

# Strategic Business Innovator



*ANNUAL REPORT 2006*

**SBI** Holdings

# Topic Summary

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## Forward-Looking Statements

Statements contained in this report regarding the plans, projections and strategies of SBI Holdings, Inc. and its subsidiaries and affiliates that are not historical fact constitute forward-looking statements about future financial results. As such, they are based on data obtainable at the time of announcement in compliance with SBI Holdings' management policies and certain premises that are deemed reasonable by SBI Holdings. Hence, actual results may differ, in some cases significantly, from these forward-looking statements contained herein due to changes in various factors, including—but not limited to—economic conditions in principal markets, service demand trends and currency exchange rate fluctuations.

## 2005

- May** • The Company announced a basic agreement for the joint establishment of a China investment fund with a wholly-owned subsidiary of Singapore-based Temasek Holdings.
- July** • The Company transferred its fund management business to wholly owned consolidated subsidiary SBI VENTURES K.K. (which changed its name the same month to SOFTBANK INVESTMENT CORPORATION) and concurrently changed its corporate name to SBI Holdings, Inc.
  - SOFTBANK INVESTMENT CORPORATION (formerly SBI VENTURES K.K.), BIOVISION CAPITAL CORPORATION and SOFTBANK CONTENTS PARTNERS CORPORATION merged operations, with SOFTBANK INVESTMENT CORPORATION as the successor company.
- August** • The Company acquired additional shares in SBI Partners Co., Ltd. and converted this company into a subsidiary.
- September** • The Company acquired shares of ZEPHYR Co., Ltd., a comprehensive real estate business, and made this company an equity-method affiliate.
  - The Company established the Beijing Representative Office of SBI Holdings, Inc.
- October** • The Company established The SBI Children's Hope Foundation.
  - The Company announced a basic agreement for a capital alliance and the joint establishment of a new pure play Internet bank with The Sumitomo Trust & Banking Co., Ltd.




## 2006

- March** • Consolidated subsidiaries SBI Partners Co., Ltd. and FINANCE ALL CORPORATION were merged, with SBI Holdings, Inc. as the successor company.
  - SBI Securities Co., Ltd. became a wholly owned consolidated subsidiary through a share exchange.
  - Basic agreement reached with Aioi Insurance Co., Ltd. for commencing joint deliberations and preparations for the establishment of a new Internet-based non-life insurance company.
- April** • Sumishin SBI Net Bank Research Co., Ltd. established in order to carry out research and provide information for the establishment of a new pure play Internet bank.
  - The Company announced a contract agreement for a capital and business alliance with SOLXYZ Co., Ltd., a systems integrator, and made this company an equity-method affiliate.
- May** • The Company announced a contract agreement for a capital and business alliance with Nexus Co., Ltd., which possesses a wide range of experience and know-how in direct marketing, and made this company an equity-method affiliate.
  - SBI Futures Co., Ltd. listed on the Hercules market of the Osaka Securities Exchange.
- June** • SBI Nonlife Insurance Planning Co., Ltd., is established for the purpose of making preparations for obtaining an insurance business license.
- July** • The Company announced the commencement of deliberations on the joint establishment of a new pure play Internet life insurance company with AXA Japan Holding Co., Ltd.
- August** • The Company announced a basic agreement for the joint establishment of a venture capital fund for investing in unlisted Indian companies with the State Bank of India, the largest commercial bank in India.
  - Gomez Consulting Co., Ltd., a subsidiary of Morningstar Japan K.K. is listed on the Hercules market of the Osaka Securities Exchange.
  - SOFTBANK AM CORPORATION (currently SOFTBANK TELECOM SALES Corporation), a wholly owned subsidiary of SOFTBANK CORP. sold its shares in the Company, thereby ending the capital relationship between SOFTBANK CORP. and the Company. In the same month, the Company announced the commencement of discussions with SOFTBANK CORP. for the establishment of a joint venture for the planning and operation of a financial portal business.

# SBI Group at a Glance

As of June 30, 2006, the SBI Group consisted of SBI Holdings, Inc., as well as 38 consolidated subsidiaries, and 12 equity-method affiliates.

The SBI Group carries out its business, mainly in financial-related fields, centered around three core businesses: Asset Management, primarily the funds management business; Brokerage & Investment

<b>Segment</b> Ratio of Operating Revenues to Total Consolidated Operating Revenues (as of March 31, 2006, %)	<b>Business and Principal Activities</b> (as of June 30, 2006)	<b>Company</b> (shares held including indirect holdings, as of June 30, 2006)
<p><b>Asset Management</b></p>  <p>27.6%</p>	<p><b>Management and operation of limited liability partnerships</b>                      Establishment, management and operation of funds related to the Internet, biotechnology, broadband and media</p> <p><b>Investment in domestic and overseas venture companies</b>                      Investments mainly in domestic and overseas Internet, biotechnology, broadband and media venture companies using proprietary accounts of SBI Holdings and its consolidated subsidiaries</p> <p><b>Housing and Real Estate</b>                      Investment in real estate properties that are expected to increase in value, development of real estate with anticipated development profit, formation and operation of funds focused on real estate, and investment in venture businesses involved in real estate</p> <p><b>Investment advisory services</b>                      Provision of advice and discretionary investment management based on the Japan Investment Advisory Law</p>	<p>SBI Investment Co., Ltd. (100%)                      SBI BROADBAND CAPITAL K.K. (100%)                      Soft Trend Capital Corporation (80%)                      SBI CAPITAL Co., Ltd. (100%)                      SBI Capital Solutions Co., Ltd. (100%)</p> <p>SBI Holdings, Inc.                      SBI KOREA HOLDINGS CO., LTD. (100%)</p> <p>SBI Holdings, Inc. (Real Estate Business Division)                      SBI Planners Co., Ltd. (100%)                      ZEPHYR Co., Ltd.* (21.4%) [TSE/8882]</p> <p>SBI Asset Management Co., Ltd. (100%)</p>
<p><b>Brokerage &amp; Investment Banking</b></p>  <p>58.4%</p>	<p><b>Securities and commodity futures</b>                      Provision of such financial products as securities and commodity futures to meet a wide range of investor needs; execution of investment banking operations such as underwriting IPOs and corporate bonds utilizing customer-gathering and sales capabilities in the brokerage business</p>	<p>SBI E*TRADE SECURITIES Co., Ltd. (53.0%) [JASDAQ/8701]                      SBI Securities Co., Ltd. (100%)                      SBI Futures Co., Ltd. (62.1%) [Hercules/8735]                      E*Trade Korea Co., Ltd. (87%)</p>
<p><b>Financial Services</b></p>  <p>14.0%</p>	<p><b>Marketplace, financial products and financial solutions</b>                      Engaged in a wide range of financial services businesses that include the operation of loan and insurance product comparison websites; provision of financial products and services such as home loans and loans and leases for individuals and businesses as well as settlement services; development of financial software; provision of evaluations of investment trusts and consulting</p> <p><b>Lifestyle Networks</b>                      Constructed network that responds to needs related to lifestyle events and individual scenarios, mainly through the operation of comparison, search and cost estimate portal sites, like "SeikatsuGuide.com," which provides a comparison of public services, as well as "HikakuALL," a general comparison and price estimate site; provision of assistance in selecting the best products and services to support the purchasing activities of customers</p>	<p>SBI Holdings, Inc. (Financial Services Business Division)                      SBI Mortgage Co., Ltd. (81.2%)                      SBI Equal Credit Co., Ltd. (100%)                      SBI Lease Co., Ltd. (100%)                      SBI VeriTrans Co., Ltd. (40.6%) [Hercules/3749]                      SBI Technology Co., Ltd. (94.9%)                      Morningstar Japan K.K. (49.92%) [Hercules/4765]                      Gomez Consulting Co., Ltd. (84.9%) [Hercules/3813]                      CANOW CO., LTD.* (49%)                      SOLXYZ Co., Ltd.* (21.5%) [JASDAQ/4284]                      NEXUS Co., Ltd.* (23.4%) [JASDAQ/2799]</p> <p>SBI Holdings, Inc. (Lifestyle Networks Business Division)</p>

\*Equity-method affiliate

Note: SBI Investment Co., Ltd. changed its name from SOFTBANK INVESTMENT CORPORATION as of October 1, 2006.

