

Rakuten, Inc. and Consolidated Subsidiaries

Consolidated Financial Statements for the
Years Ended December 31, 2007 and 2006.

Rakuten, Inc. and Consolidated Subsidiaries

Consolidated Balance Sheets
December 31, 2007 and 2006

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)	LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007		2007	2006	2007
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash	¥57,437	¥ 111,182	\$ 473,905	Short-term debt (Note 3)	¥ 140,475	¥ 184,588	\$1,159,033
Trade notes and accounts receivable	27,904	16,715	230,233	Current portion of long-term debt (Note 3)	96,600	105,748	797,028
Installment accounts receivable	70,739	63,356	583,655	Trade notes and accounts payable	16,668	6,258	137,521
Installment accounts receivable, guarantee contracts	4,497	5,053	37,103	Accounts payable, guarantee contracts	4,497	5,053	37,104
Beneficial interests in securitized assets	110,144	73,214	908,780	Advances received	23,177	36,555	191,227
Trade loans receivable	158,964	186,794	1,311,585	Income taxes payable (Note 13)	17,075	1,710	140,882
Allowance for doubtful accounts	(44,447)	(31,083)	(366,722)	Deferred installment income	694	909	5,726
Securities	26,380	3,775	217,656	Deposits received for security brokerage business	148,316	152,387	1,223,729
Deposits for security brokerage business	230,641	235,866	1,902,980	Margin transactions liabilities for security brokerage business	101,688	138,211	839,013
Margin transactions assets for security brokerage business	188,704	220,606	1,556,960	Guarantee deposits received for security brokerage business	104,929	95,627	865,751
Short-term guarantee deposits for security brokerage business	8,731	9,773	72,035	Collateralized guarantee borrowings for security brokerage business	40,666	32,600	335,529
Deferred tax assets (Note 13)	15,635	13,638	129,006	Allowances	7,144	6,124	58,947
Other	47,872	56,009	394,977	Other	48,513	41,050	400,273
Total current assets—(Carried forward)	¥903,201	¥ 964,898	\$ 7,452,153	Total current liabilities—(Carried forward)	¥750,442	¥ 806,820	\$ 6,191,763

See notes to consolidated financial statements.

Rakuten, Inc. and Consolidated Subsidiaries

Consolidated Balance Sheets December 31, 2007 and 2006

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)	LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007		2007	2006	2007
Total current assets—(Brought forward)	¥ 903,201	¥964,898	\$ 7,452,153	Total current liabilities—(Brought forward)	¥ 750,442	¥ 806,820	\$ 6,191,763
FIXED ASSETS:				LONG-TERM LIABILITIES:			
PROPERTY, PLANT AND EQUIPMENT				Long-term debt (Note 3)	181,083	256,163	1,494,080
Land	9,167	31,677	75,633	Allowance for retirement benefits (Note 12)	180	146	1,487
Other	43,422	44,293	358,265	Allowance for directors' retirement benefits (Note 12)	32	22	262
Gross property, plant and equipment	52,589	75,970	433,898	Allowance for loss on interest repayments	20,075	3,548	165,635
Accumulated depreciation	(28,561)	(27,030)	(235,654)	Deferred tax liabilities (Note 13)	5,838	22,303	48,170
Net property, plant and equipment	24,027	48,940	198,244	Other	3,530	722	29,125
INTANGIBLE ASSETS:				Total long-term liabilities	210,738	282,904	1,738,759
Goodwill (Note 10)	64,466	64,795	531,894	STATUTORY RESERVE FOR SECURITY BROKERAGE BUSINESS	3,920	3,142	32,346
Other	28,944	18,294	238,819	Total liabilities	965,100	1,092,866	7,962,868
Total intangible assets	93,410	83,089	770,713	NET ASSETS :			
INVESTMENTS AND OTHER ASSETS:				Common stock—authorized, 39,418,000 shares; issued, 13,076,334 shares in 2007 and 13,013,493 shares in 2006	107,454	107,295	886,582
Investment securities (Note 5)	104,070	169,776	858,667	Capital surplus	119,484	116,639	985,845
Deferred tax assets (Note 13)	18,713	14,077	154,394	Accumulated deficit	(20,123)	(56,895)	(166,029)
Other	20,609	16,318	170,038	Less treasury stock—at cost, 977.30 shares in 2007 and 1,060 shares in 2006	(11)	(12)	(90)
Allowance for doubtful accounts	(5,107)	(1,035)	(42,137)	Total shareholders' equity	206,804	167,027	1,706,308
Total investments assets and other assets	138,285	199,136	1,140,962	VALUATION, TRANSLATION ADJUSTMENTS AND OTHERS			
Total fixed assets	255,722	331,165	2,109,919	Unrealized holding gain (loss) on investment securities	(21,077)	21,056	(173,899)
				Unrealized gain on derivatives	27	137	219
				Translation adjustments	81	359	672
				Total valuation, translation adjustments and others	(20,969)	21,552	(173,008)
				STOCK ACQUISITION RIGHTS	128	11	1,054
				MINORITY INTERESTS	7,861	14,607	64,850
				Total net assets	193,824	203,197	1,599,204
				COMMITMENTS AND CONTINGENCIES (Note 8)	—	—	—
TOTAL ASSETS	¥ 1,158,923	¥ 1,296,063	\$ 9,562,072	TOTAL LIABILITIES AND NET ASSETS	¥1,158,923	¥ 1,296,063	\$ 9,562,072

See notes to consolidated financial statements.

