

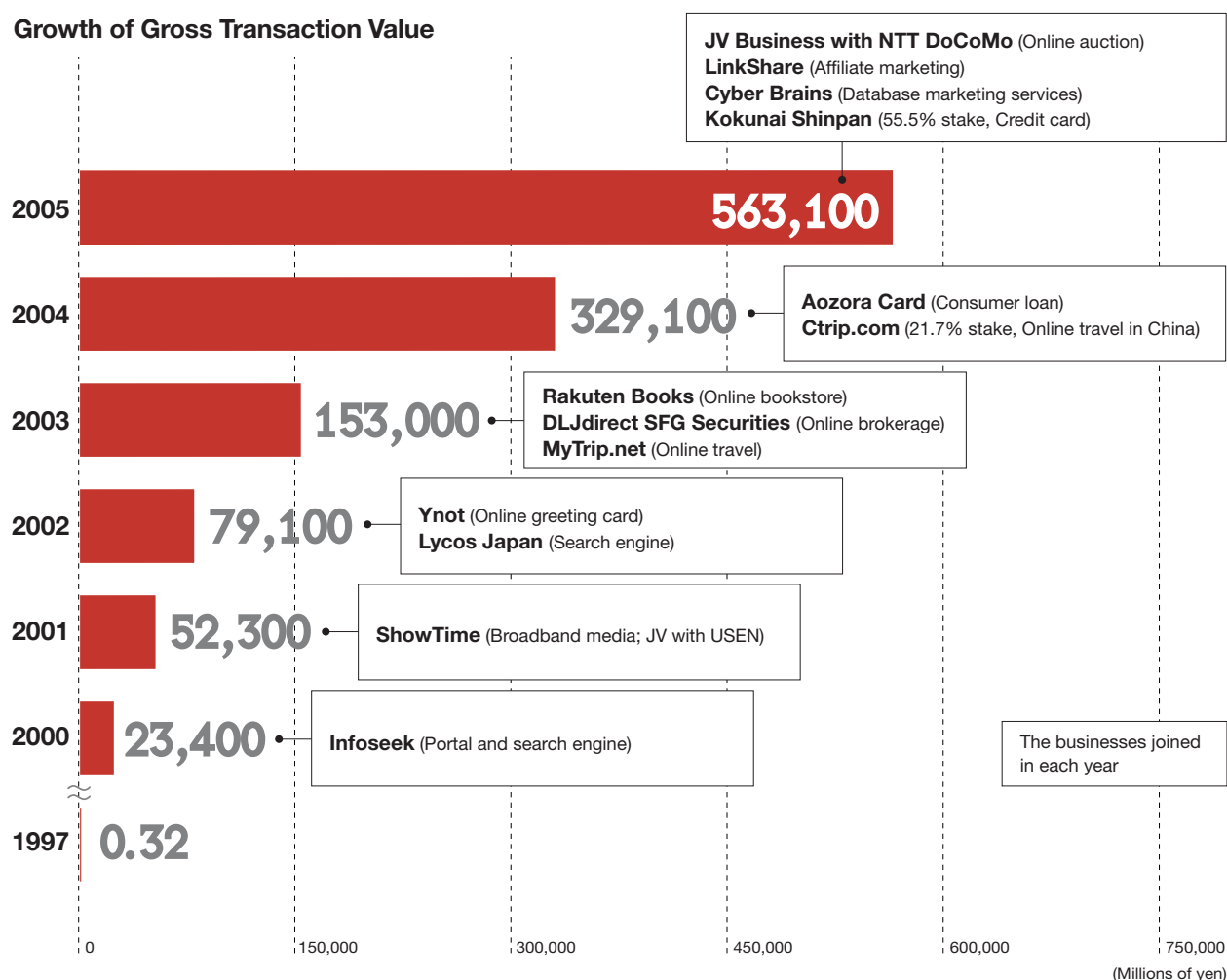


**Rakuten, Inc.**  
**Annual Report**

**Fiscal Year Ended December 31, 2005**

## Only one company can converge the Internet and membership business.

The Rakuten Group had been pursuing Group synergies aiming at one trillion yen in gross transaction value. Looking to the future, we will seek further growth by maximizing the value of our services for members.



**Disclaimer**

- The statements in the annual report with respect to current plans, strategies, beliefs and other statements that are not historical facts of Rakuten, Inc. and its consolidated subsidiaries and affiliates (Rakuten Group) are forward-looking statements.
- Such forward-looking statements are based on management's assumptions and beliefs in light of the information currently available to it. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those discussed in the forward-looking statements, and therefore you should not place undue reliance on them. We do not intend to update these forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable laws.
- All the consolidated financial data in this annual report have been prepared in accordance with accounting principles generally accepted in Japan and rounded down to the nearest numbers.
- "Rakuten", 楽天 and Rakuten are the registered trademarks of Rakuten, Inc. in Japan.

## Rakuten's Competitive Market Position in Japan

<b>E-Commerce</b>	<b>1 Rakuten Ichiba</b> <sup>1</sup> 2 Yahoo! Shopping 3 Amazon 4 Livedoor Shopping 5 -
<b>Online Travel</b>	<b>1 Rakuten Travel</b> <sup>2</sup> 2 Jalan.net 3 Ikyu.com 4 Best Reserve 5 -
<b>Online Securities</b>	1 E*Trade Japan <b>2 Rakuten Securities</b> <sup>3</sup> 3 Matsui Securities 4 MONEX BEANS 5 Kabu.com
<b>Portal</b>	1 Yahoo! <b>2 Rakuten Infoseek</b> <sup>4</sup> 3 Global Media Online 4 Nifty 5 msn
<b>Online Auction</b>	1 Yahoo! Auction 2 Bidders <b>3 Rakuten Auction/Rakuten Furima</b> <sup>5</sup> 4 - 5 -
<b>Blog</b>	<b>1 Rakuten Hiroba</b> <sup>6</sup> 2 Livedoor 3 Yahoo! 4 Goo 5 -

### Notes:

1. By gross transaction value including books. Source: Fuji-Keizai (October, 2005)
2. By gross transaction value. Source: Company Information (Rakuten Travel, Ikyu.com), Nikkei Marketing Journal (Oct-19, 2005)(Jalan.net), Company estimate based on Tokyo Shoko Research Data (Best Reserve)
3. By average daily transaction volume from April 2005 to January 2006. Source: Company Releases
4. By reach, property, home panel for December, 2005. Source: Nielsen/NetRatings
5. By gross transaction value. Source: Company Releases
6. By page views for 12 months from January 2005 to December 2005. Source: Nielsen/NetRatings

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# A Year of Heightened Synergy Among Rakuten Group Businesses

### Rakuten's Strategies Yielded Strong Results for FY2005

Since its founding in 1997, the Rakuten Group has been dedicated to serving its customers through the creation and expansion of innovative web services. One major initiative during fiscal 2005 was to enhance our user experience through the unification of user IDs under a common Rakuten membership ID. This initiative facilitated greater usage and provided a "one-stop" service wherein users can access our various offerings with a single ID.

Projects such as this as well as many other customer-oriented initiatives contributed to each of our service

segments demonstrating strong performance; both revenue and profit were at record highs. Net sales surged 184.8% year-on-year to ¥ 129.7 billion and ordinary income jumped 131.5% to ¥ 35.8 billion.

This past year, we also continued to focus on strengthening the Rakuten brand. We dramatically increased the awareness of our brand by entering the highly visible field of professional baseball with the creation of the Rakuten Eagles. In addition, we strengthened our brand equity by combining our various services under a unified Rakuten brand. Finally, we actively encouraged customer usage across our various services through the promotion of our Rakuten Super Point program, a comprehensive customer loyalty program.

These various initiatives have helped to significantly increase user traffic (the number of visits), which has in turn significantly augmented the volume of transactions for the entire Group, and has led to exponential growth in revenues and profit. Consequently, fiscal 2005 was a year in which our past business strategy bore dramatic results in terms of Group synergies.

### Laying the Foundations for Further Growth

The Rakuten Group also aggressively embarked on several new initiatives in fiscal 2005 to ensure continued future growth. We began to lay the foundations for overseas operations by acquiring U.S.-based LinkShare Corporation, one of the world's largest affiliate marketing companies. Through LinkShare's operation, which serves more than 500 blue-chip merchants, we will become active in the U.S. e-commerce marketplace and leverage the solid customer base of LinkShare for further international expansion. We also entered the credit card business by turning Kokunai Shinpan Co., Ltd. (currently Rakuten KC Co., Ltd.) into a consolidated subsidiary. Furthermore, Rakuten began negotiating a business alliance with Tokyo Broadcasting System, Inc. (TBS) in order to explore possibilities for integrating the Internet and broadcasting .

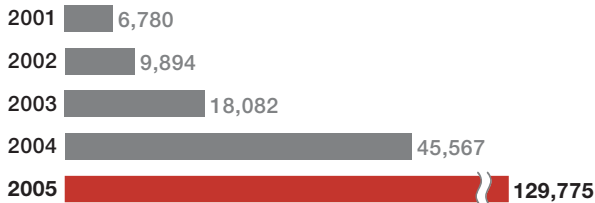


Hiroshi Mikitani, Chairman and CEO

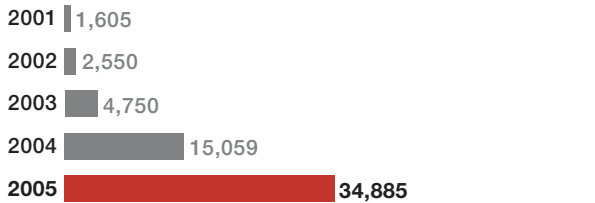
A handwritten signature in black ink that reads "Hiroshi Mikitani". The signature is written in a cursive, flowing style.

## Financial Highlights (Consolidated)

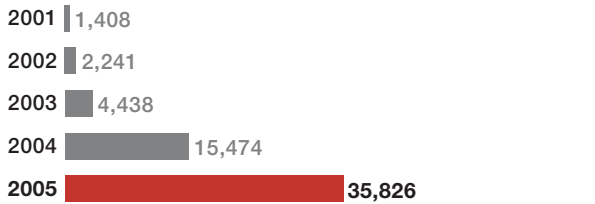
### Net Sales (Millions of yen)



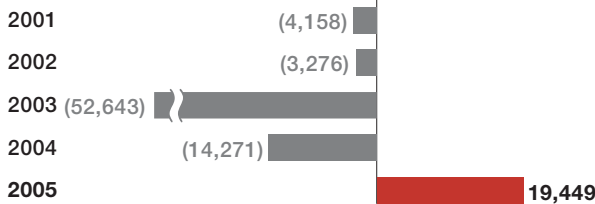
### Operating Income (Millions of yen)



### Ordinary Income (Millions of yen)



### Net Income (loss) (Millions of yen)



## Rakuten Ichiba – The Largest Online Shopping Mall in Japan

- Rakuten Group members: 33 million (as of March 31, 2006)
- Products: More than 15 million
- Merchants: 15,781 (as of March 31, 2006)



- 1 A Large Variety of Merchandise
- 2 Personal Customized Page
- 3 Links to Other Rakuten Services
  - Online securities
  - Credit card
  - Consumer loan
  - Online travel
  - Online bookstores
  - Portal sites

**Q. What are the distinctive features and strengths of the Rakuten Group?**

**A. We operate Rakuten Ichiba, Japan’s largest e-commerce site, and provide one-stop access to diverse services encompassing shopping, hotel reservations and financial services.**

Rakuten, Inc. was established in 1997 to launch an e-commerce marketplace which we called Rakuten Ichiba. The pioneering concept of Rakuten Ichiba was to enable people with strong business skills to easily set up online businesses at a time when the production of an effective e-commerce site required advanced technical skills. That customer-oriented focus continues today.

We continue to build our business by delivering convenient solutions to both the consumers and our merchant partners. As a result, we have enjoyed rapid growth in terms of gross transaction value, or gross merchandise sales through the shopping mall and, today, Rakuten Ichiba has established its position as one of the Japan’s largest internet service sites with a membership of 30 million and over 500 billion yen in gross transaction value per year. Rakuten, Inc. conducted an initial public offering in 2000 and, as of December 31, 2005, has a market capitalization of approximately 1.3 trillion yen, making us the seventh largest Internet-related company in the world.

Following the initial public offering in 2000, we further expanded the Rakuten Ichiba business and extended the services we could make available to our loyal customer base through several acquisitions of online and offline businesses, including portal sites (Infoseek), online hotel reservations (MyTrip.net), online brokerages (DLJdirect SFG Securities) and consumer credit services (Aozora Card, Kokunai Shinpan).

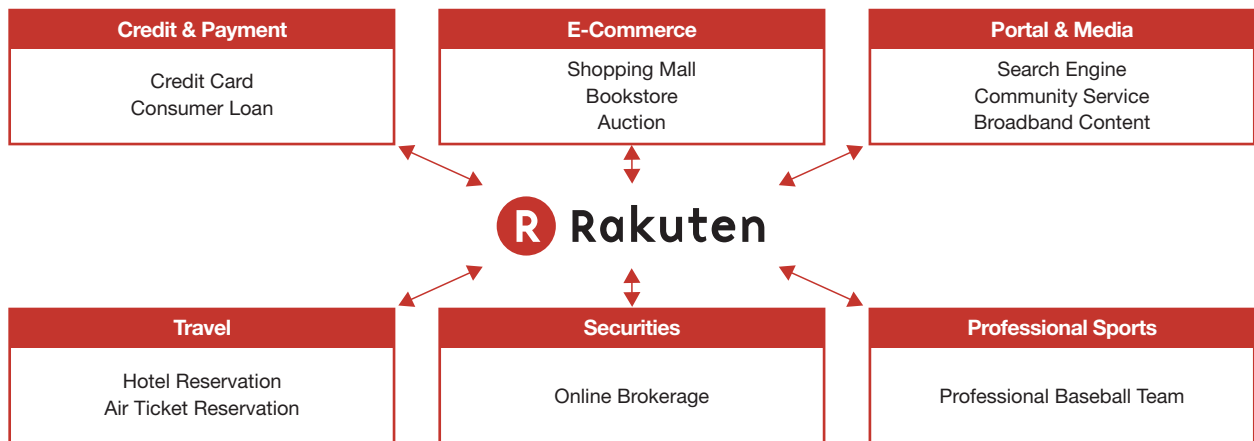
Each of those businesses, in turn, had users which contributed to the overall increase in participation and use of Rakuten’s other services and gross transaction value. An overriding benefit to such synergies – attracting more customers and greater cross-utilization of our services – is strong brand recognition and loyalty.

The integration of so many diverse businesses is a challenge which we approach by managing all of the businesses according to the same “five concepts of success” which we set out at the time of Rakuten’s establishment.

Goal of Rakuten Group : To be the No.1 Internet Service Company  
 The five concepts of success at Rakuten Group:

- Get Things Done
- Complete Professionalism
- Hypothesize, Execute, Verify and Incorporate
- Maximize Customer Satisfaction
- Speed!! Speed!! Speed!!

By sharing the goal and guideline of conducting business among all the employees, we maintain the quality of the management and the ability of execution to achieve high organic growth. We are poised for further growth and provide a variety of Internet services in the six business areas of E-Commerce, Credit and Payment, Portal and Media, Travel, Securities and Professional Sports with Rakuten Ichiba operations at the core.



## Q. What is Rakuten's Growth Strategy?

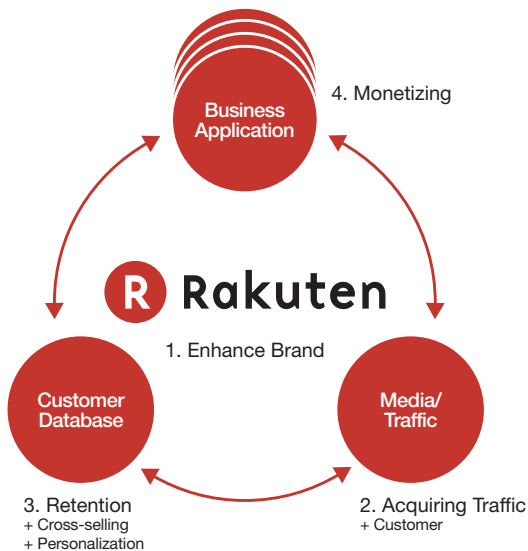
**A.** Rakuten seeks to exploit the convergence between the Internet, with its power of distribution and reach, and membership businesses, with their high brand recognition and loyalty, to maximize lifetime value of our customers.

The Rakuten Group's aggressive promotion of initiatives to maximize Group synergies, including enhanced services to improve user convenience, database marketing enabled by our 30 million-plus membership, and a brand strategy, is greatly responsible for its unprecedented growth at a blistering pace in the less than ten years since the company's founding. We have identified four growth drivers for continued, even accelerated, growth going forward:

1. enhancing the Rakuten brand;
2. acquiring more traffic and customers;
3. customer retention, cross-selling and personalization; and
4. monetization.

Let me explain each of these four growth drivers in more detail. The first is enhancing the Rakuten brand. I believe we have achieved nearly 100% recognition for the Rakuten Group and Rakuten Ichiba in Japan. It is important, however, to move beyond simply being known and increase the strength of our presence to create a stronger relationship with our customers and develop brand loyalty across a broader range of offerings. Based on this goal, we pursued a full-scale brand strategy in 2005. First, we unified the names of major Group companies and their services under the Rakuten brand and adopted a common brand logo. In addition, our entry into professional sports with a new baseball franchise in 2005, the Rakuten Eagles, dramatically boosted awareness of the brand. Consumer recognition of our brand rose significantly, leading to our selection as the "Most Innovative Brand (2005)" by "Brand Japan" based on a consumer brand awareness rating conducted by Nikkei BP Consulting.

### Building Strong Bonds Between Key Growth Drivers



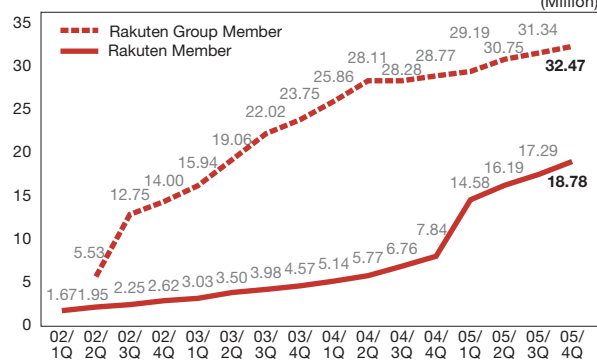
### Integration of Brand Logos

Old logo	New logo
	Rakuten Ichiba
	Infoseek
	Rakuten Travel
	Rakuten KC
	Rakuten Securities

楽天 is the registered trademark of Rakuten, Inc. in Japan.

The second growth driver is acquiring more traffic and customers. Current page views per day for the Rakuten Group have reached 244 million in the fourth quarter of fiscal 2005, representing dramatic growth over the past three years from 52 million page views per day in the same period of 2002. Since 2002, we have sought to integrate the separate membership IDs used by each of our services under one Rakuten Membership ID. This improves user convenience dramatically and helps our customers see us as a one-stop service, especially as we expand our service offerings through acquisitions and alliances and leverage the synergies among them.