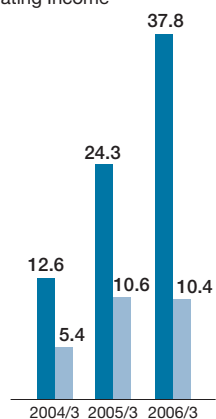
Banking, mainly the securities business; and Financial Services, which provides an array of innovative financial services—from securitized home loans to insurance and beyond. The SBI Group is evolving towards a business structure consisting of five core businesses with the addition of the Housing and Real Estate Business and the Lifestyle Networks Business, as we integrate both financial and non-financial sectors.

## Operating Results

(as of March 31, 2006) (unit: billion yen)

## Highlights of Fiscal Year Ended March 31, 2006

■ Operating Revenues  
■ Operating Income



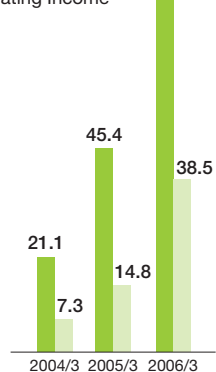
### Outstanding Fund Management Performance

- Our previously established funds are steadily accumulating dividends as they approach redemption. Total distributions to March 31, 2006 for funds managed during the fiscal year amounted to ¥81.8 billion. During the next one-year period, the SBI Group expects to make additional distributions of ¥200 billion from its principal funds.
- The total current net asset value of the SOFTBANK INTERNET TECHNOLOGY FUND at the end of March 2006 was ¥277.5 billion, approximately 1.8 times greater than the initial contributed capital of ¥150.5 billion.
- From April 2005 through the end of March 2006, nine investee companies went public (including those through M&A).
- Softbank Bond & Private Equity Funds I and II, managed by SBI Asset Management, were redeemed at approximately two times their initial base price, and Softbank Bond & Private Equity Fund I earned the "Most Excellent Fund Award" at the Lipper Fund Awards Japan 2006.

### Size of Managed Funds Continues to Grow

- With IT as our principal investment field, the scale of asset management for the entire SBI Group, which includes biotechnology, enterprise revitalization and investment trust advisory services, expanded to ¥559.0 billion as of the end of March 2006.

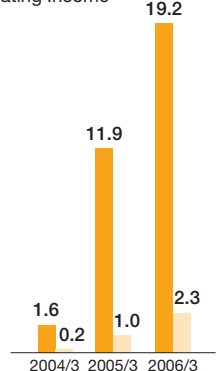
■ Operating Revenues  
■ Operating Income



### SBI E\*TRADE SECURITIES Has Overwhelming Dominance in the Online Securities Industry

- SBI E\*TRADE SECURITIES, the largest online securities company in Japan in terms of number of customer accounts, brokerage trading value and client assets, posted record-high consolidated operating revenues of ¥60.2 billion, up 122% from the previous year, as well as all-time-high consolidated ordinary profit of ¥30.0 billion, representing an increase of 165%. The consolidated ordinary profit ratio in the fourth quarter was 53.7%.
- In the fiscal year ended March 31, 2006, the number of new accounts secured was 575,035. The total number of customer accounts surpassed 1.16 million while client assets amounted to ¥4.58 trillion, up 95.8% from the previous fiscal year.
- Reflecting our overwhelmingly extensive customer base, in the fiscal year ended March 31, 2006, our share of the total brokerage trading value for individual investors expanded to 23.1% and grew further to 24.9% in the fourth quarter of the fiscal year. Additionally, our share of the total brokerage trading value for institutional investors surpassed 10% for the first time in the fourth quarter.
- For the entire fiscal year, we underwrote IPOs for 94 companies, achieving a historical high in the industry.
- SBI Securities Co., Ltd. our brick-and-mortar securities business, posted sharp increases in revenue and earnings, as operating revenue increased 50% to ¥16.0 billion and ordinary profit jumped 181% to ¥8.1 billion.

■ Operating Revenues  
■ Operating Income



### Continued Stable Expansion in Results amid Favorable Operating Environment Contributes to Earnings

- **Marketplace Business**  
Primarily through our "E-LOAN" and "InsWeb" financial comparison websites, which have grown to become among the largest in Japan, we recorded steady increases in estimate inquiries and other transactions as well as a rise in the number of affiliated financial institutions. Sales from these two sites amounted to approximately ¥2.9 billion, up 35.6% from the previous fiscal year, and operating profit was approximately ¥1.0 billion, a rise of 39.6%.
- **Financial Products Business**  
SBI Mortgage Co., Ltd. achieved strong growth in the "Flat 35" Loan product, which is a securitized 35-year fixed-interest loan from the Government Housing Loan Corporation that is offered at the lowest level of interest rate (effective interest rate of 2.701% in April 2006). The execution balance of housing loans at the end of March 2006 amounted to ¥206.2 billion, up 202.7% from the previous fiscal year.
- **Financial Solutions Business**  
SBI VeriTrans Co., Ltd. achieved record-high results in sales and in all profit categories amid the ongoing advance of broadband and expansion of electronic commerce (EC) markets and credit card markets.
- **Others**  
Benefiting from the recent trend of individual financial assets flowing from savings toward investments, Morningstar Japan K.K. recorded consolidated operating revenues of ¥1.2 billion, up 24.1%, and consolidated profit of ¥252 million, a rise of 47.4%, for the full-year period ended December 31, 2005.