Rakuten, Inc. and Consolidated Subsidiaries

Consolidated Statements of Income Years Ended December 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2007</u>	<u>2006</u>	<u>2007</u>
NET SALES	¥ 213,938	¥ 203,272	\$ 1,765,168
COST OF SALES	<u>39,480</u>	<u>27,302</u>	<u>325,746</u>
Gross profit	174,458	175,970	1,439,422
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>174,339</u>	<u>146,821</u>	<u>1,438,440</u>
Operating income	<u>119</u>	<u>29,149</u>	<u>982</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	1,981	1,324	16,346
Gain on sales of securities	1,764	11,314	14,558
Foreign exchange gain	259	244	2,141
Equity in earnings of affiliates	1,047	854	8,639
Gain on sales of affiliates securities	53,873	—	444,498
Gain on sales of subsidiary securities	1,037	—	8,560
Gain on changes in equity interests of subsidiary and affiliates	598	1,495	4,935
Interest expenses	(1,505)	(1,616)	(12,419)
Commission expenses	(670)	(1,216)	(5,528)
Loss on restructuring business	(412)	(20,766)	(3,399)
Provision for allowance for doubtful accounts	—	(6,465)	—
Provision for allowance for loss on interest repayments	—	(3,005)	—
Special retirement benefits (Note 12)	(240)	(4,332)	(1,980)
Loss on sales or disposal of fixed assets	(340)	(663)	(2,809)
Stock issuance costs	—	(602)	—
Provision for statutory reserve for security brokerage business	(778)	(830)	(6,421)
Other—net	<u>(6,060)</u>	<u>(1,674)</u>	<u>(50,011)</u>
Other expenses—net	<u>50,554</u>	<u>(25,938)</u>	<u>417,109</u>
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	<u>50,673</u>	<u>3,211</u>	<u>418,091</u>
INCOME TAXES (Note 13):			
Current	20,942	10,610	172,788
Deferred	<u>(5,971)</u>	<u>(6,154)</u>	<u>(49,264)</u>
Total income taxes	<u>14,971</u>	<u>4,456</u>	<u>123,524</u>
MINORITY INTERESTS IN NET LOSS	<u>(1,197)</u>	<u>(3,948)</u>	<u>(9,879)</u>
NET INCOME	<u>¥ 36,899</u>	<u>¥ 2,703</u>	<u>\$ 304,446</u>

See notes to consolidated financial statements

Rakuten, Inc. and Consolidated Subsidiaries

**Consolidated Statements of Changes in Net Assets
Year Ended December 31, 2007**

Millions of yen

As of	Dec. 31, 2006 As restated	Changes in fiscal year 2007							Dec. 31, 2007
		Issuance of common stock	Stock issues under exchange offering	Cash dividends paid	Net income	Changes in the scope of equity method	Net changes in items other than those in shareholders' equity	Total of changes in fiscal 2006	
Common stock	¥ 107,295	¥ 159	—	—	—	—	—	¥ 159	¥ 107,454
Capital surplus	116,639	159	2,686	—	—	—	—	2,845	119,484
Accumulated deficit	(56,895)	—	—	(651)	36,899	524	—	36,772	(20,123)
Treasury stock	(12)	—	1	—	—	0	—	1	(11)
Total shareholders' equity	167,027	318	2,687	(651)	36,899	524	—	39,777	206,804
Unrealized holding gain (loss) on investment securities	21,056	—	—	—	—	—	(42,133)	(42,133)	(21,077)
Unrealized gain (loss) on derivatives	137	—	—	—	—	—	(110)	(110)	27
Translation adjustments	359	—	—	—	—	—	(277)	(277)	81
Total valuation, translation adjustments and others:	21,552	—	—	—	—	—	(42,520)	(42,520)	(20,968)
Stock acquisition rights	11	—	—	—	—	—	117	117	128
Minority interests	14,607	—	—	—	—	—	(6,747)	(6,747)	7,860
Total net assets :	¥ 203,197	¥ 318	¥ 2,687	¥ (651)	¥ 36,899	¥ 524	¥ (49,150)	¥ (9,373)	¥ 193,824
Total net assets, Dec.31, 2007									
Thousands of U.S. dollars (Tote1):	\$ 1,676,540	\$ 2,625	\$ 22,172	\$ (5,368)	\$ 304,446	\$ 4,320	\$ (405,531)	\$ (77,336)	\$ 1,599,204

See notes to consolidated financial statements.

Rakuten, Inc. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows Years Ended December 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2007</u>	<u>2006</u>	<u>2007</u>
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 50,673	¥ 3,211	\$ 418,091
Adjustments for:			
Amortization of goodwill	3,572	3,012	30,960
Equity in earnings of affiliates	(1,047)	(854)	(8,639)
Depreciation and amortization	8,518	6,951	70,282
Loss on sales or disposal of fixed assets	1,460	663	12,050
Amortization of start-up costs	—	13	—
Gain on sales of securities	(1,835)	(11,314)	(15,140)
Increase in allowance for doubtful accounts	17,146	15,099	141,465
Gain on sales of affiliate stocks	(1,037)	—	(8,560)
Gain on sales of subsidiary stocks	(53,873)	—	(444,498)
Allowance for loss on interest repayments	16,527	3,548	136,361
Gain on changes in equity interests of subsidiary and affiliates	(598)	(1,495)	(4,935)
Interest and dividend income	(1,981)	(1,324)	(16,346)
Interest expenses	1,505	1,616	12,419
Other non-cash expenses	1,215	3,803	10,019
Decrease (increase) in accounts receivable	(10,970)	104,119	(90,514)
Increase in beneficial interests in securitized assets	(36,931)	(15,588)	(304,708)
Increase in accounts payable	4,126	1,985	34,047
Decrease in loan accounts payable, guarantee contracts	(556)	(141,603)	(4,584)
Increase in other accounts payable and accrued expenses	1,850	9,877	15,264
Decrease (increase) in advances received	(194)	1,046	(1,601)
Decrease in deferred installment income	(215)	(308)	(1,774)
Decrease in deposits for security brokerage business	37,806	86,818	311,929
Decrease increase in deposits received for security brokerage business	(31,581)	(93,465)	(260,573)
Increase in statutory reserve for security brokerage business	778	830	6,421
Increase in advances received from borrowing for security brokerage business	8,066	24,709	66,553
Decrease(increase) in trade loans receivable	26,618	(11,495)	219,617
Payments of income taxes	(8,497)	(27,634)	(70,105)
Refund of income taxes	7,943	—	65,536
Other-net	4,299	21,213	35,474
Net cash provided by (used in) operating activities—(Carried forward)	¥ 42,967	¥ (16,567)	\$ 354,511

