Rakuten, Inc. and Consolidated Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2008 and 2007

Consolidated Balance Sheets
December 31, 2008 and 2007

ASSETS	Millions of Yen 2008	Millions of Yen 2007	Thousands of U.S. Dollars (Note 1) 2008
CURRENT ASSETS:			
Cash and deposits (Note 4)	¥ 88,588	¥ 57,437	$ 973,174
Notes and accounts receivable – trade	32,241	27,904	354,180
Accounts receivable – installment (Note 4)	93,631	70,739	1,028,576
Accounts receivable – installment sales - credit guarantee (Note 6)	3,551	4,497	39,005
Beneficial interests in securitized assets (Note 5)	101,572	110,144	1,115,810
Cash segregated as deposits for securities business	214,892	230,641	2,360,671
Margin transaction assets for securities business	81,154	188,704	891,506
Short-term guarantee deposits for securities business	11,430	8,731	125,558
Operating loans (Note 4, 5)	188,696	158,964	2,072,899
Short-term investment securities (Note18)	2,629	26,380	28,883
Deferred tax assets	12,829	15,635	140,935
Other	55,127	47,872	605,595
Allowance for doubtful accounts	(36,073)	(44,447)	(396,278)
Total current assets	¥ 850,267	¥ 903,201	$ 9,340,514
NONCURRENT ASSETS:			
Property, plant and equipment	21,115	24,027	231,956
Intangible assets			
Goodwill (Note 7)	65,083	64,466	714,965
Other	28,230	28,944	310,116
Total intangible assets	93,313	93,410	1,025,081
NVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4, 14)	82,846	104,070	910,096
Deferred tax assets (Note 18)	15,510	18,713	170,388
Other	29,295	20,609	321,806
Allowance for doubtful accounts	(5,408)	(5,107)	(59,408)
Investments and other assets	122,243	138,285	1,342,882
Total noncurrent assets	236,671	255,722	2,599,919
Total Assets	¥ 1,086,938	¥ 1,158,923	$ 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 prevailing of exchange at December 31, 2008
See notes to consolidated financial statements.

Rakuten, Inc. and Consolidated Subsidiaries

Consolidated Balance Sheets
December 31, 2008 and 2007

LIABILITIES AND NET ASSETS	Millions of Yen 2008	Millions of Yen 2007	Thousands of U.S. Dollars (Note 1) 2008
CURRENT LIABILITIES:			
Short-term debts (Note 3)	¥ 156,150	¥ 140,475	$ 1,715,373
Current portion of long-term debts (Note 3)	134,156	96,600	1,473,761
Notes and accounts payable – trade (Note 4)	20,210	16,668	222,010
Accounts payable - credit guarantee (Note 6)	3,551	4,497	39,005
Advances received	33,282	23,177	365,619
Income taxes payable (Note 18)	10,697	17,075	117,512
Deposits received for securities business	142,609	148,316	1,566,615
Margin transaction liabilities for securities business (Note 4)	53,539	101,688	588,145
Guarantee deposits received for securities business	88,749	104,929	974,942
Collateralized guarantee borrowings for securities business (Note 4)	4,607	40,666	50,613
Provision (Note 6)	13,452	7,144	147,780
Other (Note 4)	41,854	49,207	459,762
Total current liabilities	¥ 702,856	¥ 750,442	$ 7,721,137
NONCURRENT LIABILITIES:			
Long-term debts (Note 3, 4)	¥ 197,081	¥ 183,404	$ 2,165,013
Provision for loss on interest repayments	15,365	20,075	168,789
Deferred tax liabilities (Note 18)	8,266	5,838	90,808
Other provision	375	212	4,118
Other	1,051	1,209	11,542
Total noncurrent liabilities	222,138	210,738	2,440,270
RESERVES UNDER THE SPECIAL LAWS			
Reserve for financial instrument transaction liabilities	3,206	3,920	35,221
Reserve for commodities transaction liabilities	11	—	123
Reserves under the special laws	3,217	3,920	35,344
Total liabilities	928,211	965,100	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	107,536	107,454	1,181,312
Capital surplus	119,565	119,484	1,313,473
Retained earnings	(76,409)	(20,123)	(839,378)
Treasury stock—at cost, 979.50 shares in 2008 and 977.3 shares in 2007	(11)	(11)	(122)
Total shareholders' equity	150,681	206,804	1,655,285
VALUATION AND TRANSLATION ADJUSTMENTS			
Valuation difference on available - for - sale securities	656	(21,077)	7,204
Deferred gains or losses on hedges	(336)	27	(3,687)
Foreign currency translation adjustments	(1,298)	81	(14,256)
Total valuation and translation adjustment	(978)	(20,969)	(10,739)
SUBSCRIPTION RIGHTS TO SHARES	243	128	2,673
MINORITY INTERESTS	8,781	7,860	96,463
Total net assets	158,727	193,824	1,743,682
TOTAL LIABILITIES AND NET ASSETS	¥1,086,938	¥1,158,923	$ 11,940,433

Rakuten, Inc. and Consolidated Subsidiaries

Consolidated Statements of Income
Years Ended December 31, 2008 and 2007

	Millions of Yen 2008	Millions of Yen 2007	Thousands of U.S. Dollars (Note 1) 2008
NET SALES	¥ 249,883	¥ 213,938	$ 2,745,065
COST OF SALES	55,347	39,480	608,004
Gross profit	194,536	174,458	2,137,061
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 8)	147,385	174,339	1,619,086
Operating income	47,151	119	517,975
OTHER INCOME (EXPENSES):			
Interest income	¥171	¥274	$1,877
Dividend income	867	1,707	9,527
Gain on sales of investment securities	—	1,764	—
Foreign exchange (loss) gain	(68)	259	(752)
Equity in (losses) earnings of affiliates	(116)	1,047	(1,277)
Interest expenses	(2,224)	(1,505)	(24,430)
Commission fee	(1,244)	(670)	(13,668)
Gain on sales of noncurrent assets (Note 9)	121	1,085	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	31	598	339
Reversal of provision for loss on business liquidation	185	40	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	(1,855)	(1,426)	(20,383)
Office relocation expenses	(691)	(304)	(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	(67,177)	(322)	(737,964)
Impairment loss (Note 10)	(5,418)	(750)	(59,517)
Other — net	(1,077)	(1,615)	(11,827)
Other (expenses) income — net	(82,140)	50,554	(902,347)
(LOSS) INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	(34,989)	50,673	(384,372)
INCOME TAXES (Note 18)			
Income taxes - current	15,695	20,942	172, 417
Income taxes - deferred	4,911	(5,971)	53,951
Income taxes	20,606	14,971	226,368
MINORITY INTERESTS IN LOSS	(617)	(1,197)	(6,788)
NET (LOSS) INCOME	¥ (54,978)	¥ 36,899	$ (603,952)

See notes to consolidated financial statements.

