

楽天

Rakuten, Inc.
Annual Report

Fiscal Year Ended December 31, 2008

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Cautionary Statement

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

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

"Rakuten", 楽天 and R Rakuten are the registered trademarks of Rakuten, Inc. in Japan.



Origins of the Name Rakuten

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

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

About Rakuten



Japan's Leading Internet Service Company

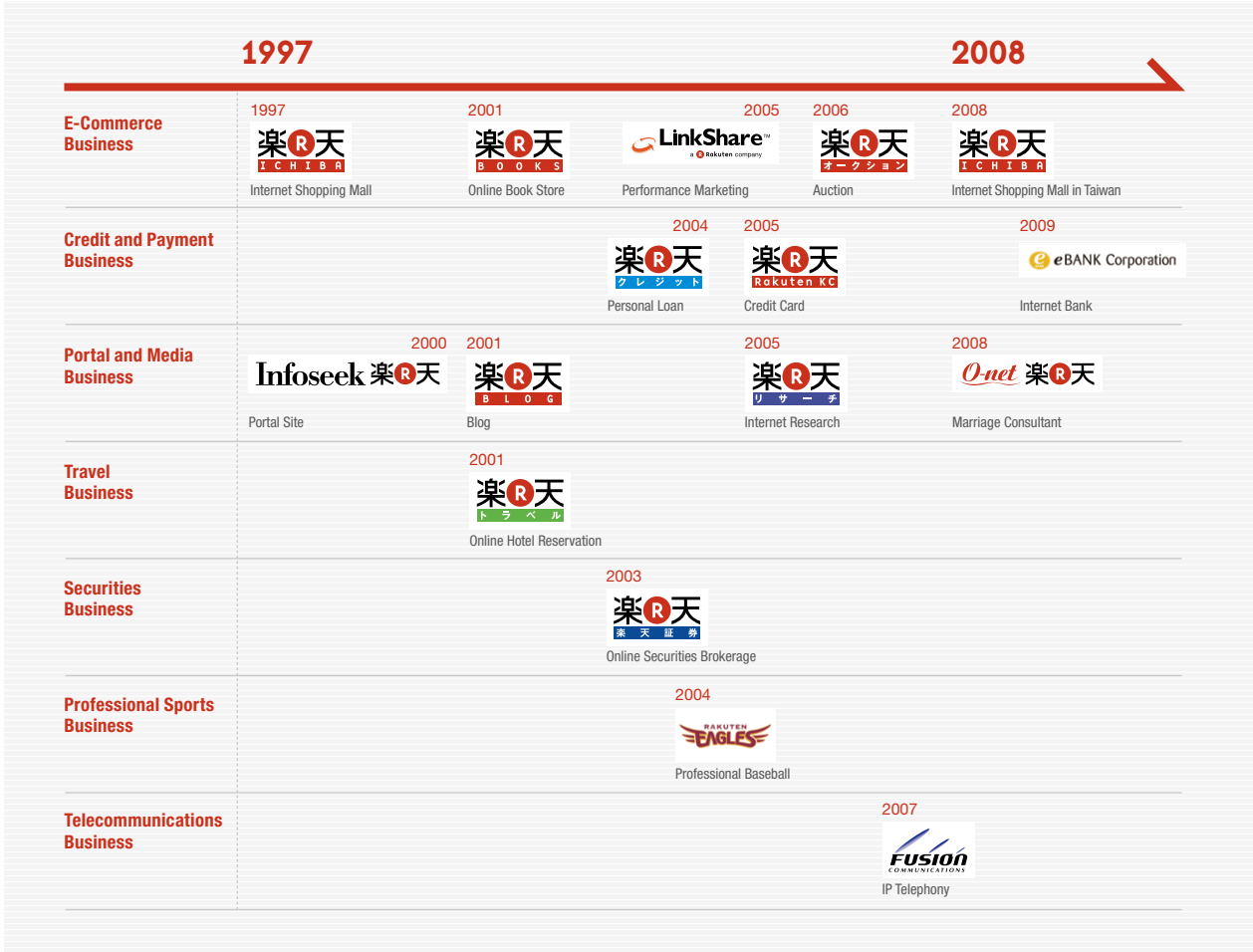
Founded in 1997, we have enjoyed more than a decade of rapid growth, and today the Group Gross Transaction Value, standing at nearly ¥1 trillion, is at a level similar to that of a major department store chain in Japan.

With our unique business model, which leverages the integrated strength and synergies of leading Internet businesses—such as e-commerce, online travel reservation, online securities brokerage and others—we are able to offer a diverse lineup of personalized services to more than 55 million Rakuten Group Members. In the key growth areas of online shopping and online hotel reservations, we hold the undisputed No. 1 positions in Japan.

Building on the strong growth of our domestic operations, we are now expanding our presence in the world, especially in the Asian market. Our ultimate aim: To become the world's leading Internet service company.

A History of Expansion

Since the launch in 1997, we have actively expanded our services.

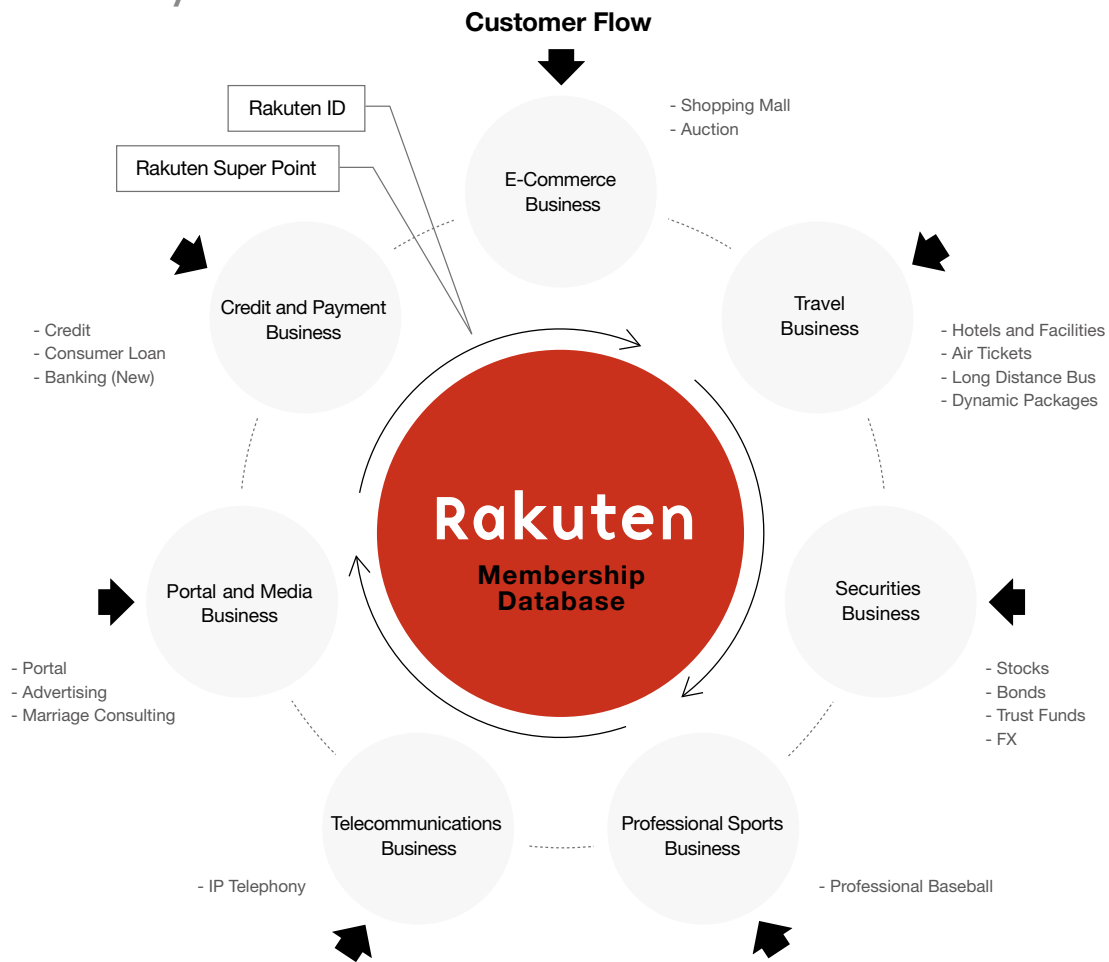


When Rakuten was established in 1997, Japan was struggling with the after effects of the collapsed bubble. By establishing a company to run an Internet shopping mall, we hoped to help invigorate the Japanese economy, a goal expressed in our vision EMPOWER JAPAN.

Our subsequent evolution has been guided by our determination to approach business from the customer's perspective, with a commitment to providing the same high level of service to people anywhere in Japan. Since 2000, we have built a group portfolio capable of realizing our EVERYTHING RAKUTEN philosophy, which emphasizes the continual improvement of consumer convenience and enjoyment. We have integrated service membership IDs, and in 2005 we established a common logo for our

various brands. These policies allowed us to build a sense of unity linking all Rakuten services, and today consumers immediately recognize the types of services offered by Rakuten Group and can access multiple services with a single ID. The service business that began with Rakuten Ichiba is no longer confined to e-commerce. We have grown into a group with operations including online travel reservation services, portal site operation, online content streaming, credit card services, consumer loan services, Internet banking services, online securities brokerage, IP telephony services and even a professional baseball team.

Rakuten Eco-system



A Uniquely Integrated Service Range

With our wide variety, we enhance customers' quality of life in many areas.

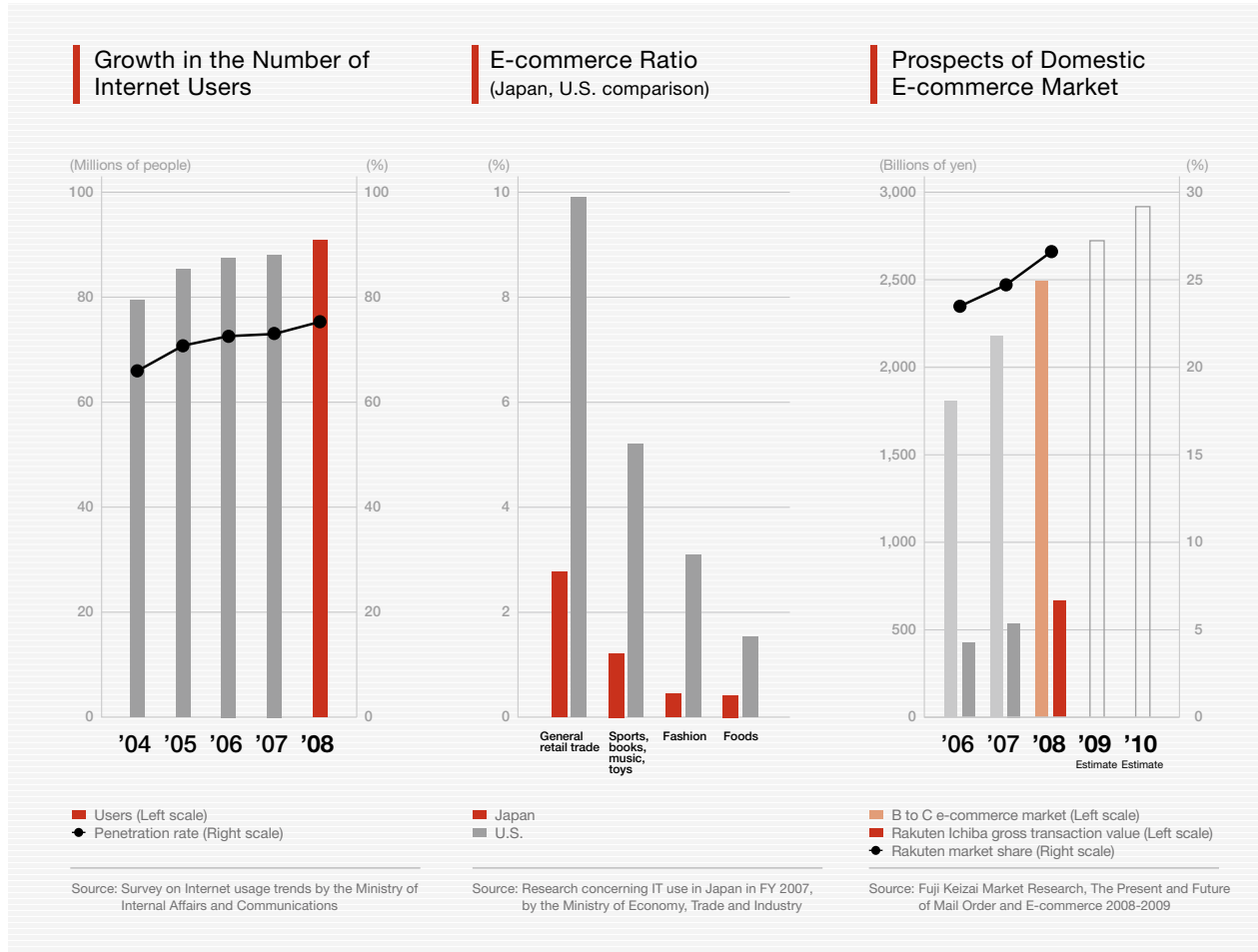
Our goal is to build the Rakuten Group into the world's leading Internet company. We will achieve this by attracting as many people as possible to buy goods, trade securities, book travels and in other ways participate in the circulation of what we call the Rakuten Eco-system.

The concept of the Rakuten Eco-system is at the core of the Group's medium and long-term management strategy. It is an economic environment in which we provide a wide range of Internet-based services, including e-commerce and financial transactions, for a user base consisting primarily of Rakuten Group Members. By enabling members to obtain multiple services using a single ID, we aim to achieve synergy benefits that include increased Gross Transaction Volume, reduced member recruitment costs, and maximization of the lifetime value per member.

Within the powerful gravitational field of the Rakuten Eco-system, we are working to maximize the satisfaction of each individual member by building a diverse range of services that reflect consumer behavior and match consumer needs, and by using Rakuten Cards and other mechanisms to bring about a convergence between the real world and the Internet. The evolution of the Rakuten Eco-system has been driven by our success in generating synergies, and by our ability to develop membership-based businesses through the accelerated migration of users through this economic zone.

A Rapidly Evolving Industry

Advancing technology is enhancing the range and quality of services.



In fiscal 2008 (the year ended December 31, 2008), economic conditions in Japan began to deteriorate rapidly in the fall under the global slowdown triggered by the financial crisis in the United States. This caused consumers to increasingly tend toward at-home consumption, as a stronger desire to save money amid worsening economic conditions reduced the frequency of outings and led them to spend more time at home. This trend also suggests that Internet shopping as an easy, time-and-cost efficient way to compare prices has become a more typical method for making purchases. According to a 2008 survey of the telecommunications sector by the Ministry of Internal Affairs and Communications, the number of Internet users reached 90.9 million, or 75.3% of the total population, by the end of 2008. Moreover the B to C e-commerce market

continued to expand steadily in 2008 and is estimated to have grown by 14.4% year on year to approximately ¥2,500 billion*. By fiscal 2010, it is expected to have expanded to ¥2,900 billion*.

In the United States, which has led the world in the development of the Internet, the e-commerce business' share of the general retail market is moving into double figures at around 10%, about 3.6 times higher than the ratio for Japan. The e-commerce ratios for most individual product categories are also higher, indicating that there is still considerable scope for further growth in the Japanese e-commerce market.

* This figure was calculated by Rakuten using data compiled by Fuji Keizai Co., Ltd. for its study of present and future trends in e-commerce, including the Internet and mobile shopping markets, in 2008-09.

Rankings in the Japanese market



Rakuten Positioned at the Forefront

With top rankings in key growth areas, we are the leader of our industry.

Most of Rakuten's businesses are among the leaders in the Japanese Internet service sector. In the E-Commerce Business, our Internet shopping mall Rakuten Ichiba is not only Japan's biggest by far, it has also achieved a higher rate of growth than the Japanese e-commerce market as a whole. Its share of the Japanese B to C e-commerce market increased from 23.6% in 2007 to around 26.6% in 2008.

We also lead the domestic market for online hotel reservations in terms of gross transaction volume. In addition, increased marketing and improved usability have brought success in the area of online golf tee-time reservations; in the quarter ended December 31, 2008, Rakuten's GORA overtook GOLF DIGEST ONLINE to become the leader in this area in terms of Gross Transaction Volume. Finally, Rakuten Securities, Inc. is the second largest online securities brokerage company in terms of transaction value of Japanese stocks.

We will continue to improve our services in areas where we hold the biggest market share, while concentrating management resources into areas where we are ranked second or lower to achieve the top position in these markets also. In this way, Rakuten will move closer to its ultimate goal of becoming the leading company in the Japanese Internet industry and the world's top Internet service company.

To Our Shareholders

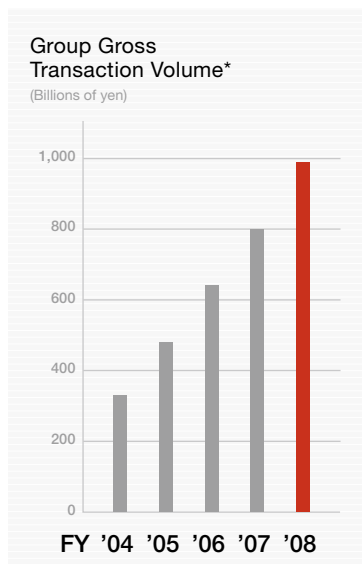


Rakuten — Innovation and Growth

“ We have proved our growth potential,
despite the economic downturn. ”

Hiroshi Mikitani
Chairman and CEO

Performance



* Domestic E-Commerce+Travel (Booking base)

Growth under Challenging Global Conditions

Business conditions in Japan have worsened dramatically under the impact of the global financial crisis that struck in 2008, with Japan's GDP declining by 0.72% over the year. However, Gross Merchandise Sales (GMS) through Rakuten Ichiba, our Internet shopping mall business, and Rakuten Books were up 23.6% year on year. Gross Booking Transaction Value on our online travel reservation site, Rakuten Travel, also remained on a growth trend with a year-on-year increase of 18.4%.

Total Gross Transaction Volume for domestic E-Commerce and online travel reservation amounted to ¥987.4 billion.

With this performance, the Rakuten Group has proved its growth potential, despite the economic downturn. Although the economic environment is expected to remain stagnant, our goal for fiscal 2009 is to strengthen our corporate structure to support continuing growth in an adverse economic climate.

