楽天

Rakuten, Inc.
Annual Report

Fiscal Year Ended December 31, 2006

2007–2017
Next Decade

Rakuten, Inc. ("Rakuten") and its consolidated subsidiaries and affiliates ("Rakuten Group") are full-line Internet services companies. Since its founding in 1997, Rakuten has spent a decade evolving its business model centered on e-commerce, to create a market completely new to Japan.

The Rakuten Group is focusing on two approaches in particular to target growth in the decade to come. The first is to empower people and society through continuous innovation and business operation based on our five core concepts of success. The second is to establish a "Rakuten eco-system" which enables us to maximize our customers' lifetime value and leverage synergies. Guided by the key phrase "more than Web," Rakuten Group is taking on the challenge of creating new value by driving convergence between the Internet and traditional "brick and mortar" businesses.

more than Web

Contents

Consolidated Financial Highlights

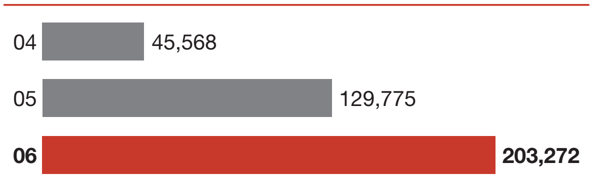
Rakuten, Inc. and Consolidated Subsidiaries

Years Ended December 31

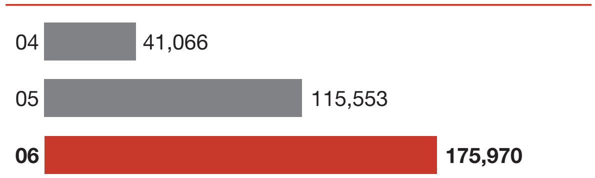
	Millions of yen			Thousands of U.S. dollars
	2004	2005	**2006**	**2006**
For the Year:				
Net Sales	¥ 45,568	¥ 129,775	**¥ 203,272**	**$ 1,708,164**
Gross Profit	41,066	115,553	**175,970**	**1,478,739**
Operating Income	15,060	34,885	**29,149**	**244,948**
Net Income (loss)	(14,271)	19,450	**2,703**	**22,711**
At Year-End:				
Total Assets	307,557	1,657,709	**1,296,063**	**10,891,285**
Total Shareholders' Equity	45,853	76,550	**–**	**–**
Total Net Assets	–	–	**203,197**	**1,707,535**
Per Share (in yen and U.S. dollars):				
Total Net Assets	¥38,814.92	¥ 6,464.58	**¥14,492.23**	**$ 121.78**
Net Income (loss):				
Basic	(12,458.37)	1,642.50	**212.03**	**1.78**
Diluted	–	1,626.19	**193.09**	**1.62**

Note: U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥119 to U.S.$1, the approximate rate of exchange at December 31, 2006.

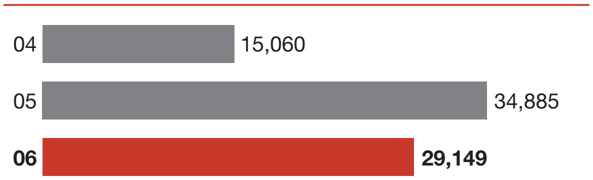
Net Sales Millions of yen



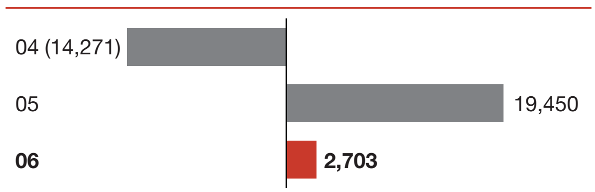
Gross Profit Millions of yen



Operating Income Millions of yen



Net Income (loss) Millions of yen



Cautionary Statement

The statements in this report with respect to 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 the information currently available to it. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those discussed in the forward-looking statements, and therefore you should not place undue reliance on them. We do not intend to update these forward-looking statements, whether as a result of new information, future events or otherwise, except as maybe required by applicable law.

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

Innovation and

Becoming the World's No. 1 Internet Service Company

Five Concepts of Success

1. Get Things Done
2. Complete Professionalism
3. Hypothesize, Execute, Verify and Incorporate
4. Maximize Customer Satisfaction
5. Speed! Speed! Speed!

Hiroshi Mikitani Chairman and CEO

Hiroshi Mikitani

Growth for the Next Decade

Let me first say how grateful I am for the support that our shareholders have given us in Rakuten Group's first decade of business. This support has been indispensable to the growth and development of the Rakuten Group. Today, we are enacting a host of new initiatives in the hopes of taking our growth during the last decade a step further.

For the Rakuten Group to sustain growth amid a rapidly changing Internet industry, and to contribute to society as a respected company, it will become increasingly vital that we promote business operations founded on the "five concepts of success" that we have insisted on since Rakuten was founded in 1997. Where growth strategies are concerned, I want us to spur further growth in what we call the "Rakuten eco-system" by strengthening strategies built around our brand and Rakuten Group memberships. We will also take steps to enhance our technologies and pursue full-scale operations overseas. The key phrase here will be "more than Web." In other words, we will move beyond the Web to take on the challenge of creating new value through convergence with traditional "bricks and mortar" businesses. We are also eyeing another decade of growth and improved corporate value by building better relationships with our wide range of stakeholders.

Q What is Rakuten’s background, and how did it become the Rakuten Group it is today?

A When Rakuten was founded in 1997, a pervasive sense of gloom had taken hold in Japan. Our vision was to “empower Japan and get moving again.” If the country was going to regain its momentum, we knew Rakuten would have to become a model for success in this new era of business.

To become an example of how to succeed in Japan’s new business era required more than a simple grassroots venture. We had to create a foundational venture, one able to move beyond the status of “new business” to become an industry.

Today, Rakuten Group has made Internet shopping and auctions commonplace; we provide portal sites, blogs, streaming video, and a host of other media content; and we facilitate new relationships between Rakuten Group users and traditional inns, hotels and other accommodation facilities. In addition, we have introduced new services to users who previously had little interest in stocks and other financial products; and through professional baseball, we have brought the Internet to people who once had no interest.

Leveraging synergies across each of these services has contributed to the success and expansion of our operations. As a result, we are proud of the leadership Rakuten Group has played in promoting the growth of the Internet in Japan.

Since Rakuten’s establishment, the Rakuten Group has sought to evolve its business model, from being solely focused on e-commerce to a company offering a full range of Internet services. In just a decade, Rakuten Group has become the Japanese leader in e-commerce and online travel businesses, is ranked second in online securities trading volume, and is the third most popular Internet portal*.

The Rakuten Group sites have a gross transaction value of more than ¥800 billion ($6.5 billion), 37 million people enjoy Rakuten Group membership services, and after just 18 months in operation, the number of Rakuten Card members has grown to more than 480,000 cardholders.

One key to our success is our membership database, the largest of its kind in Japan. We have leveraged this database to offer user ID integration, and introduce the “Rakuten Super Point” service, which is integrated with an array of services. As a result, Rakuten Group’s cross-promotion strategy maximizes the lifetime value of our customers, while enhancing synergy effects. This process has enabled Rakuten Group to establish a unique membership business that no other firm in the industry can match.

Not being satisfied with Web-only operations, Rakuten Group has also aggressively pursued more traditional “bricks and mortar” businesses. Rakuten Group has built a solid foundation for a “Rakuten eco-system” by consistently tackling new business models and charting astounding growth in the rapidly evolving Internet industry, combined with a rigorous focus on improving customer satisfaction.

There have been cases where Rakuten Group services are being used to help boost economic activity in local villages and revitalize entire regions in Japan. Activities like these have helped Rakuten grow in ways that no one could have imagined when it was founded. This type of growth is just the beginning as Rakuten Group strives to become the blueprint for success in this new era of business in Japan.

* Excluding portal sites provided by ISP.

Rakuten Ichiba

(As of March 31, 2007)
- Products: 15,807,969
- Merchants: 19,539

1. A Large Variety of Merchandise
2. Personal Customized Pages
3. Links to Other Rakuten Services
   - Online securities
   - Online travel
   - Credit cards
   - Online bookstores
   - Consumer loans
   - Portal sites

Q How do you plan to improve your corporate value?

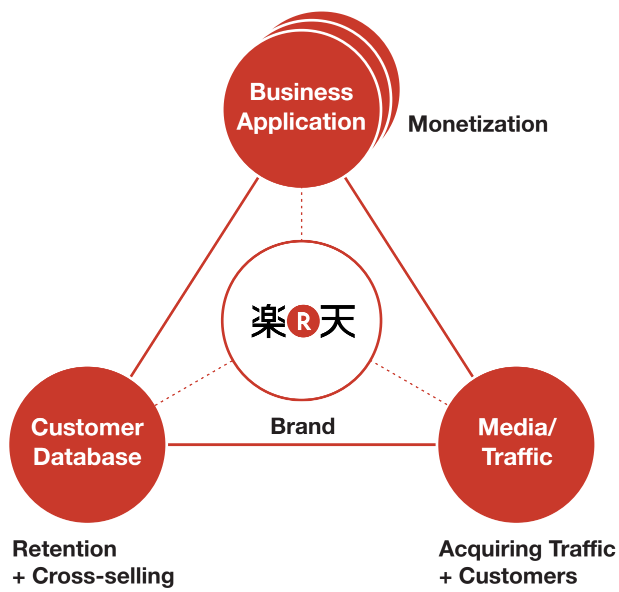
A Rakuten is enacting various measures to enhance corporate value and increase shareholder value.

The Rakuten Group gives the highest priority to strict corporate governance in order to enhance competitiveness through group-wide risk management and maximize its corporate value.

For the Rakuten Group as a whole, measures to further improve corporate governance are being taken to promote more efficient management. Doing so will forge better relationships between Rakuten Group and our stakeholders. This is considered the most important aspect to raise corporate value. While maximizing our corporate scope, returning profits to shareholders is a key concern. Our basic policy in returning profits is to consistently pay a stable dividend that is unaffected by performance in any given year. We carefully analyze a number of factors, including whether we have the retained earnings available to maintain a sound financial structure and to proactively develop our businesses. Since Rakuten was founded, The Rakuten Triangle Strategy has been implemented to achieve steady growth by synchronizing business applications, media traffic and membership activities centered on the Rakuten brand. For example, users recruited through media businesses are converted into membership programs users, where retention levels are higher. There users then become loyal users of the other business applications, leading to higher earnings. Going forward, we remain committed to growing a “Rakuten eco-system” that offers a comprehensive range of services to our clients by pursuing synergies among Rakuten Group. Ultimately, our goal is to achieve substantial ongoing growth in both shareholder and corporate value.

Among other measures to enhance corporate value, we will reconfigure our personnel strategies by upgrading our internal training systems and providing an environment in which employees can learn and grow on their own initiatives. In taking this step, we will groom talented personnel that are critical to Rakuten Group business strategies and successes.

Rakuten Triangle Strategy



Q **What business or management strategies is Rakuten Group pursuing to achieve another decade of growth?**

A **Internet services are now a part of everyday life for the average person. Here at the Rakuten Group, we are rallying behind the phrase "more than Web" by aggressively promoting our Group business strategy.**

Our basic business strategy is to develop and execute effective marketing strategies encompassing the Rakuten Group that update and expand our customer database, by pushing the development of new services. In addition to a brand image centered on services offered, we are working to establish Rakuten Group as a technology brand as well.

As part of The Rakuten Triangle Strategy that underpins Rakuten Group's business concept, we intend to enhance our business applications and service lineup based on the concept "Everything Rakuten." Next, to capture new traffic, we are supporting the public release of Web APIs, as well as multi-device compatibility with users shifting from PC-based Internet to mobile and TV-based Internet. We believe that steps like these will help us reach new users through a variety of Rakuten Group services, content, and marketing approaches, and that our influence will grow. As for membership programs, aggregating accounts between financial services will prove to be a major boost for those operations.

The Rakuten Group has achieved growth over the past decade through the pursuit of innovation. From here on, we are entering a new stage of growth in which operations will play a critical role. Examining and reviewing how we work, reducing costs, and conducting lean operations will enable Rakuten Group to spark new innovations for improving the quality of existing services and allow us to create new businesses by encouraging an entrepreneurial mindset.

To strengthen our organizational capabilities, we have adopted a Growth Management Program (GMP) as our business administration system. Through GMP, the Rakuten Group is eyeing sustainable growth going forward, as well as management decision-making that can adroitly respond to changes in the business environment. We are using a more sophisticated business portfolio strategy, which will serve as a guideline for the strategic allotment of management resources when making new investments. We have also abolished our former "internal company" structure and established a flat and highly adaptable organization consisting of 38 business units (BUs). For critical functions shared by all business units (e.g., production, financing and marketing), Functional Teams have been established that work across the BUs, sharing expertise among business operations and enhancing synergies. These are some of the ways that we ensure sound and transparent management of our diversified and expanded business operations.

Our global strategy on the technology front is to promote research and development overseas to build an operating base that will allow us to compete on a global stage. Furthermore, we plan to pursue initiatives, including personnel exchanges with overseas subsidiaries, before we begin the development of our travel business and other operations overseas.

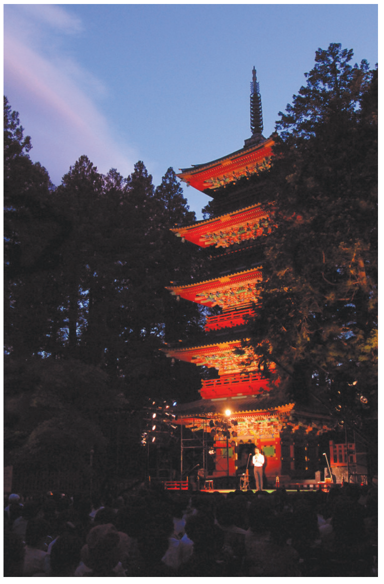
Q How does Rakuten Group view its responsibilities as a corporate citizen?

A We believe earning trust from society and stakeholders will lead to sustained growth and development of our company.

Rakuten has become a leading corporate sponsor of the "Fiscal 2007 World Heritage Theatre" produced by the World Heritage Theatre Implementation Committee (Asahi Shimbun and SAP). We are also sponsoring a "Miyagi Prefecture Disaster Prevention and Crisis Management Blog."

Rakuten Group will attempt to make a great social contribution starting in 2007. In recent years, Japan has been hit by a number of incidents involving the Internet and unauthorized leaks of personal information. At Rakuten Group, the protection of personal information gets our undivided attention. We exercise caution regarding information security in each of the Rakuten Group's services. As part of our extensive information management efforts, we have obtained Information Security Management System (ISMS) certification for our core businesses. Together with NTT DoCoMo, Inc. (NTT DoCoMo), Japan's largest mobile phone carrier, we have invested in a transaction system that incorporates both Social Network Service (SNS) and anonymous escrow services. This system makes it possible to offer an extremely safe Internet auction service that eliminates the need for direct contact between auction winners and sellers.

At Rakuten, empowering people has been a key principle since day one. We provide a system and know-how that allows small and medium-sized merchants with little knowledge of the Internet to succeed. At the same time, we seek to improve usability by upgrading and expanding functions. Greater user and customer satisfaction, in turn, will lead to the return of profits to our investors. In this way, we strive to raise our corporate value as a firm whose interests lie squarely with those of its stakeholders.



"Rakuten World Heritage": Japanese traditional music was played at a World Heritage Theater (the five-storied pagoda in Nikko's Toshogu Shrine).

1997-2007
Our First Decade

Rakuten Group

1997
- MDM, Inc. was founded.
- Rakuten Ichiba (Rakuten Internet shopping mall) service began.

1999
- MDM, Inc. was renamed Rakuten, Inc.

Rakuten Ichiba

1997
- Rakuten Ichiba (Rakuten Internet shopping mall) service began.

1998
- Rakuten Super Auction service began.
- Rakuten Greeting Card service began.

1999
- Rakuten Furima Auction (Rakuten Flea Market Auction) service began.

2000

- Rakuten, Inc. completed IPO on JASDAQ market.
- Rakuten Books was founded as a joint venture with Nippon Shuppan Hanbai Inc.
- Rakuten USA, Inc. was established.
- Rakuten, Inc. acquired Infoseek Japan, K.K.

2001

- Rakuten, Inc. made equity investment in TECHMATRIX CORPORATION.
- Rakuten, Inc. and Usen Broad Networks K.K established joint venture, SHOWTIME, Inc.

2002

- Rakuten Travel, Inc. was established.
- Rakuten, Inc. acquired Lycos Japan (merged with Infoseek in 2003).

2000

- Rakuten University opened and offered Rakuten Merchants special classes in Internet marketing and setting up and managing their online storefronts.
- Group-Buy service began.
- "Mobile Rakuten Ichiba" service began.
- Rakuten Business, an outsourcing BtoB matchmaking service, service began.

2001

- Online hotel reservations service began.
- Rakuten Books, online bookstore, service began.
- Rakuten Hiroba (currently Rakuten Blog) opened.
- Rakuten Ichiba introduced new fee plan service, Rakuten Lite, to merchants.
- Rakuten TV shopping service began.