See notes to consolidated financial statements

Rakuten, Inc. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows Years Ended December 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Net cash provided by (used in) operating activities—(Brought forward)	¥ 42,967	¥ (16,567)	\$ 354,511
INVESTING ACTIVITIES:			
Payments for time deposits	(4,058)	(1,744)	(33,482)
Proceeds from withdrawal from time deposits	3,339	3,856	27,554
Acquisition of securities	(8,650)	(20,506)	(71,373)
Proceeds from sales and redemption of securities	72,137	37,441	595,186
Acquisition of shares of consolidated subsidiaries	(654)	(5,573)	(5,394)
Acquisition of property, plant and equipment	(5,259)	(33,316)	(43,392)
Proceeds from sales of property, plant and equipment	1,818	2,339	14,996
Acquisition of intangible assets	(11,371)	(12,236)	(93,820)
Receipts of interest and dividends	2,843	1	23,453
Proceeds from sales of related company securities	3,225	—	26,610
Purchases of subsidiary company securities	(712)	—	(5,879)
Proceed from business transfer	1,822	—	15,032
Other	590	(13,569)	4,879
Net cash provided by (used in) investing activities	55,070	(41,735)	454,370
FINANCING ACTIVITIES:			
Net decrease in short-term debt	(71,589)	(203,203)	(590,670)
Proceeds from long-term debt	40,004	184,844	330,066
Repayments of long-term debt	(83,105)	(14,483)	(685,689)
Proceeds from investments of minority shareholders	40	6,200	330
Repayments of investments to minority shareholders	(85)	(794)	(703)
Proceeds from issuance of stock	318	105,717	2,624
Acquisition of treasury stock	(0)	—	(0)
Proceeds from minority shareholders pursuant to increase in capital	329	1,770	2,710
Payment of interest expenses	(1,483)	(1,496)	(12,237)
Cash dividends paid	(648)	(585)	(5,349)
Cash dividends paid to minority shareholders	(315)	(1,356)	(2,603)
Proceeds from sales and leaseback	3,048	—	25,147
Repayment of lease obligations	(142)	—	(1,152)
Net cash provided by (used in) financing activities	(113,628)	76,614	(937,525)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	232	249	1,923
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(15,359)	18,561	(126,721)
EFFECT OF CHANGE OF THE SCOPE OF CONSOLIDATION ON CASH AND CASH EQUIVALENTS	—	(43)	—
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	¥89,219	¥70,701	\$736,133
CASH AND CASH EQUIVALENTS, END OF YEAR	¥73,861	¥89,219	\$609,412

See notes to consolidated financial statements

Rakuten, Inc. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements Years Ended December 31, 2007 and 2006

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by Rakuten, Inc. (the "Company") and consolidated subsidiaries as required by the Financial Instruments and Exchange Law of Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥121.20 to \$1, the approximate rate of exchange at December 31, 2007. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Certain amounts in the prior years' financial statements have been reclassified to conform to the current year's presentation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Consolidation**—The consolidated financial statements as of December 31, 2007 include the accounts of the Company and its 46 (42 in 2006) significant subsidiaries (together, the "Group"). Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated. Investments in 13 (12 in 2006) affiliates are accounted for by the equity method. Those companies over which the Group has the ability to exercise significant influence in terms of their operating and financial policies are accounted for by the equity method.

Investments in the remaining 8 (unchanged since 2006) non-consolidated subsidiaries and affiliates are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

- b. Cash and Cash Equivalents**—Cash and cash equivalents as stated in the consolidated statements of cash flows consist of cash on hand, securities and 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 significant fluctuation risk. The reconciliation between the year-end balance of cash stated in the consolidated balance sheet and cash and cash equivalents stated in the consolidated statement of cash flow is as follows:

December 31	Millions of Yen	
	2007	2006
Cash	¥ 57,437	¥ 111,182
Time deposit over three months' maturity	(3,973)	(3,337)
Deposits separately kept	(4,700)	(4,700)
Deposits with restrictions	(1,284)	(13,926)
Securities	26,380	0
Cash and cash equivalents	¥ 73,861	¥ 89,219

- c. Securities**—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings, (2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost, (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of available-for-sale securities sold is computed by the moving-average method and (4) non-marketable available-for-sale securities are stated at cost determined by the moving-average method.
- d. Property, Plant and Equipment**—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings.
- e. Intangible Assets**—Amortization on intangible assets is computed by the straight-line method. Software for internal use is amortized by the straight-line method over its estimated useful life (generally five years). Patents are amortized by the straight-line method over seven years.
- f. Stock Issuance Costs**—Stock issuance costs are charged to income as incurred.
- g. Allowance for Doubtful Accounts**—An allowance equal to estimated losses is established to prepare for losses from credit guarantees. The method of estimating the allowance is based on credit loss ratio for general credit, and on likelihood of collection for doubtful accounts.
- h. Reserve for Loss on Restructuring Business**—A reserve for loss on restructuring business of Rakuten KC Co., Ltd. was recorded based on an estimate of future expenses.
- i. Allowance for Retirement Benefits**—At certain consolidated subsidiaries, an allowance 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 by a the straight-line method using a fixed number of years (10 years) within the average remaining service period of employees. At some consolidated subsidiaries, an allowance is posted at the fiscal year-end in accordance with each company's regulation to provide for directors' retirement benefits.
- j. Allowance for Loss on Interest Repayments**—Rakuten KC has calculated and recorded an allowance for losses on interest repayments based on factors such as the actual ratio of repayments made and average amount of repayments over the reasonable estimate period. Having accumulated data regarding interest repayment claims, Rakuten KC modified its method of estimating the allowance for interest repayments in 2007. As a result, compared with the amounts estimated under the previous method, operating income and income before income taxes and minority interests have decreased by ¥25,122 million. The expected loss of ¥18,042 million for write-offs of principals by interest repayment claims was included in the allowance for doubtful accounts.
- k. Allowance for Debt Guarantee**—At a certain consolidated subsidiary, an allowance equal to estimated loss has been established to prepare for contingencies from debt guarantee.
- l. Reserve for Points**—An amount equivalent to points that are earned by customers and are expected to be used in the future is recorded for the fiscal year.
- m. Statutory Reserve for Security Brokerage Business**—At a certain consolidated subsidiary, provision is made for possible loss resulting from securities transaction accidents. The amount of the reserve is computed based on Article 35 of the former Cabinet Office Ordinance Concerning Securities Companies as stipulated by Article 51 of the former Securities and Exchange Law.
- n. Leases**—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

- o. Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.
- p. Foreign Currency Transactions**—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.
- q. Foreign Currency Financial Statements**—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the exchange rate as of the balance sheet date except for net assets, which is translated at the historical rate. Revenue and expense accounts of consolidated foreign subsidiaries are also translated into Japanese yen at the exchange rate of balance sheet date.