Performance Review for Fiscal 2008

In fiscal 2008, net sales increased by 16.8% year on year to ¥249,883 million. Strong trends in the E-Commerce Business and Travel Business segments made significant contributions to this performance. We achieved a major improvement in the financial performance of our Credit and Payment Business, and also implemented Group-level cost reductions through Project V, a package of measures designed to strengthen our management systems and cost structure. These initiatives were reflected in the improvement of our operating margin, which rose by 7.4 points over the previous year's level* to 18.9% in fiscal 2008. Operating income for the full year set a new record of ¥47,151 million. Unfortunately, our net income was also affected by negative factors, including loss on valuation of investment securities, and there was a net loss of ¥54,978 million.

* The fiscal 2007 operating margin of 11.5% is adjusted by excluding a one-time expense of ¥24.5 billion due to additional provisions for allowances relating to interest repayment claims at Rakuten KC Co., Ltd.

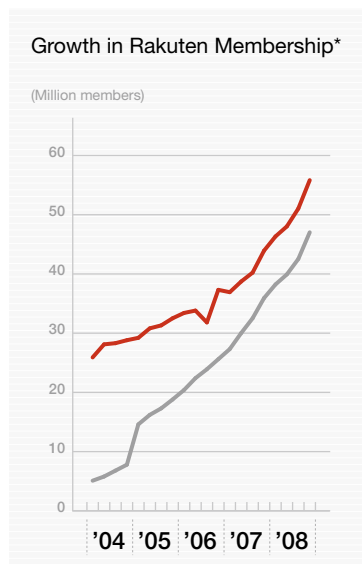
Key Developments

Growth in Rakuten Membership and Reinforcing Cross-Utilization

The Rakuten Group's most important asset is the 55 million Rakuten Group Members*. Our mission is to expand our revenues by supplying attractive services and merchandise that match the lifestyle needs of each individual member, and by encouraging members to use our services under the Rakuten Eco-system concept, which enables smooth cross-use of multiple services.

In addition to providing attractive services, we also implemented a highly effective loyalty program, called the Rakuten Super Points Program, and a points-based campaign designed to encourage the use of multiple services. These initiatives were reflected in a higher proportion of members using multiple Rakuten Group services, and the cross-utilization ratio has now increased to 36.5% in 2008 from 33.3% in 2007.

In fiscal 2008, we prepared to take our strategy a step further by integrating our membership data, which were previously divided into separate databases for each service. Our new Super Database contains records of the demographic profiles, addresses and goods and service purchases of every Rakuten Group Member. By using this resource for database marketing, we will be able to promote more purchasing of goods and more cross-utilization of services.



— Rakuten Group Members
— Rakuten Members

* Rakuten Group members: Rakuten members and members who have either un-integrated IDs with Rakuten Securities, Rakuten KC, Rakuten Credit and etc, or un-integrated IDs for former-My trip.net service members etc.
Rakuten Members: Members who have integrated IDs (e.g Rakuten Ichiba, Rakuten Travel, Infoseek, Rakuten Greeting, etc)

Project V— Developing and Strengthening Our Management System

Through decisive cost reductions, the Rakuten Group is building a corporate structure that will allow it to achieve continuing growth even in a challenging business environment.

In the second quarter of fiscal 2008, we launched a new initiative called Project V to strengthen our corporate structure. The benefits of this initiative included not only improvements in the precision of budget management in individual business units, but also reductions in operating expenses, especially fixed costs. Specifically, we used the *Kaizen* (improvement) method to minimize operating expenses through wide-ranging measures, including rent reduction, project reprioritization, and the reduction of outsourcing costs and the use of temporary staff. By the fourth quarter of fiscal 2008, we had reduced operating expenses by ¥2.95 billion compared with the first quarter, which is close to our initial target of a ¥3 billion reduction. In fiscal 2009, we will take further steps to strengthen our corporate structure and streamline our operating processes.

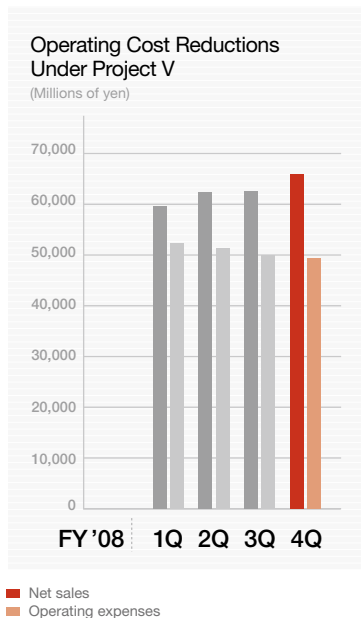
Accelerating Rakuten's Expansion Overseas

Our ultimate goal is to build the Rakuten Group into the world's leading Internet service company. We are working to realize this vision by using knowledge and expertise developed for our domestic operations to strengthen our international operations as a Japan-based global Internet service company. For example, in 2008 we launched a shipping service from Japan to overseas residents called Rakuten International Shipping Service and an Internet shopping mall in Taiwan called Taiwan Rakuten Ichiba. We have also continued to evolve world-class services, including the expansion of multi-language services and functions, and the establishment of an international logistics network. As of February 2009, people in 73 countries had used our Rakuten International Shipping Service.

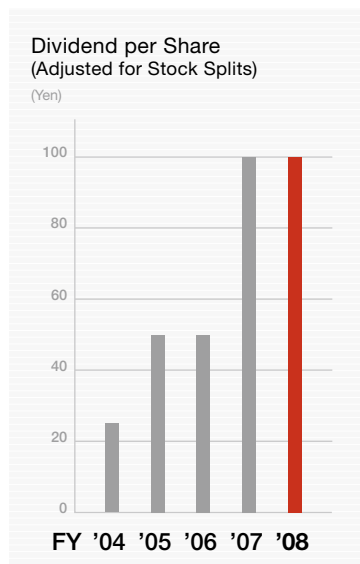
Following the successful launch of Taiwan Rakuten Ichiba, we are currently conducting market research in preparation for a wider expansion into multiple countries. Our future goal is to build a Rakuten Eco-system that is truly global, encompassing countries all over the world.

Investment in eBANK and Business Integration with Rakuten Credit

In September 2008, Rakuten, Inc. agreed to form a capital and business alliance with eBANK Corporation, which is Japan's leading Internet bank in terms of account numbers. The agreement provides for the acquisition of eBANK preferred shares by Rakuten, Inc. for ¥19,980 million and for the



Outlook and Dividend Policy



business integration of Rakuten Credit, Inc. with eBANK.

In February 2009, as required under the Banking Law, Rakuten obtained approval from the Financial Services Agency to become a major shareholder of eBANK, in preparation for the conversion of preferred shares into common shares that would make eBANK a consolidated subsidiary from fiscal 2009.

On April 1, 2009, eBANK integrated with a major part of Rakuten Credit. eBANK has been able to establish a personal loan business by using expertise from Rakuten Credit, and utilize deposits as a source of capital at a lower interest rate compared with Rakuten Credit. Loans borrowed by Rakuten Credit from other banks were repaid in March 2009, helping to reduce the total borrowings of the Rakuten Group.

We also aim to enable users of Rakuten services to utilize eBANK convenient settlement services, as well as benefit from its advanced Internet banking and electronic money (e-money) technologies.

Outlook for Fiscal 2009

Consumers are increasingly focusing on thrift and convenience. We expect this trend to intensify in fiscal 2009, resulting in sustained high growth driven by expanding demand for our E-Commerce Business segment.

Our strategy in this business environment calls for further enhancement of services based on our specific strengths. We aim to improve profitability by reforming or discontinuing unprofitable businesses so that we can concentrate human resources and other management resources into strategic business areas. We will also continue to enhance our corporate value by developing new revenue streams.

In addition to these activities, we will continue to improve our services through an active R&D program focusing on the technology infrastructure needed to support effective Internet services, including large-scale data processing, distributed processing, advanced advertising and e-money services, as well as technologies for various interface devices.

Delivering Value to Shareholders

Our basic policy is to link shareholder returns to our income performance, while also having sufficient retained earnings to maintain a sound financial structure and fund dynamic business development to maximize shareholders' value. We have also consistently and reliably increased our dividend, regardless of performance trends in individual years. Although there was a net loss in fiscal 2008, we maintained our dividend at ¥100 per share, as in the previous year. The dividend was paid from capital surplus, as a result of the net loss in fiscal 2008.

We look forward to the continuing support of shareholders and investors.

Our Operations

Financial Highlights

Rakuten, Inc. and Consolidated Subsidiaries
Years Ended December 31

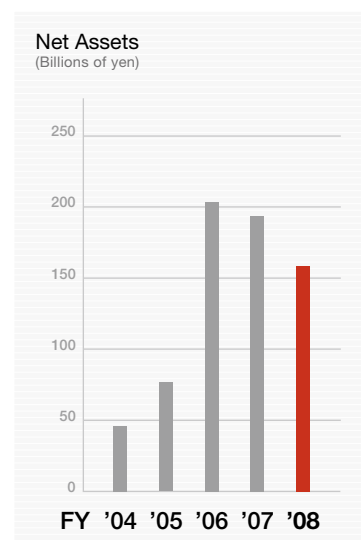
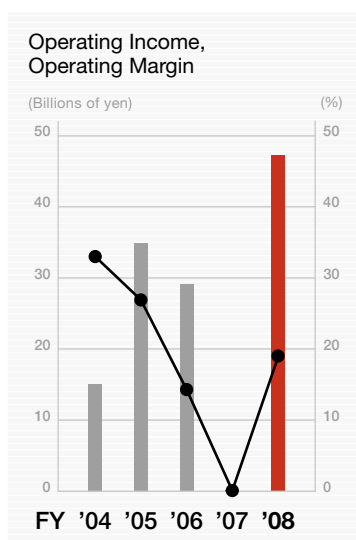
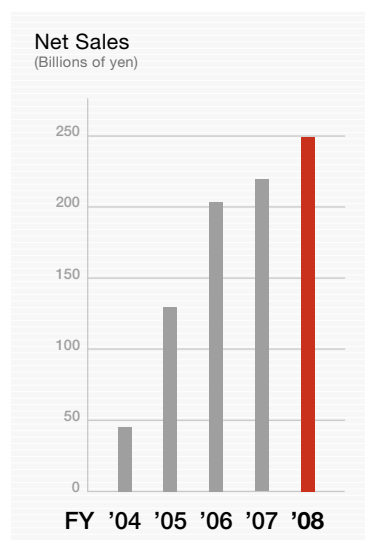
Fiscal Year	Millions of yen			Thousands of *1 U.S. dollars
	2006	2007	2008	2008
Profit and Loss				
Net sales	¥203,272	¥213,938	¥249,883	\$2,745,065
Operating income	29,149	119 *2	47,151	517,975
Net (loss) income	2,703	36,899 *3	(54,978) *4	(603,952) *4
Cash Flows				
Net cash (used in) provided by operating activities	¥(16,567)	¥42,967	¥(13,467)	\$(147,938)
Net cash (used in) provided by investing activities	(41,735)	55,070	(40,977)	(450,144)
Net cash provided by (used in) financing activities	76,614	(113,628)	62,397	685,460
Assets and Liabilities				
Total assets	¥1,296,063	¥1,158,923	¥1,086,938	\$11,940,433
Total liabilities	1,092,866	965,100	928,211	10,196,751
Total net assets	203,197	193,824	158,727	1,743,682
Per Share (in yen and U.S. dollars)				
Total net assets	¥14,492.23	¥14,212.68	¥11,439.86	\$125.67
Net (loss) income				
Basic	212.03	2,825.95	(4,203.55)	(46.18)
Diluted	193.09	2,813.32	—	—
Dividend	50.00	100.00	100.00	1.10

Notes: *1 U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥91.03 to US\$1, the approximate rate of exchange at December 31, 2008.

*2 The fiscal 2007 operating income included a one-time expense of ¥24.5 billion due to additional provisions for allowances relating to interest repayment claims at Rakuten KC Co., Ltd.

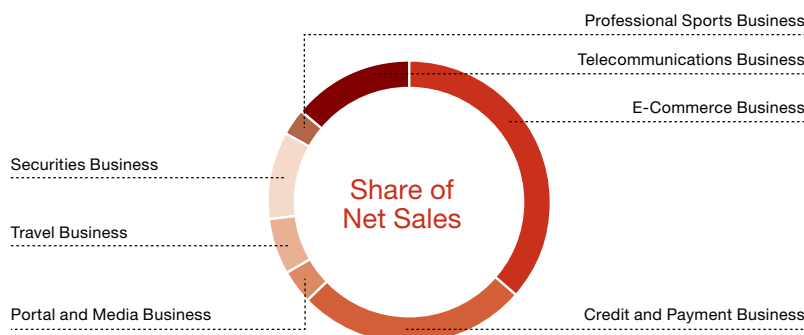
*3 The fiscal 2007 net income included gain on sales of affiliate securities of ¥53,873 million.

*4 The fiscal 2008 net loss included loss on valuation of investment securities of ¥67,177 million, or US\$737,964 thousand.



■ Operating income (Left scale)
● Operating margin (Right scale)

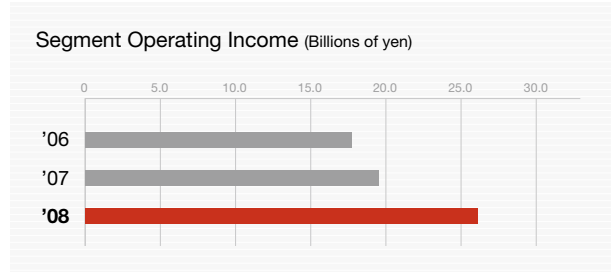
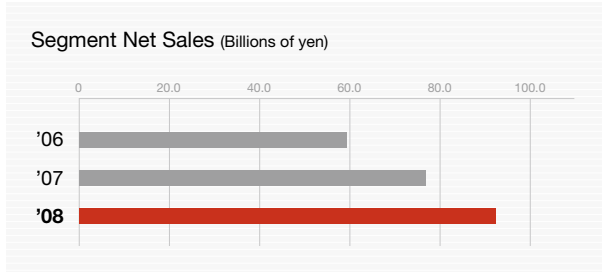
Segment Information



Segments, Composition of Net Sales (%)	Business Units	Net Sales (External, millions of yen, year-on-year growth in %)
E-Commerce Business 36.4%	Rakuten Ichiba (Internet Shopping Mall), Auction, Package Media, Golf, Auto, Delivery, Dining, Tickets, Business Service, Performance Marketing, Media Rental, Off-track Betting, Logistics Service, Global Ichiba, Net Super Market, Check Out	¥ 91,073 +20.6% ↗
Credit and Payment Business 26.4%	Personal Finance, KC, Banking (Alliance)	¥ 65,911 -6.1% ↘
Portal and Media Business 3.9%	Infoseek, Advertising, Research, Blog, Marriage Consultancy, Career Service, Rakuten Photo	¥ 9,681 +28.9% ↗
Travel Business 6.5%	Travel	¥ 16,199 +25.5% ↗
Securities Business 9.9%	Securities, Investment, Mortgages, Insurance	¥ 24,807 -18.8% ↘
Professional Sports Business 3.2%	Professional Sports	¥ 7,963 +5.4% ↗
Telecommunications Business 13.7%	IP Telephony	¥ 34,249 +253.1% ↗
Total		¥ 249,883 +16.8% ↗



E-Commerce



Performance Review

Rakuten Ichiba Achieves Record Sales and Operating Income

Rakuten Ichiba and Rakuten Books maintained strong growth in fiscal 2008 and we set new performance records. GMS were 23.6% above the previous year's level at ¥663,810 million. Net sales for Rakuten Ichiba, which is the core business of this segment, increased by 22.8% year on year to ¥63,037 million, and operating income by 33.1% to ¥30,803 million. This significant growth resulted from an increased trend of "at-home consumption," as consumers seeking to save money amid worsening economic conditions spent more time at home. We also further enhanced user convenience by introducing a next-day delivery service, free shipping services and the Rakuten Super Points Program. To strengthen our support for the merchants operating in the online shopping

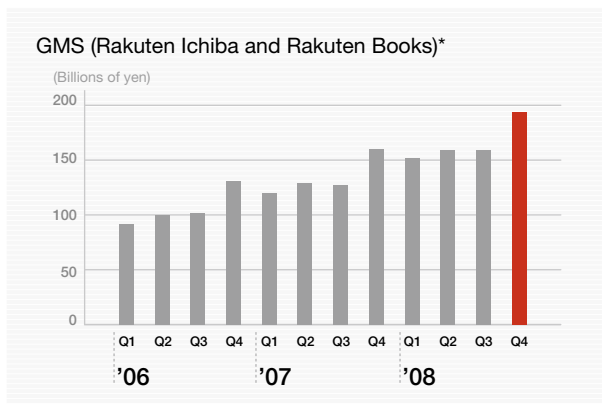
mall, we established four offices in Japan, and also launched a logistics agency service, Rakuten Logistics, in fiscal 2008.

These initiatives were reflected in the results of our E-Commerce Business segment, with net sales increasing by 20.6% year on year to ¥91,073 million and operating income rising by 33.4% to ¥26,067 million.

Key Developments

Customer Convenience Enhanced with Asuraku, a Next-day Delivery Service

Items ordered before noon on Rakuten Ichiba can now be delivered on the following day through Asuraku, our new next-day delivery service. This service is available throughout Japan for over 100,000 items, including fresh foodstuffs and household goods. Rakuten is the only company in the Japanese e-commerce industry to offer this facility for such a wide range of products.

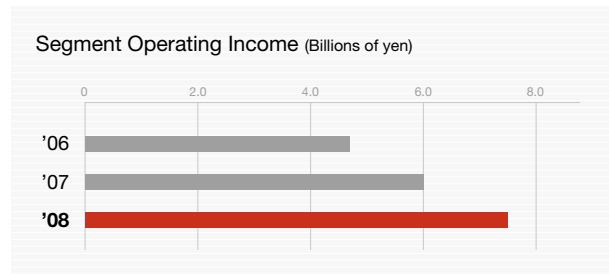
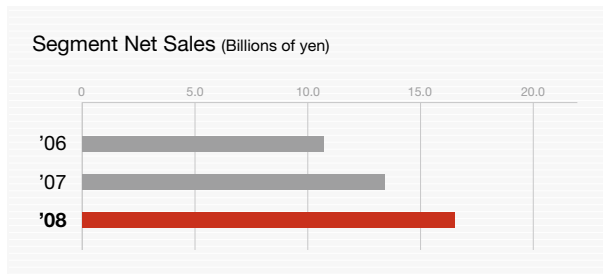


* GMS: Mall Fixed-price, Group Buy, Mobile Fixed-price, Group Buy and Rakuten Books

Empowering Local Japan with the Machi-Raku Project

This initiative focuses the spotlight on *machi* (local towns and cities) throughout Japan. The Rakuten Ichiba website offers a variety of interesting information about communities, including descriptions of unique local products and attractions. We will work closely with merchants and local governments to enhance and enrich the content of the site, and to build it into an important source of information about communities all over Japan.