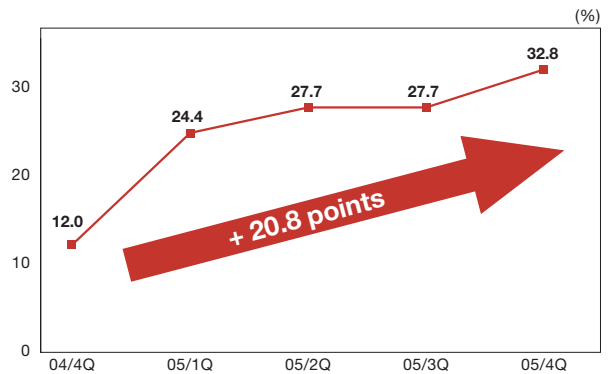
**Acquire Traffic and Customers**



The third growth driver is customer retention, cross-selling and personalization. The objective is to build a solid customer base by promoting multiple uses of the various services we provide and implementing one-to-one marketing and other measures. Concrete initiatives include the Rakuten Super Point program, in which points are accumulated by using Rakuten services, and stronger database marketing. Having advanced in our ID integration effort, in 2005, to strengthen marketing targeted at individual users, we grasped each user's purchasing preferences and provided recommendations based on purchasing histories. Rakuten Super Point Program is the one of the worlds' first comprehensive customer loyalty programs on the Internet. The program drives customer activity over segments, increases cross-selling opportunities and promotes loyalty and customer retention. Rakuten Securities provides a concrete example of the result of these activities. In the

fourth quarter of fiscal 2005, approximately 30,000 new accounts were being opened each month at Rakuten Securities, of which 32.8% were customers who originated through use of Rakuten Ichiba. Furthermore, nearly two out of ever three new customers of Rakuten Securities — an extremely high ratio — are Rakuten members, demonstrating the synergy between our E-Commerce and Financial businesses.

**Percentage of New Accounts through Rakuten Ichiba to Total New Accounts**



The fourth growth driver is monetization of transactions on our service sites, which involves generating profit through the initiatives explained above. The Rakuten Group's advantage lies in our ability to maximize the utilization of our services per user as well as to cut customer acquisition costs through our common brand, database and point system. I believe that in the final analysis, reducing the cost of acquiring new customers and improving the lifetime value of existing customers are the two paths to creating profitability.

From a collection of powerful sites to a corporate group that generates significant synergies and on to the creation of new value—we will strive for innovation at the Rakuten Group by pursuing group synergies toward our goal of becoming the No. 1 Internet company in the world. We will, however, remain committed to the customer-oriented stance upon which our company was founded. By maintaining this basic commitment, the Rakuten Group will strive toward the realization of a society where all information is gathered on the Internet.



**Q. What is the Rakuten Group's approach to Corporate Governance?**

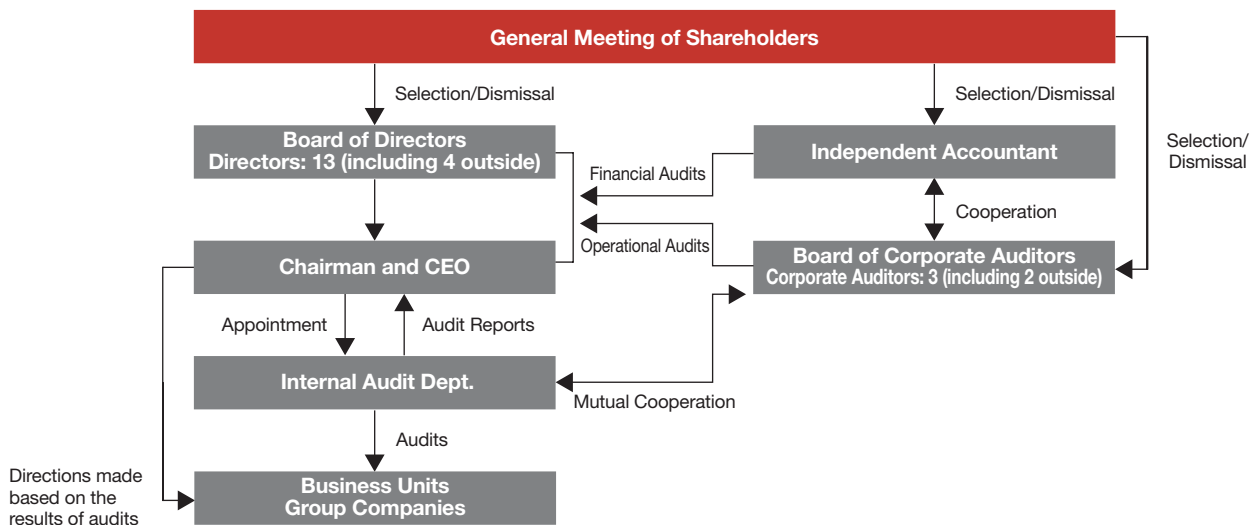
**A. We are striving to establish a Corporate Governance structure that will enhance the competitiveness of the Group and maximize corporate value.**

In order to enhance the Group's competitiveness and maximize its corporate value, Rakuten places high priority on enhancing the functions of the Board of Directors, the company's ultimate decision-making body, improving auditor oversight of business execution by directors, and strengthening internal check functions to prevent misconduct.

Moreover, to prevent the company from pursuing extremely short-sighted business goals and prevent a degradation in its corporate governance system, flexible organizational restructuring is being implemented to ensure that the company remains profitable over the medium and long terms, makes management decisions that prioritize maximization of profit, and conducts businesses efficiently in a way that accommodates changes in the operating environment.

Rakuten supervises management by using a corporate auditor system. In March 2003, Rakuten adopted the executive officer system to separate the roles of management supervision and business execution. Functions that were until then performed by the Board of Directors have been divided, making directors responsible for management decision-making and supervision and executive officers responsible for the execution of business activities. In addition, the in-house company system was adopted to build a more powerful management framework for each Group business. At the same time, the Group was reorganized, including changes to the responsibilities of each director, based on a reassessment of the similarities and relationships of business activities.

**The corporate governance framework of the Rakuten Group**  
(As of March 30, 2006)



### **Directors, Board of Directors, Board of Executive Officers, etc.**

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The Board of Directors has 13 members, including four outside directors. The directors hold regular monthly meetings and extraordinary meetings as necessary. At meetings, the directors reach decisions concerning important matters involving management and supervise the performance of directors and executive officers responsible for business activities.

The Group also has an Executive Committee, which is made up of executives at the Senior Executive Officer level and above, a company management committee at each operating company, and a Corporate Headquarters Committee, which is overseen directly by the Group's Chairman and CEO. These committees discuss important strategic matters, such as basic policies for medium- and long-term management plans. This provides a framework that enables the directors to reach proper decisions.

In addition, matters directly related to business activities are examined by the 33-member Executive Officer Committee, which is made up of the Group's, chairman and CEO, other directors, presidents of operating companies, and certain other executives. This system ensures that issues are examined and debated from a variety of viewpoints.

### **Corporate Auditors, Board of Auditors**

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There are three corporate auditors, two outside the Group and one who was a director of a subsidiary. The Board of Auditors holds regular meetings and extraordinary meetings as necessary.

The auditors attend meetings of the Board of Directors and other important meetings, receive reports on the performance of duties by directors, the Internal Audit Department and other sources, check operations at the head office and other important business sites, and check subsidiary operations. These activities are performed in line with audit policies, plans and other parameters established by the Board of Auditors. In addition, the auditors receive auditing reports from the independent accountant and examine the financial statements and related documents. The auditors also hold meetings with the Chairman and CEO to discuss various matters.

### **Financial Audits**

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Rakuten has an auditing contract with Ernst & Young ShinNihon to perform financial audits as prescribed by the Japanese Commercial Code and Securities and Exchange Law.

### **Internal Audits**

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The Internal Audit Department performs audits based on an annual internal audit plan for the purpose of checking activities at each department and group company. These audits cover internal controls, including items such as the legality, suitability and efficiency of activities, and progress with regard to compliance programs. Results of internal audits are reported to Chairman and CEO as well as all directors and executive officers involved. Reports are also submitted to the Board of Auditors so that this information can be used for audits performed by the corporate auditors.

### **Internal Control System**

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Rakuten has an Internal Administration System Committee for the purpose of reinforcing programs involving compliance and corporate ethics. In the event that a law or regulation is violated, this committee takes steps to prevent a reoccurrence of the problem. The auditors and Internal Audit Department perform regular audits to verify that these steps are functioning as planned.

Rakuten also ensures the timely and appropriate disclosure of information based on judgments about necessity of disclosure by corporate auditors.

### **Risk Management System**

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Risks resulting from ordinary business activities are managed by the relevant divisions and business units with the assistance of the Security Headquarters, which was established in August 2005. Concerning management-related risks that could have a significant impact on business activities, each division and business unit studies these risks and considers countermeasures that are assessed by the Executive Committee, operating company management committees and Board of Executive Officers. Other types of risks are assessed by the Board of Executive Officers and other committees. The Group receives advice concerning risk management as necessary from attorneys and other specialists.

**Boad of Directors and Corporate Auditors**  
(As of April 20, 2006)



**Hiroshi Mikitani**  
Chairman and CEO

Directors

**Atsushi Kunishige**  
Executive Deputy President and Director

**Toru Shimada**  
Senior Executive Officer and Director

**Yoshihisa Yamada**  
Senior Executive Officer and Director

**Takashi Yoshida**  
Senior Executive Officer and Director

**Masatada Kobayashi**  
Senior Executive Officer and Director

**Akio Sugihara**  
Senior Executive Officer and Director

**Ken Takayama**  
Senior Executive Officer and Director

**Manabu Mori**  
Executive Officer and Director

**Kouichi Kusano**  
Director  
(Attorney of the Law)

**Hisashi Suzuki**  
Director  
(the Chairman of LDH, Inc.)

**Muneaki Masuda**  
Director  
(CEO of Culture Convenience Club Co., Ltd.)

**Tatsumi Yoda**  
Director  
(the Chairman of Gaga Communications, Inc.)

Corporate Auditors

**Kouji Hata**  
Corporate Auditor

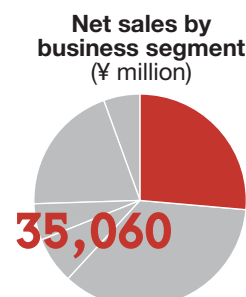
**Katsuichiro Masumi**  
Corporate Auditor

**Katsuyuki Yamaguchi**  
Corporate Auditor

Note: Mr. Hata and Mr. Yamaguchi are outside corporate auditors stipulated in Paragraph 16, Article 2 of the Corporation Law of Japan.

# E-Commerce Business

The Group's E-Commerce Business Company comprises the E-Commerce Business segment, which focuses on operating websites and providing services related to electronic commerce centered on retailing as well as operating entertainment-related websites and services. Net sales for fiscal 2005 grew 63.5% year-on-year to ¥35,060 million and operating income rose 64.0% to ¥11,673 million.



## Operation Review

### Maintaining High Growth in Both Net Sales and Operating Income

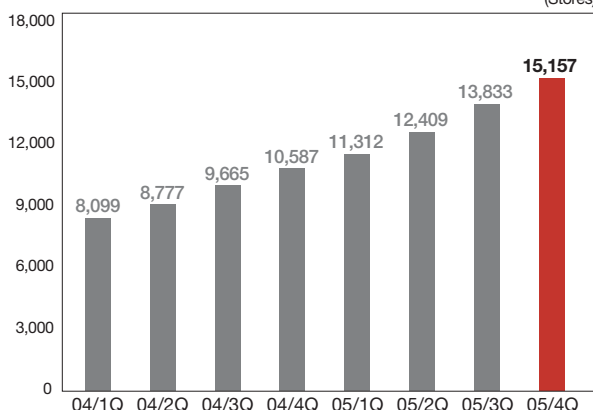
Rakuten Ichiba, the mainstay of the E-Commerce Business, observed the number of new registered merchants reach a record-high of 818 in December 2005 with the total number of merchants exceeding 15,000 within the same month. Gross merchandise sales (GMS) of the E-Commerce Business were higher than ¥330 billion, even excluding the additional effect of the newly consolidated LinkShare Corporation. This steadily expanding scope led to considerable increases in margin sales and advertisement

sales, enabling this enterprise to maintain its significant contribution to consolidated financial results as the Group's mainstay business.

To raise the level of service, we implemented measures such as improving the functionality and convenience of Rakuten Ichiba, providing attractive content and enhancing payment by introducing R-Card Plus, a credit card settlement program for merchants.

Furthermore, we endeavored to bolster our mobile services in view of the advance in mobile commerce led by younger users in their teens and twenties, as demonstrated by GMS (gross merchandise sales) of Japan' e-commerce via mobile phones approaching 10% of total e-commerce GMS.

**Number of stores (number of registered merchants)** (Stores)



### T O P I C

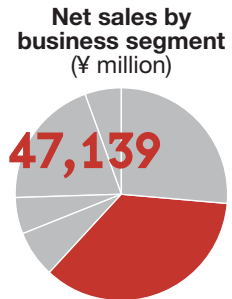
#### Establishment of Rakuten Auction in Joint Venture with NTT DoCoMo

The Rakuten Group had previously provided two types of auction services—Rakuten Furima (Rakuten Flea Market) and Rakuten Super Auction. To aggressively pursue the future development of efficient, flexible services in this field, we separated the Internet Auction Business division to establish Rakuten Auction, Inc. in a joint venture with NTT DoCoMo, Inc. Through this move, we will strengthen our response to the expansion of mobile commerce and seek to further accelerate the growth of our internet auction business.

# Credit and Payment Business

Of the Group's Financial Service Business Company, Rakuten KC, Co., Ltd., Rakuten Credit, Inc. and their consolidated subsidiaries and affiliates constitute the Credit and Payment Business Segment, which is primarily concerned with the credit card business as well as the shopping credit and consumer loan businesses.

Net sales for fiscal 2005 jumped 5,970.7% year-on-year to ¥47,139 million and operating income was ¥6,332 million, compared with an operating loss of ¥110 million in the previous fiscal year.



## Operation Review

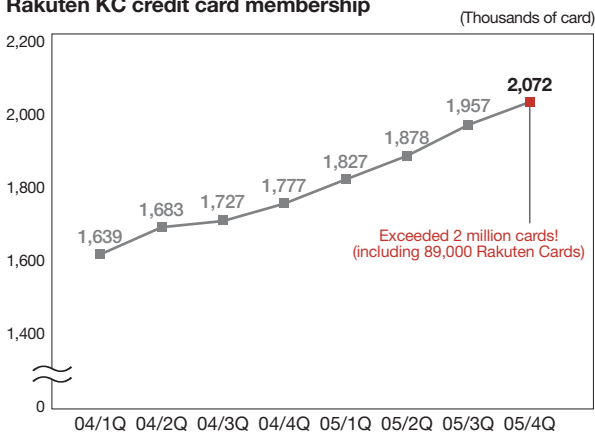
### Solid Performance from Both Rakuten KC and Rakuten Credit

In June 2005, the Rakuten Group joined by Kokunai Shinpan Co., Ltd. (now Rakuten KC, Co., Ltd.) made a full-scale launch of its credit card business. This move enabled us to provide a comprehensive service including payment in our E-Commerce Business. Increased recognition of the Rakuten brand and growth in distribution and new customers at Rakuten Ichiba provided a boost to Rakuten KC, Co., Ltd. when its corporate name was changed from Kokunai Shinpan, Co., Ltd. in October. As a result, the number of new

credit card members showed a steady rise and profit expanded in the shopping credit and loan businesses.

Rakuten Credit, which operates a consumer loan business primarily targeting medium- to high-income groups, sought to capture customers by offering loans at the industry's lowest interest rates, and as a result the number of new loan contracts increased significantly by 2 to 2.3 times compared with the previous fiscal year. The accompanying rise in outstanding loans to more than ¥50 billion contributed to bringing the business into the black. Significant year-on-year growth was also due to synergies sought with other services, including a focused effort to cultivate new customers through guaranteed loans, a tie-up loan with Rakuten KC.

### Rakuten KC credit card membership



### T O P I C

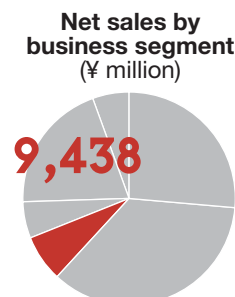
#### Rakuten KC Obtains VISA Special Licensee Rights

In November 2005, Rakuten KC obtained special licensee rights from VISA International to independently issue VISA cards. We became the second consumer loan business in Japan to obtain this right since Nippon Shinpan Co., Ltd. (now UFJ NICOS Co., Ltd.) in 1987, and the sixth non-banking company to do so. Beyond Rakuten KC's current card membership of 2.07 million, we were highly regarded for our approximately 30 million Rakuten Group members who represent potential card customers, as well as for the future business opportunities and high growth prospects of our Internet-based business model.

# Portal and Media Business

The Group's Portal and Media Business Company comprises the Portal and Media Business segment, which focuses on operating portal sites that serve as gateways to the Internet and engages in other activities such as providing online greeting card services, distributing broadband content, and research.

Net sales for fiscal 2005 rose 64.8% year-on-year to ¥9,438 million and operating income grew 77.2% to ¥1,929 million.



## Operation Review

### Focused Effort to Maximize Media Value through Enhanced Content

In fiscal 2005, we focused on maximizing group synergy and media value centered on the three core business fields of media, tools and community. In June 2005, Cyber Brains Co., Ltd. (now Rakuten Research, Inc.) was integrated into the Group to strengthen our Internet research business. Furthermore, we endeavored to differentiate our service from the competition and provide greater convenience for users as a total community service. These actions included the release of Rakuten Hiroba Photo service and video service,

which are linked to Rakuten Hiroba's blog service, and an upgraded Rakuten Hiroba mobile edition. In terms of media, we launched a preliminary version of the lifestyle magazine "STAR soccer," utilizing the three channels of print publishing, the website and mobile phones. As a result, we attained continued increases in sales and income from the previous fiscal year due to steady growth in advertisement sales and greater profitability achieved by improved operational efficiencies.

#### Expanded Service and Media Offerings

- Infoseek—comprehensive portal site featuring a broad range of content
- Ynot—Internet-based greeting card delivery service
- Minna-no-Shushoku-Katsudo-Nikki (Everyone's Job-Seeking Diary)—community site offering information on job opportunities, mainly for new college graduates
- Rakuten TV—CS broadcasting channel
- Target—Advertising agency and marketing service
- Rakuten Research—Internet research service
- ShowTime—portal site offering broadband content
- STAR soccer—lifestyle magazine revolving around soccer

#### T O P I C

#### Launch of "STAR Soccer"—A Lifestyle Magazine Revolving Around Soccer

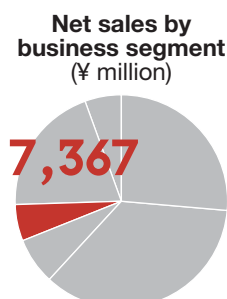
The Rakuten Group is seeking to diversify its information media offerings and attain a mix of the Internet and other media. In our first attempt, we launched a magazine titled "STAR soccer." Looking ahead, we will present a completely new media model that leverages the characteristic strengths of different media, such as the message-carrying power of magazines, the interactive features and marketing power of the Internet and the real-time advantages of mobile communications.