Rakuten, Inc. and Consolidated Subsidiaries

Consolidated Statements of Changes in Net Assets
Year Ended December 31, 2008

As of	Millions of Yen Dec. 31, 2007	Changes in fiscal year 2008: Issuance of capital stock	Cash dividends paid	Net loss	Changes in the scope of consolida tion	Purchase of treasury stock	Net changes in items other than those in shareholders' equity	Total of changes in fiscal 2008	Dec. 31, 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 (Note 1)	$2,129,227	$1,780	$ (14,364)	$ (603,952)	$ (6)	$ (1)	$230,996	$ (385,547)	$1,743,680

See notes to consolidated financial statements.

Rakuten, Inc. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2008 and 2007

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

See notes to consolidated financial statements.

Rakuten, Inc. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Net cash (used in) provided by operating activities - (Brought forward)	¥ (13,467)	¥ 42,967	$ (147,938)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES:			
Payments into time deposits	(9,296)	(4,058)	(102,121)
Proceeds from withdrawal of time deposits	3,873	3,339	42,546
Proceeds from sales and redemption of securities	—	3,618	—
Purchase of investment securities	(21,071)	(8,650)	(231,472)
Proceeds from sales of investment securities	17	65,102	184
Proceeds from redemption of investment securities	170	3,416	1,869
Proceeds from sales of affiliates securities	—	3,225	—
Purchase of investments in subsidiaries	(404)	(654)	(4,443)
Purchases of investments in subsidiaries resulting in change in scope of consolidation	(537)	(712)	(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	(3,699)	(5,259)	(40,634)
Proceeds from sales of property, plant and equipment	1,663	1,818	18,269
Purchase of intangible assets	(12,848)	(11,371)	(141,139)
Payment for lease and guarantee deposits	(257)	(999)	(2,825)
Proceeds from collection of lease and guarantee deposit	1,350	1,512	14,835
Payment of loans receivable	(102)	(441)	(1,121)
Collection of loans receivable	104	443	1,146
Proceeds from transfer of business	—	1,822	—
Other payments	(3,009)	(744)	(33,052)
Other proceeds	1,753	821	19,263
Interest and dividends income received	1,121	2,842	12,308
Net cash (used in) provided by investing activities	(40,977)	55,070	(450,144)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:			
Net increase (decrease) in short-term debt	14,605	(71,589)	160,437
Proceeds from long-term debt	156,410	40,004	1,718,224
Repayments of long-term debt	(106,499)	(83,105)	(1,169,929)
Proceeds from issuance of common stock	162	318	1,780
Proceeds from sales and leaseback	778	3,048	8,549
Repayment of lease obligations	(811)	(142)	(8,894)
Purchase of treasury stock	(0)	(0)	(1)
Interest expenses paid	(2,310)	(1,483)	(25,380)
Proceeds from minority shareholders pursuant to increase in capital	623	329	6,840
Proceeds from stock issuance to minority shareholders	1,030	40	11,315
Repayments of stock issuance to minority shareholders	—	(85)	—
Cash dividends paid	(1,299)	(648)	(14,272)
Cash dividends paid to minority shareholders	(292)	(315)	(3,209)
Net cash provided by (used in) financing activities	62,397	(113,628)	685,460
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(865)	232	(9,512)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,088	(15,358)	77,866
CASH AND CASH EQUIVALENTS	¥73,861	¥89,219	$811,388
EFFECT OF CHANGE OF THE SCOPE OF CONSOLODATION ON CASH AND CASH EQUIVALENTS	335	—	3,682
CASH AND CASH EQUIVALENTS (Note 1)	¥81,284	¥73,861	$892,936

See notes to consolidated financial statements.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥91.03 to $1, the approximate rate of exchange at December 31, 2008. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Consolidation—***The consolidated financial statements as of December 31, 2008 include the accounts of the Company and its 46 (unchanged since 2007) significant subsidiaries (together, the "Group"). Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

Investments in 10 (13 in 2007) affiliates are accounted for by the equity method. Those companies over which the Group has the ability to exercise significant influence in terms of their operating and financial policies are accounted for by the equity method.

Investments in the remaining 17 (8 in 2007) non-consolidated subsidiaries and affiliates are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

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

b. Cash and Cash Equivalents—Cash and cash equivalents as stated in the consolidated statements of cash flows consist of cash on hand, securities and deposits that can be converted to cash at any time, and short-term liquid investments with a maturity not exceeding three months at the time of purchase and whose value is not subject to significant fluctuation risk.

c. Securities—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings, (2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost, (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of available-for-sale securities sold is computed by the moving-average method and (4) non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

d. Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings.

e. Intangible Assets—Amortization on intangible assets is computed by the straight-line method. Software for internal use is amortized by the straight-line method over its estimated useful life (generally five years). Patents are amortized by the straight-line method over seven years.

f. Leases—For leased assets acquired before the Japanese accounting standards for leases changed, finance leases that deem to transfer ownership of the leased assets to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.
Assets leased in finance leases that transfer ownership of the leased assets are depreciated using the same method that is applied to fixed assets. Assets leased in finance leases that do not transfer ownership of the leased assets are depreciated by the straight-line depreciation method over the estimated useful lives of the each asset, which is deemed to be the lease period, with zero residual value.

g. Allowance for Doubtful Accounts—An allowance equal to estimated losses is established to prepare for losses from credit guarantees. The method of estimating the allowance is based on credit loss ratio for general credit, and on likelihood of collection for doubtful accounts.

