

Reconciliation of JGAAP to IFRS

Reconciliation schedule required to be disclosed in the year of transition is as follows. This schedule and associated notes present the main impacts following the transition from JGAAP to IFRS, on consolidated statement of financial position, consolidated statement of income, consolidated statement of comprehensive income and consolidated statement of cash flows. Column of “JGAAP” indicates balances of consolidated balance sheets, consolidated statements of income, consolidated statements of comprehensive income and consolidated statements of cash flows in accordance with JGAAP. These balances have been consolidated into accounts of the consolidated financial statements in accordance with IFRS. Such consolidation does not have impact on the total assets, total liabilities, total net assets nor net income or loss.

(1) Reconciliation to Assets, Liabilities or Net assets as of January 1, 2011

(Millions of yen)

	Notes	JGAAP	Impact of transition to IFRS	IFRS
Assets				
Cash and cash equivalents	H	¥100,736	¥5,160	¥105,896
Accounts receivable — trade	D, H	40,585	4,018	44,603
Financial assets for securities business	D, H	373,317	109,756	483,073
Loans for credit card business	H	308,077	40,714	348,791
Investment securities for banking business	D, H	533,850	(49,320)	484,530
Loans for banking business	D	124,449	436	124,885
Derivative assets	H	3,737	6,406	10,143
Investment securities	D, H	58,354	1,400	59,754
Other financial assets	D, H	144,266	(1,710)	142,556
Investments in associates and joint ventures	A, D, H	9,436	18	9,454
Property, plant and equipment	H	21,950	3,935	25,885
Intangible assets	A, B, F, H	173,087	(20,872)	152,215
Deferred tax assets	D, E, F, G, H	40,722	6,490	47,212
Other assets	A, D, H	18,874	(5,300)	13,574
Total assets		¥1,951,440	¥101,131	¥2,052,571
Liabilities				
Accounts payable — trade		¥36,836	¥—	¥36,836
Deposits for banking business	D	713,273	1,583	714,856
Financial liabilities for securities business	H	312,303	115,137	427,440
Derivative liabilities	D, H	1,875	554	2,429
Bonds and borrowings	H	368,276	9,385	377,661
Other financial liabilities	C, D, H	150,594	1,536	152,130
Income taxes payable		17,590	—	17,590
Provisions	H	27,366	5,133	32,499
Deferred tax liabilities	D, G, H	7,410	(1,174)	6,236
Other liabilities	D, E, F, H	69,495	(2,060)	67,435
Total liabilities		¥1,705,018	¥130,094	¥1,835,112

(Millions of yen)

	Notes	JGAAP	Impact of transition to IFRS	IFRS
Net assets				
Equity attributable to owners of the Company				
Common stock		¥107,779	¥—	¥107,779
Capital surplus	C	120,809	(3,498)	117,311
Retained earnings	A, B, D, E, F, G, H	10,371	(12,027)	(1,656)
Treasury stock		(3,626)	—	(3,626)
Other components of equity	B, D, H	1,110	(12,142)	(11,032)
Total equity attributable to owners of the Company		236,443	(27,667)	208,776
Non-controlling interests	C	9,979	(1,296)	8,683
Total net assets		¥246,422	¥(28,963)	¥217,459
Total liabilities and net assets		¥1,951,440	¥101,131	¥2,052,571

(2) Reconciliation to Assets, Liabilities or Net assets as of December 31, 2011

(Millions of yen)

	Notes	JGAAP	Impact of transition to IFRS	IFRS
Assets				
Cash and cash equivalents	H	¥149,752	¥3,049	¥152,801
Accounts receivable — trade	D, H	48,274	684	48,958
Financial assets for securities business	D, H	344,063	71,537	415,600
Loans for credit card business	H	208,637	97,494	306,131
Investment securities for banking business	D, H	537,765	(113,811)	423,954
Loans for banking business	D	154,626	(71)	154,555
Derivative assets	H	2,933	6,896	9,829
Investment securities	D, H	8,985	1,978	10,963
Other financial assets	D, H	152,533	20,231	172,764
Investments in associates and joint ventures	A, D, H	9,606	79	9,685
Property, plant and equipment	H	15,805	5,730	21,535
Intangible assets	A, B, F, H	173,287	(23,667)	149,620
Deferred tax assets	D, E, F, G, H	60,381	4,198	64,579
Other assets	A, D, H	49,245	(30,454)	18,791
Total assets		¥1,915,892	¥43,873	¥1,959,765
Liabilities				
Accounts payable — trade		¥59,365	¥—	¥59,365
Deposits for banking business	D	741,501	1,092	742,593
Financial liabilities for securities business	H	289,069	75,421	364,490
Derivative liabilities	D, H	—	2,861	2,861
Bonds and borrowings	H	346,823	1,160	347,983
Other financial liabilities	C, D, H	164,383	12,030	176,413
Income taxes payable		3,981	—	3,981
Provisions	H	23,252	(71)	23,181
Deferred tax liabilities	D, G, H	4,819	1,235	6,054
Other liabilities	D, E, F, H	51,673	(31,175)	20,498
Total liabilities		¥1,684,866	¥62,553	¥1,747,419