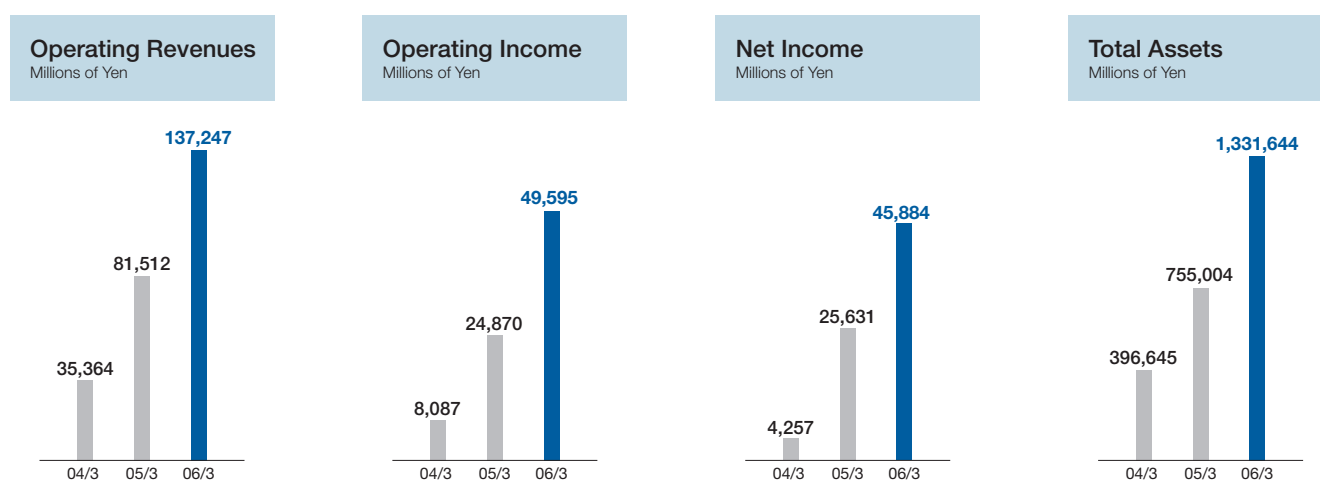
Figures for operating income in this category are before consolidated eliminations/corporate; therefore, the total figures do not match operating income for consolidated business results.

# Consolidated Financial Highlights

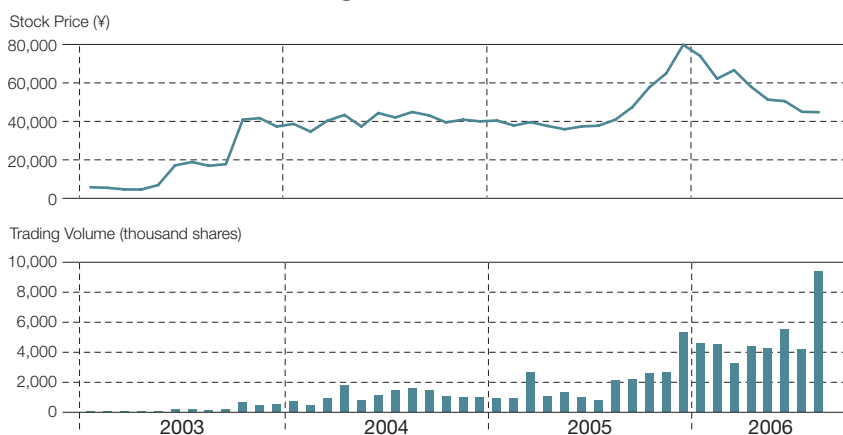
SBI Holdings, Inc. and Consolidated Subsidiaries

	Millions of Yen Year ended 31st March			Thousands of U.S. Dollars Year ended 31st March
	2004	2005	2006	2006
Operating Revenues	¥ 35,364	¥ 81,512	¥ 137,247	\$1,168,359
Operating Income	8,087	24,870	49,595	422,196
Net Income	4,257	25,631	45,884	390,603
Total Shareholders' Equity	47,465	129,419	268,123	2,282,480
Total Assets	396,645	755,004	1,331,644	11,336,034
Shareholders' Equity Ratio (%)	12.0	17.1	20.1	20.1
Net Cash used in Operating Activities	(1,479)	(25,531)	(132,740)	(1,129,993)
Net Cash provided by (used in) Investing Activities	12,170	3,352	(33,137)	(282,085)
Net Cash provided by Financing Activities	16,453	94,305	200,746	1,708,911
Cash and Cash Equivalents, End of Year	34,361	106,460	132,545	1,128,329

U.S. Dollar figures are for reference only, and calculated at ¥117.47 to U.S. \$1.00, the exchange rate on 31st March 2006.

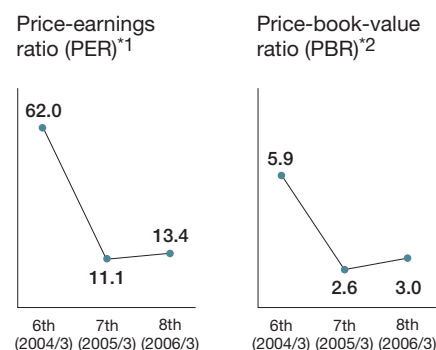


## Stock Price and Trading Volume



Note: Stock prices are average closing prices for each month, and trading volumes for each month (retroactively adjusted).

## PER and PBR Trends



Note 1: PER (6th, 7th and 8th periods)=Final stock price on TSE at the end of each period/Net profit per share in current period.  
The last stock price at the end of the 8th period is 66,600 yen.

Note 2: PBR=Last price on TSE at the end of each period/Net assets per share at the end of period.

# SBI Group's Management Philosophy

## Sound Ethical Values

We shall undertake judgments on actions based not only whether they conform to the law or profit the company, but also whether they are socially equitable.

## Financial Innovator

We will transcend traditional methods and bring financial innovations to the forefront of the financial industry, utilizing opportunities provided by the powerful price-destruction forces of the Internet and developing financial services that further enhance benefits for customers.

## New Industry Creator

We will work to become the leader in creating and cultivating leading industries in the 21st century.

## Self-Evolution

We will continue to be a company that evolves of its own volition by forming an organization that flexibly adapts to changes in the operating environment and incorporates corporate "Ingenuity" and "Self-transformation" as part of its organizational DNA.

## Social Responsibility

We will ensure that each company in the SBI Group recognizes its social responsibilities as a member of society and carries out its social and economic responsibilities to all stakeholders, while contributing to the betterment of society.

# SBI Group's Corporate Vision

(Formulated in July 2005)

1. Maximize corporate value by the synergistic effect of creating value to our shareholders, employees and customers, which are the primary components of our corporate value.
2. Increase the aggregate market capitalization of listed group companies from the current ¥1.0 trillion to ¥3.0 trillion in three years and ¥5.0 trillion in five years.
3. Become not just a "strong company," but a "strong and respected company."

The SBI Group makes a clear distinction between its "management philosophy" and "corporate vision." We regard our management philosophy as long-term and universal values to which we aspire and that this philosophy should not be easily altered because of a change in top management or shifts in the market. On the other hand, our "corporate vision" concretely describes how the Company sees its desired corporate organization in the future and therefore must be realistic and attainable. In the current age of rapid change, a corporate vision is of a medium-term nature.

# Strategic Business Innovator

Until recently, the SBI Group has operated its businesses primarily in financial sectors through three core businesses: **Asset Management, Brokerage & Investment Banking, and Financial Services.** However, in seeking to leverage both financial and non-financial sectors, the SBI Group has shifted to a business structure consisting of five core businesses and is moving toward a new evolution process with the addition of the **Housing and Real Estate** and the **Lifestyle Networks** as our two new core businesses.

Under this new structure, we will strive to develop and provide appealing products with more innovative features to an even wider range of customers through both our “Internet” and “brick-and-mortar (face-to-face)” sales

channels. Moreover, we will offer upgraded comparison and search services that will allow investors and consumers to select products and services that match their respective needs, with the aim of becoming Japan’s largest financial products distributor. Taking the same approach, we will also move beyond the framework of financial services to provide a variety of services that contribute to the creation of enriched lifestyles in various areas of consumption activities.