Travel



Performance Review

New Records for Net Sales, Operating Income and Gross Booking Transaction Volume

In fiscal 2008, our Travel Business segment recorded a Gross Booking Transaction Volume of ¥260,457 million, a year-on-year increase of 18.4%. We also set new records for net sales, which were 25.5% higher at ¥16,199 million, and operating income, with a 24.3% increase to ¥7,463 million.

To expand business, Rakuten Travel is implementing strategic policies in three areas: usage categories, products and geographic reach. In the usage categories area, it will seek to expand transactions from business use to leisure use. In the area of products, it will enrich the lineup of products with items ranging from hotel booking to air tickets and other transportation arrangements, as well as dynamic packages*. As for geographic reach, one of our priorities was the expansion

of our overseas turnover. Enhancements to our international services include an update of our site for foreign tourists, which is available in English, Chinese and Korean. In addition, users can now book accommodation in various Asian countries.

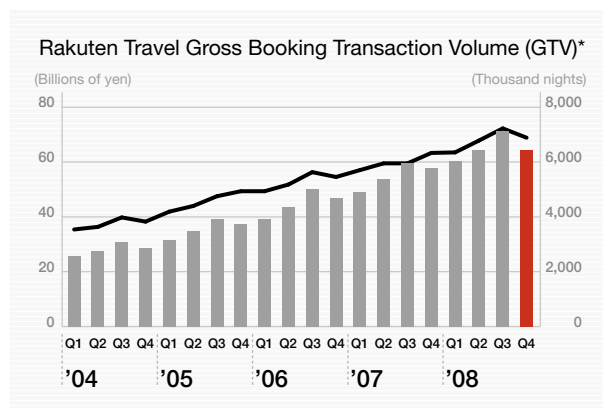
* A package tour allowing customers to flexibly reserve a combination of multiple travel arrangements through an Internet-based one-stop service.

Key Developments

View RakuToku Sendai—

A Travel Package with Bullet Train Transportation

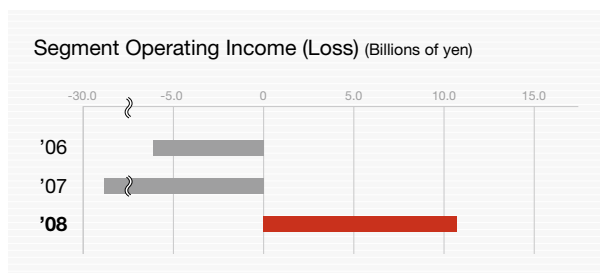
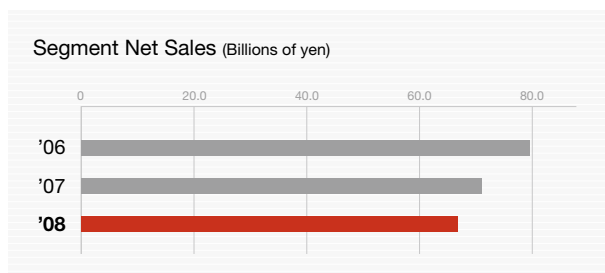
Rakuten Travel collaborated with East Japan Railway Company to create the View RakuToku Sendai package for baseball fans. This package was the first product with train tickets reserved through Rakuten Travel, and consisted of tickets for a baseball match featuring the Tohoku Rakuten Golden Eagles in Sendai, Miyagi Prefecture, together with round tickets for the Shinkansen bullet train, accommodation and meal vouchers.



■ GTV (Left scale) ■ Nights booked (Right scale) * Travel GTV = Booking base = Domestic / International hotel room booking, International tickets, Domestic / International DP, Domestic Bus, Rental car service



Credit and Payment



Performance Review

Operating Profitably under a Business Model in Transformation

Net sales from the Credit and Payment Business segment amounted to ¥65,911 million, a year-on-year reduction of 6.1%, resulting from a reduction in the amount of lending at Rakuten KC Co., Ltd. However, there were also substantial reductions in the costs relating to interest repayments and doubtful accounts.

This was mainly due to a one-time expense in fiscal 2007 caused by the use of a more precise method for estimating the allowance relating to interest repayment claims, which resulted in a substantial increase in the reserve compared with the previous method.

Another factor contributing to the reduction of expenses for doubtful accounts was an improvement in the collection of

outstanding loans. These efforts were reflected in a significant recovery from fiscal 2007.

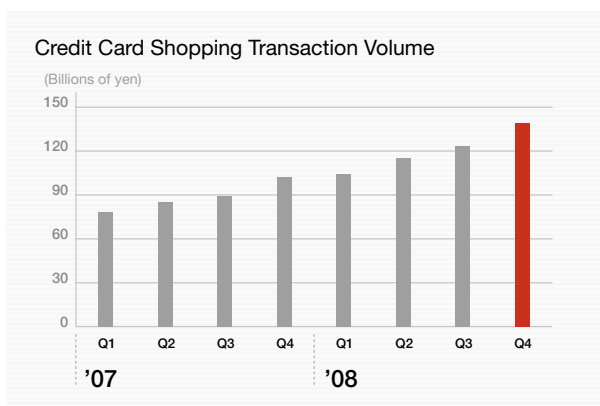
As a result, operating income of the Credit and Payment Business segment dramatically improved to ¥10,703 million, compared with an operating loss of ¥25,175 million in the previous fiscal year.

Key Developments

Rakuten Card Use Boosted by Points Program

Rakuten KC, one of the major Group companies in this segment, is reforming its operations, moving from being a traditional installment loan company to an Internet-based credit card company.

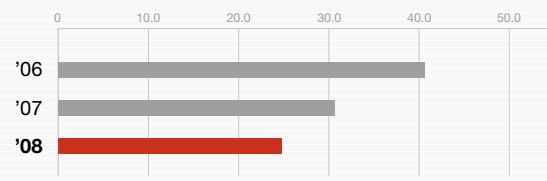
Users of Rakuten Card, a credit card issued by Rakuten KC, earn points even on purchases made outside of the Rakuten Group, and they receive double points for purchases on Rakuten Ichiba. Due to the popularity of this points program, the number of new Rakuten Card holders increased rapidly, and helped to boost the credit card shopping transaction volume by 35.9% year on year to ¥482,522 million. The revolving credit balance increased by 88.7% to ¥38,982 million.



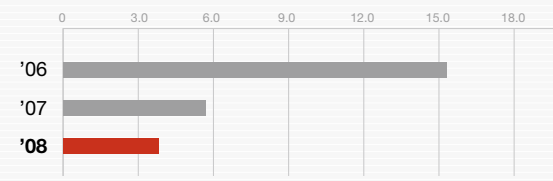


Securities

Segment Net Sales (Billions of yen)



Segment Operating Income (Billions of yen)



Performance Review

Costs Streamlined, Increase in New Accounts

Plummeting prices on all of the world's stock markets were reflected in sharply lower stock brokerage revenues and financial revenues from margin transactions. However, there was an improvement in our cost structure, primarily because of continuing efforts to reduce systems-related costs and other cost items. In fiscal 2008, net sales of the Securities Business segment declined by 18.8% year on year to ¥24,807 million and operating income fell by 32.9% to ¥3,857 million.

Key Developments

No. 1 in the Japanese Online Securities Business in Terms of Number of Trust Funds Handled

Rakuten Securities, Inc. is now the leading company in the

Japanese online securities business in terms of the number of trust funds handled. Its portfolio of 409 trust funds includes 141 no-load funds, which are free of sales commissions. It also handles foreign exchange-traded funds (ETFs)*¹, including 64 American and 19 Chinese funds.

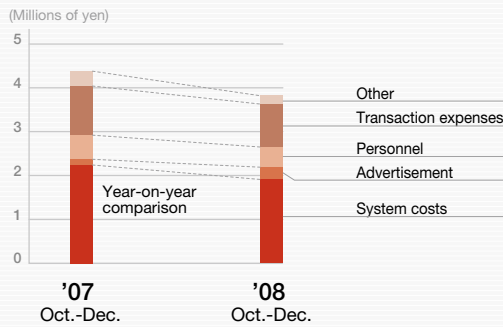
*1 These are mutual funds that are traded on stock exchanges.

Rakuten FX Sees Growth in Accounts and Transactions

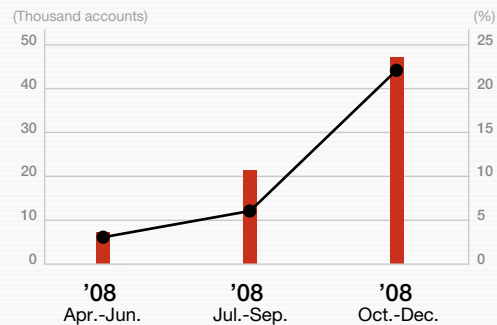
In June 2008, we launched Rakuten FX, a foreign currency margin trading service. Rakuten FX offers one of the best online services in Japan, including zero fees and a 0.02 yen spread*². There has been steady growth in the number of accounts and transactions.

*2 The spread is the difference between the buying and selling prices. A "0.02 yen spread" means that the difference between yen-dollar buying and selling rates will normally be 0.02 yen.

Progress in Cost-Cutting



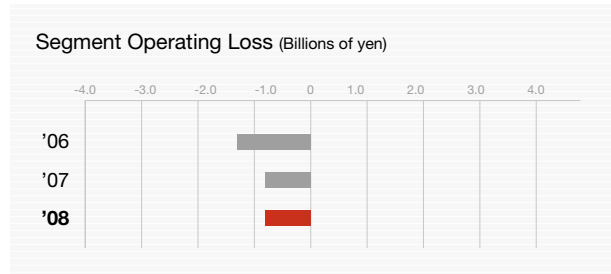
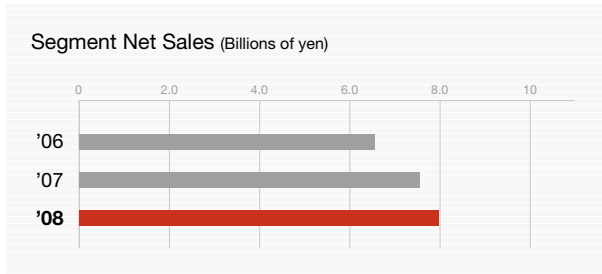
Number of Rakuten FX Open Accounts



■ Rakuten FX accounts (Left scale)
◆ Ratio of applications via Rakuten Group (Right scale)



Professional Sports



Performance Review

Increased Sales of Tickets and Goods in Fiscal 2008

In the 2008 season, spectator numbers of the Tohoku Rakuten Golden Eagles, our professional baseball team, were 2.8% higher year on year in fiscal 2008. This was reflected in increased sales of tickets and goods, which is the main business activity in this segment. Reasons for this growth included the excellent results achieved by the baseball team in the first half of the season, as well as the performance of star players.

Net sales from the Professional Sports Business segment increased by 5.4% year on year to ¥7,963 million. However, there was an operating loss of ¥812 million.

Key Developments

Players' Popularity Reflected in Increased Spectator Numbers

Despite determined efforts by all team members, the Tohoku Rakuten Golden Eagles finished fifth in the 2008 season. However, Hisashi Iwakuma earned the Pacific League MVP award, while Rick Short had the highest hit rate in the Pacific League. The popularity of these players helped to lift spectator numbers to a record high.

Continuing to Contribute to the Brand Recognition of the Group

The Tohoku Rakuten Golden Eagles has successfully attracted fans in the years since the team's acceptance of entry into the professional baseball league in 2004, and is now one of the most popular baseball teams in Japan. After entering the professional league, the team's contribution to people's recognition of the Rakuten brand continues to impact positively on the Group's business. One of the benefits of the Rakuten Group's involvement in the professional baseball business has been an increase in the number of Tohoku-area residents in their 40s using Rakuten Ichiba.

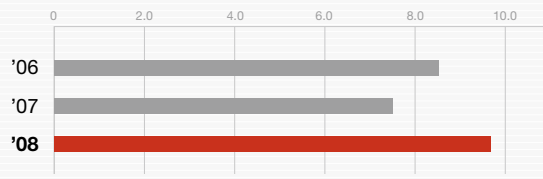


The Tohoku Rakuten Golden Eagles offering a training session for children.

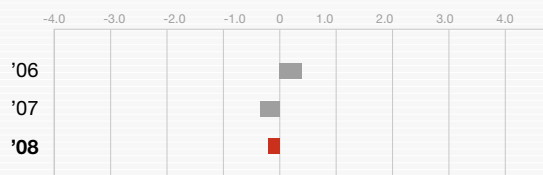


Portal and Media

Segment Net Sales (Billions of yen)



Segment Operating (Loss) Income (Billions of yen)



Key Developments

Launch of New Business and Service

Rakuten, Inc. acquired O-net, Inc., one of Japan's largest marriage consultancies, and made this company into a consolidated subsidiary. Under this well-known brand, established 28 years ago, we began to provide high-quality online marriage consultant services to customers. We also established Rakuten Shashinkan, an e-commerce site where customers can order photo books and prints online.

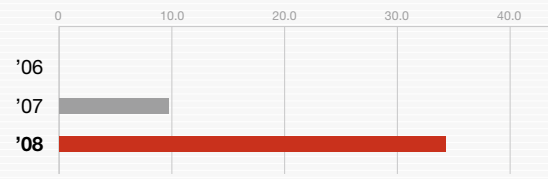
Enhancing Our Performance-Based Advertising Business

In fiscal 2008, we moved into the advertising network business in earnest with the introduction of the Rakuten Pitatto Ad service, which is a pay-per-click advertising system linked to content and word searches. Under a capital and business alliance with Drecom Co., Ltd., we also launched Rakuten ad4U, an Internet-based advertising product.

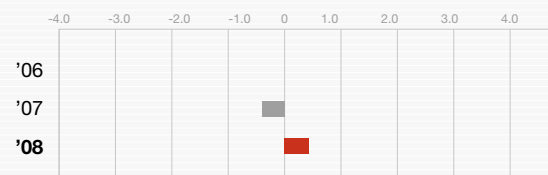


Telecommunications

Segment Net Sales (Billions of yen)



Segment Operating Income (Loss) (Billions of yen)



* This segment was established in 2007 and its financial performance is included in the consolidated statements of income from the fourth quarter of fiscal 2007.

Key Developments

Positive Income Results Achieved through

Cost Reductions and Elimination of Unprofitable Services

In fiscal 2008, there was a substantial improvement in income performance. This reflects cost-cutting efforts by Fusion Communications Corporation, including the termination of unprofitable services, the streamlining of sales promotion incentives and the reduction of cost items, such as access charges and leasing charges.

Encouraging Rakuten Members to Sign up for Rakuten Broadband

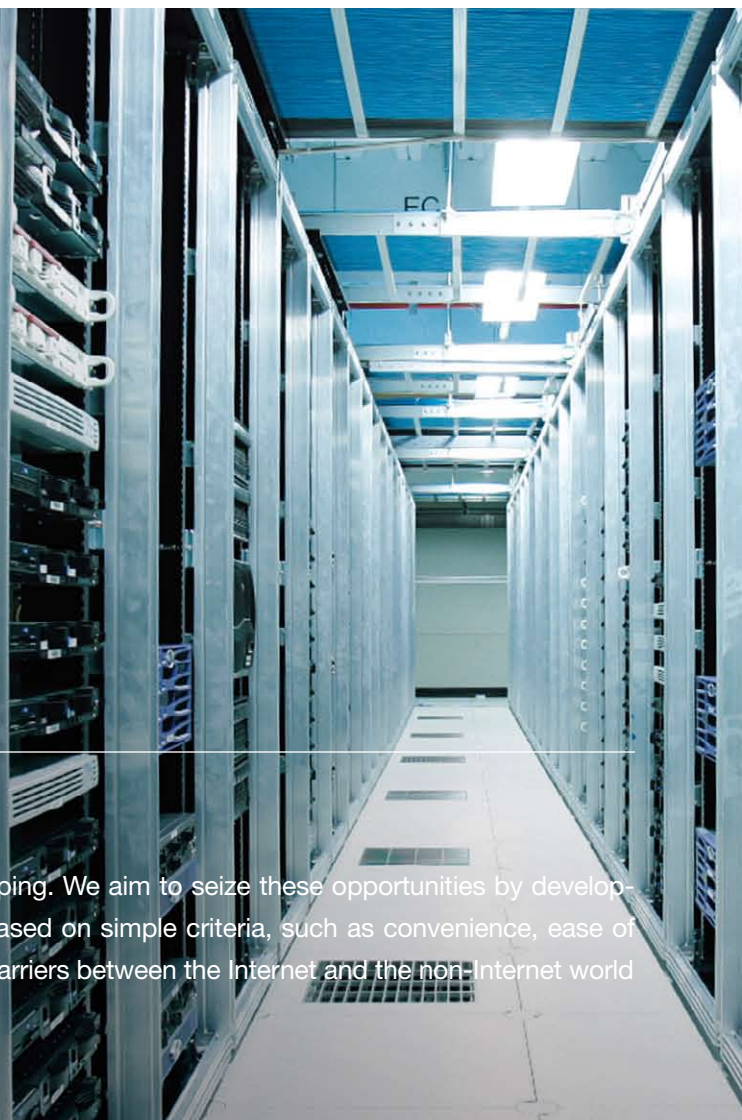
In March 2008, Fusion Network Services Corporation, a subsidiary of Fusion Communications, launched Rakuten Broadband Internet connection services for individual users. The launch was accompanied by aggressive promotion, including a ten-times-the-points campaign for Rakuten Group Members opting to sign up. The aim of these campaigns is to attract new broadband customers from the Rakuten Group.

Technology that supports our service

About Rakuten's Development Division

Consumers are increasingly shifting to Internet shopping. We aim to seize these opportunities by developing services that will let consumers make choices based on simple criteria, such as convenience, ease of use and low price, without being limited by artificial barriers between the Internet and the non-Internet world in their day-to-day consumption.

photo : Rakuten Group Data Center



1. Developing Services and Technologies for Long-Term Success

In order to support our sustained growth, we are developing technologies to improve the user convenience of our services, boost our marketing capabilities and upgrade infrastructure.

Convenience — New Services for Rakuten Members

- Rakuten has released the Rakuten Anshin Payment Service (check-out service). Following the introduction of this service, sellers are able to access Rakuten's membership base and CRM infrastructure without being Rakuten merchants by adopting the Rakuten Open ID system.
- Rakuten has launched the Rakuten Cash system. This online e-money system can be used to buy a variety of Rakuten services in a similar way with the Rakuten Super Points Program. The system, which is backed by robust security measures, is now linked to eBANK and exchangeable for cash at banks.