(Millions of yen)				
	Notes	JGAAP	Impact of transition to IFRS	IFRS
Net assets				
Equity attributable to owners of the Company				
Common stock		¥107,959	¥—	¥107,959
Capital surplus	C, H	121,216	(4,352)	116,864
Retained earnings	A, D, E, F, G, H	5,460	(1,819)	3,641
Treasury stock		(3,626)	—	(3,626)
Other components of equity	A, B, D, H	(5,367)	(11,104)	(16,471)
Total equity attributable to owners of the Company		225,642	(17,275)	208,367
Non-controlling interests	C, H	5,384	(1,405)	3,979
Total net assets		¥231,026	¥(18,680)	¥212,346
Total liabilities and net assets		¥1,915,892	¥43,873	¥1,959,765

(3) Reconciliation to the Total Net Assets

(Millions of yen)			
	Notes	January 1, 2011	December 31, 2011
Total net assets in accordance with JGAAP		¥246,422	¥231,026
Impairment loss and amortization of goodwill	A	(15,669)	(6,677)
Translation of goodwill and fair value adjustments	B	(8,957)	(9,865)
Put options granted to non-controlling interests	C	(4,150)	(3,635)
Classification and measurement of financial assets	D	(3,094)	1,105
Reserves under the special laws	E	1,977	1,217
Compensated absence liability	F	(1,654)	(1,731)
Income taxes	G	3,303	2,177
Others	H	(719)	(1,271)
Total net assets in accordance with IFRS		¥217,459	¥212,346

(4) Reconciliation to Profit or Loss for the year ended December 31, 2011

			(Millions of yen)	
	Notes	JGAAP	Impact of transition to IFRS	IFRS
Continuing operations				
Revenue	D, H	¥379,901	¥(33,476)	¥346,425
Operating expenses	A, D, F, H	309,085	(43,622)	265,463
Other income	A, D, E, H	1,353	(175)	1,178
Other expenses	A, D, E, H	9,024	(3,020)	6,004
Additional line items	A	(77,122)	1,630	(75,492)
Operating income	A, D, E, F, H	(13,977)	14,621	644
Financial income	D, H	242	35	277
Financial expenses	D, H	1,681	888	2,569
Share of (loss)/profit of associates	H	399	64	463
(Loss) Income before income tax	A, D, E, F, H	(15,017)	13,832	(1,185)
Income tax expense	D, E, F, G, H	(13,846)	3,030	(10,816)
Net (loss) income		¥(1,171)	¥10,802	¥9,631
Net income attributable to:				
Owners of the Company		¥(2,287)	¥10,273	¥7,986
Non-controlling interests		1,116	529	1,645
Total net (loss) income		¥(1,171)	¥10,802	¥9,631

(5) Reconciliation to Comprehensive Income for the year ended December 31, 2011

(Millions of yen)