SBI will endeavor to become a corporate group with a business portfolio that brings innovation to every type of industry as a **Strategic Business Innovator.**

## Expanding from Three Core Businesses to Five Core Businesses



## To Our Shareholders

For the fiscal year ended March 31, 2006, SBI Holdings, Inc. posted outstanding results in each of its businesses and achieved record highs in consolidated operating revenues, operating income and net income, with figures for each of these categories significantly surpassing previous highs. Although SBI Holdings, Inc. attained consecutive increases in performance for the past three years, the sharp rise in results for the fiscal year ended March 31, 2006 was particularly impressive. Moreover, we expect to achieve further sizeable growth in each of our businesses for the foreseeable future.

Consolidated operating revenues surpassed ¥100.0 billion, jumping 68.4% to ¥137.2 billion, while ordinary profit surpassed ¥50.0 billion, up 88.2% to ¥51.3 billion, sharply surpassing its previous all time high, and operating income soared 99.4% to ¥49.5 billion. All of these figures represent significant increases over previous highs.

Reflecting our favorable performance, we paid cash dividends of ¥600 per share, including a ¥100 dividend to commemorate our mergers, which is a marked increase compared with cash dividends of ¥350 per share for the previous year.

As a result of a reorganization within the SBI Group and the formation of capital alliances with leading companies that we believe will create synergies with the SBI Group, the number of shares issued at the end of the fiscal year stood at 12.22 million shares, up 1.4 times from the end of the previous fiscal year. However, consolidated net income per share of common stock also rose 1.4 times from the previous year and consolidated shareholders' equity increased 1.5 times from the end of the previous fiscal year. Looking ahead, while further increasing value per share, as we head toward our next stage of growth we will strive to continue to maximize our operating results.

By business segment, reflective of excellent fund management performance, we have entered a truly favorable cycle in our Asset Management Business as distributions to investors increased, making it easier to raise capital for new funds and leading to a further expansion in the scale of our fund management business. In Brokerage & Investment Banking, SBI E\*TRADE SECURITIES Co., Ltd. boasts a dominant position and is at last approaching the final phase of competition amongst its peers. Our Financial Services Business is benefiting from a favorable environment created by several significant trends in Japan, namely, a "shift from savings to investment," "the further advancement of broadband" and "financial system reforms," thereby contributing to a further improvement in business results.

In July 2005, SBI Holdings, Inc. spun off and transferred its Asset Management Business to SBI VENTURES K.K., a wholly owned subsidiary, while changing that company's corporate name to SOFTBANK INVESTMENT CORPORATION that same month. By making this change, we shifted to a holding company structure, with SBI Holdings, Inc. (name changed from SOFTBANK INVESTMENT CORPORATION) as the core company, in the run-up to the next phase of strong growth in what can be called our "second founding."

In October 2005, we signed a basic agreement for the joint establishment of a new pure play Internet bank with The Sumitomo Trust & Banking Co., Ltd. to carry out an array of businesses with various companies in the SBI Group, including online securities business that will produce a greater level of synergy with the securities business. In January 2006, we formed an agreement for multifaceted business alliances that will enable each group to strengthen its competitiveness and earnings power.



In March 2006, we merged with SBI Partners Co., Ltd., which was involved in real estate-related businesses, and with FINANCE ALL CORPORATION, which operated a comprehensive comparison website and provided financial-related services. At the same time, SBI Securities Co., Ltd. became a wholly owned subsidiary through a share exchange. By making these moves, we have built a structure to vigorously promote our transition to a five-core business structure.

Up until recently, the SBI Group has carried out its business primarily in financial sectors through three core businesses: Asset Management, Brokerage & Investment Banking and Financial Services. However, the SBI Group has now added Housing and Real Estate and Lifestyle Networks as two new core businesses. In doing so, we are making a new start as a company that transcends the framework of finance to contribute to the creation of enriched lifestyles for investors and consumers.

In August 2006, our capital relationship with SOFTBANK CORP. was thoroughly dissolved, and therefore we are no longer an equity-method affiliate of that company. As a result, we have eliminated any correlation with SOFTBANK CORP.'s stock price and can now implement more flexible financial and business strategies. However, we still intend to continue to maintain friendly business ties, and have agreed to pursue joint ventures.

Under our new structure, the SBI Group will work to create even more innovative services and businesses for customers and investors and will strive to maximize corporate value, the combined aggregate of "customer value," "shareholder value" and "human capital value."



北尾吉孝 

**Yoshitaka Kitao**  
Representative Director & CEO

#### Profile

- 1951 Born in Hyogo Prefecture
- 1974 Joined Nomura Securities Co., Ltd. after graduating from Keio University, the Faculty of Economics
- 1978 Graduated from Cambridge University, the Faculty of Economics, in the United Kingdom
- 1989 Appointed Executive Director at Wasserstein Perella International (London)
- 1992 Appointed General Manager of Corporate Finance Division, Nomura Securities
- 1995 Joined SOFTBANK CORP. at the request of Masayoshi Son as Executive Director and General Manager of Control Division
- 1999 Appointed President and Representative Director of SOFTBANK FINANCE CORPORATION
- 2005 Representative Director & CEO of SBI Holdings, Inc.

#### Principal Books Written

- **Continuously Evolving Management** (English translation to be published by John Wiley & Sons, Inc.)
  - **Challenges of E-Finance I** (Chinese translation: The Commercial Press; Korean translation: Dongbang Media Co. Ltd.)
  - **Challenges of E-Finance II** (Korean translation: Dongbang Media Co. Ltd.)
  - **Value-Creation Management** (Chinese translation: The Commercial Press; Korean translation: Dongbang Media Co. Ltd.)
- (all published by Toyo Keizai, Inc.)
- **Mysterious Powers Gained from Chinese Classics** (Chinese translation: Peking University Press) (Mikasa Publishing, Inc.)
  - **Universal Management, Growth Management** (Korean translation: Dongbang Media Co. Ltd.)
  - **Developing Character** (All published by PHP Institute Office International, Inc.)

## Toward a New Evolutionary Process—Strategic Business Innovator

As we further advance our “customer-centric principle,” the point of origin of our founding, the SBI Group is striving to attain significant growth to become a comprehensive corporate group that transcends the finance domain.

### Question | 1

**Could you provide a brief overview of the SBI Group’s principal businesses and explain the Group’s positioning in fiscal 2006 ending March 31, 2007?**

We expect to record particularly solid results in our Asset Management Business, thanks primarily to the excellent performance of funds now entering a period for reaping profits on investments. Similarly, we anticipate our Brokerage & Investment Banking Business and Financial Services Business will sustain favorable performances. Of particular note, consolidated profits in each of these businesses during the first quarter of fiscal 2006 alone outpaced those recorded for the entire interim period of the previous fiscal year. In view of these outstanding results, we take a proactive stance toward redistributing profits to shareholders and thus paid our first-ever interim dividend. Specifically, we paid interim cash dividends of ¥600 per share. This equals the amount of dividends per share paid for the entire previous fiscal year, and we plan to pay year-end cash dividends of ¥600 per share at the term end (fiscal year ending March 2007).

Let me now briefly discuss the positioning of each of our businesses in the current fiscal year.