- Rakuten Ichiba, Rakuten Travel and Rakuten Securities now support iPhone® access. In addition, Rakuten is developing its services by adapting them for use with a variety of multi-devices.
- With Rakuten Appli system, users can earn Rakuten Super Points by using Edy e-money (provided by bitWallet, Inc.).
- Users can now view the same Rakuten Ichiba shopping cart on PCs or mobile phones (this allows integrated management of items placed in the shopping cart but not yet purchased).

Database Marketing — Carefully Selected Products and Services for Rakuten Group Members

- Rakuten is rolling out a recommendation service based on the Rakuten Super Database, which contains demographic profiles, addresses and behavioral and purchase histories of members.

Infrastructure — Enhanced Performance and Security

- We have substantially upgraded the database server performance of the Rakuten Merchant Server (RMS), which provides ASP services for Rakuten Ichiba merchants.
- The Rakuten Ichiba architecture has been modified to allow maintenance to be carried out without suspending shopping cart operations.
- Rakuten Ichiba became the first e-commerce site to establish settlement processes that are fully compliant with the Payment Card Industry Data Security Standards (PCIDSS) security standard adopted by the credit card industry.

2. Strengthening Our Service Development Environment

We have focused on establishing a service development environment to support our activities over the next decade. We intend to create systems that will allow us to visualize and quantify our current situation and leverage our development productivity as a competitive advantage.

Here, we have adopted common standardized and integrated systems, distributed processing and automated operations and improved visibility, thereby establishing effective unit cost management.

Furthermore, we have taken measures to maximize cost benefits and optimize resource allocation, including the adoption of flexible rules. This allows us to adjust the precision level required for estimates and quality management to the scale of service development. As a result of these continuous cost-cutting efforts, while achieving growth of 28.9% in the number of transactions of Rakuten Ichiba and Rakuten Books, we have reduced system running costs to approximately 1% of GMS.

Another goal is the improvement of productivity across the entire Rakuten Group. We will achieve this through

optimized utilization of the knowledge and assets of our development organization, including the systems departments of finance-related subsidiaries.

On August 4, 2008, we opened our fourth development center in Japan, Fukuoka Tech Center, in Fukuoka Prefecture. This new facility will initially handle the development of websites for Rakuten KC. We plan to recruit more local staff at each of our development centers.

From 2009, we recruit local engineers in other countries with the aim of facilitating international expansion of our services. New recruits will spend several years in Japan gaining experience and learning about the Rakuten approach to development. We expect that these recruits, as future leaders, will support our approach to integrating local cultural values into Rakuten's business activities.

3. Direction of Research and Development

In addition to service development, we also engage in research and development activities focused on language processing and data analysis, multimedia user interfaces, large-scale data processing and distributed processing.

- Language processing and data analysis: We develop technologies to support advanced analysis of the large volumes of text data used in Rakuten Group's services and the acceleration of calculations involving large quantities of data. We apply these technologies to common recommendation engines for various services.
- Multimedia user interfaces: We develop user interfaces capable of analyzing and searching multimedia content on websites, including videos, still images and music, and displaying rich content.
- Large-scale distributed processing: We enhance the competitiveness of our services by developing processing infrastructure, including grid technology, to support efficient processing of the large and growing volumes of user information and product information used in the Rakuten Group's services.

Corporate Culture and Human Resources

In this new Internet era, Rakuten will be able to evolve into a new type of company that would not previously have been possible. For that transformation to advance, every employee must understand our Group Brand Concept, share our goals and maintain a common philosophical foundation.

We define the Rakuten Group as a winning team made up of people with high aspirations who share the same Values, Mission and Practices.

Our Values are:

- (1) To contribute to the innovation and evolution of society and create a better world through developing oneself and delivering performance
- (2) To embrace the Group Brand Concept
- (3) To commit to empower business partners and colleagues with a strong belief in the potential of human beings

Our Mission is:

To enrich and innovate our society through the accomplishments of individuals, and to realize the growth potential the Internet offers to people and society—in other words, to empower the world through the Internet.

Our Practices are:

- (1) To accomplish the Five Concepts of Success, and become a role model of success
- (2) To develop a sense of ownership of the company that each employee promotes in his/her daily work
- (3) To maintain thoroughness and innovation as the sources of the Group's core strength

Every Monday morning all Rakuten Group employees attend a special meeting known as the *Asa-Kai* (Morning Meeting). The purpose of these meetings is to build a shared awareness of our goals, and to ensure that those goals are reflected in all aspects of our operations. We have also compiled written definitions of our Group Brand Concept and the Five Concepts of Success into a handbook, which has been distributed to all employees in Japanese, English and Chinese.

Rakuten's Group Brand Concept:

1. We work to empower a fair society

What enables a business to grow continuously over a long period?

Our answer: Business operations that have social meaning and are recognized as providing value needed by society. The Rakuten Group expresses social meaning with the word "empowerment." Using the potential of the Internet and offering opportunities to as many people as possible in order to contribute to the establishment of a fair society—these are the High Principles of the Rakuten Group.

2. We approach our business activities with integrity and pride

Central to upholding the High Principles is how one approaches and behaves in performing one's work. In our Group Brand Concept, we express this as "Maintain our Integrity". The qualities of "integrity," "pride," "honesty" and "sincerity" are the fundamental prerequisites for business performance at the Rakuten Group. All Rakuten Group employees should maintain an attitude of integrity and pride when engaging in business activities.

3. We stand ready to execute decisions for success

Even though we follow the high principles, if we fail to succeed in business, there is no way to contribute to society. As a method of driving success, the Rakuten Group has established "Five Concepts of Success". Each Group employee conducts business in a professional manner by strictly adhering to the Five Concepts of Success. Success in business can only be attained when you stand fully prepared to execute your decisions.

4. We are completely committed to our mission

Even though a business follows high principles, it is not easy to succeed in the face of fierce competition. But, if each employee firmly adheres to his/her business principles, business ambitions need never be given up so easily. To accomplish the goals, adapt his/her actions to the situation at hand. Our creed to "GET THINGS DONE" expresses the attitude that drives our business forward.

5. We foster teamwork. Teamwork brings success

A wide variety of people with diverse backgrounds are actively working within the Rakuten Group. Our policy is to convert this diversity into a source of strength for the Group: each employee has to strive forward as part of a team. Because the Rakuten Group works as one big team, in which our diverse staff can exercise their power to the fullest in a spirit of good teamwork, our organization is successful.

Rakuten's Five Concepts of Success:

1. Get Things Done

In our view, there are only two types of people:

People who get things done will use a variety of methods to achieve their goals. Best effort people are satisfied with the status quo and use excuses to convince themselves that what they have achieved so far is enough.

We must each have a strong commitment to the achievement of our goals.

2. Complete Professionalism

Rakuten is an organization of people with a strong sense of professionalism. To win, we need to think 100 times more than everyone else and achieve growth through self-management.

3. Hypothesize, Execute, Verify, Incorporate

We must base our work on specific action plans. The cycle of making hypotheses, executing action plans, verifying results and incorporating them into our organization will improve the quality of our business operations.

4. Maximization of Customer Satisfaction

Rakuten is above all a service company. We must avoid arrogance, and we must always take pride in pursuing "maximization of customer satisfaction".

5. Speed!! Speed!! Speed!!

We must have the speed to achieve in one month tasks that take our competitors one year. The next two or three years are a crucial time to become a winner or loser.

Social Contribution Activities

The Rakuten Group works to bring smiles to as many people as possible by continually implementing positive initiatives. In 2007, we sought ideas from employees for activities to commemorate the 10th anniversary of our establishment. This resulted in a range of social contribution activities, including the Rakuten IT School, an eco-packaging and recycling program, and support for environmental programs.



Internet Ethics Seminar

Rakuten IT School—The Rakuten Group wants to ensure that children grow up with a proper understanding and usage of the power and potential of the Internet. We are helping to achieve this goal through the Rakuten IT School program, which is a series of seminars held in various parts of Japan for students, teachers and other groups.

In 2008, we held an Internet ethics seminar for high school teachers in Miyagi Prefecture. Before launching this program, we had received many inquiries from high school teachers wanting to provide students with instruction on Internet ethics but were unsure how to approach the topic. Responding to this need, the two-day seminar was held and attended by around 150 teachers, who experienced first-hand the Internet environment of their students by accessing community site chatting boards used by young people. Many of the teachers commented that the seminar had given them a new understanding of the activities of their students. There was also a seminar in Kyoto Prefecture on the creation and running of Internet shops. This program was designed for high school students, who with the cooperation of merchants were given opportunities to experience actual sales activities.



An Internet ethics seminar at the Rakuten IT School.



Development of Eco-Packaging Materials

Eco-Packaging and Recycling—By developing eco-packaging materials, Rakuten, Inc. has reduced the amount of corrugated paperboard materials used to package books, DVDs, CDs and other items sold through its Rakuten Books business. Development staff studied the systems used in the Rakuten Books distribution center, from packaging to dispatch, and also looked at the durability of the packaging materials used. The information gained was then used to reduce costs by developing simpler packaging designs. Other improvements included reductions in the amount of ink and paper used in cushioned envelopes, which are lined with shock-absorbing bubble sheets. To reduce the burden on customers, the cushioned envelopes were also redesigned to eliminate the need to separate materials before disposal.

We will continue to review the packaging materials used by the Rakuten Group. There are also plans for other initiatives, including the establishment of a system to allow materials to be recovered and reused.



Rakuten employees showing the new resource-efficient eco-packaging materials.



Donation to Afforestation Program, Carbon Offsetting Program

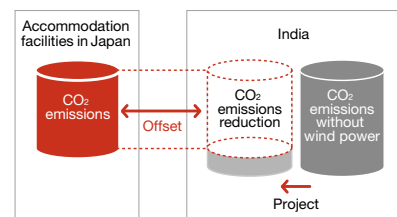
Support for Ecological Activities—The Rakuten Group's efforts to reduce environmental loads and protect the natural environment are based on our belief that progress can best be achieved through sustained efforts, starting with initiatives in one's immediate environment.

For every purchase made during the campaign period, Rakuten, Inc. donated ¥3 to an afforestation program on Mindoro Island in the Philippines.

Moreover, from November 19 to December 31, 2008, Rakuten Travel, Inc. implemented the Eco Raku Travel project, the aim of which was to offset CO₂ emissions resulting from the use of accommodation facilities in Japan. The total number of overnight stays during this period was 457, resulting in 15,538 tons of CO₂e* emissions. These emissions were offset through a wind power generation project in India.

*CO₂e: Total greenhouse gas emissions expressed as the equivalent amount of CO₂.

Carbon Offsetting Method Used in the Eco Raku Travel



Corporate Governance

1. Basic Approach to Corporate Governance

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

2. Corporate Organization

Rakuten, Inc. supervises management by using a Corporate Auditor System. In March 2003, Rakuten, Inc. adopted an Executive Officer System to separate the roles of management supervision and business execution. Functions that were until then performed by the Board of Directors were divided, making directors responsible for management decision-making and supervision, and Executive Officers responsible for execution of business activities.

In 2006, Rakuten Group introduced a business unit system to promote faster business execution by Executive Officers, and to strengthen the supervisory functions of the Board of Directors and the Corporate Auditors. In addition, a system was developed for internal controls across the Rakuten Group through the establishment of Functional Teams with broad control powers that cut across all Rakuten Group businesses.

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

The Board of Directors consists of 14 members, including three outside directors. The maximum number of directors allowed under the Articles of Incorporation is set at 14 members. Resolutions to appoint directors must be approved by a majority of the shareholders with voting rights at a General Meeting of Shareholders at which at least one-third of the shareholders eligible to exercise voting rights are in attendance.

In addition to regular monthly meetings of the Board of Directors, extraordinary Board Meetings are held as necessary. At these meetings, the directors reach decisions concerning important matters involving management, and supervise the performance of Executive Officers responsible for business activities. The Rakuten Group also has Executive Strategic Meetings, made up of executives at Senior Executive Officer level and above, at which important matters pertaining to the Rakuten Group strategies, such as mid-to-long term management plans and basic policies, are discussed. This framework helps to ensure proper decision-making by the Board of Directors.

Once made, decisions by the Board of Directors are delegated to the Executive Officers' Meeting, comprised of Executive Officers. Board decisions then serve as a basis for each Executive Officer when carrying out his/her duties. Where the implementation and administration of each business is concerned, business management meetings held at each business, as well as management meetings of committees convened by the Functional Teams, work to ensure that each business is conducted in a proper and efficient manner, and that administrative control that spans the entire Rakuten Group enacted.

(2) Corporate Auditors and the Board of Auditors

Rakuten, Inc. has four Corporate Auditors, three of whom are outside auditors. Of the Corporate Auditors, two serve on a full-time basis. In accordance with a resolution adopted at the 12th Annual General Meeting of Shareholders on March 27, 2009, all four Corporate Auditors, including the two full-time auditors, were outside auditors as of the date of filing of *Yuukashouken-Houkokusho* on March 27, 2009.

The Corporate Auditors are assisted in their duties by a three-member Corporate Auditors' Office, a body that has been established under the Board of Auditors. The Board of Auditors holds regular meetings and extraordinary meetings as necessary.

The Corporate Auditors attend meetings of the Board of Directors and other important meetings, receive reports by directors, the Internal Audit Department and other sources on the performance of duties, 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 Corporate Auditors. In addition, the Corporate Auditors receive auditing reports from independent accountants, and examine the financial statements and related documents. The Corporate Auditors also hold meetings with CEO to discuss various matters.

(3) Independent Auditors

Rakuten, Inc. has an auditing contract with an audit corporation, Ernst & Young ShinNihon LLC, to perform financial audits as prescribed by Japan's Corporation Law and Financial Instruments and Exchange Law. The names of the chartered public accountants and the composition of the team that assisted them in fiscal 2008 were as follows:

1. Chartered public accountants

Designated limited liability partner	Executive partner	Kazunori Watanabe
Designated limited liability partner	Executive partner	Kenichi Ishida

2. Audit assistants

Certified accountants	15	Assistant accountants, etc.	28
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(4) Internal Audits

The seven-member Internal Audit Department, established as an independent body under the direct authority of the CEO, performs audits based on an annual internal audit plan for the purpose of checking the status of operational execution at each department. These audits cover internal controls, including items such as the legality, suitability and efficiency of these activities, as well as progress with regard to audits and compliance programs. By bolstering ties with the Internal Audit Department at each subsidiary, it works to ensure that business operations are properly conducted through the implementation of an ongoing internal audit process across the Rakuten Group.

The results of this internal audit process are reported to the CEO and the Compliance Committee, as well as to Executive Officers involved and the Executive Officers' Meeting. The results are also reported to the Board of Auditors as a means of linking these findings to audits performed by the Corporate Auditors.

3. Internal Control Systems

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

The Internal Audit Department, which reports directly to the CEO, conducts regular operational audits focusing on the performance of directors' and employees' duties. The Compliance Committee, meanwhile, implements Group-wide compliance initiatives designed to ensure that all tasks are carried out appropriately. Compliance training is used to help all directors and employees develop the necessary knowledge and ethical perceptions. Other measures to support appropriate administration include the establishment of systems based on the Whistleblower Protection Act.

Attorneys have been appointed to assist each of the external directors and external corporate auditors, who closely supervise directors in the performance of their professional duties. This system provides expert, objective verification that all actions comply with legal requirements and the Articles of Incorporation.

In fiscal 2008, the Rakuten Group laid foundations for future growth by adopting the Rakuten Group Regulation (RGR) as the basis for Group-wide integrated management. The establishment of uniform rules that are also applied to Group companies will further strengthen corporate governance.

4. Risk Management Systems

The units responsible for each area of business respond appropriately to related risks as stipulated in the RGR. Measures to control information management risk are implemented primarily by the Risk Management Department. Group-level efforts to minimize this type of risk include the Information Security Management System (ISMS) certification. In addition, emergency reporting systems have been strengthened to ensure a timely response to risk factors.

To ensure appropriate supervision of actions by directors from the viewpoint of business risk, a resolution of the Board of Directors is required for any business investment over a certain amount. In addition, business management meetings in each business unit receive detailed reports about risk factors affecting business operations. These systems provide a framework for the gathering of risk information and the in-depth management of risk factors.

Integrated risk management at the Group level is provided by the Group Risk Management Committee, which is chaired by the CEO. This committee monitors all risk factors that could have a serious impact on the Rakuten Group.

5. Remuneration for Directors and Auditors

(1) Directors and Corporate Auditors

Fees paid to directors and Corporate Auditors are as follows:

	Number of recipients	Amount of fees
Directors	15	¥640 million
Corporate Auditors	4	¥40 million

* The above amounts do not include salaries of ¥45 million paid to directors who are also employees.

* The above amounts include bonuses paid to directors in the fiscal 2008.

* The above amounts include fees and other remuneration to three outside directors and three outside auditors, amounting to ¥23 million and ¥28 million respectively.

(2) Independent Auditors

Fees paid to Ernst & Young ShinNihon for audit services under the provisions of Article 2, Paragraph 1 of the Certified Public Accountants Act:

¥92 million

Fees other than fees for services under the provisions of Article 2, Paragraph 1 of the Certified Public Accountants Act:

¥4 million

6. Summary of Personal, Capital and Business Relationships and Other Interests between the Company and Outside Directors and Outside Auditors

Rakuten, Inc. has three outside directors and four outside auditors. One of the outside directors, Koichi Kusano, and one of the outside auditors, Katsuyuki Yamaguchi, are partners with Nishimura & Asahi, a law firm with which Rakuten, Inc. has a business relationship that includes the provision of services. Tatsumi Yoda, an outside director, is the Representative Director/Chairman of GAGA Communications, Inc., with which Rakuten, Inc. has a business relationship that includes the provision of services. There are no other personal, capital or business relationships or significant interests.

Rakuten, Inc. has signed an agreement with each of its outside directors and outside auditors as stipulated in Article 427 Paragraph 1 of the Corporation Law. This agreement is summarized below:

In circumstances to which the provisions of Article 423, Paragraph 1 of the Corporation Law apply, outside directors and auditors accept liability up to the sum of the limits stipulated below, provided that they have carried out their duties in good faith and without serious negligence.