2002

- Rakuten Delivery service began.
- Rakuten Ichiba introduced new fee plan service. New service plan combines fixed monthly fees with commission sales.
- Rakuten Ichiba launched new marketing program, Affiliate Program, offering all merchants the opportunity to market their products from beyond their own storefronts.
- Rakuten Ichiba began offering HTML-version of Rakuten Shopping Mall email newsletters to Rakuten members.
- Rakuten Ichiba began new service, Rakuten Super Point that rewards customers who shop at Ichiba. Users can use their points to bid on selected prizes.

2003
- Rakuten, Inc. acquired MyTrip.net (merged with Rakuten Travel, Inc. in 2004).
- Rakuten, Inc. acquired 96.7% of shares in DLJdirect SFG Securities (currently Rakuten Securities, Inc.).

2004
- Rakuten, Inc. acquired 100% shares of College Students' Portal Community, Inc. (*Minnano Shushoku*).
- Rakuten, Inc. acquired 99.6% of shares in Cyber Brains Consulting Co., Ltd.
- Rakuten, Inc. acquired 100% shares of Aozora Card (currently Rakuten Credit, Inc.).
- Rakuten Baseball, Inc. was founded.

2005
- Rakuten, Inc. acquired 100% of shares in LinkShare Corporation.
- Rakuten, Inc. and NTT Docomo, Inc. established joint venture, Rakuten Auction, Inc.
- Kokunai Shinpan Co., Ltd. (currently Rakuten KC) became a subsidiary of Rakuten, Inc.

2006
- Rakuten, Inc. entered into an operational tie-up with Shinsei Bank, Limited and The Tokyo Tomin Bank, Limited.
- Rakuten KC transferred its credit business to Orient Corporation.

2003
- Mobile Rakuten Ichiba introduced photos of products to mobile shoppers.
- Rakuten Ichiba began redemption service for Rakuten Super Point holders for purchases made at Rakuten Ichiba.
- Rakuten Affiliate Program was upgraded.

2004
- Rakuten, Inc. launched Rakuten Card, credit card services, allianced with Sumitomo Mitsui Card Company, Limited.
- Rakuten Ichiba introduced new fee plan, Rakuten Premium Lite, to merchants.

2005
- Rakuten Card (Inhouse credit card, provided by Rakuten KC) was introduced.

2006
- Free magazine "Rakuten magazine" was launched.
- Rakuten Auction service began.
- Rakuten 10th-Anniversary "GANBARE! Plan" was introduced to merchants.

Group Gross Transaction Value (Billions of yen)

836.5

Membership of Rakuten Group

37,270,000

Number of Active Rakuten Card Holders

480,000

Developing the "Rakuten eco-system"

Rakuten Group will continue to generate new services and create dynamic communication using its key business asset: the largest membership database of its kind in Japan. This will enable it to extend beyond Internet services to grow its businesses globally in a wider range of fields.

Business Review

Business Overview

Rakuten marked its 10th anniversary on February 7, 2007. During the preceding fiscal year, ended December 2006, the Rakuten Group's gross transaction value had continued to increase. Rakuten Ichiba and other core businesses recorded strong growth, with Group net sales rising substantially, up 56.6% year on year. The Rakuten Group expanded the "Rakuten ecosystem" and accelerated business selection and concentration in accordance with its medium to long-term growth strategies. Meanwhile, in the Credit and Payment Business the Group implemented restructuring measures centered on the transfer of non-core operations, contributing to both operating and special losses that reduced Group earnings compared to the previous fiscal year.

On the other hand, however, we further stabilized the Group's financial foundations with a capital increase through a public offering, and improvements in asset efficiency through business restructuring.

At a time when the number of Internet users is growing and there is an ongoing shift to mobile Internet access, the Rakuten Group worked to improve the quality of its member services in a range of business fields that encompasses Rakuten Ichiba, Rakuten Securities, and Rakuten Travel. We also utilized the Rakuten Super Point and other programs to promote the use by members of various Rakuten Group services, creating a virtuous circle that drives the expansion of the Group's gross transaction value.

The Rakuten Group posted net sales of ¥203,272 million (up 56.6% year on year) during the fiscal year ended December 31, 2006. Amid steady growth in merchandise sales value, the E-Commerce Business performed well, achieving a 66.5% increase in sales and a 51.3% increase in operating income. The Travel Business also achieved strong growth, realizing

E-Commerce Business

Business Units:
Rakuten Ichiba; Auction; Books & Media; Golf; Fine Wine; Automobiles; Delivery; Dining; Tickets; Stuffed Animal Greeting Cards; Business Service; Greeting Service; Performance Marketing

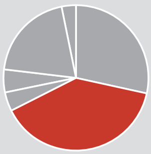
Share of Net Sales

28.4%

Credit and Payment Business

Business Units:
Personal Finance; KC

Share of Net Sales



39.1%

Portal and Media Business

Business Units:
Infoseek; Advertising; Target; Research; Career Service; Blog; Downloads; Satellite Broadcasting; Internet Television; Cross Media

Share of Net Sales

4.2%

increases in sales and operating income of 43.9% and 56.2%, respectively. Likewise, the Securities Business posted gains in both revenue and earnings. Rakuten KC Co., Ltd., however, posted an operating loss stemming from the impact of business restructuring and other steps to address a changing business environment. As a result, the Group's operating income totaled ¥29,149 million (down 16.4% year on year). Net income amounted to ¥2,703 million (down 86.1%), the result of special losses arising from the loss on transfer of Rakuten KC's credit business, and an increase in allowance for bad debt following the establishment of stricter estimation standards.

As business restructuring of Rakuten KC is nearly complete, and performance in its credit card and finance business—where management resources have been concentrated—is steady, we expect earnings to recover in the business during fiscal 2007, and for the Rakuten Group as a whole to achieve increases in both revenue and earnings. In terms of shareholder returns, our basic policy is to distribute earnings to shareholders while remaining mindful of the need to maximize corporate value, maintain a sound financial position and ensure sufficient retained earnings for proactive business development. As such, we have continually paid out a stable dividend each year without being influenced by fluctuations in performance. Looking ahead, we will continue to pursue synergies through collaboration between Rakuten Group, while promoting the growth of the "Rakuten eco-system" to offer a full-line service to our customers, and seeking sustainable growth in shareholder and corporate value.

Travel Business

Business Unit:
Travel

Share of Net Sales

5.1%

Securities Business

Business Units:
Securities; Capital Investments; Asset Management; Property Management

Share of Net Sales

19.9%

Professional Sports Business

Business Unit:
Professional Sports

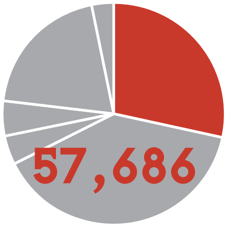
Share of Net Sales

3.2%

E-Commerce Business

The E-Commerce Business segment consists mainly of Rakuten Ichiba (Rakuten Internet shopping mall), managed by Rakuten, Inc., along with Rakuten Auction, Inc. and Rakuten Books, Inc. 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.
Net sales in this segment rose 66.5% year on year to ¥57,686 million, with operating income up 51.3% to ¥17,658 million.

Net sales by business segment
Millions of yen

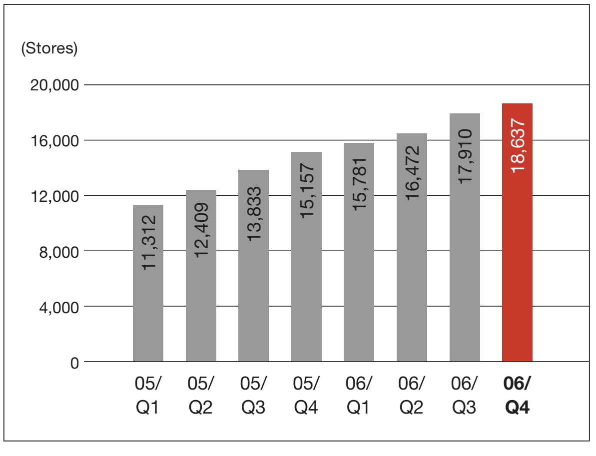


Significant increase in gross merchandise sales; Number of registered merchants also increasing

The E-Commerce Business, for which Rakuten Ichiba is the main service, grew considerably during the fiscal year under review, with gross merchandise sales up 42.2% year on year to ¥657,025 million. The number of merchants also exceeded 18,500 at the end of 2006, boosted by the introduction in June of the “Rakuten 10th-Anniversary GANBARE! Plan,” which helped increase the number of new merchants.

New content offerings during the year included the Rakuten Ichiba Lounge, which aids members in deciding what to purchase from Rakuten Ichiba. Distinctive products are presented by specialists in gourmet foods, fashion and other genres, while users can also post their own rankings. In another move, Rakuten Auction was launched as a new service for Rakuten members and those accessing the Internet via mobile phone using NTT DoCoMo’s iMode® function. One of Japan’s largest auction sites, Rakuten Auction is intended to serve as a means of developing mobile commerce. Features to make using the site easy, reliable, safe and convenient have been incorporated to attract first-time and casual users. Such features include an intermediary service allowing winners and sellers to remain anonymous and simplified procedures for registering by mobile phone.

Number of registered merchants



Topic

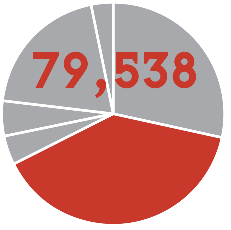
The Rakuten 10th-Anniversary “GANBARE! Plan”

The “Rakuten 10th-Anniversary GANBARE! Plan,” a new fee structure for merchants using Rakuten Ichiba, was implemented in June 2006 to mark the 10th anniversary of Rakuten’s founding. This plan lowers the hurdles for new merchants by considerably reducing monthly fixed fees, and provides a wider range of retailers with opportunities for Internet sales. The contract period is also longer than that of the previous “Light” plans, allowing us to establish a deeper relationship and support merchant owners.

Credit and Payment Business

The Credit and Payment Business segment consists mainly of Rakuten Credit, Inc., Rakuten KC Co., Ltd. and its consolidated subsidiaries and affiliates. The business is primarily concerned with the consumer credit card business, as well as the shopping credit and consumer loan businesses. Net sales (revenues) in this segment rose 68.8% year on year to ¥79,538 million, while the segment posted an operating loss of ¥6,150 million (compared with operating income of ¥6,332 million the previous fiscal year).

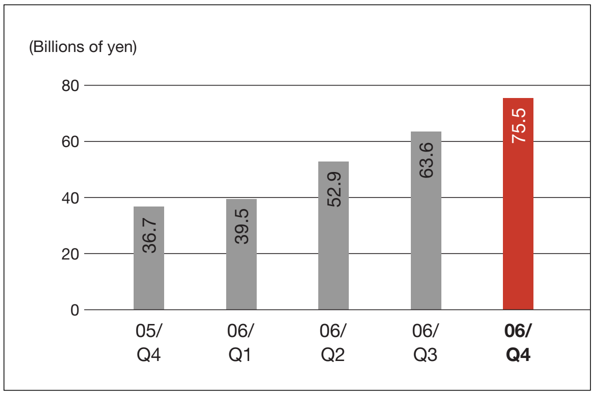
Net sales by business segment
Millions of yen



Rebuilding the business to create an Internet-based credit card company

Rakuten KC Co., Ltd., the core business of the Credit and Payment Business, undertook a fundamental business restructuring that included completing the transfer of its credit business by means of a corporate separation in November. The credit and payment businesses, which are highly Internet-compatible, recorded steady growth, with consistently rising cardholder numbers for the Rakuten Card, and an 86.7% year-on-year rise in credit card shopping transaction value during the fiscal year under review. However, the Credit and Payment Business recorded an operating loss, reflecting a decrease in operating revenues in conjunction with the business transfer, along with an increase in bad debt-related expenses in response to changes in the business environment for consumer finance.

Card shopping transaction volume



Going forward, we will concentrate resources in the credit card and finance businesses to achieve increases in profitability.

Rakuten Credit, Inc., which operates a consumer loan business, achieved significant increases in both number of members and its outstanding loan balance. Rakuten Credit, Inc., strengthened its promotions including a tie-up campaign with Rakuten Travel, and launched a competitive card loan product, a loan with a limit of ¥5 million and minimum 7.0% interest rate, aimed at medium- to high-income groups.

Topic

Transfer of the credit business and strengthening of core businesses

Rakuten KC Co., Ltd. undertook a fundamental restructuring of this business segment with the transfer to Orient Corporation of the credit business (mainly automobile installment services) of Rakuten KC Co., Ltd. In essence, Rakuten Group has withdrawn from the conventional type of consumer credit business centered on automobile and shopping credit, and has begun a full-scale shift to the credit card and finance business centered on Internet marketing, the core business of the Rakuten Group. We have also begun streamlining by integrating business offices and other locations. Management and employees are working together to enhance business efficiency, while adapting to the changes in the business environment for the consumer finance business, including regulatory changes that have introduced stricter standards for estimating bad debt, and debate on lowering interest rate ceilings.

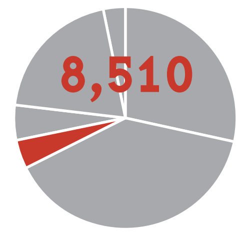
Portal and Media Business

The Portal and Media Business segment consists mainly of Infoseek, 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.

Net sales in this segment rose 12.9% year on year to ¥8,510 million, while operating income declined 79.6% to ¥394 million.

Net sales by business segment

Millions of yen



Improving site usability, and developing new services

In the Infoseek business advertising revenue remained steady as we worked to expand compatibility with a range of devices and improve user convenience through a number of measures such as enhancing hybrid searching functions. For the "Mail de Point" point email service, for which the number of members surpassed 2.1 million during the fiscal year under review, we continued to conduct a cross-registration campaign within the Rakuten Group and make other efforts aimed at increasing the number of high-frequency users.

In terms of new business developments, we began offering Rakuten Links, a social networking service (SNS) linked to Rakuten Blog, which now boasts approximately 780,000 users. In the Internet television business we launched Rakuten Eagles TV with live coverage of all games of the Tohoku Rakuten Golden Eagles professional baseball team, along with Rakuten Market TV covering the stock markets live from the Tokyo Stock Exchange. We also worked to acquire new members and enhance the entertainment value of programming.

For the *Minna-no-Shushoku-Katsudo-Nikki* (Everyone's Job-Seeking Diary), a community site for job seekers with 650,000 students registered nationwide, Rakuten Group enhanced user satisfaction with the *Shigoto-ga-Wakaru* (Understanding the Job) Forum, a live event with presentations from major corporations held early in the job-seeking season.

Topic

Rakuten Links provides enhanced community networking

Rakuten Links, launched in March 2006, is a social networking service (SNS*) that enhances various community networking capabilities. As the linchpin of Rakuten's community-oriented services, we will improve usability with links to a range of services, helping to promote communication among users.

* SNS: A community-style membership website through which participants introduce friends to each other and expand their circle of friends.

Travel Business

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.
Net sales in this segment rose 43.9% year on year to ¥10,465 million, with operating income up 56.2% to ¥4,659 million.

Net sales by business segment

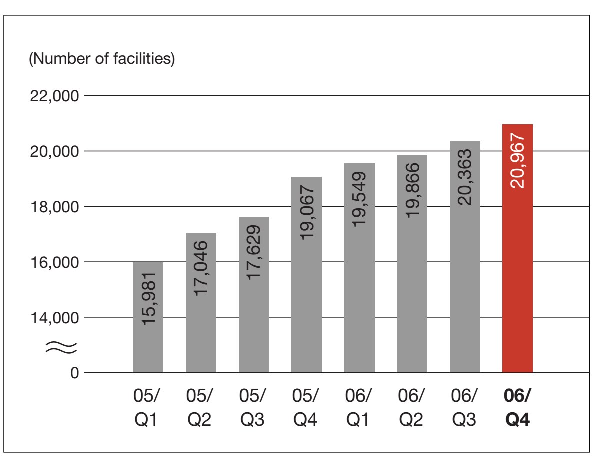
Millions of yen

Continued rise in gross transaction value for bookings and number of lodgers

The travel business showed strong growth with the gross transaction value of bookings made through Rakuten Travel up 25.5% year on year, and the number of contracting accommodation facilities in Japan surpassing 20,000 in July. The number of users staying at accommodation facilities reached 18.9 million during the fiscal year under review, with 1.3 million comments registered on accommodation facilities. The customer comments portion of the website helps new users in making decisions on accommodations, enhances the added value of the site, and increases activity on it.

In terms of new business developments, in February, we began offering Raku Pack, a dynamic package service for overseas travel that allows users to select their own airline and accommodations, with the domestic version, ANA Raku Pack, following in October. We also developed a variety of new services tailored to diverse user needs, including a lump-sum settlement service for contracting companies and advance credit card settlement service (both introduced in February), a service allowing mobile phone-based bookings for highway buses (September), and a pet hotel reservation service (December). Through these new services, Rakuten Travel, Inc. intends to become an even more comprehensive travel service provider.

Contracting Accommodation Facilities in Japan



Topic

Launch of the ANA Raku Pack service

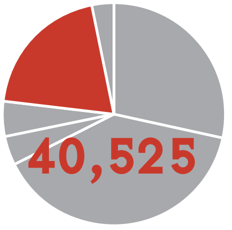
ANA Raku Pack is a package tour service for individual travel provided by Rakuten ANA Travel Online Co., Ltd., a joint venture established by All Nippon Airways Co., Ltd. (ANA) and Rakuten Travel, Inc. Through Rakuten Travel, users are able to freely create their own travel plans to suit their objectives and budget, choosing from among ANA's 900 daily flights and approximately 20,000 accommodation facilities that have contracts with Rakuten Travel and ANA Sales Co., Ltd.