Differences arising from such translation are shown as "Translation adjustments" in a separate component of net assets.

r. Derivatives and Hedging Accounting

Hedging policies:

The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, interest rate swaps and interest rate caps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Interest rate swaps and interest rate caps are used to establish hedges for exposure to interest rate volatility risk associated with borrowings. Hedged items are identified by each individual contract. 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.

Foreign exchange volatility risks associated with foreign currency-denominated receivables and payables relating to business transactions are, in accordance with certain company rules, managed by using currency forward agreements to reduce foreign currency exchange risks in actual demand of securities transactions.

Hedge accounting:

For interest rate swaps and some interest rate caps, deferred hedge accounting has been adopted. However, a special method is used for interest rate swaps which meet certain conditions. For foreign currency-denominated guarantee deposits with currency forward agreements, the appropriation method has been adopted.

Hedging instruments and hedged items:

Hedging instruments comprise interest rate swaps, interest rate caps and currency forward agreements. Hedged items comprise loans, foreign currency-denominated guarantee deposits and foreign currency-denominated receivables and payables relating to business transactions.

Method for evaluating effectiveness of hedging activities:

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

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

- s. Consumption Taxes**—The tax-excluded method is used in consumption tax accounting for national and local consumption taxes.

- t. **Goodwill**—The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition called goodwill. The goodwill is amortized over the period in which such action is deemed effective. However, if the amount is marginal, the entire amount is amortized at the date of acquisition.

3. SHORT-TERM AND LONG-TERM DEBT

Short-term debt at December 31, 2007 and 2006 consisted of notes to banks, bank overdrafts, and commercial paper and lease obligations. Long-term debt at December 31, 2007 and 2006 consisted of the following:

Corporate bonds

	Millions of Yen	
	<u>2007</u>	<u>2006</u>
Rakuten, Inc. (due 2010 with interest rate of 1.32%)	¥ 10,000	¥ 10,000
Rakuten Credit, Inc. (due 2010 with interest rate of 1.12%)	3,000	—
Total	<u>13,000</u>	<u>10,000</u>

Annual maturities of corporate bonds at December 31, 2007 were as follows:

<u>Year Ending December 31</u>	<u>2007 Millions of Yen</u>
2008	¥ 4,990
2009	4,990
2010	3,020
2011	—
Total	<u>¥ 13,000</u>

Borrowing and others

	Millions of Yen	
	<u>2007</u>	<u>2006</u>
Short-term bank loans	¥ 134,175	¥ 173,089
Long-term bank loans, due within one year	91,023	105,748
Long-term bank loans, due after one year	173,072	246,163
Other debt with interest		
Commercial paper	6,300	11,500
Margin transaction liabilities	84,410	110,183
Lease obligation, due within one year	587	—
Lease obligation, due after one year	2,321	—
Total	<u>¥ 491,888</u>	<u>¥ 646,683</u>

Weighted average interest rates of loans as of December 31, 2007 and 2006 are follows:

	<u>2007</u>	<u>2006</u>
Short-term bank loans	1.80%	1.31%
Long-term bank loans, due within one year	2.15%	2.10%
Long-term bank loans, due after one year	2.04%	1.90%
Commercial paper	1.44%	0.80%
Margin transaction liabilities	1.11%	—
Lease obligation, due within one year	3.21%	—
Lease obligation, due after one year	3.21%	—

Annual maturities of corporate bank loans and lease obligations at December 31, 2007 were as follows:

<u>Year Ending December 31</u>	<u>2007 Millions of Yen</u>
2008	¥ 225,785
2009	108,861
2010	44,661
2011	19,942
2012	<u>1,204</u>
Total	<u>¥ 440,453</u>

Unused commitment lines for financing at December 31, 2007 and 2006 amounted to ¥61,050 million and ¥80,600 million, respectively.

4. PLEDGED ASSETS

Assets pledged as collateral:

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥59,763 and ¥90,103 million and the above collateralized long-term debt at December 31, 2007 and 2006 were as follows:

	<u>Millions of Yen</u>	
	<u>2007</u>	<u>2006</u>
Deposits	¥ 100	¥ 760
Installment accounts receivable and trade loans receivable	139,531	155,188
Receivable from lease contracts	444	682
Investment securities	76,974	68,751
Land and buildings	—	25,276
Other	—	20
Total	<u>¥217,049</u>	<u>¥250,677</u>

Securities in custody from customers in the amount of ¥18,385 million and ¥27,272 million were pledged as collateral for short-term bank loans at December 31, 2007 and 2006, respectively. Securities in the amount of ¥45,470 million and ¥67,921 million were pledged as collateral for short term loans and borrowings related to margin transactions at December 31, 2007 and 2006, respectively. Securities loaned were pledged as collateral for borrowings in the amount of ¥40,666 million and ¥32,599 million at December 31, 2007 and 2006, respectively

Liabilities for which assets were pledged as collateral:

	<u>Millions of Yen</u>	
	<u>2007</u>	<u>2006</u>
Short-term bank loans	¥ 59,764	¥ 90,104
Long-term bank loans, due within one year	64,983	79,276
Borrowings related to margin transactions	84,409	110,183
Long-term bank loans, due after one year	115,739	167,138
Accrued liabilities	71	—
Accounts payable	1,780	—
Total	<u>¥ 326,746</u>	<u>¥ 446,701</u>

Fair value of marketable securities pledged as collateral:

	Millions of Yen	
	<u>2007</u>	<u>2006</u>
Securities loaned on margin transactions	¥ 17,638	¥ 29,514
Securities pledged for loans payable for margin transactions	83,412	109,679
Securities loaned by promissory note collateralized	40,007	32,370

Fair value of marketable securities received as collateral:

	Millions of Yen	
	<u>2007</u>	<u>2006</u>
Securities pledged for loans receivable for margin transactions	¥ 161,540	¥ 204,571
Securities borrowed on margin transactions	1,791	4,039
Substitute securities for guarantee deposits received on futures	178,143	208,428

5. SECURITIES

The costs, unrealized gains and losses and aggregate fair values of marketable securities at December 31, 2007 and 2006 were as follows:

<u>December 31, 2007</u>	Millions of Yen			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Marketable securities classified as				
Trading	—	—	—	—
Available-for-sale				
Equity securities	¥ 122,527	¥ 4,496	¥28,014	¥99,009
Debt securities	—	—	—	—
Other	—	—	—	—
 <u>December 31, 2006</u>				
Marketable securities classified as				
Trading	—	—	—	¥ 425
Available-for-sale				
Equity securities	¥ 117,372	¥ 34,719	¥ 462	151,629
Debt securities	3,766	9	—	3,775
Other	100	—	1	99

Available-for-sale securities for which fair value is not readily determinable as of December 31, 2007 and 2006 were as follows:

	Millions of Yen	
	<u>2007</u>	<u>2006</u>
Equity securities of unlisted corporations	¥ 3,753	¥ 5,541
Negotiable deposit	22,500	—
Open-end bond investment trust	3,879	—
Others	772	2,051

Proceeds from sales of available-for-sale securities for the years ended December 31, 2007 and 2006 were ¥8,824 million and ¥24,261 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, for the years ended December 31, 2007 and 2006 were ¥2,615 million and ¥11,314 million, respectively. Gross realized losses on these sales were ¥236 million for the year ended December 31, 2007.

The face values of debt securities by contractual maturities for securities classified as available-for-sale

securities at December 31, 2007 and 2006, were as follows:

	Millions of Yen	
	<u>2007</u>	<u>2006</u>
Foreign debt securities (Due within one year)	—	¥ 3,811
Negotiable deposits (Due within one year)	¥ 22,500	—

6. LEASED ASSETS

Leased assets include furniture and fixtures and other assets which the company leases to its customers, and the values of such leased assets as of December 31, 2007 and 2006 were as follows:

	Millions of Yen	
	<u>2007</u>	<u>2006</u>
Furniture and fixtures	¥ 11,055	¥ 14,075
Other	117	144
Total	<u>11,172</u>	<u>14,219</u>
Accumulated depreciation	<u>(10,549)</u>	<u>(13,166)</u>
Net leased assets	<u>¥ 623</u>	<u>¥ 1,053</u>

The aggregate receivables from the lessees including equipment costs, unearned income and executory costs, which were not recorded on the books of account, as of December 31, 2007 and 2006, were as follows:

	Millions of Yen	
	<u>2007</u>	<u>2006</u>
Due within one year	¥ 297	¥ 423
Due after one year	<u>372</u>	<u>693</u>
Total	<u>¥ 669</u>	<u>¥ 1,116</u>

Receivables from unexpired leases related to subleased items other than which listed above amount to ¥13,998 million.

Receivables lease fees, depreciation and deemed interest income as of December 31, 2007 and 2006 were as follows:

	Millions of Yen	
	<u>2007</u>	<u>2006</u>
Receivable lease fees	¥ 338	¥ 459
Depreciation	271	368
Deemed interest income	37	58

The amount of interest income booked is based on the interest method.

7. LEASES

The Group leases buildings, machinery, furniture and fixtures and software.

Pro forma information regarding of leased properties such as acquisition cost, accumulated depreciation, obligations under finance lease, depreciation expense, interest expense and other information regarding of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended December 31, 2007 and 2006 was as follows:

	Millions of Yen								
	2007				2006				
	Building	Furniture and Fixtures	Machinery	Software	Total	Building	Furniture and Fixtures	Software	Total
Acquisition cost	¥21	¥12,506	¥11,825	¥1,130	¥25,482	¥87	¥14,641	¥5,918	¥20,646
Less: Accumulated depreciation	7	4,746	6,417	763	11,933	9	4,778	1,853	6,640
Impairment loss	—	—	199	—	199	—	—	—	—
Net amounts	¥14	¥ 7,760	¥ 5,209	¥ 367	¥13,350	¥78	¥9,863	¥4,065	¥14,006

Obligations under finance leases:

	Millions of Yen	
	2007	2006
Due within one year	¥ 4,369	¥ 3,668
Due after one year	9,256	10,573
Total	¥13,625	¥14,241

Lease payment depreciation expense, deemed interest expenses and other information under finance leases:

	Millions of Yen	
	2007	2006
Depreciation expense	¥4,032	¥2,952
Deemed interest expense	345	273
Impairment loss	198	—
Total	¥4,575	¥3,225
Lease payments	¥4,352	¥3,190

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of income, are computed by the straight-line method and the interest method, respectively.

Obligations under operation leases:

	Millions of Yen	
	2007	2006
Due within one year	¥ 181	—
Due after one year	1,581	—
Total	¥ 1,762	—

8. COMMITMENTS AND CONTINGENCIES

Installment accounts receivable, guarantee contracts and accounts receivable, guarantee contracts which the consolidated subsidiary does not provide certain service for collection are not recorded in the consolidated balance sheet. Such balance as of December 31 2007 and 2006 are ¥38,505 million and ¥46,134 million respectively.

The Group had guarantees for customers in the amount of ¥231 million and ¥239 million at December 31, 2007 and 2006, respectively.

9. LINE-OF-CREDIT AGREEMENTS

Certain subsidiaries make loans to customers who have credit card or loan card issued by subsidiaries. Unused lines of credit granted to customers amounted to ¥873,076 million and ¥852,057 million at December 31, 2007 and 2006, respectively.

10. GOODWILL

The change in the carrying amount of goodwill for the years ended December 31, 2007 and 2006 is as follows:

	<u>Millions of Yen</u>
Balance at December 31, 2005	¥ 56,868
Goodwill acquired during the year	10,939
Amortization	<u>(3,012)</u>
Balance at December 31, 2006	64,795
Goodwill acquired during the year	3,423
Amortization	<u>(3,752)</u>
Balance at December 31, 2007	<u>¥ 64,466</u>

Goodwill acquired during fiscal 2006 mainly consisted of goodwill related to the acquisition of additional shares of Rakuten KC Co., Ltd. (formerly known as Kokusai Shinpan Co., Ltd.) and Rakuten Securities Holdings, Inc. Goodwill acquired during fiscal 2007 mainly consisted of goodwill related to the acquisition of Fusion Communications Corp, and additional shares of Rakuten Securities Holdings, Inc.

11. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The consolidated subsidiaries also enter into interest rate swap and interest rate cap contracts to manage their interest rate exposures on certain liabilities.

Derivatives will not be used for speculative purposes. For currencies, derivatives are used to hedge exposure to the effects of foreign exchange rate volatility on foreign currency-denominated 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.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group views the likelihood of losses from credit risk as limited.

Derivative transactions are conducted by the consolidated subsidiaries under internal rules which regulate the authorization and credit limit amount.

Foreign exchange forward contracts are utilized by the Group but omitted from these notes, as they are subject to hedged accounting, and the therefore not required to be disclosed.

Fair value of interest rate caps as of December 31, 2007 is as follow:

	<u>Million of Yen</u>		
	<u>Contract principal</u>	<u>Fair value</u>	<u>Unrealized gain (loss)</u>
Transactions other than market transactions			
Interest rate caps Bought	¥ 25	¥ 6	¥ (19)

Derivative transactions such as interest rate swaps subject to hedge accounting are not included. The listed transactions are under non-hedge accounting that require disclosure though the intra-group elimination of hedged transactions. The fair value is indicated by the financial institutions that are counterparties of the transactions.

12. RETIREMENT AND PENSION PLANS

Employees with at least five years of service in certain consolidated subsidiaries are granted a tax-qualified pension plan. And those with less than five years of service are granted with a lump-sum retirement and pension plan.

Information concerning retirement benefit obligation:

	Millions of Yen	
	<u>2007</u>	<u>2006</u>
Projected benefit obligation	¥ 4,276	¥ (4,365)
Fair value of plan assets	<u>(4,155)</u>	<u>4,357</u>
Unfunded retirement benefit obligation	121	(8)
Unrecognized actuarial gain (loss)	59	(138)
Net retirement benefit obligation as shown on balance sheet	<u>180</u>	<u>(146)</u>
Allowance for retirement benefits	<u>¥ 180</u>	<u>¥ (146)</u>

Certain consolidated subsidiaries that have a retirement benefit plan use the simplified method for calculating retirement benefit obligations.

Retirement benefit expenses:

	Millions of Yen	
	<u>2007</u>	<u>2006</u>
Service cost	¥ 242	¥ 209
Interest cost		72
Expected return on plan assets	(89)	(72)
Amortization of actuarial gain (loss)	414	244
Special retirement benefit expenses	—	4,332
Total retirement benefit expenses	<u>¥ 285</u>	<u>¥ 4,565</u>

Retirement benefit expenses at consolidated subsidiaries using the simplified method are included in "Service cost."

Basis for calculating retirement benefit obligations and others:

The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of employees.

	<u>2007</u>	<u>2006</u>
Discount rate	2.00%	2.00%
Expected rate of return on plan assets	2.00%	2.00%
Amortization period of actuarial gain (loss)	10 years	10 years

13. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41% for the years ended December 31, 2007 and 2006.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at December 31, 2007 and 2006 are as follows:

	Millions of Yen	
	<u>2007</u>	<u>2006</u>
Deferred tax assets:		
Tax loss carryforwards	¥ 33,890	¥21,321
Excess of depreciation	1,727	400
Excess of allowance for doubtful accounts	12,310	5,897
Cancellation of allowance for points	2,338	1,576
Impairment loss	1,369	1,284
Allowance for interest repayment	8,130	1,436
Statutory reserve for security brokerage business	1,595	1,278
Other	7,652	4,943
Less valuation allowance	(33,038)	(9,841)
Total	<u>35,973</u>	<u>28,294</u>
Deferred tax liabilities:		
Refundable enterprise taxes	—	¥ 139
Tax-deductible loss due to transfer of shares	¥ 8,465	8,465
Unrealized holding gain on securities	—	14,271
Other	116	111
Total	<u>27,392</u>	<u>22,986</u>
Net deferred tax assets	<u>¥ 27,392</u>	<u>¥ 5,308</u>

Reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the year ended December 31, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Normal effective statutory tax rate	41.00%	41.00%
Expenses not deductible for income tax purposes	0.33	6.00
Tax benefits on liquidation of subsidiary	(17.83)	(129.40)
Valuation allowance	26.82	172.20
Equity in earnings of affiliates	—	(10.90)
Amortization of goodwill	2.80	38.50
Unrealized loss	(14.70)	—
Other—net	(8.88)	21.40
Actual effective tax rate	<u>29.54%</u>	<u>138.80%</u>

14. SALES, GENERAL AND ADMINISTRATIVE EXPENSES

The breakdown of selling with the sales, general and administrative expenses is as follows:

	Millions of Yen	
	2007	2006
Advertising and promotion expenses	¥ 12,827	¥ 14,911
Personnel expenses	26,603	26,806
Depreciation	7,886	6,049
Communication and maintenance expenses	10,792	9,384
Outsourcing expenses	20,798	18,526
Credit loss	167	3,142
Provision for allowance for doubtful accounts	39,552	31,553
Provision for allowance for interest repayments	19,423	1,956
Other	36,291	34,494
Total selling, general and administrative expenses	<u>¥ 174,339</u>	<u>¥ 146,821</u>

Research and development cost in general administration expenses in the year ended December 31, 2007 were ¥76 million

15. SUPPLEMENTARY INFORMATION TO THE CASH FLOW STATEMENTS

Assets and Liabilities of Newly Consolidated Subsidiaries Through Acquisition of Shares:

Assets and liabilities of Fusion Communication Corp. and the acquisition cost and net cash outflow of such acquisition on September 30, 2007 were as follows:

	Millions of Yen
Current assets	¥ 10,268
Fixed assets	2,744
Goodwill	(249)
Current liabilities	(10,457)
Minority interest	(1,235)
Acquisition cost	1,071
Cash and cash equivalents	(1,229)
Net cash used for acquisition	¥ (158)

Material Non-financial Transactions:

Liabilities from finance lease contracts which were newly booked during the fiscal year ended December 31, 2007 amounted to 2,908 million yen.