- i. The total amount of fees, bonuses and other payments for the performance of professional duties received during the period in which they held office in the fiscal year that includes the date on which the event that caused the liability occurred, and in the previous fiscal year, or the total amount of property benefit (except benefit excluded in the following item) in each fiscal year, whichever is greater, multiplied by two
- ii. The total amount of retirement bonuses, or property benefit that is in the nature of retirement bonuses, or that total divided by the number of years in which they held

office as outside director and multiplied by two, whichever is lower

- iii. The amounts stipulated in the following items, resulting from the exercise or transfer of stock options, as stipulated in the items attached to Article 238, Paragraph 3 of the Corporation Law, after appointment as an outside director
 - a. If the options have been exercised
An amount calculated by subtracting the sum of the issue price per share and paid-in value per share of the options when they were exercised, from the share price at the time when the options were exercised, and multiplying the result by the number of shares issued through the exercise of the options
 - b. If the options have been transferred
An amount calculated by subtracting the issue price of the options from the transfer price of the options, and multiplying the result by the number of options transferred

7. Resolutions of General Meetings of Shareholders that Can Be Implemented by Resolutions of the Board of Directors

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

8. Items Requiring Special Resolutions of General Meetings of Shareholders

The Articles of Incorporation of Rakuten, Inc. state that matters requiring resolutions of General Meetings of Shareholders, as stipulated in Article 309, Paragraph 2 of the Corporation Law, require at least two-thirds of the voting rights of shareholders present at a General Meeting of Shareholders at which shareholders with one third or more of voting rights are in attendance. The purpose of this provision is to facilitate the running of General Meetings of Shareholders by easing the quorum requirements for special resolutions at these meetings.

Risk Factors

Business Risk and Other Risk Factors

Described below are the main aspects of the business activities and finances of the Rakuten Group that are considered to be potential risk factors or that may influence decisions by investors. Having identified these risks, the policy of the Rakuten Group is to take steps to prevent occurrences or to take appropriate action in response to contingencies. This policy notwithstanding, the Rakuten Group's position is that decisions to invest in its securities should be preceded by careful examination of relevant information, including information provided elsewhere.

Unless otherwise stated, all forward-looking statements herein are based on judgments by the Rakuten Group as of the date of filing of the *Yuukashouken-Houkokusho* on March 27, 2009 to the Finance Services Agency of the Japanese government. They are subject to uncertainty and could differ from actual results.

1. Business-Related Risks

1-1. E-Commerce Business

This segment consists of the Internet shopping mall and Internet auction businesses. The Rakuten Group basically provides systems and trading environments to support direct trading between merchants and consumers, or between auction sellers and bidders. The Rakuten Group is not a party to any sales agreement or other contract in those transactions. However, there is a risk that the use of these Internet shopping mall and Internet auction systems will result in infringements against the rights of third parties, including defamation or violations of ownership rights, intellectual property rights or privacy rights, or in other inappropriate behavior, such as fraud or other criminal activities. If such situations arise, liabilities could be incurred not only by the parties involved in the actions concerned, but also by the Rakuten Group, as the provider of the trading environment.

The Rakuten Group has taken the following steps to prevent such situations, and to fulfill their legal and regulatory obligations as business operators.

(1) Rakuten Ichiba

Risk management for Rakuten Ichiba begins with background checks prior to the opening of store accounts. This process

includes screening of all merchants wishing to open stores, and preliminary examinations of procurement sources, sales methods and other factors in the case of merchants who plan to handle certain types of goods. Once a store has opened, Rakuten E-Commerce Consultants provide business support services, through which they are able to monitor the goods handled by the merchant, the appropriateness of sales methods, compliance with the terms of the mall agreement, and other factors. When necessary, the consultants provide guidance. The mall agreement specifically states that disputes between merchants and consumers concerning transactions on Rakuten Ichiba must be settled by the parties, and that the Rakuten Group will accept no liability whatsoever. Through monitoring and other processes, we identify merchants with poor reputations and those that have been the subject of numerous complaints. We then take appropriate actions, such as giving advice on the improvement of business practices. In serious cases, the merchant's contract will be terminated.

We take great care to ensure reasonable grounds for the termination of contracts. However, because of the Rakuten Group's large presence in the Internet shopping mall market, there is a possibility that such actions, or the provisions of the documents on which they are based, such as mall agreements, may result in a violation of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade. In such cases, it is possible that the business activities of the Rakuten Group may become subject to new restrictions that could impact on the Group's business results and financial position.

To provide security for shoppers on Rakuten Ichiba, we introduced a purchaser indemnity scheme, Rakuten Anshin Payment Service, in October 2007. This scheme provides compensation to purchasers under certain conditions, such as when goods fail to arrive despite payment, or if a merchant cannot be contacted. The business results and financial position of the Rakuten Group might be affected if the amount payable under this scheme increases due to a series of bankruptcies among merchants, or large-scale fraudulent transactions.

(2) Rakuten Auction

Rakuten Auction is classed as an auctioneer of second-hand goods under the Antique Dealings Act. As such, we are required to endeavor to verify the authenticity of sellers, and to maintain and preserve records of auctions. We are also obliged to report

any suspected stolen goods to the police. To prevent problems relating to the receipt of goods and payments, Rakuten Auction provides an escrow system, Rakuten Anshin Kessai Service, whereby the Rakuten Group stands between the seller and the buyer and holds payment for goods from the successful bidder. The funds are remitted to the sellers only after a delivery of goods has been completed and confirmed. However, agreements specifically state that disputes must be settled by the parties, and that the Rakuten Group will accept no liability whatsoever. The Rakuten Group has worked with other Internet auction companies to formulate voluntary guidelines for Internet auctions. We have established a monitoring system to eliminate goods that infringe intellectual property rights, and to prevent activities that are illegal or otherwise inappropriate. To prevent and minimize transaction-related disputes between sellers and bidders, we display lists of feedback from past sellers and bidders on our website.

Because the Rakuten Group is not a party to transactions in its Internet shopping mall and Internet auction businesses, it is difficult to monitor with total reliability whether parties are complying with the agreements or engaging in illegal activities. If problems arise in these business areas, it is possible that the Rakuten Group would be held liable, regardless of the content of its agreements. It is also possible that the occurrence of problems by itself could have consequences for the Rakuten Group as a whole, including damage to our brand image.

There is also a possibility that the development of our business activities may be limited or that we will be required to make changes because of the establishment of new laws, action by supervisory agencies, or the adoption or amendment of guidelines. Such situations might impact on the business results and financial position of the Rakuten Group.

1-2. Credit and Payment Business

(1) Laws and Regulations

Our Credit and Payment Business is subject to the Law Concerning the Regulation of Receiving of Capital Subscription, Deposits and Interest on Deposits (hereinafter referred to as the "Capital Subscription Law"), the Money-lending Control Law and the Installment Sales Law.

Under the amended Moneylending Control Law, Rakuten KC will be required to control the total amount of credit provided on cards through the use of credit agencies, based

on consumer information, including annual incomes. The new law requires the provision of credit to members to be managed with greater precision. Earnings could be affected by these measures, as they necessitate major system upgrades, changes to operating methods and the restriction of new lending. Further tightening of credit management will be mandatory as a result of amendments to the Installment Sales Law, which have not yet taken effect.

The amended Capital Subscription Law will also take effect at the same time as the amended Moneylending Control Law. This could have a negative impact on earnings, since it will require the interest rate on new loans to be reduced to 20% or lower.

Rakuten Credit has no interest agreements that exceed the limits set down in the Interest Rate Restriction Law. However, some of the loan agreements established by Rakuten KC before December 31, 2007 set interest rates that are above those limits. For this reason, the company has provided an allowance for loss on interest repayments reflecting the estimated amount of future refund demands, based on historical interest repayment request data (loan transition ratio, average amount). It has also provided an allowance for write-off of principals triggered by interest repayment claims, including allowance for doubtful accounts. If there is an increase in the average amount of repayments used as the basis for calculating the allowance, it will be necessary to make additional provision to the allowances. This could impact on our business results in this segment. Earnings in this segment could also be affected by the reduction of the interest rate on new loans provided by Rakuten KC to 18% or lower since January 1, 2008.

Other amendments to related laws may result in a further tightening of restrictions on related businesses, such as money-lenders and credit card companies. Such changes could have a negative impact on our earnings in this business segment.

(2) Business Conditions

The Economic Environment

Because our activities in this segment target individual customers, business results could be adversely affected by a decline in operating revenues, an increase in expenses for doubtful accounts or other consequences, if a downturn in consumer spending leads to reduced demand for loans, or if

rising unemployment causes an increase in personal bankruptcies or the number of people who borrow money from multiple lenders.

Fund Raising

We raise funds for working capital of this segment primarily in the form of loans from financial institutions. Interest rates and other conditions vary according to prevailing market conditions and other factors. Our business results in this segment could be negatively impacted by future trends in financial markets, changes in the credit status of the Rakuten Group, or other factors.

Credit Management and Loan Collection

In order to operate the business of the segment, we need a credit management system to reduce the risk of loan defaults, as well as recruit and retain staff with knowledge of loan collection. The sustainability and future development of this business could be harmed if there are major problems affecting our ability to maintain and operate the necessary systems and recruit human resources.

1-3. Portal and Media Business

(1) Internet Advertising Market

Activities in the Portal and Media Business segment consist primarily of the operation and management of portal sites, with Internet advertising sales accounting for a large percentage of revenues.

Internet availability continues to expand, and the user population is also growing. In addition, companies are increasingly using the Internet for their business activities. These factors all point to continuing growth in the Internet advertising market. However, Internet-based advertising is now in direct competition with other forms of advertising, while the advertising as a whole is vulnerable to shifts in economic conditions. Any decline in business confidence could therefore have a negative impact on business performance in this segment.

(2) Traffic on Internet Sites

The value of the Internet as an advertising medium depends primarily on the ability of websites to attract consumers. By responding to consumer needs, especially through the content provided on its sites, the Rakuten Group is continually improving

its ability to attract traffic. We will continue to use a variety of methods to attract advertising revenues, including advertising linked to search results, and the enhancement of content. However, our business results could be affected if there is a shift away from the present trend toward establishment of a solid position for Internet advertising in the advertising market, or if we are prevented from providing attractive content.

The Rakuten Group uses web search engines, news and other content provided by outside suppliers on its websites. Any interruption to the supply of these web search engines and content could prevent the Rakuten Group from obtaining useful content efficiently. Such a situation would hinder the operation of websites and could have an adverse impact on business operations and results in this segment.

(3) Regulatory Requirements, etc.

Under the Harmful Site Restriction Law, which was introduced to create an environment in which children and young people can use the Internet safely, the Rakuten Group is required to endeavor to prevent access to harmful information.

The Rakuten Group has strengthened its site monitoring systems and implemented the necessary filtering measures, including applying for verification by a certification organization. However, if the Rakuten Group's community sites are not certified by such an organization, children and young people will become unable to visit the sites via mobile phones and other equipment. This could impact on business operations and results in this segment, since any reduction in the number of people viewing pages would lead to a decline in advertising revenues.

Business operations in this segment could be subject to increased controls under certain circumstances, for instance if amendments to the aforementioned law or other developments lead to a tightening of regulations, or if the criteria used by certification organizations to identify harmful information are changed. Business operations and results in this segment could be impacted by the results of such changes, including the cost of complying with these requirements.

1-4. Travel Business

(1) The Business Environment

The Rakuten Group's policy in this segment calls for business expansion through the enhancement of travel-related services

in partnership with airlines and other travel-related companies. In recent years, there has been an expansionary trend in market for Internet-based travel services. However, travel-related services are inherently vulnerable to economic trends, changes in the economic climate within Japan and overseas, and shifts in consumer preferences. Factors such as these could impact on business operations and results in this segment.

There are numerous competing services and companies in this area. Competition could result in a reduction in commission rates on transactions. Furthermore, there is no guarantee that the Rakuten Group will be able to maintain contractual relationships with accommodation facilities and other service providers. Business operations and results in this segment could be affected if accommodation facilities and other businesses were to transfer their contracts to competitors.

(2) Regulatory Requirements, etc.

Activities in this segment are subject to the Travel Agency Law and other laws, as well as regulations established by supervisory agencies and industry organizations. The establishment or amendment of new laws and regulations or other requirements could affect the Group's business operations and results in this segment, as well as the Group's financial position.

1-5. Securities Business

(1) Regulatory Requirements, etc.

In addition to the provisions of the Financial Instruments and Exchange Law, activities in this segment are also subject to self-regulatory requirements imposed by related organizations, including supervisory agencies, stock exchanges and the Japan Securities Dealers Association. Business operations and results could be affected by changes or additions to related laws, regulations and business practices, or new interpretations of these.

In particular, brokers in financial instruments are required to maintain specific capital adequacy ratios under the Financial Instruments and Exchange Law and the Cabinet Office Ordinance Concerning the Financial Instruments Business. The operation of this business and the business performance and financial position of the Rakuten Group could be impacted if Rakuten Securities is required to change its operating methods or suspend part or all of its operations due to a decline in the capital adequacy ratio. Rakuten Securities could be affected by

similar actions if it violates requirements under the Financial Instruments and Exchange Law, such as advertising regulations or obligations pertaining to the provision of information, or if it fails to establish an adequate control structure for systems used in this business. Such situations could affect operation of this business and the business performance and financial position of this segment and the Rakuten Group.

(2) Business Environment and Strategy

Brokerage commissions, which are this segment's principle source of revenue, are affected by the price environment in securities markets. Securities markets are affected by economic conditions, by political trends and regulatory trends in Japan, by worldwide market trends and by investor sentiment. When markets slow down, existing and potential customers will be less inclined to invest. The resulting declines in the volume and value of trade could have a negative impact on business results in this segment. This segment is also affected by intense competition resulting from the influx of numerous companies, including existing securities firms, into the market for online securities trading services. Brokerage commissions, which are the main source of revenues in this segment, have been deregulated, which means that business results and the ability to attract customers could be adversely affected if price competition intensifies.

Business performance in this segment could also be affected by factors relating to margin transactions, including a decline in margin transactions and an inability to collect outstanding balances, resulting from rising interest rates or high market volatility. There are similar margin transaction risks relating to foreign exchange guarantee transactions and futures options.

(3) System Failures

In the past, Rakuten Securities experienced several system failures due to heavy user traffic and other factors. As a result of these events, the Financial Services Agency (FSA) issued directives requiring Rakuten Securities to improve its operations in November 2005 and June 2007. The company responded by implementing a variety of measures to upgrade and strengthen its systems. However, there were further system failures in November 2008 and January 2009. On March 24, 2009, the FSA directed Rakuten Securities to improve its

operations and suspend the establishment of new operations involving systems development (excluding activities individually approved by the FSA) for a specific period, on the grounds that the steps taken by the company to restore services were inadequate. Rakuten Securities has since taken a range of steps to ensure the reliable operation of its systems, including hardware upgrades and reinforcement, the reinforcement of its organizations for system quality management and operational monitoring, and the improvement of contingency planning for system failures. However, if there are frequent, serious system failures in the future, the business results of Rakuten Securities, Inc. and the entire Rakuten Group could be adversely affected by the resulting damage to public confidence and loss of customers. In addition, the FSA could implement additional administrative actions against Rakuten Securities.

1-6. Professional Sports Business

In this business segment, the Rakuten Group aims to build a strong local fan support by strengthening the team's operating base through the expansion of spectator facilities, reinforcement of its player lineup and staging of various events. Anticipated costs relating to these measures include the depreciation of capital investment and wages for players. If the projected revenues from this business fail to materialize, business results in this segment could be adversely affected.

The Rakuten Group also anticipates synergy benefits from its ownership of the Tohoku Rakuten Golden Eagles and resulting improvement in brand recognition, including a contribution to improved business performance in other business areas. However, these benefits may be limited if there is a situation with the potential to damage the Rakuten Group's public reputation, or if the team is less popular than expected.

This segment is subject to various regulations, including the provisions of the Nippon Professional Baseball Agreement formulated by Nippon Professional Baseball. These requirements could place certain limitations on the operation of this business.

1-7. Telecommunications Business

(1) Regulatory Requirements

This business is operated by Fusion Communications, which is registered as a telecommunications provider under the provisions of Article 9 of the Telecommunications Business Law, and

is therefore subject to regulations based on that law. The establishment of new laws and regulations, or the amendment of existing regulatory requirements, could affect the business results and financial position of the Rakuten Group.

(2) Interconnection Agreements

To facilitate the efficient provision of telecommunications services, Fusion Communications has signed interconnection agreements providing for reciprocal connections between its telecommunications facilities and those of other telecommunications providers. At present, carriers that own telecommunications facilities are in principle required to allow other carriers to connect to those facilities. However, the business results or financial position of the Rakuten Group could be affected if future measures, such as the abolition or easing of this requirement, result in increases in access charges and interconnection charges payable by Fusion Communications or if there are changes to the terms and conditions that would be disadvantageous to Fusion Communications. The Rakuten Group's business results and financial position could also be affected if Fusion Communications were required to provide guarantees or collateral because of concerns about its ability to meet its obligations.

(3) Reliability of Networks, etc.

Confidence in the business activities and services of the Rakuten Group could be eroded if the telecommunications services provided by Fusion Communications were disrupted because of an inability on the part of the company to keep pace with traffic growth on its network, due to network equipment failures, natural disasters, power outages, the suspension of telecommunications functions or other contingencies, or because of computer viruses, hacking or cracking. Such situations could affect the business results and financial position of the Rakuten Group.

1-8. Measures to Expand Gross Transaction Value

Gross Transaction Value (GTV) on the Rakuten Group's websites is a key performance indicator used by the Rakuten Group to monitor the results of its various businesses, especially the E-Commerce Business and Travel Business segments. The Group is working to expand GTV by increasing the number of new purchasers and the repeat rate for existing purchasers. It is

strengthening its marketing activities and implementing an aggressive marketing program and system development strategy based on an economic structure known as the Rakuten Eco-system. Specific measures include the operation of a group-wide loyalty point system known as Rakuten Super Points, the introduction of online electronic money, and the personalization of website content to match consumer profiles, including gender, age and other attributes.

Currently, GTV and the number of unique buyers* on Rakuten Group websites both appear to be on an expansionary trend. Contributing factors include the expansion of the business to consumer (B to C) e-commerce market. However, the business results of the Rakuten Group could be affected if GTV on Rakuten Group websites fails to show sustained growth because of external factors, such as regulatory measures restricting Internet use, increased concern about information security and in particular the security of personal information, economic trends and competition from other companies.

The Rakuten Group is also working to expand GTV by unifying the branding of all services under the Rakuten brand. In addition, membership databases are being integrated, and all member IDs are being brought together through the Rakuten Super Points program. However, rebranding and membership ID changes could cause a decline in the loyalty of existing members or cause them to withdraw from membership organizations. GTV on Rakuten Group websites and the business results of the Rakuten Group could be affected if these measures fail to yield the anticipated benefits.

* Number of unique buyers: The total number of buyers who purchase items even once on Rakuten Ichiba during a specified period.

1-9. International Business Expansion

In its medium- and long-term strategies, the Rakuten Group sees global expansion of various services to meet the needs of overseas consumers as an important way of expanding its income opportunities.