h. Reserve for Points—An amount equivalent to points that are earned by customers and are expected to be used in the future is recorded for the fiscal year. Provision of allowance for points are included in advertising and promotion expenses.

i. Allowance for bonus—At the company and certain consolidated subsidiaries, an allowance for bonus is provided for the estimated amounts to be paid in the subsequent period based on the service provided during the current year.

j. Provision for Loss on Business Liquidation—At the company and certain consolidated subsidiaries, a reserve for loss on business liquidation, merger and abolishment were recorded based on an estimate of future expenses.

k. Allowance for Retirement Benefits—At certain consolidated subsidiaries, an allowance is made for employees' retirement benefits based on the estimated benefit obligation at the fiscal year-end. Actuarial differences are recorded from the following fiscal year by a the straight-line method using a fixed number of years (10 years) within the average remaining service period of employees.

l. Allowance for Loss on Interest Repayments—Rakuten KC has calculated and recorded an allowance for losses on interest repayments based on factors such as the actual ratio of repayments made and average amount of repayments over the reasonable estimate period. The expected loss of ¥14,069 million for write-offs of principals by interest repayment claims was included in the allowance for doubtful accounts.

m. Reserve for Financial Instrument Transaction Liabilities—At a certain consolidated subsidiary, provision is made for possible loss resulting from securities transaction accidents. The amount of the reserve is provided based on Article 175 of the Cabinet Order Concerning Transactions in Financial Instruments, which is based on the provisions of Article 46-5 of the Financial Instruments and Exchange Law. Amount of statutory reserve for security brokerage business based on Article 35 of the former Cabinet Office Ordinance Concerning Securities Companies as stipulated by Article 51 of the former Securities and Exchange Law in 2007 is included here.

n. Reserve for Liabilities on Transaction in Commodities—A certain consolidated subsidiary allocate the amounts stipulated in the Commodity Exchange Law to provide for losses resulting from contingencies relating to commodity transactions, in accordance with the provisions of Article 221 of the Commodity Exchange Law.

o. Derivatives and Hedging Accounting

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

Interest rate swaps and interest rate caps are used to establish hedges for exposure to interest rate volatility risk associated with borrowings. Hedged items are identified by each individual contract. Foreign exchange volatility risks associated with foreign currency-denominated receivables and payables relating to business transactions are, in accordance with certain company rules, managed by using currency forward agreements to reduce foreign currency exchange risks in actual demand of securities transactions.

Hedge accounting:
For interest rate swaps and some interest rate caps, deferred hedge accounting has been adopted. However, a special method is used for interest rate swaps which meet certain conditions. The appropriation method has been adopted for foreign currency-denominated receivables and payables.

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

Method for evaluating effectiveness of hedging activities:
For interest rate swaps and interest rate caps, the company compares the cumulative changes in cash flows of the hedged items and hedging instruments every six months. The effectiveness of the hedge is determined based on the cumulative changes of the hedged items and instruments, along with other items. However, this evaluation is not performed for interest rate swaps that use special methods.
For currency forward agreements, the effectiveness is determined by the currency, amount and settlement date of the hedged item based on the company management data.

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

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

r. ***Foreign Currency Transactions—***All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

t. ***Foreign Currency Financial Statements—*** The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the exchange rate as of the balance sheet date except for net assets, which is translated at the historical rate. Revenue and expense accounts of consolidated foreign subsidiaries are also translated into Japanese yen at the exchange rate of balance sheet date.

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

u. ***Income Taxes—***The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

3. SHORT-TERM AND LONG-TERM DEBT

Short-term debt at December 31, 2008 and 2007 consisted of notes to banks, bank overdrafts, and commercial paper and lease obligations. Short-term and long-term debt at December 31, 2008 and 2007 consisted of the following:

Corporate bonds

	Millions of Yen	
	2008	2007
Rakuten, Inc. (due 2010 with interest rate of 1.32%)	¥ 6,000	¥10,000
Rakuten Credit, Inc. (due 2010 with interest rate of 1.75%)	2,010	3,000
Rakuten, Inc. (due 2012 with interest rate of 1.68%)	10,000	—
Total	18,010	13,000

Annual maturities of corporate bonds at December 31, 2008 were as follows:

Year Ending December 31	2008 Millions of Yen
2009	¥ 4,990
2010	5,020
2011	4,000
2012	4,000
Total	¥18,010

Borrowing and others

	Millions of Yen	
	2008	2007
Short-term bank loans	¥ 142,150	¥ 134,175
Long-term bank loans, due within one year	128,185	91,023
Long-term bank loans, due after one year	181,065	173,072
Other debt with interest		
Commercial paper	14,000	6,300
Margin transaction liabilities	25,251	84,410
Lease obligation, due within one year	981	587
Lease obligation, due after one year	2,996	2,321
Total	¥ 494,628	¥ 491,888

Weighted average interest rates of loans as of December 31, 2008 and 2007are follows:

	2008	2007
Short-term bank loans	1.76%	1.80%
Long-term bank loans, due within one year	2.15%	2.15%
Long-term bank loans, due after one year	1.94%	2.04%
Commercial paper	2.39%	1.44%
Margin transaction liabilities	1.11%	1.11%
Lease obligation, due within one year	—	3.21%
Lease obligation, due after one year	—	3.21%

Annual maturities of corporate bank loans and lease obligations at December 31, 2008 were as follows:

Year Ending December 31	2008 Millions of Yen
2010	81,456
2011	57,906
2012	29,710
2013	14,623
Total	¥183,695

Unused commitment lines for financing at December 31, 2008 and 2007 amounted to ¥23,680 million and ¥61,050 million, respectively.

4. PLEDGED ASSETS

(1)Assets pledged as collateral:

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥41,395 and ¥59,763 million and the above collateralized long-term debt at December 31, 2008 and 2007 were as follows:

	Millions of Yen	
	2008	2007
Deposits	¥ 100	¥ 100
Accounts receivable - installment and operating loans	127,970	139,531
Receivable from lease contracts	169	444
Investment securities	43,771	76,974
Total	¥172,010	¥217,049

Securities in custody from customers in the amount of ¥7,967 million and ¥18,385 million were pledged as collateral for short-term bank loans at December 31, 2008 and 2007, respectively. Securities in the amount of ¥25,665 million and ¥45,470 million were pledged as collateral for short term loans and borrowings related to margin transactions at December 31, 2008 and 2007, respectively. Securities loaned were pledged as collateral for borrowings in the amount of ¥4,607 million and ¥40,666 million at December 31, 2008 and 2007, respectively.