Securities Business

The Securities Business segment consists of Rakuten Securities Holdings, Inc. and its subsidiaries including Rakuten Securities, Inc. The business provides online securities brokerage and other services.
Net sales in this segment rose 54.0% year on year to ¥40,525 million, with operating income up 20.0% to ¥15,359 million.

Net sales by business segment

Millions of yen



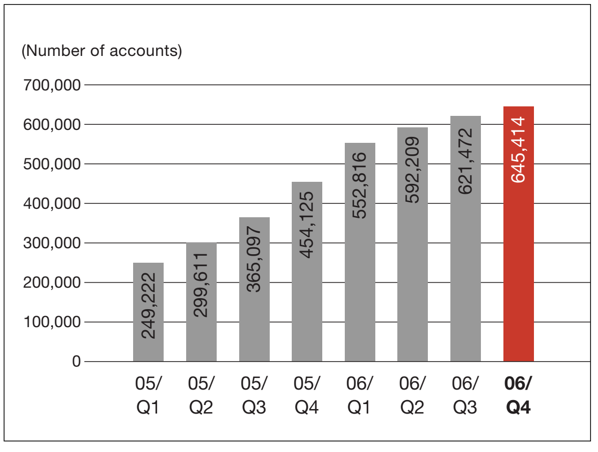
Strong growth achieved with enhanced services and products

Rakuten Securities, Inc. has over 645,000 user accounts—third among online securities brokerages in Japan—with the second highest daily trading value at ¥141,095 million.

Our trading tool for mobile platforms, iSPEED, has been enhanced to provide mobile traders with more convenience. It offers an "anytime, anywhere" environment that is compatible with all domestic mobile carrier services, which is an industry first, as well as features including automated updates in a minimum five-second interval. Further, drawing on group synergies we worked to expand the customer base through promotions to attract Rakuten Group members.

The product lineup has also been enhanced in response to the diversifying investment needs of individuals. In a move to address the growing desire to invest in overseas securities, Rakuten Securities, Inc. became the first in the industry to offer the U.S. Exchange Trade Fund (ETF), an exchange-traded fund linked to stock indexes. With regard to savings-based products, Rakuten Securities, Inc. also added to its range of non-Japanese bonds and investment trusts.

Accounts at Rakuten Securities



Topic

The latest version of Market Speed

In October 2006, Rakuten Securities, Inc. released the latest version of Market Speed, a trading tool developed for personal computers. The new version incorporates suggestions from leading users of the tool, with such added features as a "super quick order" function that allows an order to be placed in as few as two mouse clicks, as well as stock screening and other analysis functions. These improvements have substantially reduced the operational steps and time.

Professional Sports 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.
Net sales in this segment declined 4.7% year on year to ¥6,548 million, with an operating loss of ¥1,396 million (compared to operating income of ¥157 million for the previous fiscal year).

Net sales by business segment
Millions of yen

Advertising and sponsor revenue increases along with the team's win rate

Advertising revenues rose 17% year on year following efforts to win new sponsors through a new plan developed as one of the business initiatives for fiscal 2006. Ticket sales were also up 2% year on year as a result of repeat purchases by season ticket holders, and stepped-up efforts to attract new fans.

In terms of facilities, we built a new large-scale indoor practice area and farm team playing ground, establishing a foundation that will further strengthen the club. The Fullcast Stadium Miyagi was also expanded to allow for even more fans to enjoy the games in even greater comfort, including such facilities as royal boxes, a premium lounge, refreshment facilities, and an additional 3,000 spectator seats. At the same time, we also worked to expand the fan base with repeated community-based efforts, including a fan appreciation day and baseball lessons for children.

The team itself, under the management of Katsuya Nomura, won 47 games, nine more than in the previous season. The team was also strengthened for the coming season through the drafting of promising new players and addition of new foreign players.

Topic

The "Tohoku Project" supports the region through baseball

Rakuten Baseball, Inc. launched the "Tohoku Project" with the aim of ensuring that the Rakuten Eagles become more firmly rooted in the Tohoku region and are supported by local fans. In 2006, we held our Baseball School throughout the Tohoku region for elementary and junior high school students, where junior coaches from the Rakuten Eagles would instruct players in basic skills to help them more fully enjoy the game. We also organized and sponsored a baseball tournament for the Tohoku region.

New Rakuten Eagles players at their introductory press conference

Corporate Governance

(1) Basic Approach Regarding Corporate Governance

The Rakuten Group gives the highest priority to strict corporate governance through Group-wide risk management, while maximizing its corporate value.

Specific governance measures include upgrading the Board of Directors and its capacity to supervise business execution by directors through the appointment of outside directors; the establishment of an auditors office to assist the auditors as a means of bolstering audit functions; and enhancing internal checking functions by increasing personnel assigned to the Internal Audit Department, an independent body under the direct authority of the CEO.

Furthermore, the Rakuten Group has adopted a business unit system in an ongoing commitment to achieve faster decision-making in each business operation, and has developed a system for internal controls across the Rakuten Group through the establishment of Functional Teams with broad control powers that cut across all Rakuten Group businesses.

(2) Implementation of Corporate Governance Measures (as of March 30, 2007)

① Status of management control organization regarding management decision-making, execution and supervision, and other corporate governance systems

Rakuten supervises management by using a Corporate Auditor System. In March 2003, Rakuten adopted the Executive Officer System to separate the roles of management supervision and business execution. Functions that were until then performed by the Board of Directors were divided, making directors responsible for management decision-making and supervision and Executive Officers responsible for the execution of business activities. A business unit system has also been introduced to promote faster business execution by Executive Officers and to strengthen the supervisory functions of the Board of Directors and the Corporate Auditors.

Directors, Board of Directors and Executive Officers

The Board of Directors has 14 members, including 4 outside directors, with the maximum number of directors allowed under the Articles of Incorporation set at 14 members. Resolutions to appoint directors must be approved by a majority of the shareholders with voting rights at meetings in which at least one-third of the shareholders eligible to exercise voting rights are in attendance.

The Board of Directors holds regular monthly meetings and extraordinary meetings as necessary. At meetings, the directors reach decisions concerning important matters involving management and supervise the performance of directors and Executive Officers responsible for business activities. The Rakuten Group also has an Executive Strategic Meeting, which is made up of executives at the Senior Executive Officer level and above, which discusses important matters pertaining to Rakuten Group strategies, such as medium- and long-term management plans and basic policies. 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 Officer Meeting, comprised of the Rakuten Group's Executive Officers. Board decisions then serve as a basis for the management and administrative duties carried out by each Executive Officer. Where the implementation and administration of each business is concerned, business unit management meetings held at each business unit, 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 is enacted.

Corporate Auditors and the Board of Auditors

There are 4 Corporate Auditors, 3 of whom are from outside the Rakuten Group. Of the Corporate Auditors, 2 serve on a full-time basis. The Corporate Auditors are assisted in their duties by the auditors office, a body established under the Board of Auditors. The board holds regular meetings and extraordinary meetings as necessary.

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

Financial Audits

Rakuten Group has an auditing contract with Ernst & Young ShinNihon to perform financial audits as prescribed by Japan's corporate law and the Securities and Exchange Law.

Internal Audits

The 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 activities, and progress with regard to audits and compliance programs. By bolstering ties with the internal audit departments at each subsidiary, the Internal Audit Department works to ensure that operations are properly conducted through the implementation of an ongoing process of internal audit across the entire Group.

Results of internal audits are reported to the CEO and the Compliance Committee, as well as all Executive Officers involved and the Executive Officer Meeting. Results are also reported to the Board of Auditors as a means of linking these findings to the audits performed by Corporate Auditors. The Internal Audit Department comprises 6 dedicated personnel.

② Implementation of measures to enhance corporate governance enacted during the past year

During fiscal 2006, the Board of Directors formulated a basic policy regarding Rakuten's system of internal controls. The year also saw the establishment of the auditors office to assist the Corporate Auditors and an increase in personnel assigned to the Internal Audit Department as steps to strengthen auditing functions. Among other actions, Rakuten Group further reinforced its information security framework by obtaining ISMS (information security management system) certification.

③ Resolutions from 10th Annual General Shareholders' Meeting (March 30, 2007) that the Board of Directors is authorized to decide

With respect to the distribution of retained earnings and other matters pursuant to Article 459-1 of Japan's corporate law, and excluding cases specifically referred to by other laws, Rakuten's Board of Directors, in accordance with the Articles of Incorporation, may enact an earnings distribution policy by its own resolution without a resolution from the Annual General Shareholders' Meeting, in order to maintain a flexible earnings distribution policy. However, a separate provision to these same regulations states that these regulations will come into effect upon the completion of the terms of service of all directors.

Risk Factors

Business Risk

Listed below are the principal matters related to the business and finances of the Rakuten Group that are considered to involve risk or to have a major impact on the investment decisions of investors. In recognition of the potential for these risks to occur, the Rakuten Group has taken measures to minimize the likelihood of occurrence and to deal with risks should they occur. Nevertheless, the Rakuten Group believes that investment in its securities should be undertaken based on due diligence by the investor, to include consideration of other matters in addition to those stated here.

In the absence of an indication to the contrary, all forward-looking statements included in the following discussion are determined by the Rakuten Group at the time of preparing *yukashouken-houkokusho* on March 30, 2007. These below-listed risk factors are translations of the original report (*yukashouken-houkokusho*) issued in Japanese for the purpose of reference only and they contain elements of uncertainty and could differ materially from actual results.

I. Risks Relating to Our Businesses

1. E-Commerce Business

The basic feature of the Internet shopping mall and consumer auction businesses that comprise our E-Commerce Business is that they introduce consumers to merchants or to auction participants to enable them to make commercial transactions. Since the role of Rakuten Group's services is limited to providing a market for the transactions, the counterparties in transactions are consumers, merchants, or auction participants. In conducting transactions, these counterparties could list or transact an illegal item, infringe on rights such as ownership or intellectual property, breach the privacy of others, or commit fraud or some other illegal activity. Should such an event occur, there is the risk that not only the individuals involved, but also the Rakuten Group will be held accountable due to having provided and been in charge of the site where the transaction in question was concluded.

To avoid such an occurrence, the Rakuten Group takes the following preemptive measures in each of its businesses to prevent such problems and endeavors to fulfill all its obligations under the law regarding these matters.

(1) Rakuten Ichiba

In terms of our application procedure, we supervise the registration of merchants on our site. In principle, Rakuten Ichiba registered merchants are incorporated or, if they are not incorporated, have a proven business record, for example in a "bricks and mortar" store. Following registration, we have a system for providing operational support by our E-Commerce consultants and through that system carry out monitoring of the sales items listed by the merchants and their compliance with the terms of our contract. It is clearly stated in the contract with the merchant that any problems arising between the merchant and the purchaser regarding defects or payments will be settled between the parties concerned and that the Rakuten Group has no responsibility for such matters. However, if during the monitoring process it is found that a merchant has a bad reputation or that many complaints about the merchant have been received by the member services department that conducts customer support, the Rakuten Group may take such measures as requiring the merchant to improve services or terminating their contract (removing the merchants from the site). However, because of the dominant size of the Rakuten Group's Internet shopping mall business within the market, it is possible that such disciplinary measures or the provisions on which they are founded, including the terms and conditions for setting up a Rakuten Ichiba merchant, could constitute a violation under the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade. In such a case, the Rakuten Group could become subject to new restrictions on its operations that might have a negative impact on its business, results of operations or financial condition.

(2) Rakuten Auction

Problems occurring between participants in Rakuten Auction's individual-oriented business are to be settled by the individuals and it is clearly stated in the contract with the participants that the Rakuten Group has no responsibility for such matters. Moreover, the Rakuten Group monitors listed items to screen for illegal items or those that violate public decency. Among other measures, to forestall or curtail problems related to delivery and settlement between the winner and seller, the Rakuten Group provides a rating system on the site where participants rate each other with regard to these functions.

Despite our control systems, because of the growth in the number of merchants and transaction volume and our limited human resources, it has become difficult to monitor all transactions in the above businesses and to determine whether contracts are being fully complied with or whether any illegal actions have occurred. Therefore, if a transaction problem does occur, it is possible that the Rakuten Group may be held legally liable despite the provisions of the contract with the merchant. In addition, the occurrence of the problem itself may have a detrimental effect on the brand image of the Rakuten Group or its individual businesses. Another risk is that the government authorities may take disciplinary action or issue new guidelines resulting in restrictions on business development or unavoidable business reform. Such circumstances have the potential to damage the Rakuten Group's business, results of operations or financial condition.

2. Credit and Payment Business

(1) Laws and Regulations

The Credit and Payment Business is regulated by the Law Concerning the Regulation of Receiving of Capital Subscription, Deposits and Interest on Deposits (hereinafter referred to as the "Contributions Law") and the Moneylending Business Restriction Law (hereinafter referred to as the "Moneylending Law").

In the June 2000 revision of the Contributions Law, the ceiling on interest rates that are not subject to penalties or to prohibition was reduced from 40.004% per annum to 29.2% per annum. In December 2006, the government promulgated the Law to Revise a Portion of the Regulations of the Moneylending Business (hereinafter referred to as the "Revision Law"), in which the interest rate ceiling under the Contributions Law is to be further reduced to 20.0%. The enforcement of the Revision Law, therefore, could adversely affect the profits of our Credit and Payment Business.

The portion of the interest charged under the Contributions Law that is in excess of the interest rate ceiling under the Interest Rate Restriction Law is considered to be effectively a legal payment of interest (deemed payment) under the Moneylending Law if the debtor pays the amount voluntarily and certain specific requirements have been met including the exchange of written documentation regarding the loan. However, in recent years, rulings by the Japanese courts have begun to severely restrict when such excessive interest payments will be recognized as deemed payments. As a result, there has been a steady rise in the number of legal suits by debtors requiring creditors to refund these excessive interest payments because they are not deemed payments. Since the deemed payments have been terminated under the promulgated Revision Law, it is possible that these interest refund suits will continue to increase on past and present loans. Although the interest rates in the loan agreements of Rakuten Credit, Inc., are not in excess of the ceiling under the Interest Rate Restriction Law, some of the interest rates in the loan agreements of Rakuten KC Co., Ltd. remains. Therefore, should the number of debtors taking legal action demanding the repayment of these so-called excessive interest payments exceed expectations, it could damage the results of operations of this business segment.

Furthermore, under the Revision Law, a ceiling has been set on the total balance of borrowings of individual debtors in this business. With the enforcement of this law, the growth in the outstanding balance of loans will be thus restricted and could have a detrimental effect on the profits of the business. In addition, with the enforcement of the Special Conciliation Law or the revisions of the Practicing Attorney Law and Judicial Scriveners Law and the Bankruptcy Law, it is possible that the number of loans that the Rakuten Group cannot collect on will increase.

(2) Business Environment

Economy

Because the business deals with individual consumers, should the economy deteriorate and the demand for loans decline due to stagnant consumption or should a higher unemployment rate lead to an increase in the number of personal bankruptcies or consumers with excessive indebtedness spread among multiple creditors, it could have a negative impact on the results of operations.

Competition

In addition to major consumer finance companies, the consumer finance industry comprises a diverse range of players, such as bank-related, foreign-capital-related and Internet-related consumer finance companies. The credit card industry is also characterized by intense competition with bank-related, retail-related, and "shinpan" consumer finance-related companies vying with major credit card companies. Among these competitors, there are companies that are superior to Rakuten in terms of financing, marketing, customer base, credit assessment, brand recognition, facilities, and network. The actions of these competitors could be damaging to the Rakuten Group's business, results of operations, and financial condition.

Financing

Working capital for the business is primarily raised through borrowings from financial institutions. However, because the interest rates can fluctuate depending on market conditions or other factors, it is possible that the Rakuten Group's financing costs could rise due to changes in interest rates or in the credit ratings of the Rakuten Group. Should these financing costs rise, they could adversely affect results of operations.

Credit Risk Management and Loan Collection

To conduct its Credit and Payment operations the Rakuten Group believes it is essential to acquire credit management systems and personnel with loan collection know-how to reduce the risk of loan defaults. Should a major problem occur with the maintenance or operation of the necessary systems or the acquisition of skilled staff, it could create an obstacle to the continuation and future development of the business.

3. Portal and Media Business

(1) Internet Advertising Market

The Portal and Media Business focuses on the operation and management of portal sites, with Internet advertising revenues accounting for a high proportion of sales.

The Internet advertising market is expected to expand based on the higher penetration of the Internet, the increase in the number of users, and the greater use of the Internet by corporations in their business activities. Nevertheless, in addition to competing with other media in the advertising business, Internet advertising and all other advertising media are exposed to the high sensitivity of the advertising market to economic trends. If the business climate should worsen, it could cause deterioration in the results of operations.

(2) Customer Acquisition Power of Web Sites

The value of Internet advertising as an advertising medium depends primarily on the ability of Web sites to attract customers. The Rakuten Group targets improvement in this area by providing users with content and other services that suit their needs. Going forward, the Rakuten Group plans to increase its advertising revenues by improving and expanding its advertising products displayed along with search results as well as offering a variety of content. However, should there be a change in the trend toward the establishment of Internet advertising as an advertising medium or should some obstacle arise in the provision of content that appeals to users, it might have a detrimental effect on the results of operations.