Business operations are now being actively developed in other countries. For example, a U.S. subsidiary, LinkShare Corporation, is already providing performance marketing services in the United States and elsewhere, while in Taiwan, Taiwan Rakuten Ichiba has started to provide marketplace-style Internet shopping mall services similar to those offered through Rakuten Ichiba in Japan. Management is currently

considering a range of measures relating to the establishment of overseas branches and research facilities, including some in emerging markets. In a related initiative, the introduction of the Rakuten International Shipment service means that items purchased from Internet shopping mall merchants in Japan can now be shipped to overseas consumers.

Global expansion will result in exposure to a variety of risks, including factors relating to laws, regulations, systems and social conditions in other countries. The business activities and performance of the Rakuten Group could be affected if these risks are not handled properly.

In particular, global business development is expected to result in additional costs, including personnel recruitment costs, and development costs relating to the localization of systems. Income will temporarily come under pressure from these additional costs, and it will take time before new operations start to generate reliable income streams. Delays in global business development resulting from changes in local conditions or other factors could have consequences for the business performance of the Rakuten Group, including difficulties in the recovery of the capital invested. Overseas sales, expenditure, assets and liabilities will also be exposed to the effects of currency exchange rate fluctuations.

2. Risks Relating to Regulatory Systems

2-1. Potential for Application of Regulatory Restrictions

The Rakuten Group is involved in a wide range of business activities. The main laws and regulations affecting these business segments are stated in Section 1 (“Business-Related Risks”).

In Japan, the Rakuten Group’s main business activities include Internet-based information distribution and e-commerce. These activities are subject to regulation under a number of laws, including the Act Concerning the Prohibition of Unauthorized Computer Access, Act on the Limitation of Liability for Damages of Specified Telecommunications Service Providers and the Right to Demand Disclosure of Identification Information of the Senders, the Act on Specified Commercial Transactions and the Consumer Contract Act. A regulatory framework is now evolving in response to the spread and expansion of Internet-based business activities. For example, in December 2008 restrictions were placed on e-mail advertising through amendments to the Act on Specified

Commercial Transactions and the Act on Regulation of Transmission of Specified Electronic Mail.

In addition to new laws or amendments, the distribution of information on the Internet could also be affected by other factors, such as the formulation of new voluntary rules. The business results and financial position of the Rakuten Group could be affected if the Group's activities become subject to new restrictions, or if existing regulations are tightened because of continuing social pressure calling for comprehensive legal regulation of information intermediaries.

Payment collection services, electronic money, points services and mail-order selling of specific goods are all the subject of wide-ranging debate at present. The business results and financial position of the Rakuten Group could be affected if this debate leads to the establishment of new laws or the tightening of regulations.

2-2. Handling of Personal Information

As an organization that handles personal information, the Rakuten Group is subject to the provisions of the Act on the Protection of Personal Information. Currently, users of Rakuten Ichiba and the main services provided by the Rakuten Group are required to complete membership registration. This process involves the collection of information that can be used to identify users, including names, addresses, telephone numbers and credit card numbers.

The Rakuten Group takes all possible care to protect privacy and personal information through proper information management. It complies with laws and regulations covering each type of service business and follows guidelines established by government agencies, industry groups and other organizations. In April 2007, the Rakuten Group gained certification for its main business activities under ISO/IEC 27001, which is the international standard for information security. However, in 2008 there was an incident in which part of the registration information for an e-mail magazine was placed on the Internet in a way that allowed perusal by third parties. The possibility of further information leaks or abuse in the future cannot be ruled out, and it is possible that such incidents will result in legal disputes or damage to the Rakuten Group's reputation. Such situations could impact on the business activities and performance of the Rakuten Group.

2-3. Intellectual Property Rights

The Rakuten Group endeavors to protect intellectual property rights, including patents, trademarks, copyrights and domain names, and licenses granted to it. However, the business activities and performance of the Rakuten Group could be adversely affected if it is unable to protect its intellectual property rights from infringement by third parties, or if substantial costs are incurred in order to protect intellectual property rights. Costs or losses could also be incurred if it becomes necessary to defend against or settle claims of intellectual property right infringements in relation to technology, content and other items used by the Rakuten Group. Such situations could also result in the restriction of the Rakuten Group's ability to provide specific content or services or use specific technologies. The business activities, performance and financial position of the Rakuten Group could be adversely affected in such cases.

2-4. Possibility of Litigation

As noted above, the Rakuten Group could be exposed to litigation or other claims if merchants, purchasers, participants or other users engage in illegal activities or involved in disputes, if users violate the rights of third parties through illegal actions or the distribution of harmful information, or if losses are incurred by merchants, purchasers, participants or other users as a result of system failures or other situations. Furthermore, the Internet itself is still a relatively new phenomenon, and there is the possibility of unforeseeable litigation or other actions resulting from new contingencies or business risks that have not yet become apparent. Depending on the nature of such litigation and other actions and the amounts sought, such situations could impact on the business activities, performance and financial performance of the Rakuten Group.

3. Risks Relating to the Business Environment and Business Operations

3-1. Competition

There has been a rapid rise in the number of people with continuous access to high-speed Internet services through ADSL and FTTH (Fiber To The Home) systems, and in the number of people accessing the Internet through mobile phones. This growth is helping to drive an expansion trend in the use of Internet-related services by ordinary consumers.

As a result, many companies are moving into Internet-related business activities across a wide spectrum of product and service categories. In addition to its Internet-related business operations, the Rakuten Group also faces competition from numerous companies in its other areas of business.

Mobile Internet access is expected to expand further in the future. As part of its efforts to expand turnover on its sites, the Rakuten Group is enhancing its systems to facilitate mobile phone access to its Internet-based business activities. It has also stepped up its marketing activities. Other initiatives target the enhancement and expansion of services other than Rakuten Ichiba, such as Rakuten Auctions, Rakuten Business, Rakuten Books and Rakuten Travel. In addition, the Rakuten Group is expanding its areas of business through mergers and acquisitions (M&A) and other means, and through the linkage of various business segments.

The Rakuten Group aims to expand its business activities by responding to customer needs and through service ID integration, service tie-ups and other innovations. However, it is possible that these initiatives will fail to yield the anticipated benefits, or that the revenues of the Rakuten Group will fall because of changes in the competitive environment, such as the emergence of a competitor with revolutionary services backed by powerful system development capabilities. There is also a possibility that the Rakuten Group will be forced to compete on prices or increase its advertising expenditure. Such situations could have a serious impact on the business activities and performance of the Rakuten Group.

3-2. Technological Changes in the Industry

Rapid changes in technology, industry standards, customer needs and the competitive environment are characteristic of the Internet sector, in which the Rakuten Group is developing its business activities. The sector is also characterized by the frequent introduction of new products and services and an influx of new competitors. The pace of progress and change in this field of technology is extremely rapid, and the Rakuten Group must adapt to the resulting changes. Recently, the Group identified user-initiated Internet services and mobile services as two areas to which it will need to adapt. However, if these adaptation efforts are delayed for some reason, the Group's services could become outdated and uncompetitive. Even if the Rakuten Group is able to adapt, it could still face

increased costs, including facility improvements and development costs. The Rakuten Group's business performance could be affected by these changes, and by its efforts to adapt to them. There is also the possibility that new technology could become a barrier to the business operations of the Rakuten Group. If such technology becomes widely available, there could be implications for the Rakuten Group's business activities and performance.

3-3. Telecommunications Networks

Most of the business activities of the Rakuten Group rely on the use of telecommunications networks to link computer systems. If these telecommunications networks are disrupted by natural disasters or other contingencies, the Rakuten Group would be unable to continue its business operations. Overloading caused by growth in the number of users accessing systems could cause failures in servers operated by the Rakuten Group or its providers. Additionally, defects in the hardware or software of the Rakuten Group, merchants, purchasers, participants or other users could prevent normal trading or cause systems to crash. Moreover, website pages belonging to Rakuten Group or merchants could be rewritten or become non-functional, and valuable data could be destroyed or illegally obtained as a result of viruses, criminal activities such as hacking, or errors and other problems caused by officers and employees.

The Rakuten Group outsources some important aspects of Internet-related operations, including Internet connections and data server management. Any disruption to the operations of the Rakuten Group or these outside contractors could not only cause direct losses for the Rakuten Group, but also degrade the reliability of the Rakuten Group's systems or result in claims for damages resulting server crashes or defects, including the interruption of business activities. Such situations could impact on the business activities of the Rakuten Group. See also Section 1 ("Business-Related Risks"), 1.5 ("Securities Business"), (3) ("System Failures").

3-4. Group Branding

Since its establishment, the Rakuten Group has worked to invest substantial management resources in business development and advertising with the aim of building the Rakuten brand. While the Rakuten Group believes that it has achieved a certain level of brand recognition among consumers, there is

no guarantee that future initiatives will yield the anticipated benefits, and it is possible that these efforts will not result in revenues for the Group. If there are problems relating to business development, confidence in the Rakuten brand could be eroded, with possible implications for the Rakuten Group's business performance, financial position and share price.

3-5. Natural Disasters and Accidents

Natural disasters, such as earthquakes, typhoons, floods and tsunamis, fires, power outages, unknown computer viruses, infections by unknown infectious diseases, terrorist attacks, international conflict and other contingencies could have a serious impact on the business operations of the Rakuten Group.

Since the business premises of the Rakuten Group are concentrated in the greater Tokyo area, a natural disaster or other event in that area could temporarily disrupt services. In addition to degrading the Rakuten Group's reliability and damaging its brand image, such situations could also impact on business performance.

Within the Rakuten Group, the Risk Management Department of Rakuten, Inc. has worked to prepare for emergencies through response measures. However, there is no guarantee that these measures will be sufficient to mitigate all of the effects of natural disasters or other events, and the continuity of business operations may be jeopardized if there are serious losses to physical and human resources.

3-6. Financing

As noted above, the Rakuten Group conducts its Credit and Payment business and Securities business through subsidiaries. The main methods used to raise funds for these activities are loans from financial institutions and bonds. As of December 31, 2008, the balance of consolidated interest-bearing borrowings was ¥512,639 million. This total consists of long-term and short-term borrowings, corporate bonds, commercial paper, borrowings on securities margin transactions, and lease debt. The ratio of interest-bearing liabilities to consolidated total assets is 47.16%. Because of this debt, the business performance of the Rakuten Group is exposed to the effects of the recent sudden changes in financial markets, and it is possible that this situation could have an adverse effect on the financial position of the Rakuten Group and its ability to raise funds. Loan contracts and commitment lines

are in some cases subject to covenants and collateral clauses, and any deterioration in the business performance, financial position or credit rating of the Rakuten Group could result in demands for full repayment of existing debt or the provision of new collaterals under these clauses.

Future financing needs could exceed expectations because of changes in the business environment or the business strategies of the Rakuten Group. This could result in further increases in interest-bearing debt. Since there is no guarantee that the Rakuten Group will be able to raise funds on favorable terms in the future, this situation could have a limiting effect on the development of the Rakuten Group's business operations.

4. Risks Relating to the Operating Structure

4-1. Dependence on the Chairman and CEO

Hiroshi Mikitani, the Chairman and CEO of Rakuten, Inc., is the driving force behind the Rakuten Group. Mr. Mikitani has been the CEO of Rakuten, Inc. since its establishment and continues to determine management policies and strategies as well as playing a central role in business operations, including marketing, technology and financial management. As of December 31, 2008, Mr. Mikitani and his family directly or indirectly owned 45.04% of shares in Rakuten, Inc. Hiroshi Mikitani could therefore be considered to have a substantial influence over final decisions that affect the business operations of the Rakuten Group, including the appointment of officers.

The Rakuten Group is making organizational changes with the aim of building a management structure that is not excessively dependent on Mr. Mikitani, including the adoption of a business unit (BU) system, and the restructuring of human resource management systems. However, the business performance and financial position of the Rakuten Group could be seriously affected if Mr. Mikitani were to resign or become incapable of performing his duties at the present time.

4-2. Human Resources

In addition to engineers capable of building and maintaining computer systems, the business operations of the Rakuten Group also require human resources with specialized skills relating to individual business segments. As the Group's activities expand, there is likely to be a continuing need for the recruitment of personnel. The Rakuten Group is not aware of

any serious obstacles to recruitment at the present time. However, the business activities, performance and financial position of the Rakuten Group could be adversely affected if it becomes difficult to secure skilled staff in the future because of escalating competition for human resources, or if there is an exodus of existing staff.

5. Risks Relating to Business Expansion and Development

5-1. M&A Policies and Results

The Rakuten Group is actively engaged in M&A activities and the establishment of joint ventures, both in Japan and overseas. As an organization operating within the Internet sector, a business environment that is affected by rapid changes in technology, business models and other factors, it regards these activities as essential to realizing key management goals, such as entering new business areas, attracting new users, expanding existing businesses and acquiring related technologies. The Rakuten Group believes that M&A allows it to achieve its goals with shorter lead times, compared with establishing new Group businesses or expanding existing operations, and it will continue to follow a policy of taking M&A into consideration when determining business strategies.

When acquiring a company, the Rakuten Group seeks to avoid risk as much as possible by conducting detailed due diligence concerning the financial position, contractual relationships and other aspects of the potential acquisition. However, it is not always possible to carry out due diligence exhaustively because of the circumstances surrounding individual acquisitions, and it is possible that contingent or unrecognized liabilities will come to light after an acquisition. Furthermore, it is impossible to predict reliably how the characteristics of a newly created business will affect the business operations and performance of the Rakuten Group. It may also become impossible to develop the new business as anticipated because of changes in the business environment or other factors. In such cases, the business performance of the Rakuten Group may be adversely affected, and it may be impossible to recover the investment.

It is also possible that the information systems and internal control systems of an acquired company cannot be integrated successfully, or that executives, staff and customers of an acquired company will be lost as a result of the acquisition. In

addition, because future investment and lending could be substantial compared with the current scale of business operations, there is the possibility of increased risk affecting the financial position and other factors across the entire Rakuten Group. Furthermore, it may become impossible to develop business operations established in other countries because of factors that include the Rakuten Group's shortage of experience in the operation of overseas businesses, as well as differences in language, geographical factors, legal systems, taxation systems and commercial practices, and economic and political instability.

When the Rakuten Group launches a new business in an area in which it has not previously been involved, it becomes exposed to risk factors specific to that activity. It is possible that the Rakuten Group will be affected by risk factors not listed in this section as a result of acquisitions and other actions.

5-2. Amortization of Goodwill

The Rakuten Group amortizes goodwill over the period in which such action is deemed effective. Companies that have a close relevance to the activities of the Rakuten Group, such as Rakuten KC and LinkShare, have been acquired on the basis of long-term assessments of corporate value. Goodwill for those companies is therefore amortized on the basis of reasonable estimates over a period of 20 years, which is the longest period stipulated in the accounting standards for business combinations. Goodwill amortization is included in selling, general and administrative expenses. The balance of goodwill (consolidation adjustment accounts) showing in the consolidated balance sheets as of December 31, 2008 was ¥64,211 million.

Amortization expenses could increase if new goodwill is generated in the future. Furthermore, the business results and financial position of the Rakuten Group could be adversely affected by an impairment of goodwill if a situation arises in which the goodwill from a company is likely to be amortized over a shorter period than was estimated at the time of acquisition, because of a deterioration in the company's business performance or other factors.

5-3. Discussions Concerning a Capital and Business Alliance

(1) Capital and Business Alliance with eBANK Corporation

On September 4, 2008, the Rakuten Group signed an agreement with eBANK concerning the formation of a capital and business alliance. This alliance aims to provide customers with highly convenient financial services and developing new products and services. The Rakuten Group and eBANK are currently considering wide-ranging business collaboration in such areas as settlements, marketing and product development. On September 29, 2008, Rakuten, Inc. acquired 666,000 preferred shares issued by eBANK (acquisition value: ¥19,980 million). On February 10, 2009, Rakuten, Inc. converted these preferred shares into common stock, having obtained approval from the Financial Services Agency as a major shareholder with voting rights in eBANK as required under the Banking Law. This brought Rakuten, Inc.'s shareholding in eBANK to 46.4%, and it is anticipated that eBANK will be treated as a consolidated subsidiary from the year ending December 31, 2009. In March 2009, Rakuten, Inc. acquired a further 333,000 preferred shares (acquisition value: ¥9,990 million) issued by eBANK. Part of the business operations of Rakuten Credit, a subsidiary of Rakuten, Inc. that is involved in the lending to individuals, will be split off and merged with the operations of eBANK in April 2009. This plan was approved at General Meetings of Shareholders of both companies in March 2009. After the integration of the business operations of Rakuten Credit and eBANK, the shareholding in eBANK is expected to increase to 67.2%. The business results and financial position of the Rakuten Group could be seriously affected if the business integration between Rakuten Credit, Inc. and eBANK fails to proceed according to plan, or if there are problems with the business operations of eBANK.

Business Licenses and Registrations

As a company engaged primarily in the banking business, eBANK is required to hold a banking license under the provisions of the Banking Law, and to be registered under Article 33-2 of the Financial Instruments and Exchange Act with regard to its securities-related business and handling of foreign currency margin transactions. eBANK has obtained the license and completed the required registration. eTRUST Corporation, a subsidiary of eBANK, has obtained a license

under the Trust Law and is conducting its business in accordance with that license. The suspension or cancellation of any of the licenses or registrations required for the business operations of the eBANK Group may impede the eBANK Group's business operations and have a serious impact on its business performance.

Legal Requirements

The eBANK Group conducts its business operations in accordance with applicable laws and regulations, including the Banking Law, the Financial Instruments and Exchange Act, the Trust Law and the Depositor Protection Act, as well as rules established by supervisory agencies and voluntary regulatory organizations, such as the Japanese Bankers Association. However, changes to the related laws and regulations and business practices, or the addition of new laws and regulations or interpretations thereof could affect the operations and performance of this segment.

Under the provisions of the Banking Law, the eBANK Group is required to maintain its capital adequacy ratio at a specific level. If the capital adequacy ratio falls below the standard level determined by the Financial Services Agency, the eBANK Group will be directed to suspend part or all of its business operations, or its banking license may be revoked. This could affect the business performance of the Rakuten Group.

The Internet banking business operated by the eBANK Group is not subject to the provisions of the Depositor Protection Act concerning compensation for victims of crime. However, the Japanese Bankers Association, of which eBANK is a member, requires it to take actions in accordance with the Depositor Protection Act with regard to fraudulent withdrawals of deposits and other funds through Internet banking.

eBANK has implemented a range of countermeasures, including system-related security measures, and the use of insurance against the fraudulent use of deposit accounts or the theft of bank cards. However, if there are substantial losses resulting from criminal activities using forged or stolen bank cards, or fraudulent withdrawals of deposits and other funds through Internet banking, there could be negative consequences for the reputation and business performance of the eBANK Group, including administrative action by supervisory agencies, and demands from customers for compensation for losses in excess of the insurance indemnity.