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

	Millions of Yen	
	2008	2007
Short-term bank loans	¥ 41,395	¥ 59,764
Long-term bank loans, due within one year	92,740	64,983
Borrowings related to margin transactions	25,251	84,409
Long-term bank loans, due after one year	63,205	115,739
Accrued liabilities	69	71
Accounts payable	1,445	1,780
Total	¥244,105	¥326,746

(3)Fair value of marketable securities pledged as collateral:

	Millions of Yen	
	2008	2007
Securities loaned on margin transactions	¥ 30,588	¥ 17,638
Securities pledged for loans payable for margin transactions	26,035	83,412
Securities loaned by promissory note collateralized	4,483	40,007

(4)Fair value of marketable securities received as collateral:

	Millions of Yen	
	2008	2007
Securities pledged for loans receivable for margin transactions	¥ 60,732	¥161,540
Securities borrowed on margin transactions	8,340	1,791
Substitute securities for guarantee deposits received on futures	119,187	178,143

5. LINE-OF-CREDIT AGREEMENTS

Certain subsidiaries make loans to customers who have credit card or loan card issued by subsidiaries. Unused lines of credit granted to customers amounted to ¥977,673 million and ¥873,076 million at December 31, 2008 and 2007, respectively.

6. COMMITMENTS AND CONTINGENCIES

Installment accounts receivable, guarantee contracts and accounts receivable, guarantee contracts which a consolidated subsidiary does not provide certain service for collection are not recorded in the consolidated balance sheet. Such balance as of December 31, 2008 and 2007 were as follow:

	Millions of Yen	
	2008	2007
Credit guarantee	¥33,699	¥38,505
Provision for loss on guarantees	(90)	–
Total	¥33,609	¥38,505

The Group had guarantees tor customers in the amount of ¥201 million and ¥231 million at December 31, 2008 and 2007, respectively.
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7. GOODWILL

The change in the carrying amount of goodwill for the years ended December 31, 2008 and 2007 is as follows:

	Millions of Yen
Balance at December 31, 2006	¥64,795
Goodwill acquired during the year	3,423
Amortization	(3,752)
Balance at December 31, 2007	64,466
Goodwill acquired during the year	5,680
Amortization	(3,931)
Impairment	(1,132)
Balance at December 31, 2008	¥65,083

Goodwill acquired during fiscal 2007 mainly consisted of goodwill related to the acquisition of Fusion Communications Corp, and additional shares of Rakuten Securities Holdings, Inc. Goodwill acquired during fiscal 2008 mainly consisted of goodwill related to the acquisition of additional share of O-net, Inc. Goodwill of Rakuten Research, Inc. was impaired in fiscal 2008 due to the difficulty in recovery of the company's net assets based on estimated future financial performance under the current business environment.

8. SALES, GENERAL AND ADMINISTRATIVE EXPENSES

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

	Millions of Yen	
	2008	2007
Advertising and promotion expenses	¥ 15,126	¥ 12.827
Personnel expenses	34.358	26,603
Depreciation	11,145	7,886
Communication and maintenance expenses	13,520	10,792
Outsourcing expenses	21,604	20,798
Credit loss	544	167
Provision of allowance for doubtful accounts	14,897	39,552
Provision of allowance for interest repayments	–	19,423
Other	36,191	36,291
Total selling, general and administrative expenses	¥ 147,385	¥ 174,339

Research and development cost in general administration expenses for the year ended December 31, 2008 and 2007 were ¥188 million and ¥76 million yen respectively.

9. GAIN/LOSS on SALES and LOSS on RETIREMENT of NONCURRENT ASSETS

The gain on sales of noncurrent assets for the year ended December 31, 2008 and 2007 are as follows:

	Millions of Yen	
	2008	2007
Building and structures	–	¥ 28
Land	¥ 121	1,005
Other	0	52
Total gain on sales of noncurrent assets	¥121	¥1,085

The loss on sales of noncurrent assets for the year ended December 31, 2008 and 2007 are as follows:

	Millions of Yen	
	2008	2007
Building and structures	¥65	¥ 26
Tool, equipment and fixtures	44	9
Software	20	–
Other	16	–
Total loss on sales of noncurrent assets	¥145	¥35

The loss on retirement of noncurrent assets for the year ended December 31, 2008 and 2007 are as follows:

	Millions of Yen	
	2008	2007
Building and structures	¥331	¥ 283
Tool, equipment and fixtures	228	377
Machinery and equipment	510	26
Software	659	586
Other	127	154
Total loss on retirement of noncurrent assets	¥1,855	¥1,426

10. IMPAIRMENT LOSSES

The Rakuten Group recorded the impairment losses in the year ended December 31, 2008 as follows.

Main assets for which impairment losses were recognized:

Company	Purpose	Type	Amount of Impairment Loss (Millions of yen)
Rakuten Financial Solution, Inc. (Tokyo Metropolitan Area)	Banking Business	Software	2,080
		Other	67
Rakuten Securities, Inc. (Kanagawa Prefecture and elsewhere)	Idle assets	Facilities, etc., building structures	141
		Leased assets	1,263
Rakuten KC Co., Ltd. (Miyazaki Prefecture and elsewhere)	Leased real estate, marina project	Land	287
		Buildings	60
Rakuten Research, Inc. (Tokyo Metropolitan Area)	—	Goodwill	1,132

(A).Asset Grouping Method

In principle, the Rakuten Group groups assets by business units. Idle assets and leased real estate are assessed separately for each property.

(B).Process Leading to Recognition of Impairment Losses

(1) Rakuten Financial Solution, Inc
An impairment loss was recorded for account system facilities that are no longer required due to the cancellation of an operational partnership contract with The Tokyo Tomin Bank, Limited in the year.