#### Asset Management Business

**(1) The SBI Group will Endeavor to Become the Undisputed Leader in Japan's Venture Capital Industry**

Looking at our recent fund management results, in August 2006 we made early redemptions of Enterprise Revitalization Fund #1 and the VR Enterprise Revitalization Fund that were set up in 2002. Both funds attained an annual IRR (internal rate of return) exceeding 25%, enabling us to further build on our solid performance record in fund management. As an especially notable achievement, all our funds compared to funds managed by competing companies in Japan recorded overwhelmingly high performance results, with an IRR generally exceeding 20%. While sustaining such favorable fund performances, we will cover redemptions of existing funds by establishing new funds through the addition of new capital. In

doing so, we will strive to continue to maintain the position of the top company in Japan in terms of investment performance and of the total amount of funds managed as well.

**(2) Transitioning to a Global Venture Capital Structure Focusing on BRICs**

Our flagship SOFTBANK INTERNET TECHNOLOGY FUND (hereafter "IT FUND") has entered a period of full-fledged profit-taking on investments that include the harvesting of unrealized capital gains. Looking ahead, we will expand the scope of our investments beyond domestic IT-related fields, as we will also actively promote global investments. Specifically, we will vigorously channel our investments into industry groups with the highest growth potential in each geographic region of the world. Prime examples of such lucrative industries include the IT and biotechnology industries in Japan, manufacturing and sales industries in China, software and high-tech fields in India, and resource and energy sectors in Russia. By expanding our investment horizon in this manner, we will globalize our diversified fund portfolio.

#### Track Record for Redeemed Funds (Investment Performance Results)

At the end of September 2006 (%)

Name of Redeemed Fund	Redemption Date	Net IRR
SOFTBANK VENTURES SILENT PARTNERSHIP	December 2002	20.5
Softven #2 Investment Partnership	October 2004	20.4
SBI LBO Fund #1	June 2006	18.3
Enterprise Revitalization Fund #1, Limited Liability Investment Partnership	August 2006	25.7
VR Enterprise Revitalization Fund, Limited Liability Investment Partnership	August 2006	27.7



**Yoshitaka Kitao**  
Representative Director & CEO

**(3) Making Preparations for Building a New Asset Management Structure within the SBI Group that Embodies such Institutional Investors as Banks and Non-Life Insurance and Life Insurance Companies**

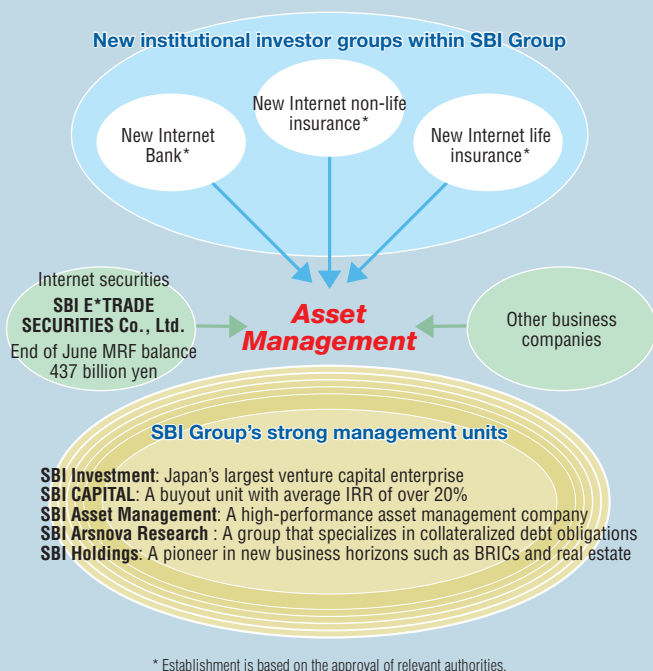
The SBI Group is working to build a new foundation within the Group that embodies institutional investors. These efforts include the start of preparations for jointly establishing a new pure play Internet bank with The Sumitomo Trust & Banking Co., Ltd., a new Internet non-life insurance company with Aioi Insurance Co., Ltd. as well as a new Internet life insurance company with AXA Japan Holding Co., Ltd. By taking these steps, the SBI Group will position itself to expand the scale of its managed assets and build a structure for sustained favorable performance results utilizing the Group's extensive know-how in asset management. We are confident that such a structure will significantly contribute to enhancing the performance of each of the aforementioned new companies. For example, such a structure will allow the Internet bank to offer a higher rate of interest on deposits while the Internet life insurance company can provide higher dividends.

**Brokerage & Investment Banking Business**

**(1) Expanding Our Market Share to Increase Our Competitive Advantage in the Final Phase of the Online Securities Industry Competition**

SBI E\*TRADE SECURITIES Co., Ltd. ("SBI E\*TRADE SECURITIES"), will increase its market share by offering the industry's lowest commission levels, while providing appealing products and services and operating stable systems, amid an environment of sluggish equity market conditions that we believe is advantageous for the company to increase its lead over its competitors. As testimony to the tremendous strides made toward achieving this goal, SBI E\*TRADE SECURITIES raised its individual brokerage trading value share from 23.1% for the full year ended March 31, 2006 to 27.3% for the first quarter of the year ending March 31, 2007 and to 33.5% for June 2006.

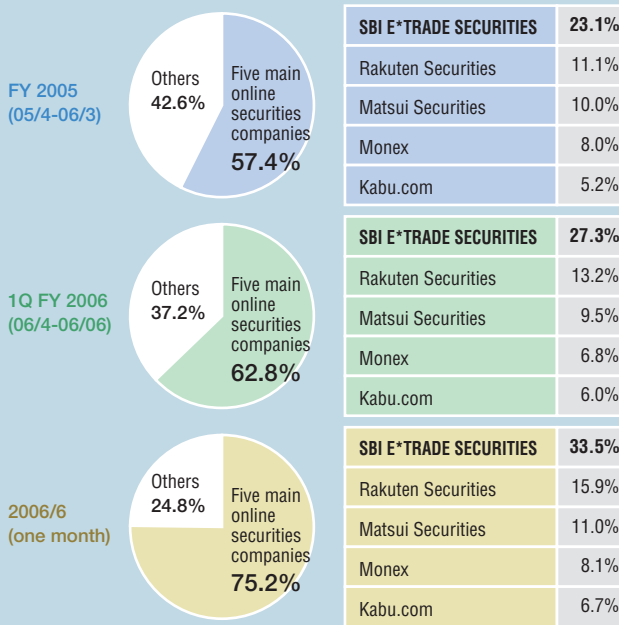
Similarly, the number of customer accounts at the end of September 2006 topped 1.31 million accounts, and client assets stood at ¥3,828.4 billion. As these figures show, SBI



**Individual Brokerage Trading Value Share of Main Online Securities Companies**

SBI E\*TRADE's share rose to 27.3% in 1Q, and then to 33.5% in June

**Individual brokerage trading value comparison**



Source: Tokyo Stock Exchange statistical data, JASDAQ statistical data, and public documents from each company's website.  
 Note 1: Individual brokerage trading value is totaled from three exchanges (sections one and two) and JASDAQ.  
 Note 2: Monex Securities and Nikko Beans are totaled as Monex.  
 Note 3: Kabu.com Securities merged with MeNet Securities in January 2006.