Liquidity of Funds

Users of Internet banking services provided by eBANK are able to withdraw ordinary deposits, cancel time deposits and remit or transfer funds to other financial institutions over the Internet. For this reason, an outflow of cash could occur more rapidly than with conventional bank deposits if unexpected circumstances arise, such as the spread of rumors that would have a negative effect on the bank's reputation. The bank may become unable to continue its operations in the event of bigger-than-anticipated outflows of cash.

Investment of Assets

Securities and money held in trusts make up a major part of assets invested in by the eBANK Group and influences its investment returns. The bank divides its portfolio into safe assets, which are used to supplement liquidity, and risk assets, which are used mainly to produce returns. It invests in a wide range of financial instruments, including bonds, shares, funds, and securitization products. Returns from these activities are significantly influenced by factors that include interest rates, foreign exchange rates, and trends in bond and stock markets and other markets. The performance of the eBANK Group could be affected if there are significant changes in the valuations of these assets.

(2) Discussions Concerning a Capital and Business Alliance with TBS

On October 13, 2005, the Rakuten Group proposed the establishment of a joint holding company with Tokyo Broadcasting System, Inc. (TBS). The Rakuten Group aims to become a media group capable of succeeding in the global market by building a strong business partnership with TBS. As of December 31, 2008, Rakuten, Inc. held 37,770,700 shares of TBS common stock.

In the year ended December 31, 2008, a ¥65,395 million valuation loss on these shares was booked on a consolidated basis, and the book value as of December 31, 2008 was ¥51,519 million. The business performance and financial position of the Rakuten Group could be seriously affected if there are further changes in the price of TBS shares.

In accordance with the takeover defense measure adopted by TBS in September 2007, a special committee, established to advise the company's Board of Directors on corporate value

appraisal, concluded that the acquisition of additional TBS shares by the Rakuten Group would not require the implementation of the takeover defense measure.

However, if in the future the committee for some reason advises the Board to implement the takeover defense measure, and if this is proposed and approved at a General Meeting of Shareholders, this measure could cause TBS shares held by the Rakuten Group to be diluted by up to 50%. In that case, it could become impossible to make TBS an equity-method affiliate of Rakuten, Inc. Furthermore, it is anticipated that compensation for the impairment of the share value due to dilution under the takeover defense measure of TBS would be provided in the form of cash or other assets. However, the method and extent of such compensation are not known at this point in time, and it is possible that the compensation would not be adequate. Such a situation could have a serious impact on the financial position of the Rakuten Group.

In December 2008, TBS convened an extraordinary General Meeting of Shareholders, at which an agenda was approved providing for the company's transition to a designated holding company structure. Rakuten, Inc. exercised its voting rights to oppose this agenda, as a result of which it now has the right to demand the purchase of its holding of TBS shares. This right can be exercised during a period from 20 days to one day before April 1, 2009, which is the date on which the organizational restructuring of TBS for its transition to a designated holding company takes effect.

Depending on the progress of negotiations with TBS and other factors, such as changes in the situation, the Rakuten Group may be forced to change its policy on ownership of TBS shares. Depending on the method used to dispose of the shares and on market conditions at that time, this could have a serious effect on the business performance and financial position of the Rakuten Group.

Financial Section and Corporate Data

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Result of Operations and Financial Condition

For the fiscal year ended December 31, 2008

Net Sales, Operating Income

Net sales amounted to ¥249,883 million, an increase of 16.8% over the previous fiscal year. One of the key factors of this growth was the buoyant performance of the E-Commerce Business and Travel Business segments. Another was partly attributable to a full year's contribution from Fusion Communications, which was added to the consolidation in the end of third quarter of fiscal 2007.

Operating income amounted to ¥47,151 million, compared with ¥119 million in the previous fiscal year. This figure is a new record. Contributing factors include higher net sales from the E-Commerce Business and Travel Business segments, and a substantial recovery in the profitability of our Credit and Payment Business segment, which benefited from reduced provision to the allowance for interest repayment losses and lower expenses for doubtful accounts. Another positive factor was a Group-wide review of our cost structures through Project V, a package of measures designed to strengthen our management and administration systems.

Net Loss (Income)

However, valuation loss on investment securities, amounted to ¥67,177 million in fiscal 2008. As a result, there was a net loss before adjustment for income taxes and minority interests of ¥34,989 million. This is a marked reduction from the result for the previous fiscal year, when we recorded gains on sales of shares of affiliated companies of ¥53,873 million. In addition, due to factors including a loss on valuation of investment securities of ¥67,177 million recorded, and in fiscal 2008, because the valuation loss and other items were treated as taxable, there was a net loss of ¥54,978 million, compared with net income of ¥36,899 million in the previous fiscal year.

Assets and Liabilities

Assets

Total assets declined to ¥1,086,938 million at the end of fiscal 2008, compared with ¥1,158,923 million a year earlier. The main changes were ¥107,550 million reduction in margin transactions assets for the securities business, and ¥31,151 million increase in cash and deposits.

Liabilities

At the end of the fiscal 2008 total liabilities were ¥928,211 million, compared with ¥965,100 million at the end of the previous fiscal year. This resulted primarily from ¥48,150 million reduction in margin transactions liabilities for the securities business.

Net Assets

Total net assets amounted to ¥158,727 million at the end of fiscal 2008, compared with ¥193,823 million a year earlier. Factors affecting net assets included the reduction of book values, the recognition of valuation losses on investment securities, ¥21,732 million increase in the valuation difference on available-for-sale securities, as well as ¥56,286 million reduction in retained earnings mainly resulting from a valuation loss on investment securities.

Cash Flows

Operating Activities

Net cash used in operating activities was ¥13,467 million in fiscal 2008, compared with a positive inflow of ¥42,967 million in the previous year. The major reason is payment of income taxes amounting to ¥23,453 million relating to the previous fiscal year. Another factor was the redemption of securitized loan receivables in the Credit and Payment Business segment caused an increase in accounts receivable-installment and operating loans.

Investing Activities

Net cash used in investing activities amounted to ¥40,977 million, compared with a net inflow of ¥55,070 million in the previous fiscal year. Reasons for this result include the acquisition of preferred shares in eBANK and investment in intangible fixed assets, such as software.

Financing Activities

Net cash provided by financing activities amounted to ¥62,397 million, compared with a net outflow of ¥113,628 million in the previous fiscal year. This resulted from policies including an increase in liquidity in hand introduced in response to the change in the world's financial markets.

The balance of cash and cash equivalents increased by ¥7,088 million in fiscal 2008, compared with a decline of ¥15,358 million in the previous year. The year-end balance of cash and cash equivalents was ¥81,284 million, an increase of 10.1% over the position a year earlier.

* For detailed information by business segment, please refer the individual segment descriptions in Our Operations (page 12-17).

Consolidated Statements of Income

Rakuten, Inc. and Consolidated Subsidiaries
Years Ended December 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
NET SALES	¥ 213,938	¥ 249,883	\$ 2,745,065
COST OF SALES	39,480	55,347	608,004
Gross profit	174,458	194,536	2,137,061
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	174,339	147,385	1,619,086
Operating income	119	47,151	517,975
OTHER INCOME (EXPENSES):			
Interest income	274	171	1,877
Dividend income	1,707	867	9,527
Gain on sales of investment securities	1,764	-	-
Foreign exchange (loss) gain	259	(68)	(752)
Equity in (losses) earnings of affiliates	1,047	(116)	(1,277)
Interest expenses	(1,505)	(2,224)	(24,430)
Commission fee	(670)	(1,244)	(13,668)
Gain on sales of noncurrent assets	1,085	121	1,333
Gain on receipt of investment securities	-	267	2,934
Gain on sales of affiliate securities	53,873	-	-
Gain on sales of subsidiary securities	1,037	-	-
Gain on changes in equity	598	31	339
Reversal of provision for loss on business liquidation	40	185	2,029
Reversal of reserve for financial products transaction liabilities	-	714	7,845
Loss on business liquidation	(412)	-	-
Loss on special retirement benefits	(240)	-	-
Loss on sales of noncurrent assets	-	(145)	(1,598)
Loss on retirement of noncurrent assets	(1,426)	(1,855)	(20,383)
Office relocation expenses	(304)	(691)	(7,586)
Loss on cancellation of leases	(3,108)	-	-
Provision for loss on business liquidation	-	(4,481)	(49,229)
Provision for statutory reserve for securities business	(778)	-	-
Loss on valuation of investment securities	(322)	(67,177)	(737,964)
Impairment loss	(750)	(5,418)	(59,517)
Other—net	(1,615)	(1,077)	(11,827)
Other (expenses) income—net	50,554	(82,140)	(902,347)
(LOSS) INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	50,673	(34,989)	(384,372)
INCOME TAXES			
Income taxes - current	20,942	15,695	172,417
Income taxes - deferred	(5,971)	4,911	53,951
Income taxes	14,971	20,606	226,368
MINORITY INTERESTS IN LOSS	(1,197)	(617)	(6,788)
NET (LOSS) INCOME	¥ 36,899	¥ (54,978)	\$ (603,952)

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 ¥ 91.03 to \$1, the rate of exchange prevailing at December 31, 2008.

Consolidated Balance Sheets

Rakuten, Inc. and Consolidated Subsidiaries
December 31, 2008 and 2007

ASSETS	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
CURRENT ASSETS:			
Cash and deposits	¥ 57,437	¥ 88,588	\$ 973,174
Notes and accounts receivable – trade	27,904	32,241	354,180
Accounts receivable – installment	70,739	93,631	1,028,576
Accounts receivable – installment sales - credit guarantee	4,497	3,551	39,005
Beneficial interests in securitized assets	110,144	101,572	1,115,810
Cash segregated as deposits for securities business	230,641	214,892	2,360,671
Margin transaction assets for securities business	188,704	81,154	891,506
Short-term guarantee deposits for securities business	8,731	11,430	125,558
Operating loans	158,964	188,696	2,072,899
Short-term investment securities	26,380	2,629	28,883
Deferred tax assets	15,635	12,829	140,935
Other	47,872	55,127	605,595
Allowance for doubtful accounts	(44,447)	(36,073)	(396,278)
Total current assets	903,201	850,267	9,340,514
NONCURRENT ASSETS:			
Property, plant and equipment	24,027	21,115	231,956
Intangible assets			
Goodwill	64,466	65,083	714,965
Other	28,944	28,230	310,116
Total intangible assets	93,410	93,313	1,025,081
INVESTMENTS AND OTHER ASSETS:			
Investment securities	104,070	82,846	910,096
Deferred tax assets	18,713	15,510	170,388
Other	20,609	29,295	321,806
Allowance for doubtful accounts	(5,107)	(5,408)	(59,408)
Investments and other assets	138,285	122,243	1,342,882
Total noncurrent assets	255,722	236,671	2,599,919
TOTAL ASSETS	¥ 1,158,923	¥ 1,086,938	\$ 11,940,433

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 ¥ 91.03 to \$1, the rate of exchange prevailing at December 31, 2008.

	Millions of yen		Thousands of U.S. dollars
LIABILITIES AND NET ASSETS	2007	2008	2008
CURRENT LIABILITIES:			
Short-term debts	¥ 140,475	¥ 156,150	\$ 1,715,373
Current portion of long-term debts	96,600	134,156	1,473,761
Notes and accounts payable – trade	16,668	20,210	222,010
Accounts payable - credit guarantee	4,497	3,551	39,005
Advances received	23,177	33,282	365,619
Income taxes payable	17,075	10,697	117,512
Deposits received for securities business	148,316	142,609	1,566,615
Margin transaction liabilities for securities business	101,688	53,539	588,145
Guarantee deposits received for securities business	104,929	88,749	974,942
Collateralized guarantee borrowings for securities business	40,666	4,607	50,613
Provision	7,144	13,452	147,780
Other	49,207	41,854	459,762
Total current liabilities	750,442	702,856	7,721,137
NONCURRENT LIABILITIES:			
Long-term debts	183,404	197,081	2,165,013
Provision for loss on interest repayments	20,075	15,365	168,789
Deferred tax liabilities	5,838	8,266	90,808
Other provision	212	375	4,118
Other	1,209	1,051	11,542
Total noncurrent liabilities	210,738	222,138	2,440,270
RESERVES UNDER THE SPECIAL LAWS:			
Reserve for financial instrument transaction liabilities	3,920	3,206	35,221
Reserve for commodities transaction liabilities	–	11	123
Reserves under the special laws	3,920	3,217	35,344
TOTAL LIABILITIES	965,100	928,211	10,196,751
NET ASSETS			
SHAREHOLDERS' EQUITY:			
Capital stock—authorized, 39,418,000 shares; issued, 13,087,064 shares in 2008 and 13,076,334 shares in 2007	107,454	107,536	1,181,312
Capital surplus	119,484	119,565	1,313,473
Retained earnings	(20,123)	(76,409)	(839,378)
Treasury stock—at cost, 979.50 shares in 2008 and 977.3 shares in 2007	(11)	(11)	(122)
Total shareholders' equity	206,804	150,681	1,655,285
VALUATION AND TRANSLATION ADJUSTMENTS:			
Valuation difference on available - for - sale securities	(21,077)	656	7,204
Deferred gains or losses on hedges	27	(336)	(3,687)
Foreign currency translation adjustments	81	(1,298)	(14,256)
Total valuation and translation adjustments	(20,969)	(978)	(10,739)
SUBSCRIPTION RIGHTS TO SHARES	128	243	2,673
MINORITY INTERESTS	7,860	8,781	96,463
TOTAL NET ASSETS	193,824	158,727	1,743,682
TOTAL LIABILITIES AND NET ASSETS	¥ 1,158,923	¥ 1,086,938	\$ 11,940,433

Consolidated Statements of Cash Flows

Rakuten, Inc. and Consolidated Subsidiaries
Years Ended December 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:			
(Loss) income before income taxes and minority interests	¥ 50,673	¥ (34,989)	\$ (384,372)
Adjustments for:			
Amortization of goodwill	3,752	3,931	43,179
Equity in earnings (losses) of affiliates	(1,047)	116	1,277
Depreciation and amortization	8,518	12,284	134,945
Loss on sales of noncurrent assets	35	145	1,598
Loss on retirement of noncurrent assets	1,426	1,855	20,383
Gain on sales of securities	(1,835)	-	-
Gain on sales of affiliate securities	(53,873)	-	-
Gain on sales of subsidiary securities	(1,037)	-	-
Loss on valuation of investment securities	322	67,177	737,964
(Decrease) increase in allowance for doubtful accounts	17,146	(8,125)	(89,258)
(Decrease) increase in provision for loss on interest repayments	16,527	(4,710)	(51,743)
Gain on changes in equity	(598)	(31)	(339)
Interest and dividend income	(1,981)	(1,038)	(11,404)
Interest expenses	1,505	2,224	24,430
Other loss	1,215	4,781	52,519
Increase in notes and accounts receivable – trade	(4,143)	(4,146)	(45,543)
Increase in accounts receivable – installment	(7,383)	(22,892)	(251,480)
Decrease in accounts receivable installment sale – credit guarantee	556	946	10,395
Decrease (increase) in beneficial interests in securitized assets	(36,931)	8,572	94,166
Decrease in accounts payable - credit guarantee	(556)	(946)	(10,395)
Decrease in operating receivables for securities business	37,806	128,326	1,409,716
Decrease in operating payable for securities business	(31,581)	(77,630)	(852,794)
(Decrease) increase in reserve for financial instruments transaction liabilities	778	(714)	(7,845)
(Decrease) increase in advances received from borrowing for securities business	8,066	(36,059)	(396,120)
(Decrease) increase in operating loans receivable	26,618	(29,732)	(326,617)
Income taxes paid	(8,497)	(23,453)	(257,640)
Income taxes refund	7,943	1,031	11,321
Other—net	9,543	(390)	(4,281)
Net cash (used in) provided by operating activities - (Carried forward)	¥ 42,967	¥ (13,467)	\$ (147,938)

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	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES:			
Payments into time deposits	¥ (4,058)	¥ (9,296)	\$ (102,121)
Proceeds from withdrawal of time deposits	3,339	3,873	42,546
Proceeds from sales and redemption of securities	3,618	-	-
Purchase of investment securities	(8,650)	(21,071)	(231,472)
Proceeds from sales of investment securities	65,102	17	184
Proceeds from redemption of investment securities	3,416	170	1,869
Proceeds from sales of affiliates securities	3,225	-	-
Purchase of investments in subsidiaries	(654)	(404)	(4,443)
Purchases of investments in subsidiaries resulting in change in scope of consolidation	(712)	(537)	(5,901)
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	-	195	2,144
Purchase of property, plant and equipment	(5,259)	(3,699)	(40,634)
Proceeds from sales of property, plant and equipment	1,818	1,663	18,269
Purchase of intangible assets	(11,371)	(12,848)	(141,139)
Payment for lease and guarantee deposits	(999)	(257)	(2,825)
Proceeds from collection of lease and guarantee deposit	1,512	1,350	14,835
Payment of loans receivable	(441)	(102)	(1,121)
Collection of loans receivable	443	104	1,146
Proceeds from transfer of business	1,822	-	-
Other payments	(744)	(3,009)	(33,052)
Other proceeds	821	1,753	19,263
Interest and dividends income received	2,842	1,121	12,308
Net cash (used in) provided by investing activities	55,070	(40,977)	(450,144)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:			
Net increase (decrease) in short-term debt	(71,589)	14,605	160,437
Proceeds from long-term debt	40,004	156,410	1,718,224
Repayments of long-term debt	(83,105)	(106,499)	(1,169,929)
Proceeds from issuance of common stock	318	162	1,780
Proceeds from sales and leaseback	3,048	778	8,549
Repayment of lease obligations	(142)	(811)	(8,894)
Purchase of treasury stock	(0)	(0)	(1)
Interest expenses paid	(1,483)	(2,310)	(25,380)
Proceeds from minority shareholders pursuant to increase in capital	329	623	6,840
Proceeds from stock issuance to minority shareholders	40	1,030	11,315
Repayments of stock issuance to minority shareholders	(85)	-	-
Cash dividends paid	(648)	(1,299)	(14,272)
Cash dividends paid to minority shareholders	(315)	(292)	(3,209)
Net cash provided by (used in) financing activities	(113,628)	62,397	685,460
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	232	(865)	(9,512)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(15,358)	7,088	77,866
CASH AND CASH EQUIVALENTS	89,219	73,861	811,388
EFFECT OF CHANGE OF THE SCOPE OF CONSOLIDATION ON CASH AND CASH EQUIVALENTS	-	335	3,682
CASH AND CASH EQUIVALENTS	¥ 73,861	¥ 81,284	\$ 892,936

Consolidated Statements of Changes in Net Assets

Rakuten, Inc. and Consolidated Subsidiaries
Year Ended December 31, 2008

	Millions of yen								
	As of Dec. 31, 2007	Changes in fiscal 2008						As of Dec.31, 2008	
		Issuance of capital stock	Cash dividends paid	Net loss	Changes in the scope of consolidation	Purchase of treasury stock	Net changes in items other than those in shareholders' equity	Total of changes in fiscal 2008	
Capital stock	¥ 107,454	¥ 81	-	-	-	-	-	¥ 81	¥ 107,536
Capital surplus	119,484	81	-	-	-	-	-	81	119,565
Retained earnings	(20,123)	-	¥ (1,308)	¥ (54,978)	¥ (1)	-	-	(56,285)	76,409
Treasury stock	(11)	-	-	-	-	¥ (0)	-	(0)	(11)
Shareholders' equity	206,804	162	(1,308)	(54,978)	(1)	(0)	-	(56,123)	150,681
Valuation difference on available-for-sale securities	(21,077)	-	-	-	-	-	¥ 21,733	21,733	656
Deferred gains or losses on hedges	27	-	-	-	-	-	(363)	(363)	(336)
Foreign currency translation adjustments	81	-	-	-	-	-	(1,379)	(1,379)	(1,298)
Valuation and translation adjustments	(20,969)	-	-	-	-	-	19,991	19,991	(978)
Subscription rights to shares	128	-	-	-	-	-	115	115	243
Minority interests	7,860	-	-	-	-	-	921	921	8,781
Net assets	¥ 193,824	¥ 162	¥ (1,308)	¥ (54,978)	¥ (1)	¥ (0)	¥ 21,027	¥ (35,097)	¥ 158,727
Net assets, Dec. 31, 2008 thousands of U.S. dollars	\$ 2,129,227	\$ 1,780	\$ (14,364)	\$ (603,952)	\$ (6)	\$ (1)	\$ 230,996	\$ (385,547)	\$ 1,743,680

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 ¥ 91.03 to \$1, the rate of exchange prevailing at December 31, 2008.