In operating its sites, the Rakuten Group utilizes third-party vendors for its Web search engine and some of the content on its news pages. If for some reason there should be an interruption in the supply of the Web search engine or content services, or sufficient popular content cannot be offered on the site, it could create a barrier to site operations, which might have a negative impact on the execution of the business and on results of operations.

(3) Competition

We compete directly with other portal site operators, including Yahoo! Japan Corporation, Google, Inc., Microsoft Co., Ltd. and EXCITE Japan Co., Ltd. In addition, we believe it is likely that there will be additional entrants to the Internet advertising market. Should competition with these companies lead to a reduction in our ability to attract customers, our advertising volume, or unit prices for advertising, it may have an adverse effect on results of operations.

4. Travel Business

The Rakuten Group plans to strengthen and expand its Travel Business by collaborating with travel-related companies inside and outside the Rakuten Group, such as airlines. Although the travel-related Internet services market has been expanding in recent years, travel-related services are easily affected by economic trends, conditions both in and outside Japan, and variations in consumer preferences. Changes in any of these factors could impact negatively on our operations or results of operations.

There are many competing services and companies in the Travel Business, and the intense competition could result in lower commission rates. Moreover, there is no guarantee that accommodation providers will continue their contractual relationships with the Rakuten Group. Should the Rakuten Group's accommodation providers break their contracts and form new ones with competitors, it might have a damaging effect on the operations or results of operations of the Travel Business.

5. Securities Business

(1) Laws and Regulations

In addition to the Securities and Exchange Law, this business is governed by the rules and regulations of self-regulatory organizations such as stock exchanges and the Japan Securities Dealers Association. Additions or changes to the laws and regulations related to the business or to their practical application or interpretation could have an impact on the operations or results of operations of the business.

Under the Securities and Exchange Law and the Cabinet Ordinance Regarding the Capital Adequacy Regulations for Securities Companies, securities companies are required to maintain their capital ratio above a certain level. If the capital ratio of Rakuten Securities, Inc. should fall below this level due to an increase in risk assets (including the expansion in loans related to increased margin transactions) or to deterioration in its financial position, Rakuten Securities, Inc. could be forced to change its business methods or face a complete or partial suspension of its operations. In addition, Rakuten Securities, Inc. might also have its Securities Business license revoked. Consequently, a decline in its capital ratio could have a detrimental impact on Securities Business and on the results of operations or financial condition of the Rakuten Group as a whole.

(2) Business Environment and Strategy

Because the principal source of revenues for the business is brokerage commissions on the execution of customer trades, it is influenced by the performance of the stock market. The stock market is affected by economic conditions, market trends in other countries, political or regulatory trends, and investor sentiment. When markets are bearish, investment sentiment declines in the market among Rakuten Securities, Inc. existing customers and potential customers, and such a trend could cause deterioration in results of operations due to lower trading volume and trading value. Furthermore, the online brokerage business is highly competitive, with many companies entering the market in addition to existing securities companies. Brokerage commissions, the primary revenue source of the business, have been deregulated. Should price competition become more intense, it might have a damaging effect on the business's ability to attract customers and on its results of operations.

In recent years, the proportion of revenues related to margin transactions has continued to rise. Any sudden change in the direction of market prices, a decrease in margin transactions in reaction to higher interest rates or the occurrence of uncollectible outstanding balances on margin transactions could result in a decline in results of operations. Foreign exchange trading based on cash collateral is exposed to the same risks as margin transactions.

In addition to traditional brokerage services, the business has also ventured into investment banking and fund management services. These new operations have different risks than the business the Rakuten Group has conducted in the past. If the Rakuten Group cannot predict or avoid these risks due to a lack of know-how or experience, it could have a negative impact on the business, brand, and results of operations of the Rakuten Group.

(3) System Interruption

During the fiscal year 2005, there were multiple failures of Rakuten Securities' trading system due to the overloading of the system by a sudden increase in trading volume related to market conditions. In November 2005, Rakuten Securities, Inc. received an operational improving order from the Financial Services Agency in this regard. Rakuten Securities, Inc. reinforced its trading system by upgrading and adding hardware and strengthening its trading management system. Should Rakuten Securities, Inc. experience another system interruption, it might damage the public's trust in Rakuten Securities, Inc. or the Rakuten Group as a whole, and the loss of customers and other repercussions could result in a deterioration in the results of operations of the business and of the Rakuten Group. In addition, the business could be the target of administrative discipline by the authorities.

6. Professional Sports Business

In this business we are taking steps to strengthen the operating base of the baseball club by adding facilities for spectators and strengthening our player roster and by establishing a strong home crowd base of customers. Based on these measures, we expect higher depreciation expenses related to our capital investments and signing fees for baseball players. If the revenues of the business do not perform as planned, these higher expenses might have an adverse effect on the club's results of operations.

We hope that the greater brand recognition of the Rakuten Group anticipated as a result of operating the Tohoku Rakuten Golden Eagles professional baseball club will create synergies that will contribute to performance growth for all our businesses. However, if the baseball team is not popular there is a possibility that the benefits of running the club will be limited.

Since the business is subject to the regulations of the Japan Professional Baseball Agreement signed with the Professional Baseball Organization of Japan, there is a possibility that restrictions could arise in the operation of the business.

7. Risks Related to the Implementation of Measures to Increase Gross Transaction Value (GTV)

Concentrating mainly on its E-Commerce and Travel Businesses, the Rakuten Group uses GTV on its sites as a management performance indicator and is strengthening its marketing strategies aimed at increasing GTV. To expand GTV, the Rakuten Group has introduced aggressive marketing and system development strategies aimed at increasing the number of new customers and raising the ratio of repeated use by existing customers. Strategies include establishing the "Rakuten eco-system;" use of the groupwide "Rakuten Super Point," rewarding program; and optimizing the information displayed on sites according to such purchaser attributes as gender and age ("personalization").

Recently, the Rakuten Group has noticed a growth trend in GTV and the number of unique purchasers* against the backdrop of expansion in B-to-C (business to consumer) sales. However, should the GTV of the Rakuten Group's sites not achieve steady growth due to external factors, such as trends in the economy, legal restrictions on the use of the Internet, and growing awareness of security issues, particularly in relation to personal information, as well as competition with other companies and other factors, it could have a detrimental effect on the results of operations of the Rakuten Group.

Going forward, the Rakuten Group intends to implement measures to expand GTV, such as rebranding its services under the Rakuten brand, integrating its different membership databases, and integrating member IDs by means of the Rakuten Super Point program. It is possible that these measures could result in a decline in the support of existing members or in their termination of membership. Should these measures not provide the expected benefits, they might have an adverse impact on the GTV of the Rakuten Group and on its results of operations.

* Number of unique purchasers: Total number of purchasers who have purchased something from Rakuten Ichiba at least once during a given time period.

II. Risks of Internet-related Business

1. Risk of Legal Regulations Affecting Internet and E-Commerce Operations

As information distribution and e-commerce via the Internet—the main businesses the Rakuten Group is involved with—continue to proliferate and expand, there is still a wide range of related controversy and new legal regulations are being prepared. The Rakuten Group's legal obligations and conditions of exemption are steadily being clarified in this area. Summaries of the major legal regulations applicable to the business domains of the Rakuten Group are given below.

If in the future a social movement should arise calling for more comprehensive legal regulations covering intermediaries in the provision of information, the Rakuten Group might face new restrictions or the tightening of existing restrictions on its businesses, either as a result of new laws or the voluntary adoption of rules within the Rakuten Group. These restrictions could have a damaging effect on the business, results of operations or financial condition of the Rakuten Group.

(1) Unauthorized Computer Access Law (Enforced February 2000)

This law prohibits unauthorized computer access or actions that assist such unauthorized access. It also places an obligation on access managers, who have added access control functions to PCs attached to a telecommunications line, to establish a certain level of preventative measures regarding unauthorized access.

(2) Law Concerning Limitation of Damages to Electronic Communications Service Providers and Disclosure of Sender Information (Enforced May 2002)

This law places a limitation on the responsibility of a person or legal entity to compensate another person or legal entity whose rights have been infringed as a result of distribution of information via the Electronic Communications such as the Internet due to omission by the service provider. It also places a limitation on the responsibility of a service provider to compensate for damage to a sender who has been prevented from sending information over the Internet due to an action of the service provider. In addition, the law clarifies the right of a person or legal entity whose rights have been infringed as a result of distribution of information via the Internet to request the disclosure of information regarding the perpetrator of the act. The law also clarifies the obligations of the service provider that has received such a request, and the related procedures.

(3) Used Goods Dealing Law (Revised and enforced May 2005)

This law has been revised to prevent the sale of stolen items, etc., as used goods over the Internet and to enable such goods to be identified quickly. As arrangers of used goods auctions, operators of auctions, etc. are now obligated to submit URLs, etc. In addition, the operators are obligated to make efforts to establish the true identity of those submitting items in auctions, etc., and to report items suspected of being stolen, etc., to the police, and to endeavor to create and keep records of the sales arranged.

(4) Law Regarding Regulations on the Solicitation of Children Using Online Dating Businesses (Partially enforced in December 2003)

This law places an obligation on operators of online dating sites to try to prevent the use of their sites by children.

(5) Act on the Protection of Personal Information (Enforced in April 2005)

This law places an obligation on businesses that handle the personal information of more than a certain number of individuals not to use such information for purposes other than the initial purpose for which it was acquired or provide the information to a third party without the approval of the individual. They are also required to take necessary and appropriate measures to ensure the secure management of personal information being held, and to conduct necessary and appropriate supervision of employees and commissioned service vendors in that respect. The government minister in charge will, as necessary, provide guidance regarding the handling of personal information using the escalating stages of requiring reports, providing advice, warning, and giving orders. In particular, the law provides for monetary fines to be assessed on handlers of personal information that violate orders, refuse to give reports or make false reports.

2. Risks Related to Handling Personal Information

Presently, the Rakuten Group allocates IDs to users of Rakuten Ichiba and other services and has access to their addresses, telephone numbers, credit card numbers, and other information that enables the Rakuten Group to identify them. In managing this information, the Rakuten Group takes the utmost care to maintain users' privacy and protect personal information and pay close attention to the information security of each of its services.

In July 2005, there was an incident where customer information was leaked by the operator of registered merchants on Rakuten Ichiba, and again in October 2005, a leakage of customer information was discovered at Rakuten KC., Ltd.

The Rakuten Group has set up a security department and otherwise implemented and strengthened measures to prevent the leakage of customers' personal information, and to deal with such leakage if it should occur. The Rakuten Group intends to continue pursuing these policies. However, the Rakuten Group cannot say that there is no longer any possibility of the leakage or abuse of information. It is possible that the Rakuten Group could become embroiled in a legal dispute or that its credibility could be damaged over such an incident. If it did occur, it might have a detrimental effect on the Rakuten Group's business or results of operations.

3. Risks Related to Intellectual Property Rights

The Rakuten Group strives to protect its patents, trademarks, copyrights, domain names, and other intellectual property rights and the licenses we have obtained. In the advent that we cannot protect our intellectual property rights from infringement by third parties or are required to spend large sums of money to protect those rights, it could have an adverse affect on the business, results of operations, and financial condition of the Rakuten Group. Moreover, if another party should contend that the technology or content used by the Rakuten Group represents an infringement of their intellectual property rights, expenses or losses could arise from our defense against the charge or from the settlement of the dispute or restrictions could be placed on the provision of specific content or offering of services or use of certain technologies that could result in a negative impact on the Rakuten Group's business, results of operations or financial condition.

4. Risks Related to the Possibility of Legal Suits

In pursuing the development of its businesses, as mentioned previously, the Rakuten Group could be caught up in illegal actions or problems caused by merchants on its sites, purchasers of items, participants, or other users of its services or cause damage to merchants on its sites, purchasers of items, participants, other users of its services or consumers as a result of system failures or other incidents and could be sued or have other claims brought against it. In addition, Internet businesses have a short history and new, or hitherto latent, business risks could arise that could result in unforeseen legal suits. In such a case, depending on the nature of the legal action and the amount of the claim, it could have a damaging effect on the business, results of operations, and financial condition of the Rakuten Group.

5. Risks Related to Competition

The rapid spread of continuous, high-speed Internet connection via broadband (ADSL and optical fiber) and an increase in mobile phone-based Internet access has led to continued expansion in the use of e-commerce services by the general consumer. As a result, many companies have entered the e-commerce market offering a wide variety of merchandise categories and forms of service.

The Rakuten Group aims to maximize transaction volume on the sites that it operates. Measures include upgrading its capabilities with a view to strengthening the mobile phone-based e-commerce business, which offers further growth potential, as well as reinforcing marketing activities with a focus on retaining users. In addition, the Rakuten Group is taking steps to strengthen and expand e-commerce sites other than the Rakuten Ichiba site, including Rakuten Auction, Rakuten Business, Rakuten Books, and Rakuten Travel. Among other strategies, the Rakuten Group is using M&A to broaden its business domains and to expand its business content through alliances between its businesses.

Going forward, the Rakuten Group plans to continue to build its business by responding to the needs of customers. Measures to this end will include integrating the customer ID systems for its individual services and inter-service collaboration. However, it is possible that the Rakuten Group's sales will decline due to a lack of success with those measures, the appearance of a competitor with a breakthrough service based on strong system development capabilities, or other forms of competition. It is also possible that the Rakuten Group could face a price war or be forced to increase its sales promotion and advertising expenses. Such situations could cause deterioration in the Rakuten Group's business or results of operations.

6. Risks Related to Technological Progress in the Industry

Technology, industry standards, customer demands and competition change rapidly in the Internet industry, to which the Rakuten Group belongs, resulting in the frequent introduction of new products and services as well as the appearance of new competitors. Progress and change is particularly notable in Internet technology, and the Rakuten Group's businesses must keep up with these changes. Recently, the Rakuten Group has recognized a need to fully adapt its services to Web 2.0 and mobile services, among other advances.

If the Rakuten Group should for some reason fall behind in its responses to technological progress, its services could become obsolete and its competitiveness decline. It is possible that even if the Rakuten Group is able to rectify the situation, it could incur increased costs for improving existing facilities and new development. Industry trends and the Rakuten Group's response to them could therefore have an impact on the business performance of the Rakuten Group. In addition, a technology that impedes the businesses of the Rakuten Group could emerge, and if it became widely used, could be damaging to the business and results of operations.

7. Risks Related to System Failure

Many of the Rakuten Group's businesses depend on the communications networks that connect computer systems. If these networks were to be interrupted by a natural disaster or accident, it would be difficult for the Rakuten Group to operate its businesses. Moreover, if a network were to become overloaded temporarily due to a high level of traffic, the servers of the Rakuten Group or the Internet provider could fail. In addition, an error in the hardware or software of the Rakuten Group or its merchants, purchasers, participants or other users could prevent the proper processing of transactions or could cause the system to shut down entirely. Furthermore, due to computer viruses, criminal activities such as unauthorized intrusion by a hacker, or malpractice by employees or managers, the Web pages of the Rakuten Group or its merchants could be overwritten or not work properly, or important data could be erased or improperly accessed.

The Rakuten Group commissions some of its key Internet-related operations including connection services and data server management to third-party providers. If problems should occur with those operations within the Rakuten Group or the third-party providers, the Rakuten Group could directly incur damage. In addition, an interruption in trading due to a server defect, failure or other cause could lead to loss of confidence in the Rakuten Group's systems or compensation claims. If such conditions occurred, it might have an adverse effect on the Rakuten Group's business (See I above (Risks Relating to Our Businesses), section 5. (Securities Business), paragraph (3) (System Interruption).

III. Risks Related to Group Branding

Since the Rakuten's founding, the Rakuten Group has invested substantial business resources in establishing its brand through its business development and sales promotion and advertising. The Rakuten Group believes that it has achieved a certain degree of brand recognition among consumers and intends to continue to invest its business resources in marketing and sales promotion and advertising to maintain and further develop this brand recognition.

Nevertheless, there is no guarantee that such efforts will turn out as intended or lead to income for the Rakuten Group. If problems arise in the development of the Rakuten Group's businesses, they could lower trust in the brand name and have a negative impact on Rakuten Group's results of operations, financial condition or stock price.

IV. Risks Related to the Group's Operational Structure

1. Risks Related to Dependence on Hiroshi Mikitani

The driving force behind the Rakuten Group's businesses is Hiroshi Mikitani, the CEO, and Chairman of Rakuten, Inc. Mr. Mikitani has been the CEO of Rakuten since its founding and has played an important role in driving the business in terms of marketing, technology, and finance, in addition to determining policy and strategy.

As of December 31, 2006, Mr. Mikitani and his family members directly and indirectly owned 45.4% of the shares issued by Rakuten. Consequently, the influence of Mr. Mikitani on the final decisions concerning the Rakuten Group, including the selection of directors, could be considered substantial, and it is possible for Mr. Mikitani to exert a strong impact on the direction of the Rakuten Group through these decisions. In light of this situation, the Rakuten Group undertook organizational improvements to create a management structure that did not depend excessively on Mr. Mikitani. Rakuten introduced an executive officer system in March 2003 and a chief officer system on November 1, 2006. Despite these efforts to establish a more appropriate structure, however, if Mr. Mikitani were to leave his post at this point in time, it could adversely affect the Rakuten Group's business, results of operations, and financial condition.