# Travel Business

The Group's Travel Business Company comprises the Travel Business segment, which focuses on operating travel-related websites and services, such as hotel bookings.

Net sales for fiscal 2005 increased 35.8% year-on-year to ¥7,367 million and operating income rose 37.9% to ¥2,982 million.

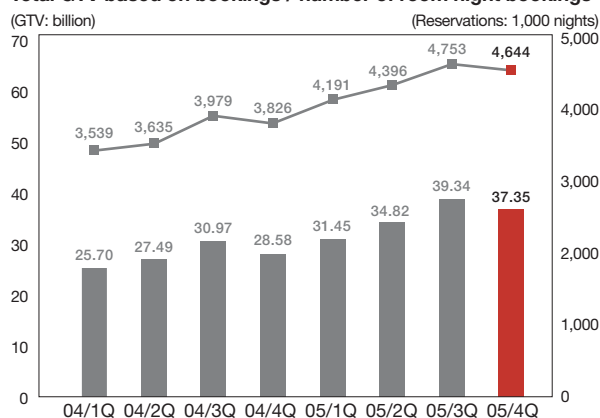


## Operation Review

### Continued Expansion in Gross Transaction Value (GTV) of Bookings

In fiscal 2005, we enjoyed solid business results as the rate of annual growth in total GTV based on bookings continued at a high growth rate of 26.8%, and as the transition to a new contract plan raised the number of rooms available for advanced bookings, resulting in higher sales.

### Total GTV based on bookings / number of room night bookings



To enhance user convenience and entertainment features, in December 2005 we launched Ranking Hiroba to rank popular accommodations. We also endeavored to expand our services as a comprehensive Internet-based travel service that offers one-stop booking from hotels to transportation by launching a service encompassing new travel options, including booking services for overseas airline tickets and highway express buses.

### TOPIC

#### First Internet-based Travel Agency to Complete Registration Change to "First Category Travel Agency"

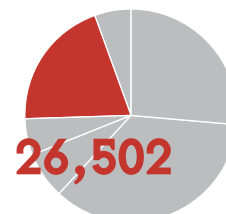
With the goal of providing comprehensive travel services, Rakuten Travel, Inc. changed its registration to "First Category Travel Agency" in August 2005. Until then, the company could only provide travel arrangement services based on its registration as a "Third Category Travel Agency." Changing registration enables the company to offer planned travel products such as packaged tours and to provide full travel services including overseas trips. We intend to seize this opportunity to provide new services, enhance user convenience and develop new travel needs.

# Securities Business

Of the Group's Financial Service Business Company, Rakuten Securities, Inc. and its consolidated subsidiaries and affiliates comprise the Securities Business segment. This segment provides online securities brokerage and other services.

Net sales for fiscal 2005 grew 101.6% year-on-year to ¥26,502 million and operating income rose 168.2% to ¥12,798 million.

Net sales by business segment (¥ million)



## Operation Review

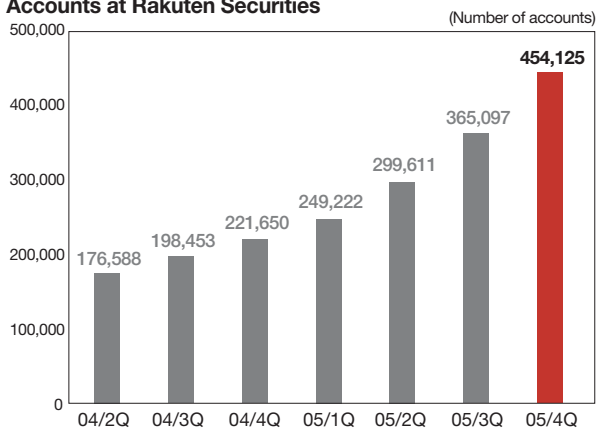
### Sales and Income Grow Dramatically

In fiscal 2005, sales and income surged as an increasingly widespread optimistic economic outlook led to the Japanese stock market boom centered on individual investors. Consequently brokerage-related income (commissions) increased significantly and the number of accounts more

than doubled from the previous fiscal year.

On the other hand, the considerable increase in transactions led to a system failure. Based on this situation, we strengthened our efforts to ensure stable system operation by further reinforcing and improving systems-related hardware and software.

### Accounts at Rakuten Securities



### TOPIC

#### Release of "iSPEED" Online Trading Tool on Mobile Platform

"iSPEED" brings together on the mobile phone platform the real-time information and easy operability concepts of "market speed," an online trading and investment tool developed by Rakuten for personal computers. Stock prices are automatically updated at a minimum five-second interval—a first in the industry. This tool has been well-received by users for dramatically enhancing convenience by enabling the use of high-level trading functions anytime, anywhere.



Stock trading transactions menu

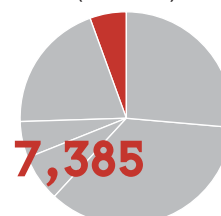


# Professional Sports Business

The Group's Professional Sports Business Company comprises the Professional Sports Business segment, which manages the Tohoku Rakuten Golden Eagles professional baseball team as well as the planning and sales of related goods.

Net sales in fiscal 2005 were ¥7,385 million and operating income was ¥156 million. No year-on-year comparisons are provided for net sales and operating income because the business segment was launched in fiscal 2005.

Net sales by business segment (¥ million)



## Operation Review

### Accomplished Operating Profit in the First Season

Fiscal 2005 marked the first season of the first new baseball team to be established in the last fifty years, and the team remained popular throughout the season with avid fan support. Ticket sales and fan club membership grew steadily, and as a result, net sales exceeded our initial projections by 17%, enabling us to launch the business with a profit.

### Major statistics for the Professional Sports Business

Item	
Number of games hosted	63
Stadium capacity (seats)	19,500
Official attendance	920,969
Average attendance per game	14,619
Fan club membership	38,261

Under new manager Katsuya Nomura, the Tohoku Rakuten Golden Eagles are steadily preparing for the second season. We will continue to promote facility investments including the refurbishments of the stadium, which increases seating capacity from 20,000 to 23,000, allowing more fans to enjoy the games. We also intend to concentrate our resources into further enhancing the team's strengths and sales activities to attract sponsors.

### TOPIC

#### Fullcast Stadium MIYAGI to be Reborn

In 2005, the former Miyagi Ballpark underwent a fabulous transformation into Fullcast Stadium Miyagi. The enhanced stadium facilities opened in March 2006. The refurbishments are intended to realize a ballpark that delivers the dreams and excitement of baseball to fans. We will continue our efforts to develop the team into an attractive franchise that responds to fan support.



Fullcast Stadium Miyagi  
Conceptual plan after completion  
of Stage II construction

# Financial Section

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The English translation of part of the “Yukashoken-Houkokusho” for the year ended December 31, 2005

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## Five-Year Summary (Consolidated)

	Millions of yen (unless otherwise stated)				Millions of U.S. dollars	
	2001	2002	2003	2004	2005	2005
<b>Net Sales</b>	¥ 6,780	¥ 9,894	¥ 18,082	¥ 45,567	¥ 129,775	\$ 1,099.1
<b>Ordinary Income</b>	1,408	2,241	4,438	15,474	35,826	303.4
<b>Net Income (loss)</b>	(4,158)	(3,276)	(52,643)	(14,271)	19,449	164.7
<b>Shareholders' Equity</b>	33,745	30,220	26,364	45,853	76,550	648.3
<b>Total Assets</b>	36,387	34,054	188,016	307,556	1,657,708	14,040.0
<b>Shareholders' Equity per Share (yen and U.S. dollars)</b>	341,703.03	30,092.66	23,570.48	38,814.92	6,464.58	54.75
<b>Net Income (loss) per Share (yen and U.S. dollars)</b>	(42,009.30)	(3,280.33)	(51,600.85)	(12,458.37)	1,642.50	13.91
<b>Net Income (loss) per Diluted Share (yen and U.S. dollars)</b>	—	—	—	—	1,626.19	13.77
<b>Equity Ratio (%)</b>	92.7	88.7	14.0	14.9	4.6	
<b>Return on Equity (%)</b>	(11.5)	(10.2)	(186.1)	(39.5)	31.8	
<b>Cash Flow From Operating Activities</b>	1,389	2,351	2,223	9,069	(43,358)	(367.2)
<b>Cash Flow From Investment Activities</b>	(6,180)	(3,286)	(59,924)	(30,040)	(144,116)	(1,220.6)
<b>Cash Flow From Financing Activities</b>	(661)	(695)	63,880	27,403	235,426	1,993.9
<b>Cash and Cash Equivalents</b>	21,358	19,671	25,790	32,390	80,849	684.7
<b>Number of Employees</b>	304	481	809	958	3,709	

Notes:

- The U.S. dollar amounts in the table of "Five-year Summary (consolidated)" are not included in the original "Yukashoken-Houkokusho" in Japanese.
- The U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥ 118.07 = U.S.\$ 1.
- All the consolidated financial data in this annual report have been prepared in accordance with accounting principles generally accepted in Japan and rounded down to the nearest numbers.

## 1. Review of 2005

In 2005, Japan's economy benefited from improvements in corporate earnings and employment levels due to strong growth in internal demand and a rebound in exports. These trends fueled an increase in consumer spending, resulting in a slow but steady improvement in the economy.

In this environment, there was also growth in Internet-related markets, business sectors where Rakuten is active. Growth took place in a variety of businesses that used the capabilities of sophisticated information networks. Internet use is growing across all age segments and utilization categories. Internet utilization is more than 90% in the 20 to 39 age group and has increased significantly in higher age groups. The year also saw an increase in Internet use via cell phones and other wireless devices. Another trend is the increasing use of broadband connections. The availability of low-cost, high-speed links has greatly increased Internet utilization even among individuals. Japan's consumer e-commerce market is now more than five times larger than it was in 2000. Almost 90% of individuals who access the Internet via a PC have made a purchase over the Internet. (Source: *Fiscal 2005 Data Communications White Paper*, Ministry of Internal Affairs and Communications)

As this growth occurs, the Rakuten Group is aiming to raise gross transaction values (GTV) at its websites to ¥1,000 billion and ordinary income to ¥100 billion. To accomplish this, Rakuten Group has been working to capture greater synergies among group companies, improve services and build a base for growth outside Japan.

To maximize synergies generated by collaboration among group companies, the Rakuten brand was firmly established

by adopting a unified logo and changing the names of group companies. Rakuten continued to switch the user IDs of group services to Rakuten member IDs. This integration offers customers more convenience and expands eligibility for Rakuten Super Points, thus encouraging customers to use more Rakuten services.

During 2005, Kokunai Shinpan Co., Ltd., a comprehensive consumer credit company, became a Rakuten subsidiary and was renamed Rakuten KC Co., Ltd. This company accounts for a major part of the Credit and Payment Business, which is closely linked and generated synergy with the E-Commerce Business. For example, Rakuten KC works with Rakuten Ichiba by offering payment processing services and conducting joint sales activities. This company also issues the Rakuten Card, a credit card specialized for Rakuten. Acquisitions were made in other business sectors, too. One new subsidiary is Cyber Brains Co., Ltd. (now Rakuten Research, Inc.), which conducts an Internet marketing research service. Another is STAR TOURS JAPAN Inc. (now RAKUTEN BUS SERVICES CO., LTD.), which operates a long-distance bus reservation website and other businesses. Furthermore, Rakuten purchased shares of Tokyo Broadcasting System, Inc. (TBS) in order to explore business opportunities in related fields that use the Internet and broadcasting. The two companies have been working hard on enlarging their business domains, including the creation of a Business Alliance Committee. The ultimate aim is to generate more synergies across the Rakuten and TBS groups. Separately, Rakuten has separated its Internet auction business into a subsidiary to expand the mobile commerce business. The new company, Rakuten Auction, Inc., was established through a business and equity alliance with NTT DoCoMo, Inc.

Thanks to these high-profile activities and the Tohoku Rakuten Golden Eagles professional baseball team, which

completed its first season, public awareness of the Rakuten brand increased. Brand recognition and other factors raised the number of Rakuten Ichiba stores to more than 15,000. Furthermore, the number of Rakuten members surged from 7.84 million at the end of 2004 to 18.79 million at the end of 2005.

Meanwhile, many steps were taken to improve services. For Rakuten Ichiba, notable measures included improvements in system functionality, greater ease of operation for users, the provision of more appealing content, and the upgrading of payment functions through the introduction of R-Card Plus, a credit card payment program for Rakuten Ichiba merchants. In the Portal and Media Business, Rakuten improved search functions and released new content. In the Travel Business, new services were added, including an overseas airline ticket reservation service and a long-distance bus reservation service, to position this business as a comprehensive travel website. Rakuten took steps to further strengthen mobile services, including the launch of iSPEED, a trading software tool for mobile phone in the securities business.

Rakuten also established a new customer information management system to provide services that customers can use with greater safety and confidence. Two elements of this system are the new R-Card Plus and the *Anshin Service*, a secured authorization agency service for credit card payments. Furthermore, Rakuten established the Security Headquarters to create an information security framework and conducted a rigorous compliance program.

To prepare for the start of business activities outside Japan, International Business Headquarters was established to oversee international business strategies. Rakuten also acquired LinkShare Corporation, one of the world's largest affiliate marketing companies. Rakuten plans to make LinkShare the nucleus of its international operations.

LinkShare's affiliate technology and large customer base has been used to build a sound foundation for an overseas e-commerce business.

As a result of these aggressive initiatives, GTV generated by Rakuten Group websites saw very strong growth, increasing 71.1% to ¥563,185 million. Consequently, consolidated net sales rose 184.8% to ¥129,775 million, operating income increased 131.6% to ¥34,885 million and ordinary income increased 131.5% to ¥35,826 million. Net income was ¥19,449 million compared with a net loss of ¥14,271 million in 2004.

Note: see page 12 to 17, for the results of business segments.

## 2. Cash flow

Net cash provided by operating activities recorded a net decrease of ¥43,358 million for fiscal 2005, compared with a net increase of ¥9,069 million for fiscal 2004. The decrease is principally due to increase in trading assets from margin transactions of security brokerage business, increase in trade loans receivable and others.

Net cash used in investing activities recorded a net decrease of ¥144,116 million for fiscal 2005 mainly due to acquisition of investment securities, compared with a net decrease of ¥30,040 million for fiscal 2004.

Net cash provided by financing activities recorded a net increase of ¥235,426 million for fiscal 2005 primarily due to increase in borrowings, compared with a net increase of ¥27,403 million for fiscal 2004.

Consolidated cash flows resulted in a net increase of ¥48,459 million in cash and cash equivalents compared with a net increase of ¥6,599 million in 2004.

# Consolidated Balance Sheet

	Millions of yen	
	Fiscal 2004 As of December 31, 2004	Fiscal 2005 As of December 31, 2005
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (Notes 3)	¥ 32,396	¥ 82,037
Trade notes and accounts receivable	6,699	11,906
Installment accounts receivable (Notes 3)	—	143,823
Installment accounts receivable, guarantee contracts (Notes 9)	—	301,154
Marketable securities	0	—
Inventories	61	—
Beneficial interest in securitized assets	—	68,837
Deposits for security brokerage business	108,353	239,438
Trading assets from margin transactions of security brokerage business	87,987	285,357
Short-term guarantee deposits for security brokerage business	5,769	38,648
Trade loans receivable (Notes 3)	27,901	168,280
Deferred tax assets	1,005	7,749
Other (Notes 7)	2,936	36,148
Allowance for doubtful accounts	(343)	(28,785)
<b>Total current assets</b>	<b>272,769</b>	<b>1,354,598</b>
<b>Fixed assets</b>		
Property and equipment (Notes 1,3)		
Buildings and structures	727	—
Tools, furniture, and fixtures	3,781	—
Construction in progress	216	—
<b>Total property and equipment</b>	<b>4,725</b>	<b>20,551</b>
Intangible assets		
Software	3,615	—
Consolidation adjustment account	—	56,868
Other	145	8,740
<b>Total intangible assets</b>	<b>3,761</b>	<b>65,609</b>
Investments and other assets		
Investment securities (Notes 2,3,6)	19,929	170,232
Investments	83	—
Deferred tax assets	50	4,625
Other (Notes 3)	6,114	42,584
Allowance for doubtful accounts	(474)	(493)
<b>Total investments and other assets</b>	<b>25,703</b>	<b>216,949</b>
<b>Total fixed assets</b>	<b>34,190</b>	<b>303,110</b>
<b>Deferred assets</b>		
Start-up cost	597	—
<b>Total deferred assets</b>	<b>597</b>	<b>—</b>
<b>Total Assets</b>	<b>307,556</b>	<b>1,657,708</b>

\*Please refer to Notes to Consolidated Balance Sheets of P40.

Millions of yen

	Fiscal 2004 As of December 31, 2004	Fiscal 2005 As of December 31, 2005
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade notes and accounts payable	¥ 507	¥ 6,357
Accounts payable, guarantee contracts (Notes 9)	—	301,154
Current portion of corporate bonds	—	12,000
Short-term borrowings (Notes 3,8)	46,897	490,029
Other accounts payable and accrued expenses	4,111	—
Accrued income taxes	1,691	13,532
Advances received	2,206	—
Deferred installment income	—	9,856
Deposits received for security brokerage business	82,507	155,279
Trading liabilities from margin transactions of security brokerage business (Notes 3)	78,701	231,758
Guarantee deposits received for security brokerage business	36,399	92,441
Allowance	—	3,496
Other	1,652	46,172
<b>Total current liabilities</b>	<b>254,674</b>	<b>1,362,080</b>
<b>Long-term liabilities</b>		
Corporate bonds	—	10,000
Long-term borrowings (Notes 3)	2,019	186,476
Allowance for retirement benefits	15	138
Allowance for directors' retirement benefits	—	158
Deferred tax liabilities	3,533	10,230
Other	14	978
<b>Total long-term liabilities</b>	<b>5,584</b>	<b>207,982</b>
<b>Special legal reserves</b>		
Statutory Reserve for security brokerage business	1,213	2,312
<b>Total special legal reserves</b>	<b>1,213</b>	<b>2,312</b>
<b>Total liabilities</b>	<b>261,472</b>	<b>1,572,374</b>
<b>Minority interests</b>	<b>230</b>	<b>8,783</b>
<b>Shareholders' equity</b>		
Common stock (Notes 4)	54,059	54,135
Capital surplus	62,863	63,479
Accumulated deficit	(77,311)	(58,265)
Net unrealized holding gain on investment securities	6,372	16,974
Foreign currency translation adjustments	(48)	238
Treasury stock (Notes 5)	(81)	(11)
<b>Total shareholders' equity</b>	<b>45,853</b>	<b>76,550</b>
<b>Total liabilities, minority interest and shareholders' equity</b>	<b>307,556</b>	<b>1,657,708</b>

# Consolidated Statements of Operations

	Millions of yen	
	Fiscal 2004 January 1, 2004 to December 31, 2004	Fiscal 2005 January 1, 2005 to December 31, 2005
<b>Net Sales</b>	<b>¥ 45,567</b>	<b>¥ 129,775</b>
<b>Cost of sales</b>	<b>4,501</b>	<b>14,222</b>
Gross profit	41,065	115,553
<b>Selling, general and administrative expenses (Notes 1)</b>	<b>26,006</b>	<b>80,668</b>
<b>Operating income</b>	<b>15,059</b>	<b>34,885</b>
<b>Non-operating income</b>	<b>767</b>	2,682
Interest and dividend income	26	877
Gain on sales of investment securities	—	335
Foreign exchange gain	175	224
Equity in earnings of affiliates	506	1,041
Other	59	203
<b>Non-operating expenses</b>	<b>352</b>	<b>1,741</b>
Interest expense	164	367
Commission expense	—	908
Issuance costs of new shares	116	62
Issuance costs of corporate bonds	—	140
Other	71	262
<b>Ordinary income</b>	<b>15,474</b>	<b>35,826</b>
<b>Special gains</b>	<b>65</b>	<b>3,547</b>
Gain from reversal of allowance for doubtful accounts	0	—
Gain on change in equity	61	2,720
Gain on sale of investment in subsidiary	—	795
Other	3	31
<b>Special losses</b>	<b>23,977</b>	<b>5,097</b>
Equity in loss of affiliates	11,221	—
Amortization of consolidation adjustment account	10,712	—
Impairment loss on investment securities	375	0
Provision for point reserve	—	1,022
Loss on sales of property and equipment (Notes 2)	133	41
Loss on disposal of property and equipment (Notes 3)	179	97
Office relocation and construction expenses	443	31
Amortization of start-up costs	—	910
Provision for statutory reserve for security brokerage business	523	1,098
Loss on cancellation of lease contracts	—	547
Costs for subsidiary name change	—	734
Other	389	613
<b>Net income (loss) before income taxes and minority interests</b>	<b>(8,437)</b>	<b>34,276</b>
<b>Corporate, inhabitants' and enterprise taxes</b>	<b>2,799</b>	<b>16,103</b>
<b>Income taxes deferred</b>	<b>2,971</b>	<b>(2,541)</b>
<b>Income attributable to minority interests</b>	<b>61</b>	<b>1,266</b>
<b>Net income (loss)</b>	<b>(14,271)</b>	<b>19,449</b>

\*Please refer to Notes to Consolidated Statements of Operations of P43.