E\*TRADE SECURITIES further increased its dominance over competing online securities companies in both of these categories.

## (2) Transition to Diversified Earnings Sources

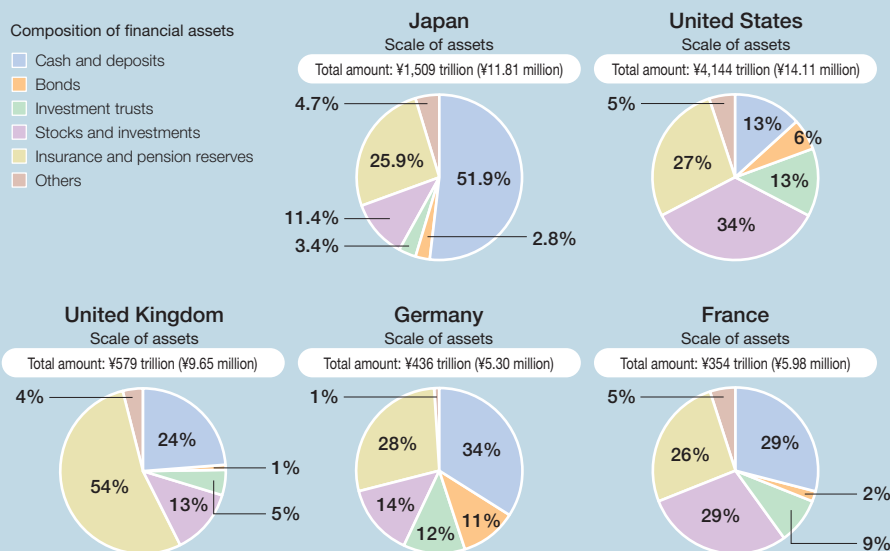
SBI E\*TRADE SECURITIES will further diversify its earnings sources by utilizing its extremely broad customer base, the largest in the industry in terms of number of accounts, client assets and brokerage trading value share. As an example of its diversified earnings source, for the first quarter of the fiscal year ending March 31, 2007, SBI E\*TRADE SECURITIES recorded financial income of ¥4,086 million, which was mainly interest income from margin trading, representing an 80% increase over the corresponding quarter of the previous fiscal year. Additionally, SBI E\*TRADE SECURITIES will expand its earnings sources by offering a multiplicity of products and services matched to customer needs. These include the sale of foreign bonds, futures and options trading and stock lending.

## (3) Increasing the Number of Customers by Attracting Novice Investors

Amid the “shift from savings to investment,” SBI E\*TRADE SECURITIES is working to secure a large increase in the number of customers by launching “E\*TRADE Elementary (provisional name),” a site for novice investors, and “E\*TRADE SNS (Social Network Service) (provisional name),” a site for promoting communications between investors and companies. During the first quarter of the fiscal year ending March 31, 2007, novice stock investors accounted for approximately 63% of all new accounts opened at SBI E\*TRADE SECURITIES. Therefore, the launching of a separate site targeting novice investors will be instrumental in enabling SBI E\*TRADE SECURITIES to accurately capture the shift in sentiment from “savings to investment.”

## Japan is Currently in a Transitional Phase in Individual Financial Asset Portfolios on Par with Europe and the United States

- Total individual financial assets in Japan stand at ¥1,509 trillion, which exceeds the combined amount (¥1,369 trillion) for the United Kingdom, Germany and France.
- Japan's per capital financial assets total ¥11.81 million.



\* Figures in parentheses show amounts of per capita financial assets.  
Bank of Japan Survey: Japan, end of December 2005; United States: end of June 2005; Other countries: end of December 2001

#### (4) Reinforcing Cooperation between Online and Brick-and-Mortar Securities Businesses and Launching a Full-Fledged Strategic Foray into Investment Banking and Private Banking

Backed by a dominant market share in the Internet brokerage business, SBI E\*TRADE SECURITIES will reinforce ties with SBI Securities Co., Ltd. to strengthen its investment banking business, not only for promoting its IPO lead manager business, but also for underwriting secondary public offerings. Meanwhile, SBI Securities, our brick-and-mortar (face-to-face) securities business, is making notable progress in building a structure to provide full-fledged private banking services for customers requiring highly personalized services. Through the mutual cooperation and complementary activities of SBI E\*TRADE SECURITIES and SBI Securities Co., Ltd., the SBI Group will establish a structure capable of responding to diverse customer needs.

### Financial Services Business

#### (1) Raising the Contributions by the Financial Services Business as a Source of Stable Earnings

Our Financial Services Business is experiencing a favorable business environment that continues improving on the back of such current trends as the “shift from savings to investment,” the “advance of broadband” and “financial system reforms.” Benefiting from these trends, the Financial Services Business will work to raise its contributions as a source of stable earnings.

A shift in Japan’s household financial assets from “savings to investment” is paving the way for Morningstar Japan K.K. to expand its revenue opportunities along with the increased need for objective investment advice and evaluations of investment trusts and other managed assets.

Along with the “advance of broadband,” the SBI Group’s Marketplace Business has grown to become one of Japan’s largest websites of comparison and price estimate services, mainly for insurance and loan products. The Marketplace Business is recording steady growth in price estimates, provisional applications and other such transactions. Also, SBI VeriTrans Co., Ltd., which provides online settlement solutions for e-commerce (EC) business operators, is expected to achieve growth that outpaces the expansion of EC markets.

With the impending April 2007 abolition of the Government Housing Loan Corporation (GHLC), which is set to be transferred to an independent housing finance support organization, SBI Mortgage Co., Ltd. (“SBI Mortgage”) is establishing a prominent brand reputation in terms of providing long-term, fixed-interest housing loans at the industry’s lowest

level of interest rates. Accordingly, SBI Mortgage is recording sharp growth in its housing loan execution balance.

#### (2) Completing Our Financial Ecosystem and Building a Foundation for Achieving a Remarkable Expansion in Earnings in the Near Future

In undertaking business as a “Financial Innovator” that provides innovative financial services, we believe that reinforcing a brand synonymous with credibility and trust is of paramount importance. In the fiscal year ending March 31, 2007, with the collaboration of leading business partners, we will make full-scale preparations for the start of Internet-based banking, non-life insurance and life insurance businesses as we move toward the completion of our financial ecosystem. Concurrently, we will also pursue business fields that will enhance existing group synergies, as well as establish businesses that will expand services in non-financial fields to build a foundation for attaining significant earnings expansion in the near future. Accordingly, these objectives are contingent on entering business fields that provide SBI Group companies with powerful synergies, as well as on establishing businesses to expand services in non-financial fields. Therefore, we will enter the banking business, which is highly compatible with the securities business, engage in the credit card and consumer and business loan fields, focusing on middle risk and expand the scope of our marketplace business beyond financial products to non-financial-related fields.

#### Favorable Turnaround in Business Environment Clearly Evidenced by Performance Figures

Figures in parentheses show changes from the previous fiscal year. (Millions of yen)

		2004/3	2005/3	2006/3
SBI VeriTrans Co., Ltd.	Operating revenues	544	944 (+74)	1,916 (+103)
	Ordinary income	135	225 (+67)	395 (+76)

		2003/12	2004/12	2005/12
Morningstar Japan K.K. (Consolidated)	Operating revenues	924	1,015 (+10)	1,259 (+24)
	Ordinary income	136	174 (+28)	263 (+51)
Gomez Consulting Co., Ltd.	Operating revenues	163	234 (+44)	373 (+59)
	Ordinary income	54	80 (+48)	127 (+59)

		2003/9	2004/9	2005/9
FINANCE ALL CORPORATION* (Non-consolidated)	Operating revenues	760	1,654 (+217)	2,922 (+77)
	Ordinary income	91	318 (+249)	628 (+196)

\*FINANCE ALL CORPORATION was merged into SBI Holdings in March 2006.