	Notes	JGAAP	Impact of adoption to IFRS	IFRS
Net (loss) income		¥(1,171)	¥10,802	¥9,631
Other comprehensive income				
Items that will not be reclassified to net income:				
Gains and losses on financial assets measured at fair value through other comprehensive income	D, H	(5,908)	2,900	(3,008)
Income tax relating to gains and losses on financial assets measured at fair value through other comprehensive income	D, G, H	2,350	(1,535)	815
Share of other comprehensive income of associates		(20)	—	(20)
Total items that will not be reclassified to net income		(3,578)	1,365	(2,213)
Items that will be reclassified to net income:				
Foreign currency translation adjustments	A, B, H	(3,222)	(486)	(3,708)
The portion of gains or losses on effective cash flow hedges recognized in other comprehensive income	H	372	(187)	185
Income tax relating to the portion of gains or losses on effective cash flow hedges recognized in other comprehensive income	G, H	(108)	(9)	(117)
The portion of gains or losses on effective cash flow hedges reclassified from other comprehensive income to net income or loss	H	—	526	526
Income tax relating to the portion of gains or losses on effective cash flow hedges reclassified from other comprehensive income to net income or loss	G, H	—	(197)	(197)
Total items that will be reclassified to net income		(2,958)	(353)	(3,311)
Other comprehensive income, net of tax		(6,536)	1,012	(5,524)
Comprehensive income		¥(7,707)	¥11,814	¥4,107
Total comprehensive income attributable to:				
Owners of the Company		¥(8,764)	¥11,315	¥2,551
Non-controlling interests		1,057	499	1,556
Comprehensive income		¥(7,707)	¥11,814	¥4,107

- (6) Reconciliation to Consolidated Cash Flows for the year ended December 31, 2011
The impact on consolidated statement of cash flows following the transition to IFRS from JGAAP is mainly from consolidating certain trusts for securitization in credit card business in accordance with IFRS 10 “Consolidated financial statements.”
- (7) Notes to the Reconciliation
Major accounting differences between JGAAP and IFRS are as follows.
- A Impairment Loss and Amortization of Goodwill
In adopting IFRS, impairment test is required at the date of transition to IFRS regardless of whether there was an indication that the goodwill may be impaired. The Group Companies recognized impairment loss since impairment was identified as a result of the impairment test conducted at the date of transition to IFRS.
Under JGAAP, goodwill is regularly amortized over a certain period, whereas it is not amortized under IFRS, but impairment test is required instead. Accordingly, ¥7,691 million of amortization of goodwill recorded as an expense for the year ended December 31, 2011 under JGAAP has been reversed in accordance with IFRS.
- B Translation of Goodwill and Fair Value Adjustments
Under JGAAP, following the application of accounting standard for business combinations prior to January 1, 2011, foreign currency-denominated goodwill and fair value adjustments arising on the acquisition of shares in a foreign subsidiary were required to be measured at the rate on the date of occurrence. Under IFRS, following the Group Companies’ retrospective application of translation of any goodwill arising on the acquisition of a foreign operation and any fair value adjustment to the carrying amounts of assets and liabilities arising on the acquisition of such foreign operation (foreign currency-denominated goodwill and fair value adjustments), as required under IAS 21 “The Effects of Changes in Foreign Exchange Rates,” foreign currency-denominated goodwill and fair value adjustments translated by the rate on the date of occurrence are translated by the exchange rate on the closing date under IFRS.
- C Put Options Granted to Non-controlling Interests
Under IFRS, if there are provisions regarding options in shareholders’ agreements concluded on business combinations, along with certain premises being met, put options held by non-controlling interests are required to be recorded as part of financial liabilities based on IAS 32 “Financial Instruments: Presentation”. Accordingly, such financial liabilities have been reclassified from non-controlling interests (minority interests) as originally recorded, and any amount in excess of non-controlling interests is treated as adjustment items in net assets.
- D Classification and Measurement of Financial Assets
Under JGAAP, investment securities are classified and measured according to the purpose of holding, while other financial assets are subject to specific rules applicable by their nature. Under IFRS, all financial assets are required to be classified in accordance with the unified rules, to fair value measurement or amortized cost measurement, and measurement is conducted accordingly.
- E Reserves in accordance with the Special Laws

Under JGAAP, reserves under the special laws are recorded in accordance with the provisions of Article 46-5 of Financial Instruments and Exchange Act as well as Article 221 of Commodity Exchange Act. On the other hand, since provisions are required to be for obligations in nature in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets," such reserves are reversed under IFRS.

F Compensated Absence Liability

Since there are no specific accounting standards in respect of compensated absences, nor accounting practice to record such liability in accordance with JGAAP, compensated absence liability is not recognized. On the other hand, if compensated absences are qualified (of all short-term employee benefits in the form of compensated absences) as accumulated compensated absences, and if they meet the requirements for recording provisions, such liability is recognized as compensated absence liability.