# Consolidated Statements of Capital Surplus and Accumulated Deficit

Millions of yen

	Fiscal 2004 January 1, 2004 to December 31, 2004	Fiscal 2005 January 1, 2005 to December 31, 2005
<b>Capital Surplus</b>		
<b>Capital surplus at beginning of year</b>	<b>¥ 54,713</b>	<b>¥ 62,863</b>
<b>Increase in capital surplus</b>	<b>15,302</b>	<b>616</b>
Issuance of new shares	14,194	—
Issuance of new shares due to exercise of stock purchase rights	104	75
Increase due to inclusion in consolidation (Note 1)	1,004	—
Increase due to share exchange transaction	—	540
<b>Decrease in capital surplus</b>	<b>7,153</b>	<b>—</b>
Other reversal of capital surplus	7,008	—
Loss on disposal of treasury stock	144	—
<b>Capital surplus at end of year</b>	<b>62,863</b>	<b>63,479</b>
<b>Accumulated Deficit</b>		
<b>Accumulated deficit at beginning of year</b>	<b>(69,739)</b>	<b>(77,311)</b>
<b>Decrease in accumulated deficit</b>	<b>7,008</b>	<b>19,449</b>
Net income	—	19,449
Other reversal of capital surplus	7,008	—
<b>Increase in accumulated deficit</b>	<b>14,581</b>	<b>403</b>
Net loss	14,271	—
Cash dividends paid	279	295
Bonuses to directors and corporate auditors	31	25
Exclusion of equity-method affiliate	—	83
<b>Accumulated deficit at end of year</b>	<b>(77,311)</b>	<b>(58,265)</b>

Note 1: The amount includes the increase due to share exchange transaction.

# Consolidated Statements of Cash Flows

	Millions of yen	
	Fiscal 2004 January 1, 2004 to December 31, 2004	Fiscal 2005 January 1, 2005 to December 31, 2005
<b>Cash flows from operating activities</b>		
Net income (loss) before income taxes and minority interests	¥ (8,437)	¥ 34,276
Amortization of consolidation adjustment account	10,712	909
Equity in earnings of affiliates	10,715	(1,041)
Depreciation and amortization	2,461	4,064
Loss on sales of property and equipment	133	41
Loss on disposal of property and equipment	179	97
Amortization of start-up costs	—	910
Gain on sales of investment securities	—	(335)
Impairment loss on investment securities	375	0
Increase (decrease) in allowance for doubtful accounts	136	(556)
Increase in allowance for losses on loan guarantees	—	1
Increase in allowance for directors' retirement benefits	—	27
Gain (loss) on change in equity in affiliates	—	(2,720)
Interest and dividend income	(26)	(877)
Interest expense	164	367
Other non-cash expense	44	1,583
Increase in trade receivables	(2,427)	(4,226)
Decrease in installment accounts receivable	—	4,807
Decrease in installment accounts receivable, guarantee contracts	—	103,935
Decrease in beneficial interests in secured assets	—	10,962
Increase in inventories	(12)	(145)
Increase (decrease) in accounts payable	201	(558)
Decrease in loan accounts payable, guarantee contracts	—	(103,935)
Increase (decrease) in other accounts payable and accrued expenses	1,194	(1,531)
Increase in advances received	542	1,119
Decrease in deferred installment income	—	(615)
Increase in receivables in security brokerage business	(63,722)	(361,291)
Increase in payables in security brokerage business	61,787	282,377
Increase in statutory reserve for security brokerage business	523	1,098
Decrease in deposited marketable securities for security brokerage business	—	7,890
Increase in trade loans receivables	(2,349)	(15,360)
Other	447	2,806
<b>Subtotal</b>	<b>12,644</b>	<b>(35,917)</b>
Payments of security deposits	(2,700)	(4,446)
Proceeds of security deposits	300	81
Payments of income taxes	(1,174)	(3,076)
Net cash provided by (used in) operating activities	9,069	(43,358)

\*Please refer to Notes to Consolidated Statements of Cash Flows of P44.

Millions of yen

	Fiscal 2004 January 1, 2004 to December 31, 2004	Fiscal 2005 January 1, 2005 to December 31, 2005
<b>Cash flows from investing activities</b>		
Payments for time deposits	¥ —	¥ (419)
Proceeds from withdrawal from time deposits	—	15
Acquisition of investment securities	(16,745)	(178,801)
Proceeds from sale of investment securities	—	49,477
Proceeds from redemption of investment securities	—	5,698
Proceeds from sale of cash in trust	—	5,000
Acquisition of shares of consolidated subsidiaries	(5,508)	(9,502)
Acquisition of property and equipment	(2,652)	(2,927)
Proceeds from sales of property and equipment	144	120
Acquisition of intangible assets	(2,896)	(5,448)
Proceeds from sales of intangible assets	—	1
Payments for investments	(89)	(13)
Proceeds from investments	6	2
Payments of security deposits	(551)	(758)
Refunds of security deposits	248	100
Acquisition of deferred assets	(597)	(313)
Loans made	—	(1,451)
Proceeds from recovery of loans	—	862
Other payments	(1,442)	(6,938)
Other receipts	7	762
Receipts of interest and dividends	36	416
Net cash used in investing activities	(30,040)	(144,116)
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term borrowings	(2,608)	145,751
Borrowings on long-term debt	2,000	77,000
Repayments of long-term debt	—	(19)
Proceeds from issuance of corporate bonds	—	9,860
Payment for maturities of corporate bonds	—	(650)
Proceeds from issuance of stock	28,479	89
Proceeds from minority shareholders pursuant to increase in capital	—	4,015
Acquisition of treasury stock	(2)	(0)
Payment of interest	(150)	(287)
Payment of dividends	(313)	(287)
Payment of dividends to minority shareholders	—	(44)
Net cash provided by financing activities	27,403	235,426
<b>Effect of exchange rate changes on cash and cash equivalents</b>	166	507
<b>Net increase in cash and cash equivalents</b>	6,599	48,459
<b>Cash and cash equivalents at beginning of year</b>	25,790	32,390
<b>Cash and cash equivalents at end of year</b>	32,390	80,849

# Notes to Consolidated Financial Statements

## Basis of Presentation of Consolidated Financial Statements

### 1. Scope of consolidation

Fiscal 2004 January 1, 2004 to December 31, 2004	Fiscal 2005 January 1, 2005 to December 31, 2005
<p><b>Number of consolidated subsidiaries:</b> 20</p> <p><b>Consolidated subsidiaries:</b></p> <ul style="list-style-type: none"><li>Rakuten Books, Inc.</li><li>Digipa Networks, Inc.</li><li>Signature Japan Co., Ltd.</li><li>Fine Wine Co., Ltd.</li><li>Rakuten Enterprise Inc.</li><li>Medioport, Inc.</li><li>Rakuten USA, Inc.</li><li>Ynot, Inc.</li><li>Target, Inc.</li><li>Rakuten TV, Inc.</li><li>College Students' Portal Community, Inc.</li><li>Rakuten Travel, Inc.</li><li>MYTRIP NET SEOUL COMPANY LIMITED</li><li>SIDE B NETWORK, INC.</li><li>Rakuten Securities, Inc.</li><li>Rakuten Credit, Inc.</li><li>Roppongi Asset Management Co., Ltd.</li><li>Rakuten Baseball, Inc.</li><li>Bizseek, Inc.</li><li>Guy Communications K.K.</li></ul>	<p><b>Number of consolidated subsidiaries:</b> 33</p> <p><b>Major consolidated subsidiaries:</b></p> <ul style="list-style-type: none"><li>Rakuten Auction, Inc.</li><li>Rakuten KC Co., Ltd.</li><li>Rakuten Credit, Inc.</li><li>Rakuten Travel, Inc.</li><li>Rakuten Securities, Inc.</li><li>Rakuten Baseball, Inc.</li></ul> <p><b>Newly consolidated subsidiaries:</b> 16</p> <p><b>Major newly consolidated subsidiaries and reasons for consolidation:</b></p> <ul style="list-style-type: none"><li>Newly acquired:<ul style="list-style-type: none"><li>Rakuten KC Co., Ltd.</li><li>LinkShare Corporation</li></ul></li><li>Corporate separation:<ul style="list-style-type: none"><li>Rakuten Auction, Inc.</li></ul></li></ul> <p><b>Number of companies excluded from the scope of consolidation:</b> 1</p> <p><b>Excluded company and reason for the exclusion:</b></p> <p>Merger: Ynot, Inc.</p>
<p>For the purpose of presenting the consolidated financial statements, a provisional settlement of accounts was prepared for Digipa Networks, Inc. assuming that Rakuten acquired control of the company on March 31, 2004. Consequently, the consolidated statements of operations and consolidated statements of cash flows for fiscal 2004 include Digipa Networks' operating results and cash flows during the nine months from April 1, 2004 to December 31, 2004.</p>	<p>For the purpose of presenting the consolidated financial statements, a provisional settlement of accounts was prepared for Rakuten KC Co., Ltd., assuming that Rakuten acquired the company on June 30, 2005. Consequently, the consolidated statements of operations and consolidated statements of cash flows include Rakuten KC's operating results and cash flows during the six months from July 1, 2005 to December 31, 2005.</p>

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**Fiscal 2004**

January 1, 2004 to December 31, 2004

Likewise, a provisional settlement of accounts was prepared for College Students' Portal Community, Inc. assuming that it was acquired by Rakuten on June 30, 2004. As a result, the consolidated statements of operations and consolidated statements of cash flows for fiscal 2004 include College Students' Portal Community's operating results and cash flows during the six months from July 1, 2004 to December 31, 2004.

The acquisition of another subsidiary, Rakuten Credit, Inc., is assumed to have taken place on September 30, 2004, and a provisional settlement of accounts was prepared for the company to prepare the consolidated financial statements. Accordingly, the consolidated statements of operations and consolidated statements of cash flows for fiscal 2004 include Rakuten Credit's operating results and cash flows during the three months from October 1, 2004 to December 31, 2004.

MYTRIP NET SEOUL COMPANY LIMITED, Roppongi Asset Management Co., Ltd. and Rakuten Baseball, Inc. are included in the scope of consolidation starting in fiscal 2004, since all were newly established during the fiscal year.

Rakuten Travel, Inc. merged with and absorbed MYTRIP NET COMPANY LIMITED during the fiscal year.

Key Prime K.K. and Communication Online Inc. were merged with and absorbed by Rakuten, also in fiscal 2004.

Bizseek, Inc. and Guy Communications K.K., Rakuten's consolidated subsidiaries in fiscal 2003, were liquidated in fiscal 2004. Therefore, only the results up to the date of their liquidations are included in the consolidated statements of income.

**Fiscal 2005**

January 1, 2005 to December 31, 2005

Likewise, a provisional settlement of accounts was prepared for LinkShare Corporation, assuming that it was acquired by Rakuten on September 30, 2005. As a result, the consolidated statements of operations and consolidated statements of cash flows for fiscal 2005 include Link Share's operating results and cash flows during the three months from October 1, 2005 to December 31, 2005.

## Notes to Consolidated Financial Statements

### Basis of Presentation of Consolidated Financial Statements

#### 2. Scope of equity method

Fiscal 2004 January 1, 2004 to December 31, 2004	Fiscal 2005 January 1, 2005 to December 31, 2005
<p><b>Number of affiliates accounted for by the equity method: 8</b></p> <p><b>Affiliates accounted for by the equity method:</b></p> <ul style="list-style-type: none"><li>ShowTime, Inc.</li><li>TRAFFIC GATE, LTD.</li><li>TECHMATRIX CORPORATION</li><li>NEXT Co., Ltd.</li><li>IndexDigital Co., Ltd.</li><li>LAWSON TICKET Inc.</li><li>Ctrip.com International, Ltd.</li><li>World Travel System Inc.</li></ul> <p><b>Number of non-consolidated subsidiaries not accounted for by the equity method: 0</b></p>	<p><b>Number of affiliates accounted for by the equity method: 11</b></p> <p><b>Major affiliates:</b></p> <ul style="list-style-type: none"><li>Ctrip.com International, Ltd.</li><li>LAWSON TICKET, Inc.</li><li>TECHMATRIX CORPORATION</li></ul> <p><b>Number of new affiliates accounted for by the equity method: 4</b></p> <p><b>Company names and reason for newly applying equity-method accounting:</b></p> <p>Newly acquired:</p> <ul style="list-style-type: none"><li>.Commodity, Inc.</li><li>Ecology Asset Management, Co., Ltd.</li><li>Liaison Partners Inc.</li><li>LinkShare Japan K.K.</li></ul> <p><b>Number of companies removed from the scope of the equity method: 1</b></p> <p><b>Company names and reason for termination of equity-method accounting:</b></p> <p>Lower equity interest:</p> <ul style="list-style-type: none"><li>IndexDigital Co., Ltd.</li></ul> <p><b>Number of non-consolidated subsidiaries not accounted for by the equity method: 0</b></p>

### 3. Accounting periods of consolidated subsidiaries

Fiscal 2004 January 1, 2004 to December 31, 2004	Fiscal 2005 January 1, 2005 to December 31, 2005
<p>The year-end of consolidated subsidiaries is the same as the ending date of the consolidated accounting period of Rakuten, except for Rakuten Securities, Inc. and Roppongi Asset Management Co., Ltd. whose accounting periods end on March 31. However, for the purpose of preparing these consolidated financial statements, provisional financial data were prepared for these companies as of December 31, 2004.</p>	<p>The year-end of consolidated subsidiaries is December 31, the same as the end of the consolidated accounting period of Rakuten, except for the following:</p> <ul style="list-style-type: none"><li>Rakuten KC Co., Ltd. (March 31)</li><li>JK Holdings Inc. (March 31)</li><li>Kokunai Shinpan Service Co., Ltd. (March 31)</li><li>Miyazaki Marina Co., Ltd. (September 30)</li><li>Kajiyama Warehouse Co., Ltd. (March 31)</li><li>Rakuten Securities, Inc. (March 31)</li><li>Rakuten Asset Management Co., Ltd. (March 31)</li><li>Rakuten Strategic Partners, Inc. (March 31)</li><li>Rakuten Realty Management Co., Ltd. (March 31)</li><li>R Building Co., Ltd. (March 31)</li></ul> <p>However, for the purpose of preparing these consolidated financial statements, provisional financial statements were prepared for these companies as of December 31, 2005.</p>

## Notes to Consolidated Financial Statements

### Basis of Presentation of Consolidated Financial Statements

#### 4. Significant accounting policies

##### (1) Valuation standards and method for significant assets

Fiscal 2004 January 1, 2004 to December 31, 2004	Fiscal 2005 January 1, 2005 to December 31, 2005
<b>Securities</b>  <b>Other marketable securities</b>  <b>Securities with readily determinable market value:</b> Stated at market value based on the year-end market price and other factors (with any unrealized gains or losses being reported directly as a component of shareholders' equity and the cost of any securities sold being computed by the moving average method)  <b>Securities with no readily determinable market value:</b> Stated at cost, with cost being determined by the moving average method	<b>Securities</b>  <b>Other marketable securities</b>  <b>Securities with readily determinable market value:</b> Same as fiscal 2004  <b>Securities with no readily determinable market value:</b> Same as fiscal 2004

##### (2) Depreciation methods for significant depreciable assets

<b>Property and equipment:</b> Mainly computed by the declining balance method. However, the straight-line method is applied for buildings (excluding building fixtures) acquired on or after April 1, 1998. The useful life and the residual value are determined according to the standards stipulated by the Corporation Tax Law.  <b>Intangible assets:</b> Depreciation on intangible assets is computed by the straight-line method. The useful life is determined according to the standards stipulated by the Corporation Tax Law. However, software used in-house is depreciated over its estimated useful life (mainly five years) based on the straight-line method.	<b>Property and equipment:</b> Same as fiscal 2004  <b>Intangible assets:</b> Same as fiscal 2004
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##### (3) Accounting for deferred assets

<b>Start-up costs:</b> All expenses are recognized during the fiscal year in which business took place.  <b>Issuance of new shares:</b> All expenses are recognized at the time of issuance.	<b>Start-up costs:</b> All expenses are recognized during the fiscal year in which business took place.  <b>Issuance of new shares:</b> Same as fiscal 2004.  <b>Issuance of corporate bonds:</b> All expenses are recognized at the time of issuance.
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#### (4) Basis of material allowances