## Question | 2

### How do you plan to further develop the SBI Group's Business Ecosystem in the future?

The SBI Group initiated operations in 1999 when SOFTBANK CORP. ("SOFTBANK") transitioned to a pure holding company and spun off each of its business divisions as independent subsidiaries. A core company in the Group at that time was SOFTBANK FINANCE CORPORATION (currently SOFTBANK TELECOM SALES Corporation), a quasi-holding company handling financial-related businesses. With 55 employees under my authority and supervision, SOFTBANK FINANCE CORPORATION was spun off from SOFTBANK, eventually becoming SBI Holdings, Inc. ("SBI Holdings"). To the present, the SBI Group has developed various businesses, primarily in the financial field, with the objective of becoming a comprehensive financial services company.

In March 2005, SBI Holdings was removed from the scope of SOFTBANK's consolidation, thus eliminating restrictions on our business scope. Since then, we have utilized our extensive business know-how and management resources cultivated in financial businesses to actively enter domains that will allow us to further strengthen and expand our financial ecosystems. These include fields closely aligned to finance as well as non-financial domains strongly related to SBI Group companies. We

are now working toward building three ecosystems, namely the "financial ecosystem," "housing and real estate ecosystem" and an "information systems ecosystem." By promoting mutual synergies among these three ecosystems, we plan to develop one large business ecosystem covering the encompassing SBI Group as we reach a new stage of growth.

#### 1) Financial Ecosystem

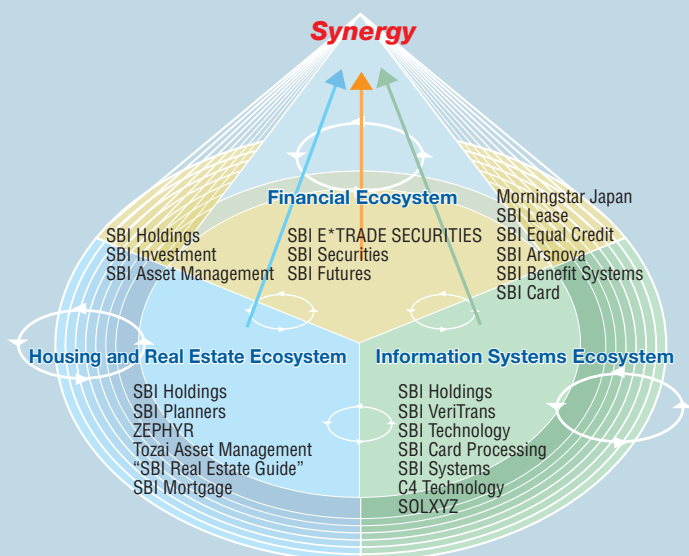
##### Becoming the Largest Distributor of Financial Products in Japan

Regarding our future business development, in fiscal 2007 we will establish a new pure play Internet bank with The Sumitomo Trust & Banking Co., Ltd. Banking is a core operation in the financial field, and is thus an essential operation for a financial services organization such as ours. However, we recognize that the qualities involved in the securities business, as a flow business, is vastly different than those required for the banking business. Also, we understand that banking is not a simple operation, as evidenced by the state of banks in the United States in the 1980's, and in Japan in the 1990's. With this history in mind, we believe that timing is a critical issue for entering the banking business.

Our decision to establish an Internet bank was based on our determination that we have made sufficient progress in establishing a business ecosystem for the SBI Group. By setting up the new bank, we will undertake all three major banking functions, namely, deposit taking, lending and settlements. To operate successfully, the new Internet bank must maintain solid relationships with other SBI Group companies within the business ecosystem, such as SBI Investment Co., Ltd. (formerly SOFTBANK INVESTMENT CORPORATION), one of the largest venture capital firms in Japan; SBI E\*TRADE SECURITIES, the largest online securities company in Japan with over 1.31 million customer accounts; and SBI Mortgage, which boasts a home loan execution balance exceeding ¥240 billion. Additionally, it will also be essential to assure that the business ecosystem fully utilizes Group synergies and fosters synergies with the new bank. For example, we expect that one main business pillar of the new bank's operations will be lending to companies planning public offerings through the SBI Group's venture capital operations. Every year, around 20 investee companies in the SBI Group's venture capital business go public. The new bank will be able to carry out transactions with these growth companies, which are expected to possess quality creditworthiness as borrowers.

Besides our alliance with The Sumitomo Trust & Banking Co., Ltd., we are in preparations for establishing an Internet non-life insurance business jointly with Aioi Insurance Co., Ltd. and an online life insurance business in cooperation with AXA

#### New Development Stage Based on Mutual Synergies in the Business Ecosystem



Japan Holding Co., Ltd. In this way, we will pursue an assortment of ties-ups with companies involved in brick-and-mortar businesses while increasing our presence in online business domains. We will do our utmost to develop our banking, non-life insurance and life insurance operations to a scale as large as that of SBI E\*TRADE SECURITIES. By undertaking these initiatives and developing them to such a level of success, the SBI Group will fulfill its ultimate objective of becoming Japan's foremost financial services organization.

While utilizing the Internet as a powerful tool, we remain committed to our "customer-centric" principle, as we will continuously provide new products and concepts in our quest to become Japan's largest distributor of high-quality financial products in all financial product categories.

**2) Housing and Real Estate Ecosystem**

**Building a Powerful Business Ecosystem in Housing and Real Estate Fields to Create Numerous Synergies with Existing Ecosystems**

In August 2005, we converted SBI Partners Co., Ltd. into a subsidiary that will serve as a core company to undertake the real estate business, as we address such current trends as the growing prevalence of real estate-based financial products, including securitized real estate products. In a subsequent move to further expand our housing and real estate ecosystem, ZEPHYR Co., Ltd., a comprehensive real estate business, and Tozai Asset Management Co., Ltd., with experience in real

estate securitization, were made into equity-method affiliates, and in March 2006, SBI Partners merged with SBI Holdings. We plan to further expand our housing and real estate business backed by the Group's outstanding creditworthiness and fundraising capabilities, both inside and outside Japan.