(2) Rakuten Securities, Inc.
An impairment loss was recorded for leased assets and other items that will no longer be used as a result of the relocation of offices in fiscal 2008. This relocation led to the centralization of data center operations and a decision to dispose of assets.

(3) Rakuten KC Co., Ltd.
An impairment loss was recorded to reflect a significant decline in the recoverability of assets that the company, decided to dispose with the sale of a business after a review of unprofitable operations. An impairment loss was also recorded for leased real estate vacated by tenants.

(4) Rakuten Research, Inc.
An impairment loss was recorded for goodwill, based on a judgment that the value of net assets was unlikely to recover. In view of the impact of the company's business environment on its future income and outlook.

(C).Method Used to Estimate Recoverable Amounts

Recoverable amounts are calculated by using agreed sale prices in the case of business assets on sale agreements, and the appraised values of leased real estate. The recoverable amounts of other business assets, idle assets and goodwill are deemed to be zero.

11. CASH AND CASH EQUIVALENTS

The reconciliation between the year-end balance of cash and deposits stated in the consolidated balance sheet and cash and cash equivalents stated in the consolidated statement of cash flow is as follows:

	Millions of Yen	
December 31	2008	2007
Cash and deposits	¥ 88,588	¥ 57,437
Time deposit over three months' maturity	(4,396)	(3,973)
Deposits separately kept	(4,700)	(4,700)
Deposits with restrictions	(837)	(1,284)
Securities	2,629	26,380
Cash and cash equivalents	¥ 81,284	¥ 73,861

12. LEASES

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

a. Pro forma information regarding of leased properties acquired before change of accounting standard for lease such as acquisition cost, accumulated depreciation, obligations under finance lease, depreciation expense, impairment loss interest expense and other information regarding of finance leases that do not transfer ownership of the leased assets to the lessee on an "as if capitalized" basis for the years ended December 31, 2008 and 2007 were as follows:

	Millions of Yen					
	2008					
	Building	Vehicle	Furniture and Fixtures	Machinery	Software	Total
Acquisition cost	¥12	¥21	¥8,277	¥8,264	¥1,121	¥17,695
Less: Accumulated depreciation	8	14	4,181	4,688	807	9,698
Impairment loss	–	–	–	155	–	155
Net amount	¥4	¥7	¥4,096	¥3,421	¥ 314	¥7,842

	Millions of Yen				
	2007				
	Building	Furniture and Fixtures	Machinery	Software	Total
Acquisition cost	¥21	¥12,506	¥11,825	¥1,130	¥25,482
Less: Accumulated depreciation	7	4,746	6,417	763	11,933
Impairment loss	–	–	199	–	199
Net amount	¥14	¥7,760	¥ 5,209	¥ 5,209	¥13,350

b. Obligations under finance leases:

	Millions of Yen	
	2008	2007
Due within one year	¥3,289	¥ 4,369
Due after one year	4,839	9,256
Total	¥8,128	¥13,625

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

	Millions of Yen	
	2008	2007
Depreciation expense	¥4,021	¥4,032
Deemed interest expense	273	345
Impairment loss	1,268	198
Reversal of impairment of lease assets	100	–
Lease payments	¥4,440	¥4,352

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

B. Finance Lease

a. Finance leases that result in the transfer of ownership

I. Description of leased asset
Intangible fixed asset
This is a settlement system (software) used for the Credit and Payment Business.

II. Depreciation method for leased asset
The method is as described in "Basis of Presenting Consolidated Financial Statements" under "2 Depreciation Methods for Major Depreciated Assets" of " f. Significant Accounting Policies."

b. Finance leases that do not result in the transfer of ownership

I. Description of leased asset
i. Tangible fixed asset
These consist primarily of telephone exchange equipment (tools, equipment, fixtures) used for the Credit and Payment Business, as well as a charging system and telecommunications equipment used for the Telecommunications Business.

ii. Intangible fixed asset
This consists of software.

II. Depreciation method for leased assets
The method is as described in "Basis of Presenting Consolidated Financial Statements" under "2 Depreciation Methods for Major Depreciated Assets" of " f. Significant Accounting Policies."

Obligations under operation leases:

	Millions of Yen	
	2008	2007
Due within one year	¥ 415	¥ 181
Due after one year	2,366	1,581
Total	¥2,781	¥1,762

13. LEASED ASSETS

Leased assets include furniture and fixtures and other assets which the company leases to its customers, and the values of such leased assets as of December 31, 2008and 2007 were as follows:

	Millions of Yen	
	2008	2007
Furniture and fixtures	¥ 8,733	¥ 11,055
Other	86	117
Total	8,819	11,172
Accumulated depreciation	(8,491)	(10,549)
Net leased assets	¥328	¥623

The aggregate receivables from the lessees including equipment costs, unearned income and executory costs, which were not recorded on the books of account, as of December 31, 2008 and 2007, were as follows:

	Millions of Yen	
	2008	2007
Due within one year	¥191	¥297
Due after one year	154	372
Total	¥345	¥669

Receivables from unexpired leases related to subleased items other than which listed above amount to ¥6,725 million.

Receivables lease fees, depreciation and deemed interest income as of December 31, 2008 and 2007 were as follows:

	Millions of Yen	
	2008	2007
Receivable lease fees	¥228	¥338
Depreciation	207	271
Deemed interest income	22	37

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

14. SECURITIES

The costs, unrealized gains and losses and aggregate fair values of marketable securities at December 31, 2008 and 2007 were as follows:

	Millions of Yen			
December 31, 2008	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Marketable securities classified as				
Trading	—	—	—	¥ 118
Available-for-sale				
Equity securities	¥54,946	¥2,586	¥609	56,923
Other	50	13	—	63

Note: The carryings value shown above are the amount after adjusted impairment losses. Valuation loss on investment securities of ¥66,952 million was recognized in fiscal 2008.

December 31, 2007	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Marketable securities classified as				
Available-for-sale				
Equity securities	¥122,527	¥4,496	¥28,014	¥99,009

Note: When the market price has fallen by 50% or more compared with the acquisition cost, an impairment loss is presumed to occur. If the market price has fallen by 30% or more but less than 50% compared with the acquisition cost, an impairment loss is evaluated for the amount deemed to be necessary based on an assessment of recoverability.