Fiscal 2004 January 1, 2004 to December 31, 2004	Fiscal 2005 January 1, 2005 to December 31, 2005
<p><b>A. Allowance for doubtful accounts:</b> Provision is made for possible credit losses stemming from receivables. Estimates of irrecoverable amounts are based on historical loan-loss ratios for general receivables, and on a consideration of reasonable recoverable amounts in individual cases of suspected bad debt or other specific dubious accounts.</p> <p><b>B. Accrued bonuses:</b> N.A.</p> <p><b>C. Allowance for losses on credit guarantees:</b> N.A.</p> <p><b>D. Accrued retirement benefits:</b> At certain consolidated subsidiaries, provision is made for employees' retirement benefits based on the estimated amounts of projected benefit obligation at the fiscal year-end.</p> <p><b>E. Accrued retirement benefits for directors:</b> N.A.</p> <p><b>Additional information:</b> Consolidated subsidiaries whose company regulations previously posted on allowance for directors' retirement benefits abolished such items during fiscal 2004. Consequently, retirement benefits will no longer be paid to directors at these companies.</p> <p><b>F. Statutory reserve for security brokerage business:</b> At certain consolidated subsidiaries, provision is made for possible losses resulting from securities transaction problems. The amount of the reserve is computed based on Article 35 of the Cabinet Office Ordinance Concerning Securities Companies as stipulated by Article 51 of the Securities Exchange Law.</p>	<p><b>A. Allowance for doubtful accounts:</b> Same as fiscal 2004.</p> <p><b>B. Accrued bonuses:</b> At certain consolidated subsidiaries, an amount commensurate to expected bonus payments is posted.</p> <p><b>C. Allowance for losses on credit guarantees at certain consolidated subsidiaries:</b> An allowance equal to estimated losses is established to prepare for losses from credit guarantees.</p> <p><b>D. Accrued retirement benefits:</b> At certain consolidated subsidiaries, provision is made for employees' retirement benefits based on the estimated benefit obligation at the fiscal year-end. Actuarial differences are recorded from the following fiscal year on a straight-line basis using a fixed number of years (10 years) within the average remaining service period of employees.</p> <p><b>E. Accrued retirement benefits for directors:</b> At certain consolidated subsidiaries, an allowance is posted at year-end in accordance with each company's regulations to provide for directors' retirement benefits.</p> <p><b>F. Statutory reserve for security brokerage business:</b> Same as fiscal 2004.</p>

## Notes to Consolidated Financial Statements

### Basis of Presentation of Consolidated Financial Statements

Fiscal 2004 January 1, 2004 to December 31, 2004	Fiscal 2005 January 1, 2005 to December 31, 2005
<b>G. Reserve for points:</b> N.A.	<b>G. Reserve for points:</b> An amount equivalent to points that are earned by customers and are expected to be used in the future was recorded.  <b>Additional information:</b> Starting in fiscal 2005, a reserve for points was established due to the rising registration and usage of points, the significant role they play in Rakuten's operations, and the availability of reasonable estimates for future point usage as of the year-end. Compared to results determined by previous methods, establishment of this reserve caused operating income and ordinary income to drop ¥ 784 million. Also, ¥ 1,022 million was recorded as an extraordinary loss for the establishment of a reserve for points to cover previous fiscal years. As a result, income before income taxes and minority interests declined ¥ 1,807 million.
<b>(5) Significant lease transactions</b>	
Finance leases other than those that transfer ownership of the leased assets to the lessee are accounted for using the same methods as those used for ordinary lease transactions.	Same as fiscal 2004.
<b>(6) Significant hedging methods</b>	
N.A.	<b>A. Hedge accounting method:</b> For interest rate swaps, deferred hedge accounting has been adopted. However, a special method is used for interest rate swaps that meets certain conditions. For foreign-currency denominated guarantee deposits with currency forward agreements, the appropriation method has been adopted.  <b>B. Hedging methods and Hedged items:</b> Hedging methods: Interest rate swaps and currency forward agreements Hedged items: Loans and foreign-currency denominated guarantee deposits

Fiscal 2004  
January 1, 2004 to December 31, 2004

Fiscal 2005  
January 1, 2005 to December 31, 2005

**C. Hedging policies:**

Interest rate swaps are used to establish hedges for exposure to interest rate volatility risk associated with loans. Individual contracts identify the item being hedged. Foreign exchange volatility risk associated with foreign currency-denominated guarantee deposits is, in accordance with the company rules, effectively hedged during the holding period by using currency forward agreements.

**D. Method for evaluating effectiveness of hedging activities:**

For interest rate swaps, the company compares every six months the cumulative changes in cash flows of the hedged item and hedging instrument. The effectiveness of the hedge is determined based on volatility of the hedged item and instrument, along with other items. However, this evaluation is not performed for interest rate swaps that use the special methods.

For currency forward agreements, effectiveness is determined by the currency, amount and settlement date of the hedged item based on the company management data.

**(7) Other important items related to the preparation of consolidated financial statements**

**A. Consumption tax:** All items are booked exclusive of any national or local consumption taxes.

**B. Standards used to recognize margin sales:**

Margin sales are a transaction in which user fees are calculated in proportion to the volume of transactions of merchandise and other products and services (gross transaction value) conducted on the Rakuten website. Margin sales with cancellation deadline are booked less the amount of cancellations estimated at the time of the transaction.

Estimates of cancellation amounts are based on historical cancellation rates.

Revenues before the end of the cancellation period:  
¥ 1,002 million

**A. Consumption tax:** Same as fiscal 2004.

**B. Standards used to recognize sales:**

**i. Margin sales:**

Margin sales are a transaction in which user fees are calculated in proportion to the volume of transactions of merchandise and other products and services (gross transaction value) conducted on the Rakuten website. Margin sales with cancellation deadlines are booked less the amount of cancellations estimated at the time of the transaction.

Estimates of cancellation amounts are based on historical cancellation rates.

Revenues before the end of the cancellation period:  
¥ 1,613 million

## Notes to Consolidated Financial Statements

### Basis of Presentation of Consolidated Financial Statements

Fiscal 2004 January 1, 2004 to December 31, 2004	Fiscal 2005 January 1, 2005 to December 31, 2005
	<p><b>ii. Customer commission:</b> Credit cards: Mainly uses the interest method Installment: Mainly uses the interest method Loan guarantees: Mainly recorded upon guarantee contract Loans: Mainly uses the charge on declining balance method</p> <p><b>iii. Merchant fees for credit and payment business:</b> In principle, all merchant fees are recorded at the time of making the contractual reimbursement payment to merchants.</p>

#### 5. Valuation of assets and liabilities of consolidated subsidiaries

All assets and liabilities of consolidated subsidiaries are stated at market value.	Same as fiscal 2004.
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#### 6. Amortization of consolidation adjustment account

<p>The consolidation adjustment account is amortized during the period in which such action is deemed effective. However, if the amount is marginal, the entire amount is amortized when it is booked.</p> <p>During fiscal 2004, Rakuten purchased a number of companies. As ways of purchase diversify and become more complex, the sources of the consolidation</p>	<p>The consolidation adjustment account is amortized during the period in which such action is deemed effective. However, if the amount is marginal, the entire account is amortized when it is booked.</p> <p>During fiscal 2005, Rakuten purchased a number of companies, including Rakuten KC Co., Ltd. (formerly known as Kokunai Shinpan Co., Ltd.), Rakuten Research,</p>
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Fiscal 2004 January 1, 2004 to December 31, 2004	Fiscal 2005 January 1, 2005 to December 31, 2005
<p>adjustment account have also become more difficult to identify. Moreover, because of the intensifying competition in the Internet-related services industry—in which Rakuten operates—and the expansion of business opportunities, it has become extremely difficult to accurately determine the contributions of the personal finance and other businesses conducted by companies Rakuten has acquired. For these reasons, the entire amount of the consolidation adjustment account that was booked during fiscal 2004 has been amortized in lump sum and recorded as a special loss.</p>	<p>Inc. (formerly known as Cyber Brains Co., Ltd.), and LinkShare Corporation. All companies were purchased based on their excellent long-term prospects and strong relationships with Rakuten Group businesses. For these reasons, consolidation adjustment account arising in fiscal 2005 from these purchases has been amortized based on sound estimates using the maximum period of 20 years according to the principles of the consolidated financial statements, and the amortization expense is recorded as selling, general, and administrative expenses .</p>

## 7. Earnings appropriations

<p>The consolidated statements of accumulated deficit were prepared based on the earnings appropriations of consolidated companies that were approved during fiscal 2004.</p>	<p>Same as fiscal 2004.</p>
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## 8. Cash and cash equivalents in the consolidated statements of cash flows

<p>Cash and cash equivalents as stated in the consolidated statements of cash flows consist of cash in hand, deposits that can be converted to cash at any time, and short-term liquid investments with a maturity not exceeding three months at the time of purchase and whose value is not subject to risk of significant fluctuation in value.</p>	<p>Same as fiscal 2004.</p>
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## Changes in Presentation of Consolidated Financial Statements

Fiscal 2004 January 1, 2004 to December 31, 2004	Fiscal 2005 January 1, 2005 to December 31, 2005
<p><b>Consolidated balance sheets:</b> Although investments were included as others in investments and other assets in fiscal 2003, it was recorded as an independent item in fiscal 2004. The amount of investments in fiscal 2003 was ¥ 1 million.</p>	<p><b>Consolidated balance sheets:</b> Accompanying business expansion, items that have become financially insignificant were combined and presented as follows:</p> <p><b>Other in Current assets:</b>            Marketable securities: ¥ 1,528 million            Inventories: ¥ 491 million            Other: ¥ 34,128 million  <b>Total: ¥ 36,148 million</b></p> <p><b>Property and equipment:</b>            Buildings and structures: ¥ 5,163 million            Machinery and transportation equipment: ¥ 7 million            Tools, furniture, and fixtures: ¥ 4,898 million            Construction in progress: ¥ 435 million            Land: ¥ 8,491 million            Other: ¥ 1,555 million  <b>Total: ¥ 20,551 million</b></p> <p><b>Other in Intangible assets:</b>            Software: ¥ 5,518 million            Other: ¥ 3,222 million  <b>Total: ¥ 8,740 million</b></p> <p><b>Other in Investments and other assets:</b>            Investments: ¥ 47 million            Other: ¥ 42,537 million  <b>Total: ¥ 42,584 million</b></p> <p><b>Other in Current liabilities:</b>            Other accounts payable and accrued expenses: ¥ 21,573 million            Advances received: ¥ 3,021 million            Other: ¥ 21,577 million  <b>Total: ¥ 46,172 million</b></p>

Fiscal 2004 January 1, 2004 to December 31, 2004	Fiscal 2005 January 1, 2005 to December 31, 2005
	<p>Trade accounts payable in fiscal 2004 was included in a line item under trade accounts payable and notes payable. There are no notes payable from fiscal 2004.</p> <p><b>Consolidated statements of operations:</b> Commission expense, which was presented as other in non-operating expenses until fiscal 2004, is now presented as a separate item starting in fiscal 2005, since these fees now account for more than 10% of non-operating expenses.</p> <p>In fiscal 2004, commission expense totaled ¥ 16 million.</p>

## Additional Information

N.A.	<p>As the "Law for the Partial Revision of Local Tax, etc." (Law No. 9, 2003), issued on March 31, 2003, and introduced the external standards taxation from fiscal year starting on and after April 1, 2004, in accordance with the Practical Treatment for Presentation of External Standards Taxation of the Enterprise Taxes in the Statements of Operations (Practical Solution Report No. 12 issued by ASBJ on February 13, 2004), starting fiscal 2005, Rakuten has included amounts corresponding to the value-added and equity portions of enterprise taxes in selling, general and administrative expenses.</p> <p>Due to these changes, selling, general and administrative expenses increased ¥ 367 million, while operating income, ordinary income, and income before income taxes and minority interests declined by the same amount.</p>
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# Consolidated Balance Sheets

## 1. Accumulated depreciation of property and equipment

Fiscal 2004 As of December 31, 2004	Fiscal 2005 As of December 31, 2005
Accumulated depreciation of property and equipment: ¥ 2,997 million	Accumulated depreciation of property and equipment: ¥ 27,219 million

## 2. Amounts corresponding to affiliates

Investment securities (shares, etc.): ¥ 3,666 million	Investment securities (shares, etc.): ¥ 5,741 million
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## 3. Pledged assets

### (1) Assets pledged as collateral:

Trade loans receivable: ¥ 27,901 million  
Overdue loans receivable: ¥ 391 million  
Investment securities: ¥ 313 million

In addition, ¥ 3,062 million in securities in custody from customers has been pledged as collateral for short-term borrowings. Moreover, ¥ 1,446 million and ¥ 23,727 million in securities in custody from customers and securities deposited by customers as guarantee deposits, respectively, have been pledged as collateral for borrowings for margin transactions.

### (2) Liabilities for which assets were pledged as collateral:

Short-term borrowings: ¥ 24,895 million  
Borrowings for margin transactions: ¥ 63,219 million  
**Total: ¥ 88,114 million**

### (1) Assets pledged as collateral:

Cash: ¥ 126 million  
Installment account receivable and trade loans receivable: ¥ 254,735 million  
Lease receivable: ¥ 1,675 million  
Investment securities: ¥ 55,624 million  
Overdue loans receivable: ¥ 477 million

In addition, ¥ 54,378 million in securities in custody from customers have been pledged as collateral for short-term borrowings, and ¥ 70,384 million in securities deposited by customers as guarantee deposits has been pledged as collateral for borrowings for margin transactions.

### (2) Liabilities for which assets were pledged as collateral:

Short-term borrowings: ¥ 286,742 million  
Borrowings for margin transactions: ¥ 210,039 million  
Long-term borrowings: ¥ 140,967 million  
**Total: ¥ 637,749 million**



Fiscal 2004 As of December 31, 2004	Fiscal 2005 As of December 31, 2005
<p><b>(3) Fair values of marketable securities pledged as collateral:</b></p> <p>Securities loaned for margin transactions: ¥ 16,851 million</p> <p>Securities pledged as collateral for margin transactions: ¥ 65,002 million</p> <p>Securities loaned under loan agreements: ¥ 655 million</p> <p><b>(4) Fair values of marketable securities received as collateral:</b></p> <p>Securities in custody as collateral from customers for margin transactions: ¥ 83,825 million</p> <p>Securities borrowed for margin transactions: ¥ 3,606 million</p> <p>Securities deposited by customers as guarantee deposit: ¥ 98,958 million</p>	<p><b>(3) Fair values of marketable securities pledged as collateral:</b></p> <p>Securities loaned for margin transactions: ¥ 24,339 million</p> <p>Securities pledged as collateral for margin transactions: ¥ 209,522 million</p> <p>Securities loaned under loan agreements: ¥ 7,509 million</p> <p><b>(4) Fair values of marketable securities received as collateral:</b></p> <p>Securities in custody as collateral from customers for margin transactions: ¥ 293,385 million</p> <p>Securities borrowed for margin transactions: ¥ 2,365 million</p> <p>Securities deposited by customers as guarantee deposit: ¥ 221,715 million</p>

#### 4. Number of Shares Issued

Common stock: 1,181,674.1 shares	Common stock: 11,837,893 shares On February 21, 2005, the Company conducted a 10-for-1 stock split.
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#### 5. Treasury stock

Common stock: 725.19 shares	Common stock: 1,060.4 shares On February 21, 2005, the Company conducted a 10-for-1 stock split.
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#### 6. Investment securities loaned for margin transactions

N.A.	Of investment securities recorded as investments and other assets, ¥ 46 million has been loaned for margin transactions.
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## Notes to Consolidated Financial Statements

### Consolidated Balance Sheets

#### 7. Deferred hedging

Fiscal 2004 January 1, 2004 to December 31, 2004	Fiscal 2005 January 1, 2005 to December 31, 2005
N.A.	The net amount of loss and unrealized losses resulting from hedging was recorded as deferred hedge loss (included in other in current assets). Prior to netting out gains and losses, the deferred hedge loss was ¥ 45 million, while deferred hedge income was ¥ 6 million.

#### 8. Lines of credit

N.A.	<p>Rakuten and certain consolidated subsidiaries facilitated line of credit agreements with multiple banks and the balances which is not implemented is as follows:</p> <p>Total line of credit: ¥ 160,000 million Actual borrowings: ¥ 116,000 million Net: ¥ 44,000 million</p>
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#### 9. Installment accounts receivable, guarantee contracts, and Accounts payable, guarantee contracts

N.A.	<p>At certain consolidated subsidiaries in fiscal 2005, a guarantee limit was established for some agreements concluded with business partners involved in the credit guarantee business. As a result, the amount equivalent to the limits was recorded as installment accounts receivable, guarantee contracts, and accounts payable, guarantee contracts. As of December 31, 2005, the balance of loans by business partners with a guarantee limit amounted to ¥ 126,161 million, for which the guarantee limit was ¥ 25,232 million.</p> <p>Based on the agreements with partners, Rakuten is responsible for services such as calculation of tie-up loan repayments, billing, and collection on an outsourcing basis. However, if Rakuten terminates these services due to a breach of an agreement or other reasons, the guarantee limit will become equivalent to the business partner loan balance.</p>
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# Consolidated Statements of Operations

## 1. Selling, general, and administrative expenses

Fiscal 2004 January 1, 2004 to December 31, 2004	Fiscal 2005 January 1, 2005 to December 31, 2005
Advertising and sales promotion: ¥ 2,112 million Personnel: ¥ 6,349 million Depreciation and amortization: ¥ 2,461 million Communication and maintenance: ¥ 2,774 million Outsourcing: ¥ 4,462 million Others: ¥ 7,846 million <b>Total: ¥ 26,006 million</b>	Advertising and sales promotion: ¥ 7,944 million Personnel: ¥ 16,154 million Depreciation and amortization: ¥ 3,723 million Communication and maintenance: ¥ 5,569 million Outsourcing: ¥ 9,935 million Allowance for bad debt: ¥ 16,159 million Others: ¥ 21,180 million <b>Total: ¥ 80,668 million</b>

## 2. Loss on sales of non-current assets

Tools, furniture and fixtures: ¥ 133 million Others: ¥ 0 million <b>Total: ¥ 133 million</b>	Property and equipment: ¥ 41 million <b>Total: ¥ 41 million</b>
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## 3. Loss on disposal of non-current assets

Buildings and structures: ¥ 25 million Tools, furniture and supplies: ¥ 38 million Software: ¥ 114 million Others: ¥ 1 million <b>Total: ¥ 179 million</b>	Property and equipment: ¥ 97 million Intangible assets: ¥ 0 million <b>Total: ¥ 97 million</b>
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## Consolidated Statements of Cash Flows