2. Risks Related to Securing Human Resources

The Rakuten Group's businesses require engineers to build and maintain computer systems as well as specialists in its different business fields and the Rakuten Group believes it will be necessary to continue hiring such staff as its businesses expand. Presently, the Rakuten Group is not aware of any major obstacles to its acquisition of the necessary personnel for its businesses. However, should the competition for human resources heat up in any of its business fields causing difficulties in acquiring talented new employees, or should current employees leave in substantial numbers, it could have a negative impact on the Rakuten Group's business, results of operations, and financial condition.

V. Risks Related to Expanding Business Through M&A

M&A-related Policy and Achievements

The technologies, business models, and other aspects of the Internet industry, in which the Rakuten Group is developing its businesses, change rapidly. In this business environment, the Rakuten Group actively uses M&A and joint venture strategies in Japan and overseas to enter new businesses, acquire new users, expand existing businesses, and obtain related technologies, and the Rakuten Group considers these activities to be an important management issue. The Rakuten Group believes that acquisitions enable shorter leadtimes than starting new businesses or expanding or developing existing businesses, and it intends to continue evaluating potential acquisitions as a business development strategy.

When making an acquisition, the Rakuten Group strives to avoid risk as far as possible by undertaking a detailed due diligence process regarding the target company's financial position and business and legal contracts. Nevertheless, there are cases where, due to the nature of the deal, fully adequate due diligence cannot be achieved. It is also impossible to completely discount the possibility that following the acquisition some contingent liability may arise or some previously unrecognized liability might be discovered. Moreover, when developing a new business, the very nature of the situation makes it difficult to predict accurately the impact of the new business on the Rakuten Group's existing businesses or performance. Changes in the business environment can cause the business to develop differently than originally planned, which could have a negative impact on the results of operations of the Rakuten Group as a whole and lead to the investment in the new business becoming unrecoverable. It may also prove difficult to integrate the information or internal control systems of the acquired company with those of the Rakuten Group, or the Rakuten Group could lose officers, employees or customers from the acquired company as a result of the acquisition. Moreover, future investment might be large compared with the current size of the business, making it possible that the risk to the Rakuten Group, including its financial condition, could increase. Meanwhile, development of operations overseas may be difficult because the Rakuten Group has little overseas business experience and will face differences in language, regional factors and legal and taxation systems, as well as economic and political concerns, and different business practices.

When commencing new businesses that it has not been involved with in the past, the Rakuten Group faces the risks inherent in the particular businesses. It is possible that acquisitions could create risk factors for the Rakuten Group other than those mentioned previously.

VI. Risks Related to Discussions About a Capital and Business Alliance With TBS

As of December 31, 2006, the Rakuten Group held slightly over 19% of the shares of common stock issued by Tokyo Broadcasting System, Inc. (TBS)

By creating a strong business partnership with TBS, the Rakuten Group plans to become the leading company in a media group capable of succeeding in the global market. To this end, on October 13, 2005 the Rakuten Group proposed a business integration with TBS based on a joint holding company.

Following the proposal, on November 30, 2005, with Mizuho Corporate Bank, Ltd. acting as witness, the Rakuten Group and TBS signed a memorandum of understanding outlining the basic framework for a tie-up, and agreed to begin discussions regarding a capital and business alliance. However, the validity of the memorandum and related agreements expired on February 28, 2007.

With a view to maximizing corporate and shareholder value, the Rakuten Group plans to continue pursuing the possibility of a capital and business tie-up with TBS in good faith.

TBS Shares Held by the Rakuten Group

At December 31, 2006, Rakuten Media Investment, Inc. held 29,901,200 shares of TBS (of this number, 16,715,700 shares were being used as collateral) and Rakuten Strategic Partners, Inc. held 6,369,500 shares of TBS, for a total of 36,270,700 common shares of TBS held by the Rakuten Group.

The book value of these shares stated in the balance sheet at the end of December 2006 amounted to ¥143,994 million. Should the market price of TBS shares change in future, it could therefore have a substantial impact on the results of operations and financial condition of the Rakuten Group.

VII. Risks Related to Interest-bearing Debt

As previously mentioned, the Rakuten Group operates Credit and Payment and Securities Businesses. The capital used to run these businesses is primarily raised through borrowings from financial institutions and through issuing corporate bonds.

At December 31, 2006, the balance of consolidated interest-bearing debt (the total of short- and long-term borrowings and corporate bonds) was ¥546,499 million, which is equivalent to 42.2% of total consolidated assets and reflects the Rakuten Group's continued high dependency on interest-bearing debt for financing. For this reason, the Rakuten Group's results of operations are sensitive to movement in interest rates, which could have an adverse effect on the fund raising capabilities and financial condition of the Rakuten Group.

In credit agreements signed by the Rakuten Group, such as loan and credit commitment line agreements, there are cases where the agreements include covenants and collateral provision replacement. Should the results of operations, financial condition or perceived creditworthiness of the Rakuten Group deteriorate, a portion of the Rakuten Group's outstanding debt may have to be repaid in a lump sum or new collateral may be demanded in accordance with these provisions. Future changes in the business environment or business strategies of the Rakuten Group could result in the Rakuten Group requiring more capital than expected and interest-bearing debt could rise further. In addition, there is no guarantee that the Rakuten Group will be able to obtain the conditions it wishes in financing its operations, which could restrict the Rakuten Group's operation of its businesses.

Financial Section

Consolidated Five-year Financial Summary

Rakuten, Inc. and Consolidated Subsidiaries
Years Ended December 31

	Millions of yen					Thousands of U.S. dollars
	2002	2003	2004	2005	**2006**	**2006**
For the Year:						
Net Sales	¥ 9,895	¥ 18,083	¥ 45,568	¥ 129,775	**¥ 203,272**	**$ 1,708,164**
Gross Profit	7,243	16,527	41,066	115,553	**175,970**	**1,478,739**
Operating Income	2,551	4,750	15,060	34,885	**29,149**	**244,948**
Net Income (loss)	(3,277)	(52,644)	(14,271)	19,450	**2,703**	**22,711**
At Year-End:						
Total Assets	34,055	188,016	307,557	1,657,709	**1,296,063**	**10,891,285**
Total Shareholders' Equity	30,220	26,365	45,853	76,550	**–**	**–**
Total Net Assets	–	–	–	–	**203,197**	**1,707,535**
Per Share (in yen and U.S. dollars):						
Total Net Assets	¥30,092.66	¥ 23,570.48	¥ 38,814.92	¥ 6,464.58	**¥14,492.23**	**$ 121.78**
Net Income (loss):						
Basic	(3,280.33)	(51,600.85)	(12,458.37)	1,642.50	**212.03**	**1.78**
Diluted	–	–	–	1,626.19	**193.09**	**1.62**
Other Information:						
Equity Ratio (%)	88.7	14.0	14.9	4.6	**14.6**	–
Return on Equity (%)	(10.2)	(186.1)	(39.5)	31.8	**2.0**	–
Cash Flow from Operating Activities	¥ 2,351	¥ 2,224	¥ 9,070	¥ (38,058)	**¥ (16,567)**	**$ (139,221)**
Cash Flow from Investment Activities	(3,287)	(59,925)	(30,040)	(149,566)	**(41,735)**	**(350,711)**
Cash Flow from Financing Activities	(696)	63,881	27,404	225,427	**76,614**	**643,816**
Outstanding Amount of Cash and Cash Equivalents	19,672	25,791	32,390	70,701	**89,219**	**749,748**
Employees	481	809	958	3,709	**3,430**	–

Notes: 1. See notes to consolidated financial statements.
2. U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥119 to U.S.$1, the approximate rate of exchange at December 31, 2006.

Results of Operations and Financial Condition

(1) Overview of Operations and Consolidated Financial Overview

During the fiscal year ended December 2006, the Japanese economy continued on a gradual expansionary track despite the impact of sluggish consumer spending and a deceleration of the U.S. economy. Exports and capital expenditure remained firm and there was steady improvement in employment conditions.

In the domestic market for Internet-related services, served by Rakuten's main business domain, the number of Japanese consumers with Internet access rose to an estimated 85.29 million, for a market penetration rate of 66.8%. The number of subscribers to optical fiber-based services increased dramatically, and the number of users accessing the Internet via mobile phone outnumbered those accessing from a PC for the first time, reflecting the ongoing shift to broadband and mobile-based services*. Meanwhile, the concept of an "open systems" platform and a degree of user participation unseen in conventional services — the so-called "Web 2.0" — attracted a great deal of attention as network technology advanced and the number of Internet users grew. More and more people are now frequenting "user-generated content" sites, such as blogs and social networking services (SNS).

Rakuten is responding to these changes in the business environment with efforts to enhance synergy through cooperation among group companies, develop new services and improve the level of service offered, in order to boost total Internet-related gross transaction value (GTV) to a target level of ¥1 trillion. The company is also making progress in efforts to boost profitability by improving the business structure.

The progress that the company continues to make in switching to an integrated Rakuten member ID system provides one good example of the type of synergy that it is fostering among group companies. As the ID system is unified and centralized, the company can leverage its database of user information to conduct a wide range of marketing activities. The company has also launched several ventures which encompass the operations of the entire Rakuten Group, such as "Rakuten Magazine," which brings together e-commerce and the functions of a free magazine, as well as the specialty site "Rakuten Company Life," which provides a comprehensive assortment of products and services for business users. The company also introduced a "platinum member" status as part of its "Rakuten Point Club" membership service, in an effort to further promote customer loyalty.

Examples of new or enhanced services introduced by the company this year include "Rakuten Auction," an Internet auction site, and "ANA Raku Pack," which offers domestic travel packages featuring a choice of airline tickets and hotel accommodations. Rakuten has initiated new business alliances in the Internet banking and mortgage loan businesses, and is aggressively pursuing other new ventures, as demonstrated by the launch of the "Rakuten Money Service." The company also upgraded its "Rakuten Institute of Technology," which is conducting research and development targeting new technologies to improve the technical level of its services.

To improve group profitability, Rakuten has abolished its former "internal company" structure, establishing a new, growth-oriented business structure. To achieve this, the company introduced a "growth management program" (GMP) to pursue a number of goals, such as establishing a more effective group growth strategy and making strategic investments to cultivate new businesses. The GMP also provides a framework for reorganizing the corporate structure and revising methods of allocating personnel in order to enhance flexibility, elevate productivity and reduce costs. Rakuten is focusing on all Internet-based and closely related business sectors as it works to lay the groundwork for future growth, and to this end, it has initiated dramatic restructuring measures, such as transferring the credit operations of Rakuten KC Co., Ltd. to Orient Corporation.

As a result of these aggressive efforts, in fiscal 2006 the company was able to elevate total GTV on Internet sites operated by the Rakuten Group by 48.5% year on year to ¥836,496 million. Net sales for the year soared 56.6%, to ¥203,272 million. The company booked operating losses during the period as part of a full restructuring of its Credit and Payment Business, as well as other steps to address a changing business environment, and as a result, net operating income declined by 16.4% year on year, to ¥29,149 million. At the net income level, Rakuten recorded a loss on restructuring business of ¥20,766 million on the transfer of the credit operations of Rakuten KC, and a ¥4,332 million loss on special retirement benefits. As a result, net income declined by 86.1% year on year, to ¥2,703 million.

* Source: Fiscal 2006 White Paper on Information and Telecommunications in Japan

(2) Analysis of Consolidated Financial Conditions

Assets

Total assets at the end of fiscal 2006 stood at ¥1,296,063 million, a decline of ¥361,646 million year on year (from ¥1,657,709 million at the end of fiscal 2005). This mainly reflects the restructuring of Rakuten KC, as well as a decline in trading assets from margin transactions.

Liabilities

Total liabilities stood at ¥1,092,866 million at the end of fiscal 2006, a decline of ¥479,509 million (from ¥1,572,375 million). This mainly reflects the restructuring of Rakuten KC as well as a decline in trading liabilities from margin transactions, and a decline in borrowings.

Net Assets

Net assets at the end of fiscal 2006 amounted to ¥203,197 million. The accounting standard relating to net assets was changed. The amount corresponding to the conventional “shareholders’ equity” in the balance sheet is ¥188,442 million at the end of fiscal 2006, an increase of ¥111,892 million year on year (from ¥76,550 million). This mainly reflects increases in capital through public offerings.

(3) Consolidated Cash Flows

Cash flows from operating activities were affected by a decline in net income generated for fiscal 2006, as well as an increase in income tax payments and a rise in loan receivables for certain consolidated subsidiaries, mainly related to credit card operations. The company recorded a net cash outflow from operating activities of ¥16,567 million (compared with an outflow of ¥38,058 million in fiscal 2005). Cash flows from investing activities showed a net cash outflow of ¥41,735 million (compared with an outflow of ¥149,566 million in fiscal 2005). Major items in this account included the acquisition of servers and other capital expenditures, as well as the purchase of real estate and buildings by Rakuten’s limited partnership real estate investment business, which was newly consolidated in fiscal 2006. Cash flows from financing activities showed a net cash inflow of ¥76,614 million (compared with an inflow of ¥225,427 million in fiscal 2005), reflecting a capital increase through public offerings, among other items. The balance of cash and cash equivalents rose by ¥18,561 million during fiscal 2006 (compared with an increase of ¥38,310 million in fiscal 2005), to a total of ¥89,219 million at the end of fiscal 2006 (an increase of 26.2% year on year).

Consolidated Balance Sheets

Rakuten, Inc. and Consolidated Subsidiaries
December 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2006**	2005	**2006**
CURRENT ASSETS			
Cash	**¥ 111,182**	¥ 82,038	**$ 934,303**
Trade notes and accounts receivable	**16,715**	11,907	**140,461**
Installment accounts receivable	**63,356**	143,824	**532,407**
Installment accounts receivable, guarantee contracts	**5,053**	301,154	**42,458**
Allowance for doubtful accounts	**(31,083)**	(28,785)	**(261,203)**
Beneficial interests in securitized assets	**73,214**	68,837	**615,240**
Deposits for security brokerage business	**235,866**	239,439	**1,982,066**
Margin transactions assets for security brokerage business	**220,606**	285,358	**1,853,829**
Short-term guarantee deposits for security brokerage business	**9,773**	28,648	**82,128**
Trade loans receivable	**186,794**	168,280	**1,569,698**
Deferred tax assets (Note 11)	**13,638**	7,750	**114,606**
Other	**59,784**	46,149	**502,395**
Total current assets	**964,898**	1,354,599	**8,108,388**
FIXED ASSETS			
PROPERTY, PLANT AND EQUIPMENT			
Land	**31,677**	8,491	**266,193**
Other	**44,293**	39,280	**372,210**
Gross property, plant and equipment	**75,970**	47,771	**638,403**
Accumulated depreciation	**(27,030)**	(27,219)	**(227,141)**
Net property, plant and equipment	**48,940**	20,552	**411,262**
INTANGIBLE ASSETS			
Goodwill (Note 6)	**64,795**	56,868	**544,498**
Other	**18,294**	8,741	**153,727**
Total intangible assets	**83,089**	65,609	**698,225**
INVESTMENTS AND OTHER ASSETS			
Investment securities (Note 4)	**169,776**	170,233	**1,426,693**
Deferred tax assets (Note 11)	**14,077**	4,625	**118,297**
Other	**16,318**	42,584	**137,129**
Allowance for doubtful accounts	**(1,035)**	(493)	**(8,709)**
Total investments assets and other assets	**199,136**	216,949	**1,673,410**
Total fixed assets	**331,165**	303,110	**2,782,897**
TOTAL ASSETS	**¥1,296,063**	¥1,657,709	**$10,891,285**

See notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of Yen 2006	2005	Thousands of U.S. Dollars (Note 1) 2006
CURRENT LIABILITIES			
Short-term debt (Note 7)	**¥ 184,588**	¥ 375,774	**$ 1,551,160**
Current portion of long-term debt (Note 7)	**105,748**	126,255	**888,639**
Trade notes and accounts payable	**6,258**	6,358	**52,590**
Accounts payable, guarantee contracts	**5,053**	301,154	**42,458**
Advances received	**36,555**	10,885	**307,188**
Income taxes payable (Note 11)	**1,710**	13,532	**14,369**
Deferred installment income	**909**	9,857	**7,638**
Deposits received for security brokerage business	**152,387**	155,280	**1,280,560**
Margin transactions liabilities for security brokerage business	**138,211**	231,759	**1,161,439**
Guarantee deposits received for security brokerage business	**95,627**	92,441	**803,588**
Allowances	**6,124**	3,497	**51,462**
Other	**73,650**	35,288	**618,906**
Total current liabilities	**806,820**	1,362,080	**6,779,997**
LONG-TERM LIABILITIES			
Long-term debt (Note 7)	**256,163**	196,476	**2,152,630**
Allowance for retirement benefits (Note 8)	**146**	139	**1,227**
Allowance for directors' retirement benefits (Note 8)	**22**	159	**186**
Allowance for interest repayments	**3,548**	–	**29,815**
Deferred tax liabilities (Note 11)	**22,303**	10,231	**187,417**
Other	**722**	978	**6,074**
Total long-term liabilities	**282,904**	207,983	**2,377,349**
STATUTORY RESERVE FOR SECURITY BROKERAGE BUSINESS	**3,142**	2,312	**26,404**
Total liabilities	**1,092,866**	1,572,375	**9,183,750**
MINORITY INTERESTS	**–**	8,784	–
NET ASSETS (Note 9)			
Common stock—authorized, 39,418,000 shares; issued, 13,013,493 shares in 2006	**107,295**	–	**901,636**
Capital surplus	**116,639**	–	**980,160**
Accumulated deficit	**(56,895)**	–	**(478,106)**
Less treasury stock—at cost, 1,060 shares in 2006	**(12)**	–	**(100)**
Total shareholders' equity	**167,027**	–	**1,403,590**
VALUATION, TRANSLATION ADJUSTMENTS AND OTHERS			
Unrealized holding gain on investment securities	**21,056**	–	**176,943**
Unrealized gain on derivatives	**137**	–	**1,150**
Translation adjustments	**359**	–	**3,015**
Total valuation, translation adjustments and others	**21,552**	–	**181,108**
STOCK ACQUISITION RIGHTS	**11**	–	**89**
MINORITY INTERESTS	**14,607**	–	**122,748**
Total net assets	**203,197**	–	**1,707,535**
COMMITMENTS AND CONTINGENCIES (Note 14)	**–**	–	**–**
TOTAL LIABILITIES AND NET ASSETS	**¥1,296,063**	–	**$10,891,285**
SHAREHOLDERS' EQUITY			
Common stock—authorized, 39,418,000 shares; issued, 11,837,893 shares in 2005	**–**	54,135	**–**
Capital surplus	**–**	63,479	**–**
Accumulated deficit	**–**	(58,265)	**–**
Unrealized holding gain on investment securities	**–**	16,975	**–**
Translation adjustments	**–**	238	**–**
Less treasury stock—at cost, 1,060 shares in 2005	**–**	(12)	**–**
Total shareholders' equity	**–**	76,550	**–**
COMMITMENTS AND CONTINGENCIES (Note 14)	**–**	–	**–**
TOTAL LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	**–**	¥1,657,709	**–**

Consolidated Statements of Income

Rakuten, Inc. and Consolidated Subsidiaries
Years Ended December 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	**2006**
NET SALES	**¥203,272**	¥129,775	**$1,708,164**
COST OF SALES	**27,302**	14,222	**229,425**
Gross profit	**175,970**	115,553	**1,478,739**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**146,821**	80,668	**1,233,791**
Operating income	**29,149**	34,885	**244,948**
OTHER INCOME (EXPENSES)			
Interest and dividend income	**1,324**	877	**11,125**
Gain on sales of securities	**11,314**	335	**95,075**
Foreign exchange gain	**244**	225	**2,048**
Equity in earnings of affiliates	**854**	1,042	**7,178**
Gain on changes in equity interests of subsidiary and affiliates	**1,495**	3,515	**12,560**
Interest expenses	**(1,616)**	(368)	**(13,582)**
Commission expenses	**(1,216)**	(909)	**(10,218)**
Loss on restructuring business	**(20,766)**	–	**(174,503)**
Provision for allowance for doubtful accounts	**(6,465)**	–	**(54,328)**
Provision for allowance for interest repayments	**(3,005)**	–	**(25,253)**
Special retirement benefits (Note 8)	**(4,332)**	–	**(36,401)**
Loss on sales or disposal of fixed assets	**(663)**	(138)	**(5,569)**
Stock issuance costs	**(602)**	(62)	**(5,061)**
Provision for points reserve	**–**	(1,022)	**–**
Amortization of start-up costs	**–**	(910)	**–**
Provision for statutory reserve for security brokerage business	**(830)**	(1,099)	**(6,974)**
Other—net	**(1,674)**	(2,094)	**(14,062)**
Other expenses—net	**(25,938)**	(608)	**(217,965)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**3,211**	34,277	**26,983**
INCOME TAXES (Note 11)			
Current	**10,610**	16,103	**89,164**
Deferred	**(6,154)**	(2,542)	**(51,714)**
Total income taxes	**4,456**	13,561	**37,450**
MINORITY INTERESTS IN NET LOSS (INCOME)	**3,948**	(1,266)	**33,178**
NET INCOME	**¥ 2,703**	¥ 19,450	**$ 22,711**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Rakuten, Inc. and Consolidated Subsidiaries
Year Ended December 31, 2006

	Millions of yen											
As of	Dec. 31, 2005			Changes in fiscal 2006								Dec. 31, 2006
	As previously reported	Reclassification (Note 3)	As restated	Issuance of common stock	Cash dividends paid	Bonuses to directors and auditors	Net income	Changes in the scope of consolidation	Changes in the scope of equity method	Net changes in items other than those in shareholders' equity	Total of changes in fiscal 2006	
Common stock	¥54,135	–	¥54,135	**¥ 53,160**	**–**	**–**	**–**	**–**	**–**	**–**	**¥ 53,160**	**¥107,295**
Capital surplus	63,479	–	63,479	**53,160**	**–**	**–**	**–**	**–**	**–**	**–**	**53,160**	**116,639**
Accumulated deficit	(58,265)	–	(58,265)	**–**	**(592)**	**(133)**	**2,703**	**(620)**	**12**	**–**	**1,370**	**(56,895)**
Unrealized holding gain on investment securities	16,975	(16,975)	–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Translation adjustments	238	(238)	–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Treasury stock	(12)	–	(12)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12)**
Total shareholders' equity	76,550	(17,213)	59,337	**106,320**	**(592)**	**(133)**	**2,703**	**(620)**	**12**	**–**	**107,690**	**167,027**
Unrealized holding gain on investment securities	–	16,975	16,975	**–**	**–**	**–**	**–**	**–**	**–**	**4,081**	**4,081**	**21,056**
Unrealized gain on derivatives	–	–	–	**–**	**–**	**–**	**–**	**–**	**–**	**137**	**137**	**137**
Translation adjustments	–	238	238	**–**	**–**	**–**	**–**	**–**	**–**	**121**	**121**	**359**
Total valuation, translation adjustments and others	–	17,213	17,213	**–**	**–**	**–**	**–**	**–**	**–**	**4,339**	**4,339**	**21,552**
Stock acquisition rights	–	–	–	**–**	**–**	**–**	**–**	**–**	**–**	**11**	**11**	**11**
Minority interests	–	8,784	8,784	**–**	**–**	**–**	**–**	**–**	**–**	**5,823**	**5,823**	**14,607**
Total net assets (Note 9)	–	–	¥85,334	**¥106,320**	**¥(592)**	**¥(133)**	**¥2,703**	**¥(620)**	**¥12**	**¥10,173**	**¥117,863**	**¥203,197**
Total net assets, Dec. 31, 2006 Thousands of U.S. dollars (Note 1)	–	–	$717,090	**$893,438**	**$(4,973)**	**$(1,119)**	**$22,711**	**$(5,203)**	**$105**	**$85,486**	**$990,445**	**$1,707,535**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Rakuten, Inc. and Consolidated Subsidiaries
Year Ended December 31, 2005

For the year ended	Millions of yen 2005 Dec. 31, 2005
Common stock	
Balance at beginning of the year	¥54,059
Net change during the year	76
Balance at end of the year	54,135
Capital surplus	
Balance at beginning of the year	62,863
Net change during the year	616
Balance at end of the year	63,479
Accumulated deficit	
Balance at beginning of the year	(77,312)
Net income	19,450
Cash dividends paid	(295)
Bonuses to directors and auditors	(25)
Changes in the scope of equity method	(83)
Other	–
Balance at end of the year	(58,265)
Unrealized holding gain on investment securities	
Balance at beginning of the year	6,372
Net change during the year	10,603
Balance at end of the year	16,975
Translation adjustments	
Balance at beginning of the year	(48)
Net change during the year	286
Balance at end of the year	238
Treasury stock	
Balance at beginning of the year	(81)
Net change during the year	69
Balance at end of the year	(12)
Total shareholders' equity	¥76,550

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Rakuten, Inc. and Consolidated Subsidiaries
Years Ended December 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	**2006**
OPERATING ACTIVITIES			
Income before income taxes and minority interests	**¥ 3,211**	¥ 34,277	**$ 26,983**
Adjustments for:			
Payments of income taxes	**(27,634)**	(3,077)	**(232,216)**
Amortization of goodwill	**3,012**	910	**25,307**
Equity in earnings of affiliates	**(854)**	(1,042)	**(7,178)**
Depreciation and amortization	**6,951**	4,064	**58,412**
Loss on sales or disposal of fixed assets	**663**	139	**5,569**
Amortization of start-up costs	**13**	910	**113**
Gain on sales of securities	**(11,314)**	(335)	**(95,075)**
Increase (decrease) in allowance for doubtful accounts	**15,099**	(556)	**126,884**
Allowance for loss on interest repayments	**3,548**	–	**29,815**
Gain on changes in equity interests of subsidiary and affiliates	**(1,495)**	(3,515)	**(12,560)**
Interest and dividend income	**(1,324)**	(877)	**(11,125)**
Interest expenses	**1,616**	368	**13,582**
Other non-cash expenses	**3,803**	1,584	**31,956**
Decrease in accounts receivable	**104,119**	104,515	**874,946**
(Increase) decrease in beneficial interests in securitized assets	**(15,588)**	10,963	**(130,990)**
Increase (decrease) in accounts payable	**1,985**	(558)	**16,680**
Decrease in loan accounts payable, guarantee contracts	**(141,603)**	(103,935)	**(1,189,939)**
Increase (decrease) in other accounts payable and accrued expenses	**9,877**	(1,531)	**82,999**
Increase in advances received	**1,046**	1,119	**8,793**
Decrease in deferred installment income	**(308)**	(616)	**(2,588)**
Decrease (increase) in deposits for security brokerage business	**86,818**	(351,291)	**729,562**
(Decrease) increase in deposits received for security brokerage business	**(93,465)**	282,377	**(785,423)**
Increase in statutory reserve for security brokerage business	**830**	1,099	**6,974**
Decrease in deposits marketable securities for security brokerage business	**24,709**	7,891	**207,640**
Increase in trade loans receivable	**(11,495)**	(15,361)	**(96,595)**
Other—net	**21,213**	(5,580)	**178,253**
Net cash used in operating activities	**¥ (16,567)**	¥ (38,058)	**$ (139,221)**

(Continued on following page)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	**2006**
INVESTING ACTIVITIES			
Payments for time deposits	**(1,744)**	(5,619)	**(14,658)**
Proceeds from withdrawal from time deposits	**3,856**	15	**32,406**
Acquisition of securities	**(20,506)**	(178,801)	**(172,321)**
Proceeds from sales and redemption of securities	**37,441**	55,176	**314,630**
Acquisition of shares of consolidated subsidiaries	**(5,573)**	(9,502)	**(46,831)**
Acquisition of property, plant and equipment	**(33,316)**	(2,927)	**(279,964)**
Proceeds from sales of property, plant and equipment	**2,339**	120	**19,653**
Acquisition of intangible assets	**(12,236)**	(5,448)	**(102,820)**
Receipts of interests and dividends	**1,573**	417	**13,219**
Other	**(13,569)**	(2,997)	**(114,025)**
Net cash used in investing activities	**(41,735)**	(149,566)	**(350,711)**
FINANCING ACTIVITIES			
Net increase (decrease) in short-term debt	**(203,203)**	145,752	**(1,707,588)**
Proceeds from long-term debt	**184,844**	86,860	**1,553,314**
Repayments of long-term debt	**(14,483)**	(10,670)	**(121,709)**
Proceeds of investments from minority shareholders	**6,200**	–	**52,101**
Repayments of investments to minority shareholders	**(794)**	–	**(6,673)**
Proceeds from issuance of stock	**105,717**	89	**888,378**
Proceeds from minority shareholders pursuant to increase in capital	**1,770**	4,015	**14,873**
Payment of interest expenses	**(1,496)**	(287)	**(12,568)**
Cash dividends paid	**(585)**	(288)	**(4,916)**
Cash dividends paid to minority shareholders	**(1,356)**	(44)	**(11,396)**
Net cash provided by financing activities	**76,614**	225,427	**643,816**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**249**	507	**2,097**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**18,561**	38,310	**155,981**
EFFECT OF CHANGE OF THE SCOPE OF CONSOLIDATION ON CASH AND CASH EQUIVALENTS	**(43)**	–	**(356)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**70,701**	32,391	**594,123**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 89,219**	¥ 70,701	**$ 749,748**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Rakuten, Inc. and Consolidated Subsidiaries
Years Ended December 31, 2006 and 2005

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 Securities and Exchange Law of Japan.

On December 27, 2005, the Accounting Standards Board of Japan ("ASBJ") published a new accounting standard for the statement of changes in net assets which is effective for fiscal years ending on or after May 1, 2006.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside 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 ¥119 to $1, the approximate rate of exchange at December 31, 2006. 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.

2. Summary of Significant Accounting Policies

***a. Consolidation*—**The consolidated financial statements as of December 31, 2006 include the accounts of the Company and its 42 (33 in 2005) 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, and 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 12 (11 in 2005) affiliates are accounted for by the equity method.

Investments in the remaining 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. 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 being amortized over the periods of the estimated useful economic lives (20 years or less). If the amount is immaterial, the amount is fully amortized in the initial year recorded.

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

The reconciliation between the year-end balance of cash stated in the consolidated balance sheets and cash and cash equivalents stated in the consolidated statements of cash flows is as follows:

	Millions of Yen	
December 31	**2006**	2005
Cash	**¥111,182**	¥82,038
Time deposits over three months' maturity	**(3,337)**	(5,449)
Deposits separately kept	**(4,700)**	(4,700)
Deposits with restrictions	**(13,926)**	(1,188)
Cash and cash equivalents	**¥ 89,219**	¥70,701

***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.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

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 on a straight-line basis over its estimated useful life (mainly 5 years).

f. Stock Issuance Costs—Stock issuance costs are charged to income as incurred.

g. Allowance for Doubtful Accounts—An allowance equal to estimated losses is established to prepare for losses from credit guarantees. The estimation method of an allowance for doubtful accounts at a consolidated subsidiary, Rakuten KC Co., Ltd., was changed in fiscal 2006. Taking an opportunity of significant changes in the status of loans receivables accompanied with business restructuring such as the transfer of its credit business to Orient Corporation by the way of corporate separation in November 2006, the company reviewed and re-analyzed actual credit losses by categories of loans receivable. As a result, a database for an accurate estimation of credit risks for change in status of loans receivable was established.

The change in the estimation method of allowance for doubtful accounts is based on the database. The company provides allowance for estimated credit losses which is reflected from an estimated loss ratio and based on a result of statistical analysis in addition to the estimation method used in the past.

Furthermore, upon the announcement of the Accounting Treatment for Calculation of Reserves Relating to Losses at Consumer Finance Companies, etc., Resulting from Interest Repayment Claims by the Japanese Institute of Certified Public Accountants (JICPA) on October 13, 2006, the company reviewed estimated losses for future interest repayment claims, and decided to provide an allowance for write-off of the excess interest portion of loans receivable as a part of allowance for doubtful accounts accompanied with interest repayments from customers. The amount of ¥6,465 million of the provision for allowance for doubtful accounts upon the change in the estimation method was recorded as an other expense, and included ¥2,881 million for estimated write-off of the excess interest portion of loans receivable in conjunction with change in the estimation method for interest repayment losses.

h. Reserve for Loss on Restructuring Business—Reserve for loss on restructuring business of Rakuten KC Co., Ltd. was recorded based on future expenses to be incurred.

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

At some consolidated subsidiaries, an allowance is posted at the year-end in accordance with each company's regulations to provide for directors' retirement benefits. Additionally, a part of consolidated subsidiaries previously had had a company's regulations to provide for directors' retirement benefits abolished the company's regulation and decided not to pay retirement bonuses to its directors.

j. Allowance for Loss on Interest Repayments—Accompanied with the announcement of the Accounting Treatment for Calculation of Reserves Relating to Losses at Consumer Finance Companies, etc., Resulting from Interest Repayment Claims by the Japanese Institute of Certified Public Accountants (JICPA) on October 13, 2006, a provision was made for a future possible loss for interest repayment based on the actual ratio of repayment for the number of interest repayment claims and an average amount of repayments and others for a reasonable estimation period at a certain subsidiary. The amount of allowance for the interest repayment at December 31, 2006 was ¥3,548 million. The expected repayment amount of ¥5,650 million for write-off of the excess interest portion of loans receivable was included in the allowance for doubtful accounts.

The difference in allowance for the interest repayment calculation at the beginning of fiscal 2006 based on the revised estimation method and the amount of allowances based on the old estimation method is to be booked as special losses in the period. The amount of special loss is ¥3,005 million for fiscal 2006.

k. Reserve for Points—An amount equivalent to points that are earned by customers and are expected to be used in the future as of the fiscal year is recorded.

l. Statutory Reserve for Security Brokerage Business—At a certain consolidated subsidiary, provision is made for possible loss resulting from securities transaction problems. The amount of the reserve is computed based on Article 35 of the Cabinet Office Ordinance Concerning Securities Companies as stipulated by Article 51 of the Securities and Exchange Law.

m. Leases—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

***n. 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.

***o. 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.

***p. Foreign Currency Financial Statements*—**The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current 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 the balance sheet date.