Available-for-sale securities for which fair value is not readily determinable as of December 31, 2008 and 2007 were as follows:

	Millions of Yen	
	2008	2007
Equity securities of unlisted corporations	¥ 24,249	¥ 3,753
Negotiable deposit	—	22,500
Open-end bond investment trust	2,629	3,879
Others	641	772

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

The face values of debt securities by contractual maturities for securities classified as available-for-sale securities at December 31, 2008 and 2007, were as follows:

	Millions of Yen	
	2008	2007
Negotiable deposits (Due within one year)	—	¥ 22,500

15. DERIVATIVES

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

Derivatives will not be used for speculative purposes. For currencies, derivatives are used to hedge exposure to the effects of foreign exchange rate volatility on foreign currency-denominated receivables and payables for the purpose of stabilizing earnings. For interest rates, derivatives are used to hedge exposure to the possibility of interest rate associated with loan increases.

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

Derivative transactions are conducted under the byelaw of consolidated subsidiaries in accordance with the Group Derivative Transaction Rules which regulates use of derivatives to be limited to actual demand and not for speculative purposes. Foreign exchange forward contracts conducted by consolidated subsidiaries are controlled by Operational Department at Rakuten, Inc. Other derivative transactions are controlled by Finance Department.

Fair value of foreign currency as of December 31, 2008 is as follow:

	Millions of Yen		
	Contract principal	Fair value	Unrealized gain (loss)
Transactions other than market transactions			
Foreign exchange forward contracts			
Sold			
U.S. Dolores	¥ 3,760	¥ 3,749	¥ 11

Foreign exchange forward contracts subject to hedge accounting are not included.
The fair value is indicated by the financial institutions that are counterparties of the transactions.

Fair value of interest rate caps as of December 31, 2007 and 2008 are as follow:

	Millions of Yen					
	2008			2007		
	Contract principal	Fair value	Unrealized gain (loss)	Contract principal	Fair value	Unrealized gain (loss)
Transactions other than market transactions						
Interest rate caps Bought	¥24	¥1	¥(23)	¥ 25	¥6	¥ (19)

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

16. RETIREMENT AND PENSION PLANS

Employees in certain consolidated subsidiaries are granted a tax-qualified pension plan and with a lump-sum retirement and pension plan.

Information concerning retirement benefit obligation:

	Millions of Yen	
	2008	2007
Projected benefit obligation	¥ 3,704	¥ 4,276
Fair value of plan assets	(2,617)	(4,155)
Unfunded retirement benefit obligation	1,087	121
Unrecognized actuarial gain (loss)	(750)	59
Net retirement benefit obligation as shown on balance sheet	337	180
Allowance for retirement benefits	¥ 337	¥ 180

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

Retirement benefit expenses:

	Millions of Yen	
	2008	2007
Service cost	¥ 194	¥ 242
Interest cost	83	91
Expected return on plan assets	(75)	(89)
Amortization of actuarial gain (loss)	78	41
Total retirement benefit expenses	¥ 280	¥ 285

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

Basis for calculating retirement benefit obligations and others:
The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of employees.

	2008	2007
Discount rate	2.00%	2.00%
Expected rate of return on plan assets	2.00%	2.00%
Amortization period of actuarial gain (loss)	10 years	10 years

17. STOCK-BASED COMPENSATION PLANS

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

From 2001, in accordance with approval at shareholders' meetings, the Company has granted stock acquisition rights and stock options to directors, auditors and certain employees of the Company, subsidiaries and affiliates. These options vest about over two years to four years and expire within ten years from the date of grant. Some subsidiaries have the same type plans. For the fiscal year ended December 31, 2008, the Company didn't grant any stock options.

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

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

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

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

Grant Date	Exercisable Period	Exercise Price	Number of outstanding stock options as of Dec.31 2008
April 19, 2004	From April 20, 2006 to April 19, 2011	¥ 520,000	495
September 15, 2005	From September 19, 2007 to September 18, 2012	1,380,000	250

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

Grant Date	Exercisable Period	Exercise Price	Number of outstanding stock options as of Dec.31 2008
June 17, 2005	From June 18, 2006 to June 17, 2015	¥ 256,000	880

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

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

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

Grant Date	Exercisable Period	Exercise Price	Number of outstanding stock options as of Dec.31 2008
November 20, 2000	From November 20, 2002 to November 20, 2010	¥ 50,000	1,650
July 12, 2001	From July 12, 2001 to July 10, 2010	155,792	555
July 12, 2001	From July 12, 2001 to July 10, 2010	155,792	705
July 12, 2001	From July 12, 2001 to July 10, 2010	155,792	310
June 29, 2002	From June 29, 2004 to June 28, 2012	219,388	855
June 30, 2003	From July 1, 2005 to June 30, 2013	219,388	126

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

Grant Date	Exercisable Period	Exercise Price	Number of outstanding stock options as of Dec. 31 2008
May 30, 2001	From May 31, 2001 to May 29, 2010	¥ 16,000	2,100
May 7, 2003	From July 1, 2004 to June 30, 2011	150,000	183
May 12, 2004	From July 1, 2005 to June 30, 2012	150,000	73
June 5, 2006	From July 1, 2007 to June 30, 2014	150,000	208

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

Grant Date	Exercisable Period	Exercise Price	Number of outstanding stock options as of Dec. 31 2008
July 30, 2005	From July 28, 2007 to July 27, 2015	¥38,000	380
April 28, 2006	From April 27, 2008 to April 26, 2016	38,000	120

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

Grant Date	Exercisable Period	Exercise Price	Number of outstanding stock options as of Dec.31 2008
July 1, 2005	From July 1, 2007 to May 31, 2015	¥50,000	480
July 1, 2006	From July 1, 2008 to May 31, 2018	50,000	280

18. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41% for the years ended December 31, 2008 and 2007.
The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at December 31, 2008 and 2007 are as follows:

	Millions of Yen	
	2008	2007
Deferred tax assets:		
Tax loss carryforwards	¥ 29,569	¥ 33,890
Excess of depreciation	2,395	1,727
Loss on valuation of investment securities	18,830	—
Excess of allowance for doubtful accounts	7,298	12,310
Reserve for points	2,896	2,338
Impairment loss	1,317	1,369
Allowance for loss on interest repayment	6,223	8,130
Reserve for financial instrument transaction liabilities	1,305	1,595
Other	7,039	7,652
Less valuation allowance	(47,109)	(33,038)
Total	29,763	35,973
Deferred tax liabilities:		
Tax-deductible loss due to transfer of shares	¥ 8,465	¥ 8,465
Valuation difference on available - for - sale	1,074	—
Other	242	116
Total	9,781	27,392
Net deferred tax assets	¥ 19,982	¥ 27,392

Reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the year ended December 31,2007 is as follows. And this fiscal year ended December 31, 2008 resulted in loss before income taxes and minority interests, so tax rates are not shown here:

	2007
Effective statutory tax rate	41.00%
Expenses not deductible for income tax purposes	0.33
Tax benefits on liquidation of subsidiary	(17.83)
Valuation allowance	26.82
Amortization of goodwill	2.80
Unrealized loss	(14.70)
Other — net	(8.88)
Actual effective tax rate	29.54%

19. SEGMENT INFORMATION

The Company operates in the following industries:

The E-Commerce Business segment consists mainly of Rakuten Ichiba (Including Package Media, Media Rental), managed by Rakuten, Inc.: Rakuten Auction, Inc., and LinkShare Corporation. The business focuses on operating and providing services for websites related to retailing and other forms of e-commerce, as well as for entertainment-related websites. And this fiscal year we started Rakuten Ichiba Taiwan as a first step of overseas development and International Shipping Service.

The Credit and Payment Business segment consists mainly of Rakuten Credit, Inc.: Rakuten KC Co., Ltd. and Rakuten Financial Solution, Inc. The business is primarily concerned with the consumer credit card business and consumer loan businesses, and provides banking services through alliance with Tokyo Tomin Bank. However, we dissolved alliance with Tokyo Tomin Bank February 23, 2009.

The Portal and Media Business segment consists mainly of Infoseek, a portal site managed by Rakuten, Inc. Rakuten Research, Inc., and College Students' Portal Community, Inc. The segment focuses on the operation of Internet portal sites and community networking sites, as well as Internet market research and distribution of broadband content. And this fiscal year O-net is consolidated from the third quarter.

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

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

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

The Telecommunication segment consists of Fusion Communications Corp. and its subsidiaries and affiliates. The business provides IP network services, IP telephony and other services. The segment is established in 2007 as expansion of telecommunication businesses through the acquisition of Fusion Communication Corp.

(1) Industry Segments

a. Sales and Operating Income

Millions of Yen — 2008

	E-Commerce Business	Credit and Payment Business	Portal and Media Business	Travel Business	Securities Business	Professional Sports Business	Tele-communications	Total	Corporate & Internal Eliminations	Consoli-dated
Sales to customers	¥91,073	¥65,911	¥ 9,681	¥16,199	¥24,807	¥7,963	¥34,249	¥249,883	—	¥249,883
Intersegment sales	1,310	844	5,615	351	1	472	4	8,596	¥(8,596)	—
Total sales	92,383	66,755	15,296	16,550	24,808	8,435	34,253	258,479	(8,596)	249,883
Operating expenses	66,316	56,052	15,501	9,087	20,951	9,247	33,819	210,972	(8,240)	202,732
Operating income (loss)	¥26,067	¥10,703	¥ (205)	¥7,463	¥ 3,857	¥ (812)	¥ 434	¥ 47,507	¥ (356)	¥ 47,151

Note: **Accounting for Advertising Revenues**

In the past, if the advertising services sold by the Portal and Media (PM) Business was sold to end users through another business segment (selling segment), it was treated as internal (inter-segment) sales in the PM business, and as external sales in the selling segment. Under a new system introduced in the year, external sales are now divided into amounts equivalent to the price of advertising media and the sales margin, and these amounts are shown as external sales of the PM business and the selling segment respectively. Transactions are no longer treated as inter-segment sales under this system.

Inter-segment costs corresponding to the sales of the PM business and the selling segment were previously recognized. Following this change of accounting method for sales, it is no longer necessary to recognize these amounts.

This change was implemented as a part of improvements designed to strengthen the income management structure. Its purpose is to clarify the role of each segment in advertising sales and its contribution to net sales.

This change caused a ¥1,088 million increase in the external advertising sales of the PM business, a ¥1,801 million reduction in internal (inter-segment) sales and transfers, and a ¥712 million reduction in inter-segment operating expenses. However, there was no effect on the operating income of each segment, since the external sales of selling segments decreased by ¥1,088 million and internal inter-segment sales, transfers and inter-segment operating expenses decreased by the same amounts as the external sales.

b. Total Assets, Depreciation and Capital Expenditures

Millions of Yen — 2008

	E-Commerce Business	Credit and Payment Business	Portal and Media Business	Travel Business	Securities Business	Professional Sports Business	Tele-communications	Total	Corporate & Internal Eliminations	Consoli-dated
Total assets	¥285,667	¥417,969	¥8,460	¥16,568	¥373,235	¥11,459	¥11,053	¥1,124,411	¥(37,473)	¥1,086,938
Depreciation and amortization	5,842	2,168	51	637	2,090	855	641	12,284	—	
Loss due to impairment	91	2,494	1,132	—	1,616	—	85	5,418	—	
Capital expenditures	6,037	2,282	137	662	3,883	498	851	14,350	—	14,350

a. Sales and Operating Income

Millions of Yen — 2007

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

b. Total Assets, Depreciation and Capital Expenditures

Millions of Yen — 2007

	E-Commerce Business	Credit and Payment Business	Portal and Media Business	Travel Business	Securities Business	Professional Sports Business	Tele-communications	Total	Corporate & Internal Eliminations	Consoli-dated
Total assets	¥247,928	¥383,853	¥4,481	¥10,218	¥469,824	¥12,314	¥12,331	¥1,140,949	¥(37,473)	¥1,158,923
Depreciation and amortization	4,159	1,581	557	549	632	830	215	8,523	—	8,523
Loss due to impairment	116	398	—	—	23	—	213	749	—	749
Capital expenditures	9,219	4,284	83	935	4,239	549	52	19,361	—	19,361

(2) Geographical Segments

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

(3) Sales to Foreign Customers

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

20. AMOUNTS PER SHARE

	Yen 2008	Yen 2007
Net income		
Basic	¥ (4,203.55)	¥ 2,825.95
Diluted	—	2,813.32
Cash dividends applicable to the year	100.00	100.00

	Yen 2008	Yen 2007
Net assets	¥ 11,439.86	¥ 14,212.68

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

21. RELATED PARTY TRANSACTIONS

Transactions during the years ended December 31, 2008 and 2007 with a professional football club operator, in which the Chairman and CEO owned 100% of voting shares indirectly, were as follows:

	Millions of Yen 2008	Millions of Yen 2007
Sponsor fee	¥179	¥171

Sponsor fee is determined on arm's length basis.