Fiscal 2004 January 1, 2004 to December 31, 2004		Fiscal 2005 January 1, 2005 to December 31, 2005		
<b>1. The reconciliation between the year-end balance of cash and cash equivalents and the amounts stated in the consolidated balance sheets is as follows:</b>		<b>1. The reconciliation between the year-end balance of cash and cash equivalents and the amounts stated in the consolidated balance sheets is as follows:</b>		
<b>(As of December 31, 2004)</b>		<b>(As of December 31, 2005)</b>		
Cash and cash equivalents:	¥ 32,396 million	Cash and cash equivalents:	¥ 82,037 million	
Restricted cash:	(¥ 6) million	Restricted cash:	(¥ 1,188) million	
Marketable securities:	¥ 0 million	Marketable securities:	¥ 0 million	
<b>Cash and cash equivalents:</b>	<b>¥ 32,390 million</b>	<b>Cash and cash equivalents:</b>	<b>¥ 80,849 million</b>	
<b>2. The assets and liabilities of the newly consolidated subsidiary due to the share acquisitions:</b>		<b>2. The assets and liabilities of the newly consolidated subsidiary due to the share acquisitions:</b>		
The followings are the reconciliation between the assets and liabilities of newly consolidated subsidiary due to share acquisitions at the time of their initial consolidation and net costs of share acquisitions and net payments for acquisition.		The followings are the reconciliation between the assets and liabilities of newly consolidated major subsidiaries due to share acquisitions at the time of their initial consolidation and costs of share acquisitions and net payments for acquisition.		
(Millions of yen)		(Millions of yen)		
Company name	Rakuten Credit, Inc.	Company name	Rakuten KC Co.,Ltd.	LinkShare Corp.
Date deemed acquired	September 30	Date deemed acquired	June 30	September 30
Current assets	30,306	Current assets	810,500	9,429
Fixed assets	354	Fixed assets	61,364	2,791
Consolidation adjustment account	9,650	Consolidation adjustment account	7,268	42,291
Deferred assets	76	Deferred assets	5	—
Current liabilities	(30,319)	Current liabilities	(700,244)	(7,286)
Long-term liabilities	(0)	Long-term liabilities	(158,216)	(5)
Purchase of stock	10,067	Minority interests	(4,906)	—
Cash and cash equivalents held by subsidiary	(4,791)	Purchase of stock	7,508	47,219
Net payments	(5,276)	Cash and cash equivalents held by subsidiaries	(50,528)	(6,065)
		Net payments	43,019	(41,153)

# Lease Transactions

Fiscal 2004 January 1, 2004 to December 31, 2004				Fiscal 2005 January 1, 2005 to December 31, 2005			
Details on finance leases other than those that transfer ownership of the leased assets to the lessee				Details on finance leases other than those that transfer ownership of the leased assets to the lessee			
<b>Lessee</b>				<b>Lessee</b>			
<b>1. The acquisition cost, accumulated depreciation, and net leased property values at the year-end for the leased assets on an "as if" basis</b>				<b>1. The acquisition cost, accumulated depreciation, and net leased property values at the year-end for the leased assets on an "as if" basis</b>			
(Millions of yen)				(Millions of yen)			
	Acquisition cost	Accumulated depreciation	Net leased property		Acquisition cost	Accumulated depreciation	Net leased property
Buildings	3	1	1	Buildings	11	3	8
Tools, furniture and fixtures	3,919	2,242	1,677	Tools, furniture and fixtures	9,029	4,299	4,729
Software	4,538	2,324	2,214	Software	4,149	1,805	2,344
<b>Total</b>	<b>8,462</b>	<b>4,568</b>	<b>3,893</b>	<b>Total</b>	<b>13,191</b>	<b>6,108</b>	<b>7,082</b>
<b>2. Outstanding obligation value under finance leases at the year-end</b>				<b>2. Outstanding obligation value under finance leases at the year-end</b>			
	Due within one year	¥ 1,426 million			Due within one year	¥ 2,134 million	
	Due after one year	¥ 2,658 million			Due after one year	¥ 5,128 million	
<b>Total</b>	<b>¥ 4,084 million</b>			<b>Total</b>	<b>¥ 7,262 million</b>		
<b>3. Lease payments, depreciation value, and interest payment value</b>				<b>3. Lease payments, depreciation value, and interest payment value</b>			
	Lease payments	¥ 1,631 million			Lease payments	¥ 2,276 million	
	Depreciation value	¥ 1,457 million			Depreciation value	¥ 2,061 million	
	Interest payment value	¥ 161 million			Interest payment value	¥ 184 million	
<b>4. Calculation method for depreciation value</b>				<b>4. Calculation method for depreciation value</b>			
Computed by the straight-line method over the useful life of the leased asset with a residual value of zero.				Same as fiscal 2004.			
<b>5. Calculation method for interest value</b>				<b>5. Calculation method for interest value</b>			
The difference between the total lease payments and lease asset acquisition costs is interest value. The payment in each period is allocated using the interest method.				Same as fiscal 2004.			
<b>Lessor</b>				<b>Lessor</b>			
<b>1. The acquisition cost, accumulated depreciation, and net leased property values at the year-end for the leased assets on an "as if" basis</b>				<b>1. The acquisition cost, accumulated depreciation, and net leased property values at the year-end for the leased assets on an "as if" basis</b>			
(Millions of yen)				(Millions of yen)			
	Acquisition cost	Accumulated depreciation	Net leased property		Acquisition cost	Accumulated depreciation	Net leased property
Buildings and structures	34	32	1	Buildings and structures	34	32	1
Tools furniture and fixtures	17,223	15,688	1,535	Tools furniture and fixtures	17,223	15,688	1,535
Automotive equipment	101	88	13	Automotive equipment	101	88	13
Software	34	29	4	Software	34	29	4
<b>Total</b>	<b>17,394</b>	<b>15,838</b>	<b>1,555</b>	<b>Total</b>	<b>17,394</b>	<b>15,838</b>	<b>1,555</b>
<b>2. Outstanding value under finance leases at the year-end</b>				<b>2. Outstanding value under finance leases at the year-end</b>			
	Due within one year	¥ 550 million			Due within one year	¥ 550 million	
	Due after one year	¥ 1,065 million			Due after one year	¥ 1,065 million	
<b>Total</b>	<b>¥ 1,616 million</b>			<b>Total</b>	<b>¥ 1,616 million</b>		
<b>3. Lease received, depreciation, and interest received value</b>				<b>3. Lease received, depreciation, and interest received value</b>			
	Lease received	¥ 439 million			Lease received	¥ 439 million	
	Depreciation	¥ 340 million			Depreciation	¥ 340 million	
	Interest received value	¥ 52 million			Interest received value	¥ 52 million	
<b>4. Calculation of interest value</b>				<b>4. Calculation of interest value</b>			
Calculation of interest value for each fiscal year uses the interest method.				Calculation of interest value for each fiscal year uses the interest method.			

# Marketable Securities

Fiscal 2004 As of December 31, 2004				Fiscal 2005 As of December 31, 2005			
<b>1. Held-to-maturity bonds with readily determinable market value: N.A.</b>				<b>1. Held-to-maturity bonds with readily determinable market value: N.A.</b>			
<b>2. Other securities with readily determinable market value:</b>				<b>2. Other securities with readily determinable market value:</b>			
(Millions of yen)				(Millions of yen)			
Type	Acquisition cost	Amount booked in consolidated balance sheets	Difference	Type	Acquisition cost	Amount booked in consolidated balance sheets	Difference
Securities carrying unrealized gains on consolidated balance sheet:				Securities carrying unrealized gains on consolidated balance sheet:			
Shares	1,437	12,234	10,797	Shares	117,039	144,730	27,690
Bonds	—	—	—	Bonds	—	—	—
Others	—	—	—	Others	—	—	—
Subtotal	1,437	12,234	10,797	Subtotal	117,039	144,730	27,690
Securities carrying unrealized losses on consolidated balance sheet:				Securities carrying unrealized losses on consolidated balance sheet:			
Shares	—	—	—	Shares	95	89	(6)
Bonds	—	—	—	Bonds	—	—	—
Others	100	99	(0)	Others	100	99	(0)
Subtotal	100	99	(0)	Subtotal	195	188	(7)
Total	1,537	12,333	10,796	Total	117,235	144,918	27,682
<b>3. Held-to-maturity bonds sold during fiscal 2004: N.A.</b>				<b>3. Held-to-maturity bonds sold during fiscal 2005: N.A.</b>			
<b>4. Other securities sold in fiscal 2004: N.A.</b>				<b>4. Other securities sold in fiscal 2005:</b>			
<b>5. Significant securities not carried at market value:</b>				(Millions of yen)			
Amount booked in consolidated balance sheets				Proceeds			
Held-to-maturity bonds				Gain			
CP				Loss			
Other securities				915			
Non-listed shares				335			
Others				2			
814							
3,120							
<b>6. Projected redemption value of bonds reaching maturity or held-to-maturity bonds among other securities after the fiscal year-end: N.A.</b>				<b>5. Significant securities not carried at market value:</b>			
				(Millions of yen)			
				Amount booked in consolidated balance sheets			
				Other securities			
				Non-listed shares			
				Others			
				2,907			
				19,672			
<b>6. Projected redemption value of bonds reaching maturity or held-to-maturity bonds among other marketable securities after the fiscal year-end: None.</b>				<b>6. Projected redemption value of bonds reaching maturity or held-to-maturity bonds among other marketable securities after the fiscal year-end: None.</b>			

# Derivative Transactions

## Fiscal 2004

January 1, 2004 to December 31, 2004

### 1. Derivative transactions:

- (1) Description and purpose of derivatives  
In principle, Rakuten does not use derivative transactions. However, the company sometimes uses forward exchange contracts as hedging instruments with regard to exchange rate volatility risk.
- (2) Derivative usage policies  
Rakuten uses currency forward agreements only within the scope of its foreign currency-denominated business transactions. The company policy states that derivatives shall not be used for speculative purposes.
- (3) Transactional risks  
Forward exchange contracts used by Rakuten are subject to risks associated with volatility in foreign exchange markets. However, since all counterparties of these forward agreements are highly reliable Japanese banks, Rakuten believes that there is few "credit risk" with regard to a potential breach of contract by a counterparty.
- (4) Risk management concerning derivative transactions  
Finance Department executes and manages all derivative transactions, reports the results to the directors in charge and related division managers, and receives approval as required.

### 2. Market values of derivative positions:

None as of December 31, 2004.

## Fiscal 2005

January 1, 2005 to December 31, 2005

### 1. Derivative transactions:

- (1) Description of derivative transactions  
Rakuten and certain subsidiaries use forward exchange contracts with regard to currencies and interest rate swaps with regard to interest rates.
- (2) Derivative usage policies  
Rakuten and certain subsidiaries use derivatives to hedge risks associated with future changes in foreign exchange rates and interest rates. The company policy states that derivatives shall not be used for speculative purposes.
- (3) Purposes of derivative transactions  
For currencies, derivatives are used to hedge exposure to the effects of foreign exchange rate volatility on foreign currency-denominated financial receivables and payables for the purpose of stabilizing earnings. For interest rates, derivatives are used to hedge exposure to the possibility of interest rate associated with loan increases.  
Hedge accounting is used for derivative transactions.  
Accounting for hedging activities: Deferred hedge accounting has been adopted.  
Hedging instruments and hedged items:  
Hedging methods: Interest rate swaps, currency forward agreements  
Hedged items: Loans, foreign currency-denominated guarantee deposits  
Hedging policies: Interest rate swaps are used to establish hedges for exposure to interest rate volatility risk associated with loans. The item being hedged is identified with individual contracts.  
Foreign exchange volatility risk associated with foreign currency-denominated guarantee deposits are, in accordance with the company rules, effectively hedged during the holding period by using currency forward agreements.  
Method for evaluating effectiveness of hedging activities: For interest rate swaps, Rakuten and certain subsidiaries compares every six months the cumulative changes in cash flows of the hedged item and hedging method, and determines the effectiveness of the hedge based on volatility of those changes, along with other items. However, this evaluation is not performed for interest rate swaps that use special methods. For currency forward agreements, effectiveness is determined based on the company management materials in accordance with the currency, amount and settlement date of the hedged item.

- (4) Transactional risks  
Forward exchange contracts are subject to risks associated with volatility in foreign exchange markets and interest rate swaps are subject to risks associated with volatility of market interest rates.  
Since the Company restricts counterparties of these derivative transactions to financial institutions with high ratings, the company believes that there is few credit risk associated with these derivatives.
- (5) Derivative risk management system  
The execution and management of derivative transactions are performed by Finance Department in those companies with the approval of the manager with decision-making authority, within the limitations on transactions and monetary amounts prescribed by the company rules.

### 2. Market values of derivative positions:

Hedge accounting is used for both currency forward agreements and interest rate swaps. Therefore, these market values are not included in the notes to the financial statements.

# Retirement Benefits

Fiscal 2004  
January 1, 2004 to December 31, 2004

## 1. Summary of retirement benefit plans:

Certain consolidated subsidiaries have a lump-sum payment system at retirement as a defined-benefit program.

## 2. Information concerning retirement benefit obligation:

(i) Retirement benefit obligation:	(¥ 15 million)
(ii) Pension plan assets:	¥ - million
<hr/>	
(iii) Unfunded retirement benefit obligation:	(¥ 15 million)
(iv) Unrecognized past service cost:	¥ - million
(v) Unrecognized actuarial gain or loss:	¥ - million

**(vi) Accrued retirement benefits**  
**(sum of (iii), (iv), and (v)):** **(¥ 15 million)**

Note1: Certain consolidated subsidiaries that have a retirement benefit system use a simplified method for calculating retirement benefit obligation.

Note2: Subsidiary that accounted for its retirement benefits by the standard method abolished the retirement benefit plan during the year.

## 3. Retirement benefit expenses:

(i) Service cost:	¥ 0 million
(ii) Interest cost:	¥ - million
(iii) Expected return on plan assets:	¥ - million
(iv) Amortization of past service cost:	¥ - million
(v) Amortization of actuarial gain or loss:	¥ - million

**(vi) Total retirement benefit expenses**  
**(sum of the above five items):** **¥ 0 million**

Note: Retirement benefit expenses at consolidated subsidiaries using the simplified method are included in "(i) Service cost."

## 4. Basis for calculating retirement benefit obligation, etc.:

Retirement benefit obligation is defined as all required payments as prescribed by internal regulations concerning retirement payments.

Fiscal 2005  
January 1, 2005 to December 31, 2005

## 1. Summary of retirement benefit system:

Certain consolidated subsidiaries, as a defined-benefit program, have a tax-qualified pension plan for employees with at least five years of service and a lump-sum severance payment plan for employees with less than five years of service.

## 2. Information concerning retirement benefit obligation:

(i) Retirement benefit obligation:	(¥ 4,783 million)
(ii) Pension plan assets:	¥ 4,614 million
<hr/>	
(iii) Unfunded retirement benefit obligation:	(¥ 168 million)
(iv) Unrecognized difference with actuarial gain or loss:	¥ 29 million
<hr/>	
(v) Net retirement benefit obligation as shown on balance sheet:	(¥ 138 million)

**(vi) Accrued retirement benefits**  
**(sum of (iii), (iv), and (v)):** **(¥ 138 million)**

Note: Certain consolidated subsidiaries that have a retirement benefit system use a simplified method for calculating retirement benefit obligation.

## 3. Retirement benefit expenses:

(i) Service cost:	¥ 135 million
(ii) Interest cost:	¥ 47 million
(iii) Expected return on plan assets:	(¥ 39 million)
(iv) Amortization of actuarial gain or loss:	¥ 51 million

**(v) Total retirement benefit expenses**  
**(sum of the above four items):** **¥ 194 million**

Note: Retirement benefit expenses at consolidated subsidiaries using the simplified method are included in "(i) Service cost."

## 4. Basis for calculating retirement benefit obligation, etc.:

- (i) Periodic allocation method for projected retirement benefit payments uses a method based on years of services.
- (ii) Discount rate: 2.0%
- (iii) Expected rate of return: 2.0%
- (iv) Amortization period of actuarial gain or loss: 10 years  
Amortized using the straight-line method over a fixed number of years within the average number of remaining years of employment of employees at the time the obligation is recognized. Recognized as expenses beginning in the following fiscal year.



# Deferred Tax Accounting

## 1. The significant components of deferred tax assets and liabilities:

Fiscal 2004 As of December 31, 2004	Fiscal 2005 As of December 31, 2005
<p><b>Deferred tax assets</b></p> <p>Net operating loss carry forward: ¥ 3,115 million            Excess depreciation: ¥ 923 million            Impairment loss on investment securities: ¥ 654 million            Allowance for investment loss: ¥ 673 million            Allowance for doubtful accounts: ¥ 241 million            Depreciation of one-time depreciable assets: ¥ 64 million            Accrued enterprise tax: ¥ 103 million            Others: ¥ 76 million</p> <p><b>Deferred tax assets subtotal: ¥ 5,851 million</b></p> <p>Valuation allowance: (¥ 3,885 million)  <b>Total deferred tax assets: ¥ 1,965 million</b></p> <p><b>Deferred tax liabilities</b></p> <p>Reserve for special depreciation: ¥ 16 million            Unrealized holding gain on securities: ¥ 4,426 million</p> <p><b>Total deferred tax liabilities: ¥ 4,443 million</b></p> <p><b>Net deferred tax liabilities: ¥ 2,478 million</b></p>	<p><b>Deferred tax assets</b></p> <p>Net operating loss carry forward: ¥ 4,470 million            Excess depreciation: ¥ 1,248 million            Impairment on investment securities: ¥ 263 million            Allowance for investment loss: ¥ 1,053 million            Allowance for doubtful accounts: ¥ 3,981 million            Depreciation of one-time depreciable assets: ¥ 95 million            Accrued enterprise tax: ¥ 875 million            Disallowed reserve for points: ¥ 740 million            Others: ¥ 4,517 million</p> <p><b>Deferred tax assets subtotal: ¥ 17,247 million</b></p> <p>Valuation allowance: (¥ 3,741 million)  <b>Total deferred tax assets: ¥ 13,506 million</b></p> <p><b>Deferred tax liabilities</b></p> <p>Reserve for special depreciation: ¥ 10 million            Unrealized holding gain on securities: ¥ 11,351 million</p> <p><b>Total deferred tax liabilities: ¥ 11,361 million</b></p> <p><b>Net deferred tax assets: ¥ 2,144 million</b></p>

## 2. The reconciliation between the statutory effective tax rate and the actual effective tax rate after the application of deferred tax (corporate tax, income tax, etc.) accounting:

<p>Fiscal 2004 (As of December 31, 2004): None, since a net loss is posted.</p>	<p>Fiscal 2005 (As of December 31, 2005): Omitted, since the difference between the statutory effective tax rate and the actual effective tax rate after the application of tax effect falls below 5% of the former.</p>
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## Notes to Consolidated Financial Statements

# Segment Information

### 1. Business segment information

	Fiscal 2004						
	January 1, 2004 to December 31, 2004						
							(Millions of yen)
	E-Commerce Business	Portal & Media Business	Travel & Entertainment Business	Financial Services Business	Total	Internal Eliminations	Consolidated
I. Net sales, operating income							
Net sales							
(1) External sales	20,613	4,904	6,129	13,919	45,567	—	45,567
(2) Intersegment sales and transfers	116	823	14	—	954	(954)	—
<b>Total</b>	<b>20,729</b>	<b>5,728</b>	<b>6,144</b>	<b>13,919</b>	<b>46,522</b>	<b>(954)</b>	<b>45,567</b>
Operating expenses	13,473	4,639	4,120	9,257	31,491	(983)	30,507
Operating income	7,256	1,088	2,023	4,661	15,030	28	15,059
II. Assets, depreciation, and capital expenditure							
Assets	48,766	2,508	5,451	249,142	305,868	1,687	307,556
Depreciation and amortization	1,582	253	273	352	2,461	—	2,461
Capital expenditure	3,110	207	389	2,310	6,018	13	6,031

#### Notes:

1. Categorization of businesses: Rakuten's businesses are categorized according to the content and special features of each service provided.
2. Main services provided in each business segment:

Segment	Main Services
E-Commerce Business	Operation of Rakuten Ichiba, an Internet shopping mall Operation of Rakuten Furima, an auction website for individual users Operation of Rakuten Business, an online market for business users Provision of e-commerce consulting services Operation of Rakuten Books, a book retailing website Operation of Rakuten Download, a digital content site, and the development of systems for providing digital content Operation of Rakuten GORA, an online golf tee-time reservation service
Portal and Media Business	Operation of Infoseek portal site offering search engine and other functions Provision of online greeting card services Operation of Infoseek Games, an online game site Operation of satellite TV channels Operation of advertising agency Provision of website access analysis services Operation of ShowTime, a broadband content portal site
Travel and Entertainment Business	Operation of Rakuten Travel, a comprehensive travel site, and provision of hotel booking services Operation of membership-based marketing businesses such as Dining a La Card Operation of an online ticket sales ASP business Planning, operation and management of ticket sales systems Operation of Ctrip.com, a comprehensive travel site in China, and a hotel and flight booking business using a large-scale call center
Financial Services Business	Operation of an online securities trading service Operation of a consumer card loan business

3. Assets included in internal eliminations totaled ¥ 20,303 million, the majority of which are held by Rakuten as long-term investment assets (investment securities and capital investments).
4. There are no unallocated operating expenses.