16. STOCK-BASED COMPENSATION PLANS

The Company has stock-based compensation plans as an incentive program for directors, auditors and employees of the Company, subsidiaries and affiliates.

From 2001, in accordance with approval at shareholders' meetings, the Company has granted stock acquisition rights and stock options to directors, auditors and certain employees of the Company, subsidiaries and affiliates. These options vest about over two years to four years and expire within ten years from the date of grant. Some subsidiaries have the same type plans. For the fiscal year ended December 31, 2007, the Company didn't grant any stock options.

A summary of information regarding the Company's stock-based compensation is as follows: Option

Grant Date	Exercisable Period	Exercise Price	Number of outstanding stock options as of Dec.31 2007
April 26, 2001	From March 30, 2003 to March 28, 2011	¥ 11,210*	25,250
April 30, 2002	From March 29, 2006 to March 27, 2014	11,000*	9,435
July 14, 2003	From March 28, 2007 to March 26, 2013	19,300*	38,780
August 29, 2003	From March 28, 2007 to March 26, 2013	27,500*	2,630
September 7, 2004	From March 31, 2008 to March 29, 2014	75,500*	35,730
December 15, 2005	From March 31, 2009 to March 29, 2015	91,300	54,410
February 13, 2006	From March 31, 2009 to March 29, 2015	103,848	2,000
April 20, 2006	From March 31, 2010 to March 29, 2016	101,000	30,000
December 14, 2006	From March 31, 2010 to March 29, 2016	55,900	14,340

* Exercise price has been adjusted to reflect the stock splits.

A summary of information regarding for the Rakuten Securities Holdings, Inc.'s stock-based compensation is as follows:

Grant Date	Exercisable Period	Exercise Price	Number of outstanding stock options as of Dec.31 2007
April 19, 2004	From April 20, 2006 to April 19, 2011	¥ 520,000	495
September 15, 2005	From September 19, 2007 to September 18, 2012	1,380,000	250

A summary of information regarding for the Rakuten KC Co., Ltd.'s stock-based compensation plans is as follows:

Grant Date	Exercisable Period	Exercise Price	Number of unrealized stock options as of Dec.31 2007
June 17, 2005	From June 18, 2006 to June 17, 2015	¥ 256,000	880

A summary of information regarding for the Rakuten Travel, Inc.'s stock-based compensation is as follows:

Grant Date	Exercisable Period	Exercise Price	Number of outstanding stock options as of Dec.31 2007
July 22, 2003	From August 1, 2005 to July 31, 2008	¥ 320,000	195

A summary of information regarding for the Fusion Communications Corp.'s stock-based compensation is as follows:

Grant Date	Exercisable Period	Exercise Price	Number of outstanding stock options as of Dec.31 2007
November 20, 2000	From November 20, 2002 to November 20, 2010	¥ 50,000	¥ 1,650
July 12, 2001	From July 12, 2001 to July 10, 2010	155,792	555
July 12, 2001	From July 12, 2001 to July 10, 2010	155,792	705
July 12, 2001	From July 12, 2001 to July 10, 2010	155,792	310
June 29, 2002	From June 29, 2004 To June 28, 2012	219,388	855
June 30, 2003	From July 1, 2005 To June 30, 2013	219,388	126

17. AMOUNTS PER SHARE

	Yen	
	2007	2006
Net income		
Basic	¥ 2,825.95	¥ 212.03
Diluted	2,813.32	193.09
Cash dividends applicable to the year	100.00	50.00

	Yen	
	2007	2006
Net assets	¥ 14,212.68	¥ 14,492.23

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits. Diluted net income per share of common stock assumes full conversion of the dilutive stock options. Listed cash dividends per share applicable to the respective years include dividends to be paid after the end of the year.

18. RELATED PARTY TRANSACTIONS

Transactions during the years ended December 31, 2007 and 2006 with a professional football club operator, in which the Chairman and CEO owned 100% of voting shares indirectly, were as follows :

	Millions of Yen	
	2007	2006
Sponsor fee	¥ 171	¥ 143
Purchase of tickets	—	1

Sponsor fee and purchase amount of tickets are determined on arm's length basis.

The balances payable due from the company at December 31, 2007 and 2006 were as follows:

	Millions of Yen	
	2007	2006
Sponsor fee	¥ 15	¥ 15

19. SUBSEQUENT EVENT

The following distributions of retained earnings at December 31, 2007 were approved at the Company's shareholders' meeting held on March 27, 2008:

	<u>Millions of Yen</u>
Year-end cash dividends, ¥100 per share	¥1,307

20. BUSINESS COMBINATION

On August 7, 2007, the Company acquired 54.27% of the issued common shares of Fusion Communications Corp (FCC) from The Tokyo Electric Power Company Incorporated (TEPCO) for cash. Subsequently, the Company made additional purchases of FCC shares from its other shareholders to own 73.55%. The aggregate purchase cost of FCC shares was ¥1,071 million, of which ¥912 million is aggregate share price and ¥159 million is a cost directly associated with the acquisition of shares. This acquisition also resulted in another acquisition of controlling interests in FCC's three subsidiaries, Fusion Network Service K.K, Saga Fusion Service K.K., and T.T. Network Service K.K.

FCC is a telecommunications company known for technologies in IP telephony. In Japan, with the rapid development in broadband network, two-way real-time communication over the internet has emerged, such as IP telephony and instant messaging service. The Company acquired FCC shares with an aim to enhance "Rakuten ecosystem" by introducing such new communication service to 37 million Rakuten Group members and the Company's 270 thousand business partners.

The balance sheets of FCC and its subsidiaries are included in the Company's consolidated balance sheet as of September 30, 2007 and thereafter. The profit and losses of FCC and its subsidiaries are included in the Company's financial statements from October 1, 2007 and thereafter.