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

***q. Derivatives and Hedging Activities*—**The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps 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.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

For interest rate swaps, deferred hedge accounting has been adopted. However, a special method is used for interest rate swaps that meet certain conditions.

For foreign currency-denominated guarantee deposits with currency forward agreements, the appropriation method has been adopted.

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

Interest rate swaps are used to establish hedges for exposure to interest rate volatility risk associated with loans. A hedged item is identified by each individual contract.

Foreign exchange volatility risk associated with foreign currency-denominated guarantee deposits is, in accordance with the company rules, effectively hedged during the holding period by using currency forward agreements.

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

For interest rate swaps, the company compares every six months the cumulative changes in cash flows of the hedged items and hedging instruments. 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.

***r. New Accounting Pronouncement*—**Business combination and business separation—In October 2003, the Business Accounting Council ("BAC") issued a statement of opinion, "Accounting for Business Combinations," and on December 27, 2005 the ASBJ issued "Accounting Standard for Business Separations" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Separations." These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be amortized over 20 years or less with the straight-line method, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

The Group adopted the new accounting standard for business combination effective January 1, 2005.

The goodwill is amortized over the period in which such action is deemed effective. However, if the amount is marginal, the entire account is amortized when it is booked.

During fiscal 2005, the Company purchased a number of companies, including Rakuten KC Co., Ltd. (formerly known as Kokunai Shinpan Co., Ltd), Rakuten Research, Inc. (formerly known as Cyber Brains Co., Ltd.) and LinkShare Corporation. All companies were purchased based on their long-term prospects and strong relationships with Group businesses.

For these reasons, goodwill from these purchases has been amortized based on sound estimates using the maximum period of 20 years according to the guidelines for the preparation for the consolidated financial statements and the amortization expense is recorded as selling, general and administrative expenses.

3. Accounting Changes

***Impairment for Fixed Assets*—**In August 2002, BAC issued a statement of opinion, “Accounting for Impairment of Fixed Assets,” and in October 2003 the ASBJ issued ASBJ Guidance No. 6, “Guidance for Accounting Standard for Impairment of Fixed Assets.” These new pronouncements were effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Group has applied the new accounting standard for impairment of fixed assets effective January 1, 2006.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes and minority interests by ¥734 million for the year ended December 31, 2006.

Accumulated impairment loss is subtracted directly from each asset according to new guidelines for the preparation for the consolidated financial statements.

***Presentation of Net Assets*—**In December 2005, the ASBJ issued “Accounting Standard for Presentation of Net Assets in the Consolidated Balance Sheets” and related guidance.

Effective January 1, 2006, the Group has applied the new accounting standard for presentation of net assets in the consolidated balance sheets. The Group presents its net assets in the balance sheets using the new presentation as of December 31, 2006.

The amount corresponding to the conventional “shareholders’ equity” in the balance sheet is ¥188,442 million as of December 31, 2006.

***Stock Options*—**On December 27, 2005, the ASBJ issued “Accounting Standard for Stock Options” and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for director, auditor and employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employee based on the fair value of either the stock options or the goods or services received. In the balance sheet, the stock option is presented as a component of net assets until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions.

Effective January 1, 2006, the Group has applied the new accounting standard for stock options to those granted on and after May 1, 2006. The effect of adoption of this accounting standard was to increase selling, general and administrative expenses by ¥10 million and decrease operating income and income before income taxes and minority interests by the same amount for the year ended December 31, 2006.

***Bonuses to Directors and Corporate Auditors*—**Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders' meeting.

The ASBJ issued a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year-end to which such bonuses are attributable.

Effective January 1, 2006, the Group has applied the new accounting standard for bonuses to directors and corporate auditors. The effect of adoption of this accounting standard was to increase selling, general and administrative expenses by ¥87 million and decrease operating income and income before income taxes and minority interests by the same amount for the year ended December 31, 2006.

4. Securities

The carrying amounts and aggregate fair values of marketable securities at December 31, 2006 and 2005 were as follows:

	Millions of Yen			
December 31, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Marketable securities classified as				
Trading	**–**	**–**	**–**	**¥ 425**
Available-for-sale				
Equity securities	**¥117,372**	**¥34,719**	**¥462**	**151,629**
Debt securities	**3,766**	**9**	**–**	**3,775**
Other	**100**	**–**	**1**	**99**
December 31, 2005				
Marketable securities classified as				
Available-for-sale				
Equity securities	117,135	27,690	6	144,819
Debt securities	1,527	1	–	1,528
Other	100	–	1	99

Available-for-sale securities whose fair value is not readily determinable as of December 31, 2006 and 2005 were as follows:

	Millions of Yen	
	2006	2005
Equity securities of unlisted corporations	**¥5,541**	¥ 2,908
Others	**2,051**	19,673

Proceeds from sales of available-for-sale securities for the years ended December 31, 2006 and 2005 were ¥24,262 million and ¥915 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, for the years ended December 31, 2006 and 2005 were ¥11,314 million and ¥335 million, respectively.

Gross realized losses on these sales were ¥2 million for the year ended December 31, 2005.

The face value of debt securities by contractual maturities for securities classified as available-for-sale securities at December 31, 2006 and 2005, are as follows:

	Millions of Yen	
	2006	2005
Foreign debt securities (Due within one year)	**¥3,811**	¥1,534

Investment securities to non-consolidated subsidiaries and affiliates are as follows:

	Millions of Yen	
	2006	2005
Investments in affiliates (under the equity method of accounting)		
Investment securities (stock etc.)	**¥8,016**	¥5,741
Investments in non-consolidated subsidiaries and affiliates (not subject to the equity method of accounting)		
Investment securities (stock etc.)	**3,738**	–

5. Leased Assets

A breakdown of leased assets as of December 31, 2006 and 2005 was as follows:

	Millions of Yen	
	2006	2005
Furniture and fixture	**¥14,075**	¥17,224
Other	**144**	171
Total	**14,219**	17,395
Accumulated depreciation	**(13,166)**	(15,839)
Net leased assets	**¥ 1,053**	¥ 1,556

The Company leases furniture and fixtures and other assets to its customers.

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, 2006 and 2005, were as follows:

	Millions of Yen	
	2006	2005
Due within one year	**¥ 423**	¥ 550
Due after one year	**693**	1,066
Total	**¥1,116**	¥1,616

6. Goodwill

The change in the carrying amount of goodwill for the years ended December 31, 2006 and 2005, is as follows:

	Millions of Yen
Balance at January 1, 2005	–
Goodwill acquired during the year	¥57,778
Amortization	(910)
Balance at December 31, 2005	56,868
Goodwill acquired during the year	10,939
Amortization	(3,012)
Balance at December 31, 2006	**¥64,795**

Goodwill acquired during the year ended December 31, 2005 mainly consisted of goodwill related to the acquisition of Rakuten KC Co., Ltd. (formerly known as Kokunai Shinpan Co., Ltd.), Rakuten Research Inc. (formerly known as Cyber Brain Co., Ltd.) and LinkShare Corporation. Goodwill acquired during the year ended December 31, 2006 mainly consisted of goodwill related to the acquisition of Rakuten KC Co., Ltd. and Rakuten Securities, Inc.

7. Short-term and Long-term Debt

Short-term debt at December 31, 2006 and 2005 consisted of notes to banks, bank overdrafts and commercial paper. Long-term debt at December 31, 2006 and 2005 consisted of the following:

	Millions of Yen	
	2006	2005
Corporate debentures due 2006 with interest rates ranging from 1.050% to 2.5%	**–**	¥ 12,000
Corporate debentures due 2010 with floating interest rate at 0.525%	**¥ 10,000**	10,000
Loan from banks and other financial institutions		
Collateralized	**246,413**	140,967
Unsecured	**105,498**	159,764
Total	**361,911**	322,731
Less current portion	**(105,748)**	(126,255)
Long-term debt, less current portion	**¥256,163**	¥196,476

Weighted average interest rates of loans as of December 31, 2006 and 2005 are as follows:

	2006	2005
Short-term bank loan	**1.311%**	1.076%
Long-term bank loan, due within one year	**2.102%**	2.187%
Long-term bank loan, due after one year	**1.895%**	2.098%
Commercial paper	**0.795%**	–

Annual maturities of long-term debt at December 31, 2006 were as follows:

Year Ending December 31	Millions of Yen
2007	¥105,748
2008	83,683
2009	100,713
2010	55,132
2011	15,545
2012 and thereafter	1,090
Total	¥361,911

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥90,103 and ¥286,742 million and the above collateralized long-term debt at December 31, 2006 and 2005 were as follows:

	Millions of Yen	
	2006	2005
Installment accounts receivable and trade loans receivable	**¥155,188**	¥254,735
Investment securities	**68,751**	55,624
Land and buildings	**25,276**	–
Deposits	**760**	126
Receivable from lease contracts	**682**	1,675
Other	**20**	477
Total	**¥250,677**	¥312,637

Securities in custody from customers in the amount of ¥27,272 million and ¥54,378 million pledged as collateral for short-term bank loans at December 31, 2006 and 2005, respectively. Securities deposited by customers as guarantees in the amount of ¥67,921 million and ¥70,384 million pledged as collateral for borrowings related to margin transactions of ¥110,183 million and ¥210,039 million at December 31, 2006 and 2005, respectively. Securities loaned were pledged as collateral for securities borrowed in the amount of ¥32,599 million at December 31, 2006.

Total fair value of the securities pledged as collateral at December 31, 2006 and 2005 consisted of the following:

	Millions of Yen	
	2006	2005
Securities loaned on margin transactions	**¥ 29,514**	¥ 24,339
Securities pledged for loans payable for margin transactions	**109,679**	209,522
Securities loaned by promissory note collateralized	**32,370**	7,509

Total fair value of the securities received as collateral at December 31, 2006 and 2005 consisted of followings:

	Millions of Yen	
	2006	2005
Securities pledged for loans receivable for margin transactions	**¥204,571**	¥293,385
Securities borrowed on margin transactions	**4,039**	2,365
Substitute securities for guarantee deposits received on futures	**208,428**	221,715

As is customary in Japan, the Company maintains substantial deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

Unused commitment lines for financing at December 31, 2006 and 2005 amounted to ¥80,600 million and ¥50,000 million, respectively.

8. Retirement and Pension Plans

Certain consolidated subsidiaries have retirement and pension plans for employees, directors and corporate auditors.

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

Information concerning retirement benefit obligation:

	Millions of Yen	
	2006	2005
Projected benefit obligation	**¥(4,365)**	¥(4,783)
Fair value of plan assets	**4,357**	4,614
Unfunded retirement benefit obligation	**(8)**	(169)
Unrecognized actuarial gain (loss)	**(138)**	30
Net retirement benefit obligation as shown on balance sheet	**(146)**	(139)
Allowance for retirement benefits	**(146)**	(139)

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

Retirement benefit expenses:

	Millions of Yen	
	2006	2005
Service cost	**¥ 209**	¥135
Interest cost	**72**	47
Expected return on plan assets	**(72)**	(39)
Amortization of actuarial gain	**24**	51
Special retirement benefit expenses	**4,332**	–
Total retirement benefit expenses	**¥4,565**	¥194

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

Basis for calculating retirement benefit liabilities, etc.:

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

	2006	2005
Discount rate	**2%**	2%
Expected rate of return on plan assets	**2%**	2%
Amortization period of actuarial gains and losses	**10 years**	10 years

9. Net Assets

On and after May 1, 2006, Japanese companies are subject to a new corporate law (the "Corporate Law") which reformed and replaced the Commercial Code of Japan (the "Code") with various revisions that are, for the most part, applicable to events or transactions occurring on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes brought about by the Corporate Law that affect financial matters are summarized below:

***a. Dividends*—**Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as: (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) having a term of service for directors prescribed as one year rather than two years as normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends in kind to shareholders subject to a certain limitation and additional requirements.

The fiscal year in which the last of these directors end their service, within a period of two years following their initial appointment, will be considered the completion of the terms of office for these directors, and will be viewed as the conclusion of input by the Ordinary General Meeting of Shareholders on this matter.

***b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus*—**The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of the legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

***c. Treasury Stock and Treasury Stock Acquisition Rights*—**The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Under the Corporate Law, stock options, which were previously presented as a liability, are now presented as a component of net assets.

***d. Unrealized Gain on Derivatives*—**Under the Corporate Law, deferred gain on derivatives from hedge transactions, previously presented as a liability, is now presented as a component of net assets.

10. Stock-based Compensation Plans

The Company has a stock option plan as an incentive plan 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 to directors, auditors and certain employees of the Company, subsidiaries and affiliates every year. These options vest about over two years to four years and expire in six years to eight years from the date of grant. Some subsidiaries have the same type of plans. For the fiscal year ended December 31, 2006, the Company recorded the fair value of the stock options granted after May 1, 2006 as a part of their remuneration.

A summary of information for the Company's stock option plans is as follows:

Grant Date	Exercisable Period	Exercise Price	Number of Shares
April 26, 2001	From March 30, 2003 to March 28, 2011	¥ 11,210*	32,008
April 30, 2002	From March 29, 2006 to March 27, 2014	11,000*	12,670
July 14, 2003	From March 28, 2007 to March 26, 2013	19,300*	49,240
August 29, 2003	From March 28, 2007 to March 26, 2013	27,500*	3,360
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*

The remuneration cost recognized for stock-based compensation plans for the year ended December 31, 2006 was ¥10 million.

The weighted-average fair value per share at the date of grant for the stock options granted on December 14, 2006 was ¥29,400. The fair value of the stock options granted on the date of grant, which is amortized to expense over the vesting period, is estimated using the Black-Scholes option-valuation model with the following weighted-average assumptions:

	2006
Risk-free interest rate	**1.32%**
Expected lives	**6.25 years**
Expected volatility	**55.0%**
Expected dividends yield	**0.09%**

A summary of the status of the Company's options as of December 31, 2006, and changes during the years is as follows:

	Number of Shares
Outstanding at December 31, 2005	212,618
Granted	46,340
Exercised	(24,500)
Expired	(700)
Outstanding at December 31, 2006	233,758
Exercisable at December 31, 2005	47,978
Exercisable at December 31, 2006	44,678

11. 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, 2006 and 2005.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at December 31, 2006 and 2005 are as follows:

	Millions of Yen	
	2006	2005
Deferred tax assets		
Excess of depreciation	**¥ 400**	¥ 1,249
Impairment loss	**1,284**	–
Allowance for doubtful accounts	**5,897**	3,982
Reserve for points	**1,576**	741
Tax loss carryforwards	**21,321**	4,470
Other	**7,657**	6,806
Less valuation allowance	**(9,841)**	(3,742)
Total	**28,294**	13,506
Deferred tax liabilities		
Refundable enterprise taxes	**¥ 139**	–
Tax-deductible loss due to the transfer of the shares	**8,465**	–
Unrealized holding gain on securities	**14,271**	11,351
Other	**111**	10
Total	**22,986**	11,361
Net deferred tax assets	**¥ 5,308**	¥ 2,145

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, 2006 is as follows:

	2006
Normal effective statutory tax rate	**41.0%**
Expenses not deductible for income tax purposes	**6.0**
Tax benefits not recognized on operating losses of subsidiaries	**(129.4)**
Valuation allowance	**172.2**
Equity in earnings of affiliates	**(10.9)**
Amortization of goodwill	**38.5**
Other—net	**21.4**
Actual effective tax rate	**138.8%**

There is no presentation of reconciliation between the normal effective statutory tax rates and the actual effective tax rates in the accompanying consolidated statements of income for the year ended December 31, 2005, as a difference between those rates is immaterial.

12. Leases

The Group leases building, furniture and fixtures and software.

Pro forma information of leased property such as acquisition cost, accumulated amortization, obligations under finance lease, amortization expense, interest expense and other information of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended December 31, 2006 and 2005 was as follows:

	Millions of Yen							
	2006				2005			
	Building	Furniture and Fixtures	Software	Total	Building	Furniture and Fixtures	Software	Total
Acquisition cost	**¥87**	**¥14,641**	**¥5,918**	**¥20,646**	¥11	¥9,030	¥4,150	¥13,191
Accumulated amortization	**9**	**4,778**	**1,853**	**6,640**	3	4,300	1,806	6,109
Net amounts	**¥78**	**¥ 9,863**	**¥4,065**	**¥14,006**	¥ 8	¥4,730	¥2,344	¥ 7,082

Obligations under finance leases:

	Millions of Yen	
	2006	2005
Due within one year	**¥ 3,668**	¥2,134
Due after one year	**10,573**	5,128
Total	**¥14,241**	¥7,262

Amortization expense, interest expense and other information under finance leases:

	Millions of Yen	
	2006	2005
Amortization expense	**¥2,952**	¥2,062
Interest expense	**273**	184
Total	**¥3,225**	¥2,246
Lease payments	**¥3,190**	¥2,277

Amortization 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.

13. 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 contracts to manage their interest rate exposures on certain liabilities.

The consolidated subsidiaries use derivatives to hedge risks associated with future changes in foreign exchange rates and interest rates. 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 rates associated with loan increases.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the consolidated subsidiaries have been made in accordance with their internal rules which regulate the authorization and credit limit amount.

Because all derivatives were qualified for hedge accounting for the years ended December 31, 2006 and 2005, the disclosure of market value information has been omitted.