G Income Taxes

Under JGAAP, recoverability of deferred tax assets is determined by sufficiency of taxable income based on earning power, presence of tax planning and sufficiency of taxable temporary difference, where the balance sheet amount of deferred tax assets is restricted to the extent that the effect to reduce the amount of future tax payment is certain to be realized. Given the aforementioned circumstance, the Group Companies are considering the scheduling period and the amounts to be recorded, based in principle on the classification standard provided under the Japanese Institute of Certified Public Accountants Audit Committee Report No. 66 "Audit Treatment Concerning Judgments with Regard to Recoverability of Deferred Tax Assets". Under IFRS on the other hand, as recorded amount of deferred tax assets must be reduced within the extent of reduced probability of earning taxable income sufficient to partially or fully realize the benefit of deferred tax assets, deferred tax assets is recognized only if taxable income is probable to be earned at the point when deductible temporary difference is used. As a result of the Group Companies' review of the recoverability of deferred tax assets based on such standards, differences between JGAAP and IFRS were identified.

H Others

Others in the above reconciliation schedule include the effects primarily from the following.

Scope of consolidation: Transition from JGAAP to IFRS involved effects from the consolidation of certain investment funds and trusts. Under JGAAP, other entities were consolidated when the Group Companies had control over their decision-making bodies, while the investment funds and trusts were excluded from the scope of consolidation if their decision-making bodies were not deemed to be under the control of the Group Companies. Under IFRS on the other hand, investment funds and trusts are consolidated if they are determined to be under the control of the Group Companies, determined by whether the Group Companies retain substantial control over the activities that gives variability to the investment returns. Accordingly, the Group Companies consolidate investment funds and trusts under their substantial control according to the determination of scope of consolidation.

(Millions of yen)

	January 1, 2011	December 31, 2011
Effects on net assets	¥604	¥162

Gross presentation: Under JGAAP, financial assets for securities business and financial liabilities for

securities business were presented on net basis after offsetting the financial assets and financial liabilities in accordance with “Regulations Concerning the Accounting Unification in Securities-related Business,” whereas under IFRS, only those involving legally enforceable rights to offset along with intention to settle financial assets against financial liabilities are presented on net basis.

(Millions of yen)		
	January 1, 2011	December 31, 2011
Effects on assets and liabilities	¥115,993	¥78,192

Revenue recognition: Under JGAAP, there are no specific accounting standards or other criteria whether to present revenue in a gross basis or in a net basis, except for the statement in the Report on Practical Solution on Revenue Recognition of Software Transactions. Under IFRS, it is required to determine whether to account transactions in a gross basis or in a net basis, based on the review of the relevant facts and circumstances to determine whether an entity is acting as a principal in the transaction, or acting as an agent in the transaction. As a result of such review within the Group Companies, revenues are presented on a net basis, for the transactions considered to be conducted by the Group Companies acting as agents. As a result of this reconciliation, “Revenue” and “Operating expenses” have decreased by ¥18,869 million, respectively.

Customer Loyalty Programs: The Group Companies are providing the point program with the purpose to encourage repeated access and shopping by customers. In JGAAP, there is no specific accounting standards or other criteria on accounting treatments for such point program. However, as mentioned in "Research Report on Revenue Recognition in Japan (interim report) — considerations in light of IAS 18 ‘Revenue’" (Accounting Practice Committee Research Report No. 13, The Japanese Institute of Certified Public Accountants), it is generally accepted in practice that goods and services granted in exchange for points are estimated as operating expenses, with associated liability recorded as “Provision for point card certificates” based on the estimated future cost. In accordance with this method, the Group Companies record the amount as “Reserve” that meets the future usage of unused balance of points at the end of each month or each year, and fund settlements with the shops participating in Rakuten Ichiba or Group Companies, as well as fund settlements associated with the point exchange with other companies, are all recorded through statements of income.

Under IFRS, according to IFRIC 13 “Customer Loyalty Programs,” points are not deemed as expenses directly associated with the goods or services delivered at the initial sales, but as individual goods or services to be delivered in the future, thus points are required to be recognized as independent component of the initial sales transaction, and a liability is continued to be recognized until the obligation to deliver such goods or services is fulfilled. In addition, since the Group Companies are collecting considerations substantially as agents in most of the Group Companies’ point programs subject to the application of IFRIC 13, revenue is recognized on a net basis.

As a result of this reconciliation, “Revenue” and “Operating expenses” have decreased by ¥14,268 million, respectively.