Assets and liabilities of FCC, as assumed on September 30, 2007 are as follows:

	<u>Million of Yen</u>
Current assets	¥10,764
Fixed assets	2,770
Assets total	13,534
Current liabilities	¥10,715

As a result of the acquisition, the Company recognized negative goodwill in the amount of ¥406 million, because the share price, based on the third-party valuation and agreed with TEPCO, was below the net asset revalued at the time of acquisition. The Company amortizes the negative goodwill over 20 years using straight-line method.

The approximate effects on the Company's financial statements, if the acquisition had taken place at the beginning of 2007, are as follows:

	<u>Million of Yen</u>
Sales	¥ 43,443
Net operating losses	2,046
Net recurring loss	1,795
Net loss before taxes	3,070
Net loss	3,151
Net loss per share(Yen)	¥16,054.64

The result from January 1, 2007 to September 30, 2007 has been derived using actual numbers and based on estimates where appropriate. This footnote is not audited.

21. SEGMENT INFORMATION

The Company operates in the following industries:

The E-Commerce Business segment consists mainly of Rakuten Ichiba, managed by Rakuten, Inc.: Rakuten Auction, Inc., and LinkShare Corporation. The business focuses on operating and providing services for websites related to retailing and other forms of e-commerce, as well as for entertainment-related websites.

The Credit and Payment Business segment consists mainly of Rakuten Credit, Inc.: Rakuten KC Co., Ltd. and Rakuten Financial Solution, Inc. The business is primarily concerned with the consumer credit card business and consumer loan businesses, and provides banking services through alliance with Tokyo Tomin Bank.

The Portal and Media Business segment consists mainly of Infoseek, a portal site managed by Rakuten, Inc.: Rakuten TV Co., Ltd., Rakuten Research, Inc., and College Students' Portal Community, Inc. The segment focuses on the operation of Internet portal sites and community networking sites, as well as Internet market research and distribution of broadband content.

The Travel Business segment consists of Rakuten Travel, Inc. and its subsidiaries and affiliates. It focuses on operating travel-related websites and services, such as hotel bookings.

The Securities Business segment mainly consists of Rakuten Securities Holdings, Inc. and its subsidiaries and affiliates. The business provides online securities brokerage and investment related business.

The Professional Sports Business segment consists of Rakuten Baseball, Inc., and Rakuten Sports Properties, Inc. It manages the Tohoku Rakuten Golden Eagles ("Rakuten Eagles") professional baseball team, as well as planning and selling related goods.

The Telecommunication segment consists of Fusion Communications Corp. and its subsidiaries and affiliates. The business provides IP network services, IP telephony and other services. The segment is established in 2007 as expansion of telecommunication businesses through the acquisition of Fusion Communication Corp.; Segment for 2006 is, therefore, not presented.

(1) Industry Segments

a. Sales and Operating Income

	Millions of Yen									
	2007									
	E-Commerce Business	Credit and Payment Business	Portal and Media Business	Travel Business	Securities Business	Professional Sports Business	Tele-communication	Total	Corporate & Internal Eliminations	Consolidated
Sales to customers	¥75,512	¥70,196	¥ 7,511	¥12,910	¥30,556	¥ 7,553	¥ 9,700	¥213,938	—	¥213,938
Intersegment sales	1,367	903	7,168	452	2	693	0	10,585	¥(10,585)	—
Total sales	76,879	71,099	14,679	13,362	30,558	8,246	9,701	224,523	(10,585)	213,938
Operating expenses	57,338	96,274	15,042	7,358	24,812	9,083	10,095	220,000	(6,181)	213,819
Operating income (loss)	¥19,541	¥(25,175)	¥ (363)	¥ 6,004	¥ 5,746	¥ (837)	¥ (394)	¥ 4,523	¥ (4,404)	¥ 119

b. Total Assets, Depreciation and Capital Expenditures

	Millions of Yen									
	2007									
	E-Commerce Business	Credit and Payment Business	Portal and Media Business	Travel Business	Securities Business	Professional Sports Business	Tele-communication	Total	Corporate & Internal Eliminations	Consolidated
Total assets	¥247,928	¥383,853	¥4,481	¥10,218	¥469,824	¥12,314	¥ 12,331	¥1,140,949	¥17,975	¥ 1,158,923
Depreciation and amortization	4,159	1,581	557	549	632	830	215	8,523	—	8,523
Loss due to impairment	116	398	—	—	23	—	213	749	—	749
Capital expenditures	9,219	4,284	83	935	4,239	549	52	19,361	—	19,361

a. Sales and Operating Income

	Millions of Yen								
	2006								
	E-Commerce Business	Credit and Payment Business	Portal and Media Business	Travel Business	Securities Business	Professional Sports Business	Total	Corporate & Internal Eliminations	Consolidated
Sales to customers	¥57,686	¥79,538	¥8,510	¥10,465	¥40,525	¥ 6,548	¥203,272	—	¥203,272
Intersegment sales	1,465	64	4,568	262	31	719	7,109	¥(7,109)	—
Total sales	59,151	79,602	13,078	10,727	40,556	7,267	210,381	(7,109)	203,272
Operating expenses	41,493	85,752	12,684	6,068	25,197	8,663	179,857	(5,734)	174,123
Operating income (loss)	¥17,658	¥ (6,150)	¥ 394	¥4,659	¥15,359	¥(1,396)	¥ 30,524	¥(1,375)	¥ 29,149

b. Total Assets, Depreciation and Capital Expenditures

	Millions of Yen								
	2006								
	E-Commerce Business	Credit and Payment Business	Portal and Media Business	Travel Businesses	Securities Business	Professional Sports Business	Total	Corporate & Internal Eliminations	Consolidated
Total assets	¥ 257,887	¥ 416,692	¥ 4,466	¥ 8,167	¥ 528,322	¥ 11,784	¥ 1,227,318	¥ 68,745	¥ 1,296,063
Depreciation and amortization	2,956	1,651	358	440	832	712	6,949	2	6,951
Capital expenditures	7,986	3,611	1,323	1,367	27,212	5,054	46,553	495	47,048

(2) Geographical Segments

Disclosure of geographic segment information is omitted because domestic net sales and assets exceed 90% of total segment sales and assets.

(3) Sales to Foreign Customers

Disclosure of sales to foreign customers is omitted because such sales represent less than 10% of consolidated net sales.

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