14. Commitments and Contingencies

A certain consolidated subsidiary guarantees installment accounts receivable but does not provide calculation of payments, request and collection services for them. The balance of those installment accounts receivable with a guarantee contract of ¥46,143 million are not shown in the consolidated balance sheets at December 31, 2006.

At December 31, 2006, the Group had guarantees for customers in the amount of ¥239 million.

15. Line-of-credit Agreements

Certain subsidiaries made loans to customers who have credit cards issued by subsidiaries. Unused line of loans given to customers was ¥852,057 million and ¥668,774 million at December 31, 2006 and 2005, respectively.

16. Amounts per Share

	Yen	
	2006	2005
Net income		
Basic	**¥212.03**	¥1,642.50
Diluted	**¥193.09**	¥1,626.19
Cash dividends applicable to the year	**¥ 50.00**	¥ 50.00

	Yen	
	2006	2005
Net assets	**¥14,492.23**	¥6,464.58

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 reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding warrants, stock acquisition rights and stock options at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants. Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

On February 21, 2005, the Company made a stock split by way of a free share distribution at the rate of 10 shares for each outstanding share and, as a result, 10,635 thousand shares were issued to shareholders of record on December 31, 2004.

17. Supplementary Information to the Cash Flow Statements

***a. Noncash Investing Activities* —**The decrease in assets and liabilities and acquisition of securities due to the transfer of part of the credit business in Rakuten KC Co., Ltd. on November 1, 2006 are as follows:

	Millions of Yen
Current assets	¥ 269,022
Fixed assets	23,414
Current liabilities	(284,328)
Long-term liabilities	(432)
Loss on sales of credit business	(17,844)
Sales amount	(10,168)
Consideration—investment securities	(10)
Payable	¥ (10,178)

b. Assets and Liabilities of Newly Consolidated Subsidiaries through Acquisition of Shares—Assets and liabilities of LinkShare Corporation, the acquisition cost and net cash outflow of such acquisition on September 30, 2005 are as follows:

	Millions of Yen
Current assets	¥ 9,430
Fixed assets	2,791
Goodwill	42,291
Current liabilities	(7,287)
Long-term liabilities	(5)
Acquisition cost	47,220
Cash and cash equivalents	(6,066)
Net cash used for acquisition	¥(41,154)

Assets and liabilities of Rakuten KC Co., Ltd., the acquisition cost and net cash outflow of such acquisition on June 30, 2005 are as follows:

	Millions of Yen
Current assets	¥ 810,501
Fixed assets	61,365
Goodwill	7,268
Deferred assets	5
Current liabilities	(700,245)
Long-term liabilities	(158,217)
Minority interest	(4,906)
Acquisition cost	7,508
Cash and cash equivalents	(50,528)
Net cash used for acquisition	¥ 43,020

18. Related Party Transactions

Transactions with a company in which the President and CEO owned 100% of its voting shares indirectly for the years ended December 31, 2006 and 2005 were as follows:

	Millions of Yen	
	2006	2005
Sponsor fee	**¥143**	¥149
Purchase of tickets	**1**	1

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

The balances due from the company at December 31, 2006 and 2005 were as follows:

	Millions of Yen	
	2006	2005
Sponsor fee	**¥15**	¥13

The Company purchased 1,173 shares of a subsidiary from a director of the Company in the amount of ¥2,139 million for the year ended December 31, 2006. The purchase amount was determined based on the valuation by a third party.

19. Subsequent Event

The following distributions of retained earnings at December 31, 2006 were approved at the Company's shareholders' meeting held on March 29, 2007:

	Millions of Yen
Year-end cash dividends, ¥50 per share	¥650

At the same shareholders' meeting, the Company was authorized to grant additional options to certain directors, auditors and employees of the Company, subsidiaries and affiliates to purchase up to 60,000 shares of the Company's common stock in the period from March 30, 2011 to March 28, 2017.

20. Segment Information

The Company operates in the following industries:

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

The Credit and Payment Business segment consists mainly of Rakuten Credit, Inc., Rakuten KC Co., Ltd. and its consolidated subsidiaries. The business is primarily concerned with the consumer credit card business and consumer loan businesses.

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

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

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

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.

(1) Industry Segments

a. Sales and Operating Income

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

	Millions of Yen								
	2005								
	E-Commerce Business	Credit and Payment Business	Portal and Media Business	Travel Business	Securities Business	Professional Sports Business	Total	Corporate & Internal Eliminations	Consolidated
Sales to customers	¥34,649	¥47,129	¥7,541	¥7,270	¥26,319	¥6,867	¥129,775	–	¥129,775
Intersegment sales	411	11	1,898	97	183	518	3,118	¥(3,118)	–
Total sales	35,060	47,140	9,439	7,367	26,502	7,385	132,893	(3,118)	129,775
Operating expenses	23,387	40,808	7,509	4,384	13,704	7,228	97,020	(2,130)	94,890
Operating income (loss)	¥11,673	¥ 6,332	¥1,930	¥2,983	¥12,798	¥ 157	¥ 35,873	¥ (988)	¥ 34,885

b. Total Assets, Depreciation and Capital Expenditures

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

	Millions of Yen								
	2005								
	E-Commerce Business	Credit and Payment Business	Portal and Media Business	Travel Business	Securities Business	Professional Sports Business	Total	Corporate & Internal Eliminations	Consolidated
Total assets	¥203,205	¥805,516	¥4,318	¥7,222	¥591,361	¥7,011	¥1,618,633	¥39,076	¥1,657,709
Depreciation and amortization	2,185	363	247	305	395	229	3,724	–	3,724
Capital expenditures	3,574	997	228	385	237	2,955	8,376	–	8,376

(2) Geographical Segments

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

Report of Independent Auditors

ERNST & YOUNG SHINNIHON

■ Certified Public Accountants
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011
C.P.O. Box 1196, Tokyo, Japan 100-8641

■ Tel : 03 3503 1100
Fax : 03 3503 1197

Report of Independent Auditors

The Board of Directors
Rakuten, Inc.

We have audited the accompanying consolidated balance sheets of Rakuten, Inc. and consolidated subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income and cash flows for the years then ended, changes in net assets for the year ended December 31, 2006 and shareholders' equity for the year ended December 31, 2005, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Rakuten, Inc. and consolidated subsidiaries at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

Ernst & Young ShinNihon

March 30, 2007

Corporate Data

Board of Directors and Corporate Auditors (As of April 1, 2007)

Chairman and CEO	Hiroshi Mikitani
Executive Deputy President and Representative Director	Atsushi Kunishige
Senior Executive Officers and Directors	Toru Shimada Ken Takayama Kazunori Takeda Masatada Kobayashi Akio Sugihara Takao Toshishige Hiroaki Yasutake
Executive Officer and Director	Manabu Mori
Directors	Kouichi Kusano Hisashi Suzuki Muneaki Masuda Tatsumi Yoda
Corporate Auditors	Kouji Hata Katsuichiro Masumi Katsuyuki Yamaguchi Takeo Hirata

Mr. Kusano, Mr. Suzuki, Mr. Masuda and Mr. Yoda are outside corporate directors stipulated in Paragraph 15, Article 2 of the Corporate Law of Japan.
Mr. Hata, Mr. Yamaguchi and Mr. Hirata are outside corporate auditors stipulated in Paragraph 16, Article 2 of the Corporate Law of Japan.

Company Overview (As of December 31, 2006)

Company Name	Rakuten, Inc.
Founded	February 7, 1997
Service Launched	May 1, 1997
IPO	April 19, 2000
Capital	¥107,295 million
Main Office	Roppongi Hills Mori Tower, 6-10-1 Roppongi, Minato-ku, Tokyo 106-6118, Japan
Employees	3,430 (Consolidated)
	1,172 (Non-consolidated)

Stock Information (As of December 31, 2006)

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 and Banking Co., Ltd.
Handling Office	The Sumitomo Trust and Banking Co., Ltd.
	Stock Transfer Agency Department
	1-10 Nikkocho, Fuchu-shi, Tokyo 183-8701, Japan

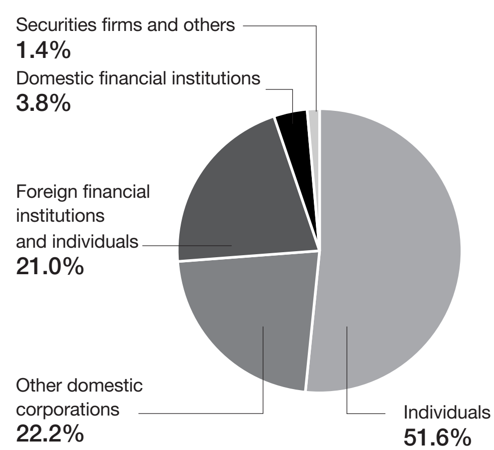
Number of shares and shareholders

Total number of shares authorized	39,418,000 (common stock)
Total number of shares issued	13,013,493 (common stock)
Number of shareholders	155,233

Major Shareholders

Shareholders	Number of shares	Percentage of total shares
Crimson Group, Inc	2,264,190	17.4
Hiroshi Mikitani	2,182,502	16.8
Haruko Mikitani	1,458,750	11.2
Masuda and Partners Inc.	534,910	4.1
State Street Bank and Trust Company	257,944	2.0
Shinnosuke Honjo	233,890	1.8
Kazuyoshi Masuda	200,622	1.5
The Chase Manhattan Bank, N.A. London S.L. Omnibus Account	190,806	1.5
J.P. Morgan Chase Bank 380084	151,351	1.2
State Street Bank and Trust Company 505103	137,190	1.1

Classification by Type of Shareholder



Inquiry Investor Relations, Rakuten, Inc.
Tel. +81-3-4523-8001
URL http://www.rakuten.co.jp/info/ir/english

Corporate Data

Consolidated Subsidiaries and Affiliated Companies (As of December 31, 2006)

Name	Location	Capital or investment (¥ million)	Type of business	Voting rights or ownership (%)	Note
Consolidated Subsidiaries					
Rakuten Auction, Inc.	Minato-ku, Tokyo	1,650	E-Commerce Business	60.0	15
Rakuten Books, Inc.	Minato-ku, Tokyo	495	E-Commerce Business	100.0	15
Rakuten Enterprise Inc.	Minato-ku, Tokyo	10	E-Commerce Business	100.0	
Signature Japan Co., Ltd.	Minato-ku, Tokyo	80	E-Commerce Business	100.0	
Fine Wine Co., Ltd.	Minato-ku, Tokyo	205	E-Commerce Business	100.0	
LinkShare Corporation	U.S.A.	100 U.S. dollars	E-Commerce Business	100.0 (100.0)	5
LinkShare International	U.S.A.	0 U.S. dollars	E-Commerce Business	100.0 (100.0)	2 5
LinkShare Ltd.	U.K.	1,000 U.K. pounds	E-Commerce Business	100.0 (100.0)	2 5
Rakuten USA, Inc.	U.S.A.	100 U.S. dollars	E-Commerce Business	100.0	
Keiba Mall, Inc.	Minato-ku, Tokyo	499	E-Commerce Business	100.0	2
Rakuten Credit, Inc.	Minato-ku, Tokyo	4,450	Credit and Payment Business	96.5	
Rakuten KC Co., Ltd.	Fukuoka-shi, Fukuoka	3,055	Credit and Payment Business	95.2	16
Kokunai Shinpan Service Co., Ltd.	Fukuoka-shi, Fukuoka	10	Credit and Payment Business	100.0 (100.0)	7
Miyazaki Marina Co., Ltd.	Miyazaki-shi, Miyazaki	45	Credit and Payment Business	100.0 (100.0)	7
Kajiyama Warehouse Co., Ltd.	Kitakyusyu-shi, Fukuoka	240	Credit and Payment Business	100.0 (100.0)	7
Rakuten TV Inc.	Minato-ku, Tokyo	80	Portal and Media Business	100.0	
Target, Inc.	Minato-ku, Tokyo	480	Portal and Media Business	100.0	15
College Students' Portal Community, Inc.	Minato-ku, Tokyo	10	Portal and Media Business	100.0	
Rakuten Research, Inc.	Minato-ku, Tokyo	246	Portal and Media Business	99.6	
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 Travel, Inc.	Minato-ku, Tokyo	100	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.	Minato-ku, Tokyo	40	Travel Business	88.5 (88.5)	8
SIDE B NETWORK, INC.	Minato-ku, Tokyo	12	Travel Business	100.0	
Rakuten Securities, Inc.	Minato-ku, Tokyo	6,600	Securities Business	100.0 (100.0)	9 16
Rakuten Securities Holdings, Inc.	Minato-ku, Tokyo	1,000	Securities Business	96.8	2
Rakuten Asset Management Co., Ltd.	Minato-ku, Tokyo	10	Securities Business	100.0 (100.0)	9
Rakuten Strategic Partners, Inc.	Minato-ku, Tokyo	300	Securities Business	100.0 (100.0)	9
Rakuten Realty Management Co., Ltd.	Chuo-ku, Tokyo	200	Securities Business	100.0	
Rakuten Insurance Planning K.K.	Minato-ku, Tokyo	220	Securities Business	90.9	2

Name	Location	Capital or investment (¥ million)	Type of business	Voting rights or ownership (%)	Note
Rakuten Investment Management, Inc.	Minato-ku, Tokyo	50	Securities Business	100.0 (100.0)	2 9
Rakuten Financial Frontier Investment Limited Partnership	–	200	Securities Business	–	2 10
Chateldon Investors One Tokumei Kumiai	–	8,645	Securities Business	–	2 10
Chateldon Investors Two Tokumei Kumiai	–	9,014	Securities Business	–	2 10
Direct Fund 1 Tokumei Kumiai	–	–	Securities Business	–	2 10
MIS Investors Tokumei Kumiai	–	144	Securities Business	–	2 10
RS Fund 1 Tokumei Kumiai	–	–	Securities Business	–	2 10
Rakuten Baseball, Inc.	Sendai-shi, Miyagi	400	Professional Sports Business	100.0	15
Rakuten Sports Properties, Inc.	Minato-ku, Tokyo	150	Professional Sports Business	51.0 (51.0)	11
Rakuten Media Investment, Inc.	Minato-ku, Tokyo	10		100.0	
Rakuten Financial Solution, Inc.	Minato-ku, Tokyo	500		95.0	2

Equity-method Affiliates

Name	Location	Capital or investment (¥ million)	Type of business	Voting rights or ownership (%)	Note
LAWSON TICKET, Inc.	Shibuya-ku, Tokyo	2,892	E-Commerce Business	17.8	14
LinkShare Japan K.K.	Chiyoda-ku, Tokyo	10	E-Commerce Business	50.0 (50.0)	12
SHOWTIME, Inc.	Shibuya-ku, Tokyo	480	Portal and Media Business	50.0	
Ctrip.com International, Ltd.	People's Republic of China	326 thousand U.S. dollars	Travel Business	20.5	
WORLD TRAVEL SYSTEMS INC.	Shinjuku-ku, Tokyo	110	Travel Business	20.0	
Rakuten ANA Travel Online Co., Ltd.	Minato-ku, Tokyo	90	Travel Business	50.0	2
. Commodity, Inc.	Shibuya-ku, Tokyo	1,000	Securities Business	42.5	
Liaison Partners, Inc.	Minato-ku, Tokyo	3	Securities Business	20.0 (20.0)	13
Rakuten Mortgage Co., Ltd.	Minato-ku, Tokyo	500	Securities Business	50.0	2
TRAFFIC GATE, LTD.	Meguro-ku, Tokyo	217		45.9	
TECHMATRIX CORPORATION	Minato-ku, Tokyo	1,285		31.2	14
NEXT Co., Ltd.	Chuo-ku, Tokyo	1,979		16.5	14

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, 2006.
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 is a subsidiary of Rakuten USA, Inc. In addition, LinkShare International is a subsidiary of LinkShare Corporation, and LinkShare Ltd. is a subsidiary of LinkShare International.
6. Cyber Brains (Shanghai) Consulting Co., Ltd. is a subsidiary of Rakuten Research, Inc.
7. Kokunai Shinpan Co., Ltd., Miyazaki Marina Co., Ltd. and Kajiyama Warehouse Co., Ltd. are subsidiaries of Rakuten KC Co., Ltd.
8. RAKUTEN TRAVEL KOREA CO., LTD. and Rakuten Bus Services Inc. are subsidiaries of Rakuten Travel, Inc.
9. Rakuten Securities, Inc., Rakuten Asset Management Co., Ltd., Rakuten Strategic Partners Co., Ltd. and Rakuten Investment Trust Co., Ltd. are subsidiaries of Rakuten Securities Holdings, Inc.
10. Newly consolidated in conjunction with change in accounting treatment of investment partnerships.
11. Rakuten Sports Properties, Inc. is a subsidiary of Rakuten Baseball, Inc.
12. LinkShare Japan K.K. is an equity-method affiliate of LinkShare Corporation.
13. Liaison Partners, Inc. is an equity-method affiliate of Rakuten Asset Management Co., Ltd.
14. Denotes companies required to submit financial reports and securities registration statements according to Japanese securities and exchange legislation.
15. Denotes a Specified Subsidiary ("tokutei kogaisha")
16. Net sales of Rakuten Securities, Inc. and Rakuten KC Co., Ltd. (excluding internal sales between consolidated subsidiaries) account for over 10% of consolidated net sales.

Rakuten

Annual Report | Fiscal Year Ended December 31, 2006

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