5. Changes in business segments previously, Rakuten's operations comprised three segments: E-Commerce Business, Portal Business, Travel and Other Services Business. However, in order to further strengthen links between each business, the segments were reclassified in March 2004 into four categories: E-Commerce Business, Portal and Media Business, Travel and Entertainment Business and Financial Services Business. Subsequently, (i) Other Services Business were split to Media Business and Entertainment Business, then (ii) former Portal Business and Media Business were integrated into Portal and Media Business, and similarly, Travel Business included in former E-Commerce Business and Entertainment Business integrated into Travel and Entertainment Business, in consideration of similarity and relationship of businesses. The following table shows operating results by segment for fiscal 2003 based on this new business segment classification applied from fiscal 2004.

	Fiscal 2003 (January 1, 2003 to December 31, 2003)						
	(Millions of yen)						
	E-Commerce Business	Portal & Media Business	Travel & Entertainment Business	Financial Services Business	Total	Internal Eliminations	Consolidated
I. Net sales, operating income							
Net sales							
(1) External sales	11,676	3,906	2,499	—	18,082	—	18,082
(2) Intersegment sales and transfers	148	1,079	14	—	1,242	(1,242)	—
<b>Total</b>	<b>11,825</b>	<b>4,985</b>	<b>2,514</b>	<b>—</b>	<b>19,325</b>	<b>(1,242)</b>	<b>18,082</b>
Operating expenses	7,775	4,506	2,307	—	14,589	(1,256)	13,332
Operating income	4,049	479	207	—	4,736	14	4,750
II. Assets, depreciation, and capital expenditure							
Assets	33,698	2,157	3,835	146,954	186,645	1,371	188,016
Depreciation and amortization	1,201	199	112	—	1,513	—	1,513
Capital expenditure	2,332	315	65	—	2,712	—	2,712

## Fiscal 2005

January 1, 2005 to December 31, 2005

(Millions of yen)

	E-Commerce Business	Credit & Payment Business	Portal & Media Business	Travel Business	Securities Business	Professional Sports Business	Total	Internal Eliminations	Consolidated
<b>I. Net sales, operating income</b>									
<b>Net sales</b>									
(1) External sales	34,648	47,129	7,540	7,270	26,318	6,867	129,775	—	129,775
(2) Intersegment sales and transfers	411	10	1,898	96	183	518	3,118	(3,118)	—
<b>Total</b>	<b>35,060</b>	<b>47,139</b>	<b>9,438</b>	<b>7,367</b>	<b>26,502</b>	<b>7,385</b>	<b>132,894</b>	<b>(3,118)</b>	<b>129,775</b>
Operating expenses	23,386	40,807	7,509	4,384	13,703	7,229	97,021	(2,131)	94,890
Operating income	11,673	6,332	1,929	2,982	12,798	156	35,872	(987)	34,885
<b>II. Assets, depreciation, and capital expenditure</b>									
Assets	203,205	805,515	4,317	7,222	591,360	7,011	1,618,633	39,075	1,657,708
Depreciation and amortization	2,184	363	246	305	395	228	3,723	—	3,723
Capital expenditure	3,574	996	228	385	236	2,954	8,376	—	8,376

**Notes:**

1. Categorization of businesses: Rakuten's businesses are categorized according to the content and special features of each service provided.
2. Main services provided in each business segment:

Segment	Main Services
E-Commerce Business	Operation of Rakuten Ichiba, an Internet shopping mall Operation of Rakuten Auction, an auction website for individual users Operation of Rakuten Business, an online market for business users Provision of e-commerce consulting services Operation of Rakuten Books, a book retailing website Operation of Rakuten Download, a digital content site, and the development of systems for providing digital content Operation of Rakuten GORA, an online golf tee-time reservation service Provision of affiliate marketing services Operation of membership-based marketing businesses such as Dining a La Card Operation of an online ticket sales ASP business Planning, operation and management of online ticket sales systems
Credit and Payment Business	Operation of a personal finance card loan business Comprehensive consumer credit-related services
Portal and Media Business	Operation of Infoseek portal site offering search engine and other functions Provision of online greeting card services Operation of Infoseek Games, an online game site Operation of satellite TV channels Operation of advertising agency Operation of comprehensive internet research business Operation of ShowTime, a broadband content portal site
Travel Business	Operation of Rakuten Travel, a comprehensive travel site, and provision of hotel booking services Operation of Ctrip.com, a comprehensive travel site in China, and a hotel and flight booking business using a large-scale call center
Securities Business	Operation of an online securities brokerage service
Professional Sports Business	Management of the Tohoku Rakuten Golden Eagles professional baseball team Planning and sales of Tohoku Rakuten Golden Eagles merchandise

3. Assets included in internal eliminations totaled ¥ 70,382 million, the majority of which are held by Rakuten as long-term investment assets (investment securities).
4. Unallocated operating expenses totaled ¥ 425 million, which mainly comprised pro forma external standard tax expenses at head office and other items, and head office expense not allocatable directly to business segments.
5. As shown in additional information, from the fiscal year under review the added value portion and capital portion of income taxes have been included under selling, general and administrative expenses. This change, compared with previous methods, had the effect of increasing operating expenses in Internal Eliminations by ¥ 172 million, Credit and Payment Business by ¥ 95 million, Travel Business by ¥ 10 million, Securities Business by ¥ 83 million, and Professional Sports Business by ¥ 5 million.

## Notes to Consolidated Financial Statements

### Segment Information

#### 6. Changes in business segments:

##### (1) Changes from fiscal 2004

Previously, Rakuten's operations comprised four segments: E-Commerce Business, Portal and Media Business, Travel and Entertainment Business and Financial Services Business. However, in order to further strengthen links between each business in response to rapid expansion of the company's sphere of operations, including the move into the professional sports-related business, the segments were reclassified in January 2005 into five categories: E-Commerce Business, Portal and Media Business, Travel Business, Financial Services Business and Professional Sports Business. Subsequently, (i) Travel and Entertainment Business were split to Travel Business and Entertainment Business then (ii) former E-Commerce Business and Entertainment Business integrated into E-Commerce Business in consideration of similarity and relationship of Businesses. In addition, Professional Sports Business was newly established in accordance with launch of the business in fiscal 2005. Furthermore, in July 2005, Rakuten again revised its segment classifications, dividing the Financial Services Business into two separate segments: Credit and Payment Business and Securities Business. This was done to reflect the differences between the two businesses and distinguish their respective earnings following the growth of the Financial Services Business after Rakuten KC Co., Ltd. became a consolidated subsidiary. As a result, the new business segments are as follows: E-Commerce Business, Credit and Payment Business, Portal and Media Business, Travel Business, Securities Business and Professional Sports Business. The following table shows operating results by segment for fiscal 2004 based on this new business segment classification applied for fiscal 2005.

Fiscal 2004 (From January 1, 2004 to December 31, 2004)

(Millions of yen)

	E-Commerce Business	Credit & Payment Business	Portal & Media Business	Travel Business	Securities Business	Professional Sports Business	Total	Internal Eliminations	Consolidated
I. Net sales, operating income									
Net sales									
(1) External sales	21,331	776	4,904	5,411	13,143	—	45,567	—	45,567
(2) Intersegment sales and transfers	112	—	823	12	—	—	948	(948)	—
<b>Total</b>	<b>21,443</b>	<b>776</b>	<b>5,728</b>	<b>5,424</b>	<b>13,143</b>	<b>—</b>	<b>46,516</b>	<b>(948)</b>	<b>45,567</b>
Operating expenses	14,325	886	4,639	3,262	8,371	54	31,540	(1,032)	30,507
Operating income	7,117	(110)	1,088	2,161	4,772	(54)	14,975	83	15,059
II. Assets, depreciation, and capital expenditure									
Assets	50,192	30,512	2,508	4,025	218,629	3,953	309,821	(2,265)	307,556
Depreciation and amortization	1,610	26	253	245	325	—	2,461	—	2,461
Capital expenditure	3,145	16	207	354	2,294	13	6,031	—	6,031

##### (2) Changes from the Interim Consolidated Accounting Period

In the consolidated fiscal year under review, Rakuten's operations comprised six segments: E-Commerce Business, Portal and Media Business, Travel Business, Credit and Payment Business, Securities Business and Professional Sports Business. However, in the consolidated interim accounting period, the segments had been classified into five categories: E-Commerce Business, Portal and Media Business, Travel Business, Financial Services Business and Professional Sports Business. The difference is due to a reclassification of the segment undertaken in July 2005 in light of the expansion in the scope of the Financial Services Business resulting from Rakuten KC Co., Ltd. turning into a consolidated subsidiary. Accordingly, to reflect the different features of the two businesses in the segment classification and to distinguish their respective earnings, the Financial Services Business was divided into two separate segments: the Credit and Payment Business and the Securities Business. The following table shows the effect of applying the business classification used for the fiscal year on segment information for the interim accounting period:

(Based on segment classification used in the consolidated fiscal year)

(Millions of yen)

	Credit & Payment Business	Securities Business
I. Net sales		
(1) External sales	1,837	9,781
(2) Intersegment sales and transfers	—	—
<b>Total</b>	<b>1,837</b>	<b>9,781</b>
Operating expenses	2,127	5,751
Operating income	(290)	4,030

(Based on segment classification used in the consolidated interim period)

(Millions of yen)

	Financial Services Business
I. Net sales	
(1) External sales	11,619
(2) Intersegment sales and transfers	—
<b>Total</b>	<b>11,619</b>
Operating expenses	7,879
Operating income	3,739

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## **2. Geographic segment information**

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Fiscal 2004 (January 1, 2004 to December 31, 2004) and Fiscal 2005 (January 1, 2005 to December 31, 2005)  
Geographic segment information is omitted because domestic net sales and assets account for more than 90% of total segment sales and assets.

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## **3. Overseas sales**

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Fiscal 2004 (January 1, 2004 to December 31, 2004) and Fiscal 2005 (January 1, 2005 to December 31, 2005)  
Overseas sales are omitted because overseas sales account for less than 10% of consolidated net sales.

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## **4. Business Transactions with related parties**

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Fiscal 2004 (January 1, 2004 to December 31, 2004)  
Business transactions with related parties are omitted since they had no material impact on Rakuten's business activities.  
Fiscal 2005 (January 1, 2005 to December 31, 2005)  
Business transactions with related parties are omitted since they had no material impact on Rakuten's business activities.

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## Per Share Data

Fiscal 2004 January 1, 2004 to December 31, 2004		Fiscal 2005 January 1, 2005 to December 31, 2005	
Net assets per share: ¥ 38,814.92		Net assets per share: ¥ 6,464.58	
Net loss per share: ¥ 12,458.37		Net income per share: ¥ 1,642.50	
		Diluted net income per share: ¥ 1,626.19	
<p>Diluted net income per share is not shown. Although Rakuten had stock acquisition rights and stock options outstanding at the end of fiscal 2004, diluted net loss is omitted because a net loss was posted.</p>		<p>On February 21, 2005, the company conducted a 10-for-1 common stock split. Per share data calculated assuming this split had occurred at the beginning of fiscal 2004 are as follows.</p>	
		Adjusted per share data for fiscal 2004	
		Net assets per share: ¥ 3,881.49	
		Net loss per share: ¥ 1,245.83	
Notes:		Notes:	
1. The average number of shares outstanding is calculated based on shares outstanding on day of the year.		1. The average number of shares outstanding is calculated based on shares outstanding on day of the year.	
2. Net income or loss per share is calculated as follows.		2. Net income or loss per share is calculated as follows.	
Net income (loss) (¥ million)	(14,271)	Net income (loss) (¥ million)	19,449
Amounts not applicable to common stock (¥ million)	15	Amounts not applicable to common stock (¥ million)	30
Amount allocated for directors' bonuses	15	Amount allocated for directors' bonuses	30
Income (loss) applicable to common stock (¥ million)	(14,286)	Income (loss) applicable to common stock (¥ million)	19,419
Average shares outstanding (thousand shares)	1,146	Average shares outstanding (thousand shares)	11,823
Major common stock equivalents used in calculation of diluted net income per share (thousand shares)	—	Major common stock equivalents used in calculation of diluted net income per share (thousand shares)	118
Stock options		Stock options	
Summary of non-dilutive common stock equivalents not included in dilution	Stock options: 2 types (8,309 rights) Stock acquisition rights complying with former Commercial Code Article 289-19:2 types Second issue of unsecured warrant Third issue of unsecured warrant	Summary of non-dilutive common stock equivalents not included in dilution	—

# Important Events Subsequent to the Period under Review

Fiscal 2004 January 1, 2004 to December 31, 2004	Fiscal 2005 January 1, 2005 to December 31, 2005						
<p><b>1. Reduction in capital reserves</b></p> <p>In accordance with Article 289-2 of the Commercial Code, Rakuten resolved at the 8th Annual General Meeting of Shareholders held on March 30, 2005, to reduce capital reserves of ¥ 25,135,769,677 by ¥ 10,000,000,000 and to transfer the amount to other Additional paid-in capital to enable flexible utilization of capital reserves.</p> <p><b>2. Stock split</b></p> <p>Rakuten, based on decision at the Board of Directors' Meeting on August 27, 2004, carried out a 10-for-1 stock split on February 21, 2005, applicable for stock owned by shareholders listed or registered in the final list of shareholders or the actual list of shareholders, and fractional shareholders listed or registered in the fractional stock register dated December 31, 2004. Consequently, the total number of stock issued and outstanding increased by 10,635,066.9 shares. Concurrently, the total number of shares to be issued by the company increased by 35,476,200 to 39,418,000, reflecting the ratio of the stock split.</p> <p>The following table shows per share data for the consolidated accounting periods of Fiscal 2004 and Fiscal 2005, respectively, based on the assumption the stock split was implemented at the beginning of the each fiscal year:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Fiscal 2004</th> <th style="text-align: center;">Fiscal 2005</th> </tr> </thead> <tbody> <tr> <td>Net assets per share: ¥ 2,357.04</td> <td>Net assets per share: ¥ 3,881.49</td> </tr> <tr> <td>Net loss per share: ¥ 5,160.08</td> <td>Net loss per share: ¥ 1,245.83</td> </tr> </tbody> </table> <p><b>3. Issuance of stock options according to Article 280-20 and 280-21 of the Commercial Code</b></p> <p>In accordance with the rules laid out in Articles 280-20 and 280-21 of the Commercial Code, Rakuten resolved at the 8th Annual General Meeting of Shareholders held on March 30, 2005 to issue stock options for the benefit of its directors, corporate auditors and employees with the objective of further increasing their motivation and morale for enhancing corporate performance.</p>	Fiscal 2004	Fiscal 2005	Net assets per share: ¥ 2,357.04	Net assets per share: ¥ 3,881.49	Net loss per share: ¥ 5,160.08	Net loss per share: ¥ 1,245.83	<p><b>1. New stock issuance</b></p> <p>At the Board of Directors' Meeting on March 1, 2006, Rakuten agreed to issue new stocks through a public offering; the total amount was paid by the payment due date (March 23, 2006).</p> <p>(1) Type of stock issued Common stock</p> <p>(2) Total number of new stock issued 1,150,000 shares</p> <p>(3) Offering price ¥ 92,214 per share</p> <p>(4) Total amount ¥ 106,046,100,000</p> <p>(5) Amount incorporated into capital ¥ 46,107 per share</p> <p>(6) Dividend value date January 1, 2006</p> <p>(7) Use of proceeds Of the total net proceeds of approximately ¥ 105,604 million raised in the public offering, ¥ 20,000 million will be invested in a subsidiary (capital injection for Rakuten KC, Co., Ltd.) and the remainder used to repay debt.</p> <p><b>2. Issuance of stock options according to Article 280-20 and 280-21 of the Commercial Code</b></p> <p>In accordance with the rules laid out in Articles 280-20 and 280-21 of the Commercial Code, Rakuten resolved at the 9th Annual General Meeting of Shareholders held on March 30, 2006, to issue stock options for the benefit of directors, corporate auditors and employees of the company and its subsidiaries and affiliates with the objective of further increasing their motivation and morale for enhanced corporate performance.</p> <p>The outline of the stock option is as follows:</p> <p>(1) Type of stock to be issued Common stock</p> <p>(2) Beneficiaries Directors, corporate auditors and employees of Rakuten, Inc., its subsidiaries and affiliates</p> <p>(3) Number of stock options to be issued: 60,000 shares (maximum)</p> <p>(4) Exercise price of stock option Amount equivalent to the average transaction price as</p>
Fiscal 2004	Fiscal 2005						
Net assets per share: ¥ 2,357.04	Net assets per share: ¥ 3,881.49						
Net loss per share: ¥ 5,160.08	Net loss per share: ¥ 1,245.83						

## Notes to Consolidated Financial Statements

### Important Events Subsequent to the Period under Review

Fiscal 2004 January 1, 2004 to December 31, 2004	Fiscal 2005 January 1, 2005 to December 31, 2005
<p>(1) Type of stock to be issued Common stock</p> <p>(2) Beneficiaries Directors, corporate auditors and employees of Rakuten, Inc., its subsidiaries and affiliates</p> <p>(3) Number of stock options to be issued: 65,000 shares (maximum)</p> <p>(4) Exercise price of stock option Amount equivalent to the average transaction prices as of 15:00 (closing price) disclosed by the JASDAQ Securities Exchange for each day on which trades were made during the month preceding the month in which the right is exercised (fractions below ¥ 1 are counted as one). However, in case the above amount falls below the closing price of the exercise date, the latter will be applied.</p> <p>(5) Period of exercise From March 31, 2009 to March 29, 2015</p> <p><b>4. Business and capital alliance (transformation of the company into a subsidiary) with Kokunai Shinpan Co., Ltd.</b></p> <p>At the Board of Directors' Meeting on March 10, 2005, Rakuten agreed to sign a basic agreement on a comprehensive business and capital alliance with Kokunai Shinpan Co., Ltd., and agreed at the Board of Directors' Meeting on March 28 to sign a contract on the acquisition of its shares from the company's existing shareholder, which was implemented on the same day.</p> <p>(1) Outline of Kokunai Shinpan Co., Ltd.</p> <ul style="list-style-type: none"> <li>-Trade name: Kokunai Shinpan Co., Ltd.</li> <li>-Location: Hakata-ku, Fukuoka City, Fukuoka Prefecture</li> <li>-Representative Officer: Kinji Nakamura, President</li> <li>-Date of incorporation: April 1963</li> <li>-Operations: credit card services, shopping credit services, card loan services, etc.</li> <li>-Accounting period: April 1 to March 31</li> <li>-Number of employees: 1,477 (as of March 31, 2004)</li> <li>-Capital: ¥ 3,055 million (as of March 31, 2004)</li> <li>-Operating revenue: ¥ 58,293 million (Fiscal 2004)</li> <li>-Operating income: ¥ 2,211 million (Fiscal 2004)</li> <li>-Ordinary income: ¥ 2,025 million (Fiscal 2004)</li> </ul> <p>(2) Reason for the alliance As a comprehensive Internet services corporate group,</p>	<p>of 15:00 (closing price) disclosed by the JASDAQ Securities Exchange for each day on which trades were made during the month preceding the month in which the right is exercised (fractions below ¥ 1 are counted as one). However, in case the above amount falls below the closing price of the exercise date, the latter will be applied.</p> <p>(5) Period of exercise From March 31, 2010 to March 29, 2016</p>



## Fiscal 2004

January 1, 2004 to December 31, 2004

the Rakuten Group undertakes E-Commerce, Portal and Media, Travel and Financial Services businesses, and maintains a focused effort to develop new businesses and expand its operational domain, seeking to further enhance and diversify its services. In the Financial Services Business in particular, the Group began issuing Rakuten Credit Cards in August 2005, through a card alliance. Over 130,000 cards were issued in the subsequent eight-month period, making the Group one of the largest Internet-based credit companies in Japan. Kokunai Shinpan Co., Ltd. possesses extensive expertise, with 1.64 million cards issued and gross transactions of ¥ 559.7 billion in fiscal 2004.