Consolidated Subsidiaries and Affiliated Companies

(As of December 31, 2008)

Name	Location	Capital or investment (Millions of yen)	Type of business	Voting rights or ownership (%)	Note
Consolidated Subsidiaries					
Rakuten Auction, Inc.	Shinagawa-ku, Tokyo	1,650	E-Commerce Business	60.0	
Rakuten Enterprise Inc.	Shinagawa-ku, Tokyo	10	E-Commerce Business	100.0	
Signature Japan Co., Ltd.	Shinagawa-ku, Tokyo	80	E-Commerce Business	100.0	
Fine Wine Co., Ltd.	Shinagawa-ku, Tokyo	205	E-Commerce Business	100.0	
LinkShare Corporation	U.S.A.	1 U.S. dollars	E-Commerce Business	100.0 (100.0)	5
LinkShare International, LLC	U.S.A.	2,640 thousand U.S. dollars	E-Commerce Business	100.0 (100.0)	5
LinkShare Ltd.	U.K.	1 U.K. pounds	E-Commerce Business	100.0 (100.0)	5
Rakuten USA, Inc.	U.S.A.	182 U.S. dollars	E-Commerce Business	100.0	
CauseLoyalty, LLC	U.S.A.	—	E-Commerce Business	100.0 (100.0)	5
Keiba Mall, Inc.	Shinagawa-ku, Tokyo	499	E-Commerce Business	100.0	
CASAREAL, inc.	Chuo-ku, Tokyo	146	E-Commerce Business	46.7	
Rakuten Europe S.a.r.l.	Luxembourg	625 thousand EUR	E-Commerce Business	100.0	2
Taiwan Rakuten Ichiba Inc.	Taiwan	174 million NT dollars	E-Commerce Business	51.0	2
Net's Partners Co., Ltd.	Shibuya-ku, Tokyo	425	E-Commerce Business	53.2	
Rakuten Credit, Inc.	Shinagawa-ku, Tokyo	4,450	Credit and Payment Business	96.5	
Rakuten KC Co., Ltd.	Fukuoka-shi, Fukuoka	3,055	Credit and Payment Business	97.1	16
Kajiyama Warehouse Co., Ltd.	Kitakyusyu-shi, Fukuoka	240	Credit and Payment Business	100.0 (100.0)	7
Rakuten Financial Solution, Inc	Shinagawa-ku, Tokyo	1,500	Credit and Payment Business	95.0	15
Target, Inc.	Shinagawa-ku, Tokyo	480	Portal and Media Business	100.0	
College Students' Portal Community, Inc.	Shinagawa-ku, Tokyo	10	Portal and Media Business	100.0	
Rakuten Research, Inc.	Shinagawa-ku, Tokyo	246	Portal and Media Business	100.0	
Cyber Brains (Shanghai) Consulting Co., Ltd.	People's Republic of China	2,763 thousand RMB	Portal and Media Business	100.0 (100.0)	6
Rakuten Shashinkan, Inc.	Shinagawa-ku, Tokyo	210	Portal and Media Business	55.0	
O-net, Inc.	Shinagawa-ku, Tokyo	1,035	Portal and Media Business	100.0	2
Rakuten Travel, Inc.	Shinagawa-ku, Tokyo	212	Travel Business	100.0	
RAKUTEN TRAVEL KOREA CO., LTD.	Republic of Korea	350 million won	Travel Business	100.0 (100.0)	8
TABIMADO CO., LTD SHANGHAI	People's Republic of China	1,000 thousand RMB	Travel Business	— [100.0]	4
Rakuten Bus Services Inc.	Shinagawa-ku, Tokyo	40	Travel Business	100.0 (100.0)	8
Rakuten Travel Guam Inc.	U.S.A.	200 thousand U.S. dollars	Travel Business	100.0 (100.0)	8
Rakuten Securities, Inc.	Shinagawa-ku, Tokyo	7,445	Securities Business	100.0 (100.0)	9
Rakuten Securities Holdings, Inc.	Minato-ku, Tokyo	1,000	Securities Business	100.0	
Rakuten Asset Management Co., Ltd.	Minato-ku, Tokyo	10	Securities Business	100.0 (100.0)	9
Rakuten Strategic Partners, Inc.	Minato-ku, Tokyo	50	Securities Business	100.0 (100.0)	9
Rakuten Realty Management Co., Ltd.	Shinagawa-ku, Tokyo	200	Securities Business	100.0	
Rakuten Investment Management, Inc.	Minato-ku, Tokyo	150	Securities Business	100.0 (100.0)	9
Polestar Asset Management, Inc.	Chuo-ku, Tokyo	50	Securities Business	100.0 (100.0)	2, 9

Name	Location	Capital or investment (Millions of yen)	Type of business	Voting rights or ownership (%)	Note
. Commodity, Inc.	Shibuya-ku, Tokyo	1,899	Securities Business	56.7 (56.7)	9
Rakuten Mortgage Co., Ltd.	Shinagawa-ku, Tokyo	500	Securities Business	100.0	
Rakuten Financial Frontier Investment Limited Partnership	—	2,340	Securities Business	—	
Rakuten Baseball, Inc.	Sendai-shi, Miyagi	400	Professional Sports Business	100.0	
Rakuten Sports Properties, Inc.	Sendai-shi, Miyagi	150	Professional Sports Business	100.0 (100.0)	10
FUSION COMMUNICATIONS CORPORATION	Chiyoda-ku, Tokyo	10,955	Telecommunication Business	73.5	14, 16
Fusion Network Services Corporation	Chiyoda-ku, Tokyo	40	Telecommunication Business	100.0 (100.0)	11
TTNet Service Company, Incorporated	Chiyoda-ku, Tokyo	10	Telecommunication Business	100.0 (100.0)	11
Rakuten Business Service, Inc	Shinagawa-ku, Tokyo	25		100.0	
Rakuten Sociobusiness, Inc	Sendai-shi, Miyagi	10		100.0	
Equity-method Affiliates					
LinkShare Japan K.K.	Chiyoda-ku, Tokyo	10	E-Commerce Business	50.0 (50.0)	12
OKWave	Shibuya-ku, Tokyo	964	E-Commerce Business	18.6	13
SHOWTIME, Inc.	Minato-ku, Tokyo	480	Portal and Media Business	50.0	
Rakuten & Fast Mobile Search Inc.	Shinagawa-ku, Tokyo	400	Portal and Media Business	50.0	
Drecom Co., Ltd	Shinjuku-ku, Tokyo	1,038	Portal and Media Business	20.0	2, 13
WORLD TRAVEL SYSTEMS INC.	Shinjuku-ku, Tokyo	110	Travel Business	20.0	
Rakuten ANA Travel Online Co., Ltd.	Shinagawa-ku, Tokyo	90	Travel Business	50.0	
TRAFFIC GATE, LTD.	Minato-ku, Tokyo	217		45.9	
TECHMATRIX CORPORATION	Minato-ku, Tokyo	1,298		31.4	13
NEXT Co., Ltd.	Chuo-ku, Tokyo	1,982		16.9	13

- Notes:**
1. Business segments are used to indicate the type of business.
 2. The company became a group member during the fiscal year ended December 31, 2008.
 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 square brackets.
 5. LinkShare Corporation and CauseLoyalty, LLC are subsidiaries of Rakuten USA, Inc. In addition, LinkShare International, LLC is a subsidiary of LinkShare Corporation, and LinkShare Ltd. is a subsidiary of LinkShare International, LLC.
 6. Cyber Brains (Shanghai) Consulting Co., Ltd. is a subsidiary of Rakuten Research, Inc.
 7. Warehouse Co., Ltd., is a subsidiary of Rakuten KC Co., Ltd.
 8. RAKUTEN TRAVEL KOREA CO., LTD., Rakuten Bus Services Inc. and Rakuten Travel Guam, Inc. are subsidiaries of Rakuten Travel, Inc.
 9. Rakuten Securities, Inc., Rakuten Asset Management Co., Ltd., Rakuten Strategic Partners Co., Ltd., Rakuten Investment Trust Co., Ltd., Commodity, Inc. and Polestar Asset Management, Inc. are subsidiaries of Rakuten Securities Holdings, Inc.
 10. Rakuten Sports Properties, Inc. is a subsidiary of Rakuten Baseball, Inc.
 11. Fusion Network Services Corp. and TTNNet Service Company, Incorporated are subsidiaries of FUSION COMMUNICATIONS CORPORATION.
 12. LinkShare Japan K.K. is an equity-method affiliate of LinkShare International, LLC.
 13. Denotes companies required to submit financial reports and securities registration statements according to Japanese securities and exchange legislation.
 14. This is a special-purpose company.
 15. The company's liabilities exceed its assets by 4,307 million yen.
 16. Net sales of Rakuten KC Co., Ltd. and FUSION COMMUNICATIONS CORPORATION (excluding internal sales between consolidated subsidiaries) account for over 10% of consolidated net sales.

Corporate Information

Company Overview

Name	Rakuten, Inc.
Founded	February 7, 1997
Service Launched	May 1, 1997
IPO	April 19, 2000
Capital	107,534 million yen (As of December 31, 2008)
Employees	4,874 (Consolidated) 2,081 (Non-consolidated) (As of December 31, 2008)
Headquarters	Shinagawa Seaside Rakuten Tower, 4-12-3 Higashishinagawa, Shinagawa-ku, Tokyo 140-0002, Japan

Corporate History

1998	Hiroshi Mikitani founds MDM, Inc., the predecessor of Rakuten, Inc. Rakuten Ichiba, the Internet shopping mall, commences operation.
1999	MDM, Inc. renamed to Rakuten, Inc.
2000	Rakuten, Inc. goes public through an IPO on the JASDAQ market. Rakuten Books is founded as a joint venture with Nippon Shuppan Hanbai Inc. Infoseek Japan K.K. is acquired by Rakuten, Inc. to create a portal service.
2001	Rakuten Travel starts on online hotel reservation services.
2003	MyTrip.net is acquired by Rakuten, Inc. to spearhead the travel business; later merged with Rakuten Travel, Inc. in 2004. Rakuten, Inc. acquires 96.7% of shares in DLJdirect SFG Securities to create the current Rakuten Securities, Inc.
2004	Rakuten, Inc. acquires 96.5% of shares in Aozora Card; the company is later renamed Rakuten Credit, Inc. Rakuten Baseball, Inc. is founded to start a professional sports business.
2005	Rakuten, Inc. acquires 100% of shares in Linkshare Corporation (also current name) to spearhead overseas push. Rakuten Auction, Inc. is founded as a joint venture with NTT Docomo, Inc. Kokunai Shinpan Co., Ltd. is included in the consolidation as a subsidiary of Rakuten Inc. to create the current Rakuten KC.
2006	Rakuten KC transfers its credit business to Orient Corporation to streamline its business.
2007	Rakuten, Inc. acquires 73.5% of the shares in Fusion Communications to commence IP telephony business. Rakuten, Inc. and President Chain Store sign a joint venture agreement to start a Taiwan-based internet shopping mall business: Rakuten Ichiba Taiwan. Rakuten Books is integrated into Rakuten Ichiba to improve business efficiency.
2008	Rakuten Logistics is founded to commence new logistics business. Rakuten, Inc. signs an MOU with eBANK Corporation regarding a strategic and capital alliance.

Board of Directors and Corporate Auditors (As of March 27, 2009)

Chief Executive Officer and Chairman of the Board	Hiroshi Mikitani	E-Commerce Business Unit (BU), Securities and Investment BU, Credit and Payment BU
Deputy President and Director	Atsushi Kunishige	Banking BU
Senior Executive Officer and Director	Masatada Kobayashi	Sub-head of E-Commerce BU
	Toru Shimada	Advertising BU, Telephony BU, Professional Sports BU, Group Marketing Department
	Akio Sugihara	Development Department
	Hisashi Suzuki	Content BU, Package and Entertainment BU
	Ken Takayama	Finance Department
	Kazunori Takeda	Business Directorate Department
	Takao Toshishige	Content BU
	Hiroaki Yasutake	Sub-head of Development Department
Executive Officer and Director	Yoshiaki Ohnishi	Corporate Planning Department
Director	Kouichi Kusano	
	Hiroshi Fukino	
	Tatsumi Yoda	
Corporate Auditor	Tanekiyo Kunitake	
	Kouji Hata	
	Takeo Hirata	
	Katsuyuki Yamaguchi	

Note: Mr.Kusano, Mr.Yoda and Mr.Fukino are outside corporate directors stipulated in Paragraph 15, Article 2 of the Corporation Law of Japan. Mr. Kunitake, Mr. Hata, Mr. Hirata and Mr. Yamaguchi are outside corporate auditors stipulated in Paragraph 16, Article 2 of the Corporation Law of Japan.

Stock Information

Stock Code	4755 (JASDAQ)
Fiscal Year	January 1 to December 31
Month of Annual General Shareholders' Meeting	March
Shareholder Record Date	December 31
Transfer Agent	The Sumitomo Trust & Banking Co., Ltd.
Contact	The Sumitomo Trust & Banking Co., Ltd. Stock Transfer Agency Department 1-10 Nikko-cho, Fuchu-shi, Tokyo 183-8701, Japan

Number of Shares and Shareholders (As of December 31, 2008)

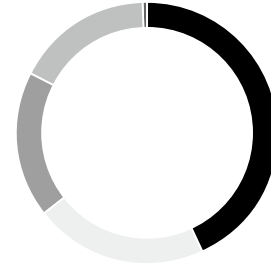
Number of shares authorized	39,418,000 (common stock)
Total number of shares issued	13,087,064 (common stock)
Number of shareholders	107,760

Main Shareholders (As of December 31, 2008)

Name	Number of shares	Percentage held
Crimson Group, Inc.	2,264,190	17.30
Hiroshi Mikitani	2,171,722	16.59
Haruko Mikitani	1,458,750	11.15
The Master Trust Bank of Japan, Ltd. (Trust Account)	813,889	6.22
Japan Trustee Services Bank, Ltd. (Trust Account)	482,411	3.69
Masuda and Partners Inc.	474,910	3.63
Japan Trustee Services Bank, Ltd. (Trust Account 4G)	260,902	1.99
Shinnosuke Honjo	193,842	1.48
Trust & Custody Services Bank, Ltd. (Trust Account Y)	123,043	0.94
Bank of New York GCM Client Account JPRD ISG FE-AC	121,977	0.93

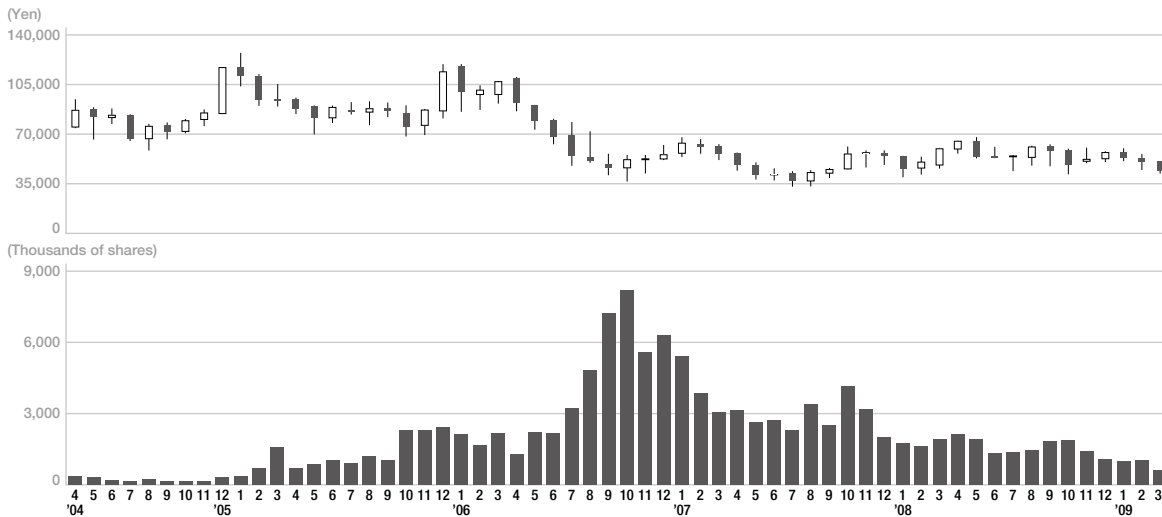
Classification by Type of Shareholder

(As of December 31, 2008)



■ Individuals	43.29%
■ Other domestic corporations	21.38%
■ Foreign financial institutions and individuals	17.92%
■ Domestic financial institutions	16.88%
■ Securities firms and others	0.51%

Monthly Stock Price Range (Tokyo Stock Exchange)



Inquiry

Investor Relations, Rakuten, Inc.

Tel +81-3-6387-0555

URL <http://www.rakuten.co.jp/info/ir/english>



Annual Report | Fiscal Year Ended December 31, 2008

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