The balances payable due from the company at December 31, 2008 and 2007 were as follows:

	Millions of Yen 2008	Millions of Yen 2007
Sponsor fee	¥ 16	¥ 15

22. SUBSEQUENT EVENT

A. Dividend

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

	Millions of Yen
Year-end cash dividends, ¥100 per share	¥1,309

B.Significant Subsequent Event Pertaining to Business Combination

a. Outline of the merger

i Acquiree's name	eBANK Corporation
ii Business activities of the acquiree	Banking
iii Main reason for the merger	Rakuten, which has a group membership base centering on net shopping, and eBANK Corporation (eBANK), which provides advanced, high-quality payment services, agreed to form a capital and business alliance with the aim of developing products, services and providing financial services that will further enhance customer convenience. Rakuten obtained approval from the authorities to become a major shareholder of eBANK, which became a consolidated subsidiary through the conversion of eBANK preferred stocks acquired on September 29, 2008 into common stock.
iv Date of the merger	February 10, 2009
v Legal form of the merger	Acquisition of shares
vi Name of post-merger company	eBANK Corporation
vii Number of shares acquired	666,400
viii Percentage of voting rights acquired	48.7%

b. Breakdown of acquisition price

Acquisition price	Cash	¥20,001 million
Direct expenditure on the acquisition		¥76 million
Cost of the acquisition		¥20,077 million

The above amount is classified as investment securities in the financial statements for fiscal 2008. The shareholding of 666,000 shares (acquisition price: ¥19,980 million) resulted from the conversion of eBANK's preferential shares on September 29, 2008 into common stock.

c. Source of fund procurement

External borrowing, etc.

d. Amount of goodwill, source of goodwill

① Amount of goodwill	¥15,582 million
② Source of goodwill	This amount represents a reasonable estimation of the future excess earnings that eBANK can be expected to generate through the future development of its business activities.

e. Amounts and breakdowns of principal assets and liabilities taken over on the date of the merger:

i Assets

Total assets ¥813,518 million
Loans ¥1,500 million
Securities ¥676,991 million
Allowance for doubtful accounts (¥13,945 million)

ii Liabilities

Total liabilities ¥803,362 million
Deposits ¥771,809 million

C.Underwriting of Capital Increase for eBANK, a Consolidated Subsidiary

In accordance with a resolution approved by its Board of Directors on February 13, 2009, Rakuten underwrote all shares of allocation of new shares to a third party offered by eBANK, which was implemented to strengthen eBANK's capital structure and stabilize its financial base.

On March 27, 2009, preferential shares were converted into common stock. After the conversion, Rakuten's shareholding was 56.5%.

a.Number of new shares issued by eBANK:	333,000
b.Issuance price per share:	¥30,000
c.Total amount of issuance:	¥9,990 million
d.Pay-in date:	March 19, 2009
e.Source of fund procurement:	External borrowings, etc.

D.Absorption－type Split Involving Rakuten Credit, Inc.,

On February 13, 2009, Rakuten Credit, Inc. (Rakuten Credit), a consolidated subsidiary of Rakuten, Inc., and eBANK entered into an absorption-type split agreement, providing for the partial transfer of the credit card loan business of Rakuten Credit to eBANK.

a. Outline of the company split

i Name of business and business activities :	Credit card loan business operated by Rakuten Credit (including management of short-term overdue receivables, excluding management of long-term overdue receivables, and loan screening and guarantee business)
ii Date of the split :	April 1, 2009
iii Legal form of the split :	An absorption-type split where Rakuten Credit is the split company and eBANK is the successor company
iv Name of company after the split :	eBANK
v Overview of transaction, including purpose:	Rakuten, Inc. separated the credit card loan business (including management of short-term overdue receivables, excluding management of long-term overdue receivables, and the loan screening and guarantee business) with the aim of diversifying and expanding the Rakuten Group's business base by integrating the credit card loan operations of Rakuten Credit and eBANK, and utilizing the customer base, knowledge and infrastructure of Rakuten Credit in the credit card loan field.

b. Summary of accounting processes

This company split will be treated as a transaction under common control in accordance with *Accounting Standard for Business Combinations* (Business Accounting Council, October 31, 2003, revised on December 26, 2008, Accounting Standard 21), *Accounting Standard for Business Divestitures* (Business Accounting Council, December 27, 2005, revised on December 26, 2008, Accounting Standard 7), and *Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Separations* (Accounting Standards Board of Japan, December 27, 2005, final revision revised on December 26, 2008).

E.Granting of Stock Options under the Provisions of Articles 236, 238 and 239 of the Companies Act

At a meeting on January 17, 2009, the Board of Directors of Rakuten, Inc. passed a resolution for stipulating subscription conditions and providing for the subscription of parties to underwrite stock options issued under the provisions of Articles 236, 238 and 239 of the Companies Act, in accordance with a resolution of the 11th General Meeting of Shareholders held on March 27, 2008.

a. Purpose, number and type of stock options Common stock in Rakuten, Inc. 33,050

b. Issuance price Gratis

c. Total amount of issuance ¥1,860 million

d. Amount capitalized out of issuance price
The increase in capital, if the options are exercised, will be one-half of the increase in capital, etc., as calculated under the provisions of Article 40 of the Company Accounting Regulations, based on rounding up less than one year.

e. Allocation date for stock options January 19, 2009

f. Period for exercise of the option rights From March 28, 2012 to March 26, 2018