Incorporating the company into the Group will enable Rakuten to secure revenues from payment settlement services and installment sales generated by its internet shopping mall site Rakuten Ichiba and comprehensive travel site Rakuten Travel, while increasing credit card membership through collaboration with the sports industry, including professional baseball, in which the Tohoku Rakuten Golden Eagles participates, thereby further expanding the Group's business and enhancing its business base. For these reasons, Rakuten agreed to a comprehensive business and capital alliance (transformation of the company into a subsidiary) with Kokunai Shinpan Co., Ltd.

### (3) Content of capital alliance

KC Holdings Co., Ltd., a holdings company of Kokunai Shinpan Co., Ltd., indirectly owns 100% of Kokunai Shinpan Co., Ltd.'s stock.

Rakuten will invest in the company by acquiring a 55.5% stake in KC Holdings Co., Ltd. owned by JIP funds LLP. investment fund managed by Japan Industrial Partners, Inc. (planned investment: approximately ¥ 12 billion). In addition, Rakuten plans to acquire ¥ 4.5 billion worth of preferred stock from KC Holdings Co., Ltd. in a third-party allotment of stock on March 31, 2005.

### (4) Date of stock acquisition:

June 1, 2005 (tentative)

### (5) Change in subsidiary

The stock acquisition will give Rakuten a 55.5% stake in Kokunai Shinpan Co., Ltd., thereby making it a Rakuten subsidiary.

## Fiscal 2005

January 1, 2005 to December 31, 2005

# Supplementary Statement of Consolidated Accounting

## Schedule of corporate bonds

Company	Description	Date of issuance	Amount outstanding as of Fiscal 2004 year-end (¥ million)	Amount outstanding as of Fiscal 2005 year-end (¥ million)	Interest (%)	Collateral	Date of maturity
Rakuten, Inc.	No.1 unsecured variable rate bond	February 28, 2005	—	10,000 (—)	0.525	Unsecured	February 26, 2010
Rakuten KC, Co., Ltd.	No.2 unsecured bond	January 5, 2001	—	10,000 (10,000)	2.500	Unsecured	January 5, 2006
Rakuten KC, Co., Ltd.	No.3 unsecured bond	April 12, 2001	—	300 (300)	1.050	Unsecured	April 12, 2006
Rakuten KC, Co., Ltd.	No.4 unsecured bond	September 28, 2001	—	300 (300)	1.366	Unsecured	September 28, 2006
Rakuten KC, Co., Ltd.	No.5 unsecured bond	December 26, 2001	—	400 (400)	1.450	Unsecured	December 26, 2006
Rakuten KC, Co., Ltd.	No.6 unsecured bond	December 25, 2003	—	1,000 (1,000)	1.470	Unsecured	December 25, 2006
<b>Total</b>	—	—	—	<b>22,000 (12,000)</b>	—	—	—

Notes:

1. Figures in parenthesis ( ) indicate the current portion of amounts outstanding.

2. Annual bond redemption value over the five years following the close of the consolidated fiscal year are shown below:

Over 1 year, up to 2 years (¥ million)	Over 2 years, up to 3 years (¥ million)	Over 3 years, up to 4 years (¥ million)	Over 4 years, up to 5 years (¥ million)
—	4,000	4,000	2,000

## Schedule of debt service

Category	Amount outstanding as of Fiscal 2004 year-end (¥ million)	Amount outstanding as of Fiscal 2005 year-end (¥ million)	Average interest (%)	Due date
Short-term borrowings	46,895	375,774	1.0761	—
Current portion of long-term debt	2	114,255	2.1865	—
Long-term debt (excluding the current portion)	2,019	186,476	2.0978	2007 to 2011
Other interest-bearing debt	—	—	—	—
<b>Total</b>	<b>48,916</b>	<b>676,505</b>	—	—

Notes:

1. "Average interest" denotes the weighted average based on the amount of debt outstanding as of each year-end.

2. Repayment amount for long-term debt, excluding the current portion, over the five years following the close of the consolidated fiscal year are shown below:

Over 1 year, up to 2 years (¥ million)	Over 2 years, up to 3 years (¥ million)	Over 3 years, up to 4 years (¥ million)	Over 4 years, up to 5 years (¥ million)
85,289	55,071	30,295	15,071

(2) Other  
N.A.

# Independent Auditors' Report

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(The English translation of Report of Independent Auditors in Japanese)

## Report of Independent Auditors

March 30, 2005

The Board of Directors  
Rakuten, Inc.

Ernst & Young ShinNihon

Representative and Engagement Partner	Hidehiro Takayama
Representative and Engagement Partner	Shoji Wakamatsu

Pursuant to Article 193-2 of the Securities and Exchange Law, we have audited the consolidated balance sheet, the consolidated statement of operations, the consolidated statement of retained earnings, the consolidated statement of cash flows and the consolidated supplemental schedules of Rakuten, Inc. included in "Financial Information" for the fiscal year from January 1, 2004 to December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Rakuten, Inc. and consolidated subsidiaries at December 31, 2004, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Supplementary Information*

As described in "Business segment information, Note 5, Changes in business segments," the Company changed the classification of its business segments.

We have no interest in the Company that should be disclosed pursuant to the provisions of the Certified Public Accountants Law.

(The English translation of Report of Independent Auditors in Japanese)

### Report of Independent Auditors

March 30, 2006

The Board of Directors  
Rakuten, Inc.

#### Ernst & Young ShinNihon

Designated and Engagement Partner	Hidehiro Takayama
Designated and Engagement Partner	Shoji Wakamatsu
Designated and Engagement Partner	Yoshihiko Shimizu

Pursuant to Article 193-2 of the Securities and Exchange Law, we have audited the consolidated balance sheet, the consolidated statement of operations, the consolidated statement of retained earnings, the consolidated statement of cash flows and the consolidated supplemental schedules of Rakuten, Inc. included in "Financial Information" for the fiscal year from January 1, 2005 to December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Rakuten, Inc. and consolidated subsidiaries at December 31, 2005 and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

#### *Supplementary Information*

- (1) As described in "Important events subsequent to the period under review, Note 1, New stock issuance," at the Board of Director's meeting held on March 1, 2006, it was resolved that the Company would issue new stocks for 106 billion yen through a public offering. All proceeds from the issuance of stocks were received by March 23, 2006.
- (2) As described in "Business segment information, Note 6, Changes in business segments," the Company changed the classification of its business segments.

We have no interest in the Company that should be disclosed pursuant to the provisions of the Certified Public Accountants Law.

# Corporate Data

## Company Overview (As of March 31, 2006)

Company Name	Rakuten, Inc.
Founded	February 7, 1997
Service Launched	May 1, 1997
IPO	April 19, 2000
Capital	107,165 million yen
Main Office	Roppongi Hills Mori Tower, 6-10-1 Roppongi, Minato-ku, Tokyo, 106-6118
Employees	3,765 (Consolidated) 815 (Non-consolidated)

## Stock Information (As of December 31, 2006)

Stock Code	4755(JASDAQ)
Fiscal Year End	December 31 (Interim Period June 30)
Date of General Shareholders Meeting	End of March
Shareholder Record Date	December 31
Transfer Agent	The Chuo Mitsui Trust and Banking Company, Ltd. 33-1, Shiba, 3-chome, Minato-ku, Tokyo
Transfer Agent Address	The Chuo Mitsui Trust and Banking Company, Ltd. Stock Transfer Agency Department 8-4, Izumi 2-chome, Sugunami-ku, Tokyo Toll-free call: +81-120-78-2031

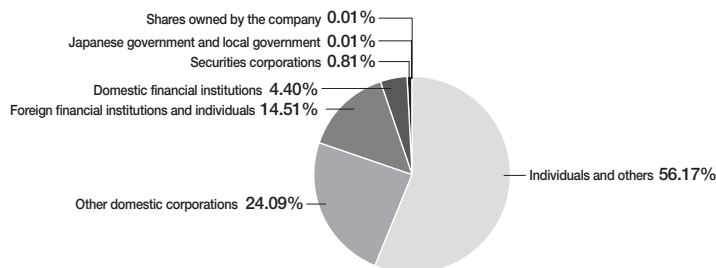
### Number of shares and shareholders

Total number of shares authorized	39,418,000
Total number of shares issued	11,837,893
Number of shareholders	129,702

### Major Shareholders

Shareholders	Number of shares	Voting shares held (%)
Hiroshi Mikitani	2,283,590	19.29
Crimson Group, Inc	2,257,350	19.07
Haruko Mikitani	1,558,750	13.17
Masuda and Partners Inc.	534,910	4.52
Shinnosuke Honjo	233,890	1.98
Kazuyoshi Masuda	225,600	1.91
The Chase Manhattan Bank N.A. London	185,529	1.57
Morgan Stanley & Co. International Limited	168,347	1.42
Japan Trustee Services Bank, Ltd. (Trust Account)	157,284	1.33
The Master Trust Bank of Japan, Ltd. (Trust account)	135,811	1.15

### Classification by Type of Shareholder



### Inquiry

Investor Relations  
Tel. +81-3-4523-8001  
URL <http://www.rakuten.co.jp/info/ir/english>

Consolidated Subsidiaries and Affiliated Companies

Name	Location	Capital or investment (¥ million)	Type of business	Voting rights or ownership (%)	Relationship	Note
<b>Consolidated Subsidiaries</b>						
Rakuten Auction, Inc.	Minato-ku, Tokyo	1,650	E-Commerce Business	60.00	Concurrent appointment of Rakuten executives	2
Rakuten Books, Inc.	Minato-ku, Tokyo	400	E-Commerce Business	100	Concurrent appointment of Rakuten executives, Loans lended	
Digipa Networks, Inc.	Minato-ku, Tokyo	67	E-Commerce Business	100	Concurrent appointment of Rakuten executives	
Rakuten Enterprise Inc.	Minato-ku, Tokyo	10	E-Commerce Business	100	Concurrent appointment of Rakuten executives, Loans lended	
Signature Japan Co., Ltd.	Minato-ku, Tokyo	80	E-Commerce Business	100	Concurrent appointment of Rakuten executives, Loans borrowed	
Fine Wine Co., Ltd.	Minato-ku, Tokyo	205	E-Commerce Business	100	Concurrent appointment of Rakuten executives	
LinkShare Corporation	U.S.A.	74,011 thousand U.S. dollars	E-Commerce Business	100 (100)	Concurrent appointment of Rakuten executives	2 5
MEDIOPORT Inc.	Minato-ku, Tokyo	171	E-Commerce Business	100		
Rakuten USA, Inc.	U.S.A.	5,000 thousand U.S. dollars	E-Commerce Business	100	Concurrent appointment of Rakuten executives	
Rakuten Credit, Inc.	Minato-ku, Tokyo	4,450	Credit and Payment Business	96.50	Concurrent appointment of Rakuten executives	2
Rakuten KC Co., Ltd.	Fukuoka-shi, Fukuoka	3,055	Credit and Payment Business	55.52 (55.52)	Concurrent appointment of Rakuten executives, Loans lended	2 6
JK Holdings Inc.	Minato-ku, Tokyo	770	Credit and Payment Business	100	Concurrent appointment of Rakuten executives, Loans lended	2
Kokunai Shinpan Service Co., Ltd.	Fukuoka-shi, Fukuoka	10	Credit and Payment Business	100 (100)		2 7
Miyazaki Marina Co., Ltd.	Miyazaki-shi, Miyazaki	45	Credit and Payment Business	100 (100)		2 7
Kajiyama Warehouse Co., Ltd.	Kitakyusyu-shi, Fukuoka	240	Credit and Payment Business	100 (100)		2 7
Rakuten TV Inc.	Minato-ku, Tokyo	80	Portal and Media Business	100	Concurrent appointment of Rakuten executives, Loans lended	
Target, Inc.	Minato-ku, Tokyo	480	Portal and Media Business	100	Concurrent appointment of Rakuten executives, Loans lended	
College Students' Portal Community, Inc.	Minato-ku, Tokyo	10	Portal and Media Business	100	Concurrent appointment of Rakuten executives, Loans lended	
Rakuten Research, Inc.	Minato-ku, Tokyo	246	Portal and Media Business	98.40	Concurrent appointment of Rakuten executives	2
Cyber Brains (Shanghai) Consulting Co., Ltd.	People's Republic of China	1,158 thousand yuan	Portal and Media Business	100 (100)		2
Rakuten Travel, Inc.	Minato-ku, Tokyo	764	Travel Business	100	Concurrent appointment of Rakuten executives, Loans lended	
RAKUTEN TRAVEL KOREA CO., LTD.	Republic of Korea	350 million won	Travel Business	100 (100)		8
TABIMADO CO., LTD SHANGHAI	People's Republic of China	1,000 thousand yuan	Travel Business	— (100)		2 4
Rakuten Bus Services Inc.	Minato-ku, Tokyo	40	Travel Business	75.0 (75.0)	Concurrent appointment of Rakuten executives	2 8
SIDE B NETORK, INC.	Minato-ku, Tokyo	12	Travel Business	100	Concurrent appointment of Rakuten executives, Loans lended	

Name	Location	Capital or investment (¥ million)	Type of business	Voting rights or ownership (%)	Relationship	Note
Rakuten Securities, Inc.	Minato-ku, Tokyo	6,600	Securities Business	96.67	Concurrent appointment of Rakuten executives, Loans lend	
Rakuten Asset Management Co., Ltd.	Minato-ku, Tokyo	10	Securities Business	100 (100)	Concurrent appointment of Rakuten executives, Loans lend	9
Rakuten Strategic Partners, Inc.	Minato-ku, Tokyo	300	Securities Business	100 (100)	Loans lend	9
Rakuten Realty Management Co., Ltd.	Chuo-ku, Tokyo	200	Securities Business	100		2
R Building Co., Ltd.	Chuo-ku, Tokyo	10	Securities Business	100 (100)	Loans lend	2 10
Rakuten Baseball, Inc.	Sendai-shi, Miyagi	400	Professional Sports Business	100	Concurrent appointment of Rakuten executives, Loans lend	
Rakuten Sports Properties, Inc.	Minato-ku, Tokyo	150	Professional Sports Business	51.0 (51.0)	Concurrent appointment of Rakuten executives	2 11
Rakuten Media Investment, Inc.	Minato-ku, Tokyo	10		100	Concurrent appointment of Rakuten executives, Loans lend	2
<b>Equity-Method Affiliates</b>						
LAWSON TICKET, Inc.	Shibuya-ku, Tokyo	2,892	E-Commerce Business	17.82	Concurrent appointment of Rakuten executives	
LinkShare Japan K.K.	Chiyoda-ku, Tokyo	10	E-Commerce Business	50.00 (50.00)		2 12
SHOWTIME, Inc.	Shibuya-ku, Tokyo	480	Portal and Media Business	50.00	Concurrent appointment of Rakuten executives	
Ctrip.com International, Ltd.	People's Republic of China	326 thousand U.S. dollars	Travel Business	20.89	Concurrent appointment of Rakuten executives	
WORLD TRAVEL SYSTEMS INC.	Shinjuku-ku, Tokyo	80	Travel Business	20.00	Concurrent appointment of Rakuten executives	
. Commodity, Inc.	Shibuya-ku, Tokyo	1,000	Securities Business	42.48	Concurrent appointment of Rakuten executives	2
Ecology Asset Management, Co., Ltd.	Minato-ku, Tokyo	300	Securities Business	20.00 (20.0)		2 13
Liaison Partners, Inc.	Minato-ku, Tokyo	3	Securities Business	20.00 (20.0)		2 13
TRAFFIC GATE, LTD.	Meguro-ku, Tokyo	200		50.00	Concurrent appointment of Rakuten executives	
TECHMATRIX CORPORATION	Minato-ku, Tokyo	1,263		31.45	Concurrent appointment of Rakuten executives	
NEXT Co., Ltd.	Chuo-ku, Tokyo	187		20.54	Concurrent appointment of Rakuten executives	

Notes:

1. Business segments are used to indicate the type of business.
2. Company became a group member during the past fiscal year.
3. Indirectly held voting rights are shown in parentheses.
4. Voting rights held by parties close to Rakuten or that support Rakuten's policies, but not included in the voting rights percentage, are shown in brackets.
5. LinkShare Corporation is a subsidiary of Rakuten USA, Inc.
6. Rakuten KC Co., Ltd. is a subsidiary of JK Holdings Inc.
7. Kokunai Shinpan Co., Ltd., Miyazaki Marina Co., Ltd. and Kajiyama Warehouse Co., Ltd. are subsidiaries of Rakuten KC Co., Ltd.
8. RAKUTEN TRAVEL KOREA CO., LTD. and Rakuten Bus Services Inc. are subsidiaries of Rakuten Travel, Inc.
9. Rakuten Asset Management Co., Ltd. and Rakuten Strategic Partners Co., Ltd. are subsidiaries of Rakuten Securities, Inc.
10. R Building Co., Ltd. is a subsidiary of Rakuten Realty Management Co., Ltd.
11. Rakuten Sports Properties, Inc. is a subsidiary of Rakuten Baseball, Inc.
12. LinkShare Japan K.K. is an equity-method affiliate of LinkShare Corporation.
13. Ecology Asset Management Co., Ltd. and Liaison Partners, Inc. are equity-method affiliates of Rakuten Asset Management Co., Ltd.
14. Ynot Inc., which was a consolidated subsidiary in 2004, was absorbed by Rakuten in 2005.



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