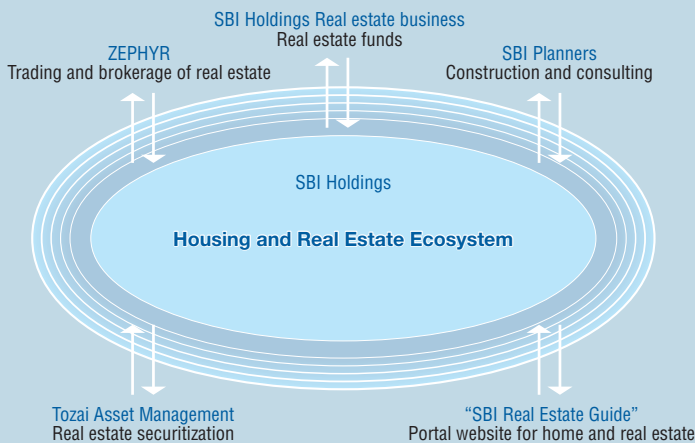
In July 2006, we established "SBI Real Estate Guide" (<http://www.re-guide.jp/>), a comprehensive portal website for home and real estate information that provides various information tailored to user needs. This site allows buyers seeking to purchase real estate, as well as real estate property owners, to choose from a range of categories such as Select, Build, Invest, Sell, Manage, Investigate and Remodel. The site also provides a platform for auctions, primarily for residential real estate transactions. For essential ancillary financial products or management services related to housing and real estate transactions, "SBI Real Estate Guide" utilizes the SBI Group's strengths and introduces users to housing loan products, non-life insurance products and rent guarantees through collaboration with various SBI Group companies.

**3) Information Systems Ecosystem**

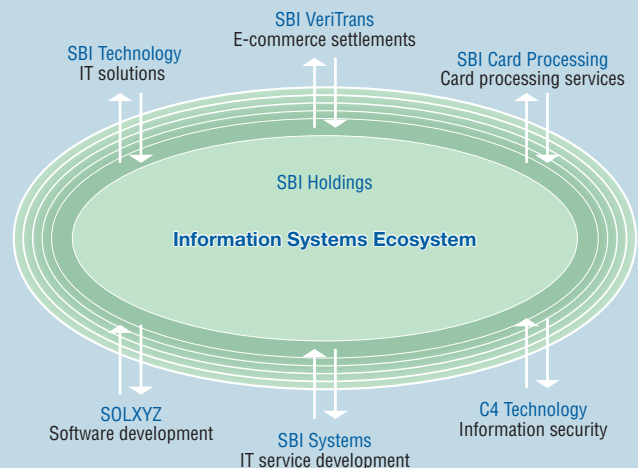
**Creating a Business Ecosystem in Systems Development Fields that Will Contribute Significantly to Building and Managing Systems at SBI Group Companies**

With the Internet as a medium, the SBI Group carries out wide-ranging business activities in financial and non-financial fields. As such, we regard the building of systems within the SBI

**Build a Strong Business Ecosystem for the Real Estate Business**



**Build an Information Systems Ecosystem**





Group as a crucial issue and are creating an information systems ecosystem that contributes significantly to building and managing systems at SBI Group companies. In line with these efforts, we established business and capital alliances with C4 Technology LLC, which possesses technologies in information security, and with SOLXYZ Co., Ltd., which mainly engages in the development of software. To facilitate our entry into the credit card processing services business, we established a joint venture with the Silverlake Group of Malaysia and commenced joint operation of this business in Japan.

As we move beyond the framework of finance, the SBI Group will strive to build a business ecosystem in housing and real estate and information systems fields. By doing so, we intend to continue developing into a corporate group that consistently provides diverse services that benefit consumers in all aspects and stages of their lives.

## Question | 3

### SBI Holdings has eliminated its capital ties with SOFTBANK. What impact will this have on the SBI Group?

As part of our financial strategy, on July 31, 2006 we announced an approximately ¥50.0 billion share buyback aimed at executing a more-flexible capital policy in response to changes in the management environment. Subsequently, SOFTBANK CORP. ("SOFTBANK") sold all its shares in SBI Holdings through its wholly owned subsidiary SOFTBANK AM CORPORATION (currently SOFTBANK TELECOM SALES Corporation).

SBI Holdings has accumulated a healthy level of net assets by generating profits in its businesses. Following the announcement of our share buyback, Japanese rating agency R&I announced its evaluation of SBI Holdings. This analysis included such assessments as "building a stable management foundation," "has consolidated net assets of ¥350.7 billion at the end of June 2006," "there will be no impact on its rating," and "rating direction: stable."

Although capital ties between SOFTBANK and SBI Holdings have been eliminated, both companies have agreed to maintain and develop even stronger relations in pertinent business areas. In keeping with this agreement, we intend to maintain friendly business relations, and in August 2006, SOFTBANK and SBI Holdings began deliberation on the establishment of a joint venture to plan and operate a financial portal business with investments from both companies.

#### Percentage of shares in SBI Holdings held indirectly by SOFTBANK through subsidiary SOFTBANK AM CORPORATION

Month and year	Percentage held	Remarks
End of September 2004	46.9%	Consolidated subsidiary
End of March 2005	38.3%	Equity-method affiliate (public offering capital increase and third-party allotment capital increase)
End of March 2006	26.5%	Equity-method affiliate (through share exchange and merger on March 1, 2006)
August 1, 2006	19.1%	Removed as equity-method affiliate (sale of shares in SBI Holdings through ToSTNet-2)
August 2, 2006	0%	Elimination of capital tie-up (sale of all shares in SBI Holdings)
August 18, 2006	0%	Announcement of deliberation for establishing a joint venture with SOFTBANK to operate a financial portal business

## Asset Management Business

# Asset Management Business enters a favorable cycle

### Principal Companies in the Asset Management Business

#### SBI Investment Co., Ltd.\*

Venture capital fund management

#### SBI CAPITAL Co., Ltd.

Buyout fund and revitalization management

#### SBI Capital Solutions Co., Ltd.

Mezzanine fund management

#### SBI BROADBAND CAPITAL K.K.

Venture fund management specializing in broadband

We have entered a favorable cycle in our Asset Management Business, as the solid performance of existing funds have allowed us to increase distributions to investors and strengthen the trustworthiness and brand power of our funds. At the same time, we are now able to more easily procure capital for our newly launched funds, and are steadily expanding our managed assets.

#### Status of the IT Fund

At the end of June 2006, our flagship SOFTBANK INTERNET TECHNOLOGY FUND (IT Fund) had a net asset value of ¥256.7 billion, approximately 1.7 times higher than the initial contributed capital of ¥150.5 billion. This includes an investment balance of ¥19.7 billion, cash equivalents including accumulated dividends of ¥203.0 billion, unrealized profits of ¥11.3 billion and success fees of ¥22.7 billion.

In April 2006, we significantly raised expected distributions to investors from the IT Fund and our Softbank Internet Fund by converting unrealized profits into cash. This contributed to our business results while enabling us to strengthen our trustworthiness and brand power.

#### Newly Established Funds

With the IT Fund approaching redemption in June 2007, we are actively establishing new successor funds. To this end, we are steadily nurturing our SBI Broadband Fund (general name for SBI Broadband Capital Anonymous Investment Partnership and SBI Broadband Fund No.1 Limited Partnership) that was set up from September 2004 (closing capital of ¥53.5 billion) and the satellite fund SBI BB Media Fund Limited Partnership, established jointly in March 2005 with Fuji Television Network, Inc. and Nippon Broadcasting System, Inc. with an initial investment capital of ¥20.0 billion. Solicitations also proceeded smoothly for the SBI BB Mobile Fund Limited Partnership, and in March 2006 we completed the establishment of this fund having reached the solicitation ceiling of ¥32.0 billion. This fund proactively invests in stocks and stock options of domestic and overseas unlisted mobile technology, mobile content and wireless technology companies, which are expected to record high growth over the medium to long term. In doing so, we will be able to cultivate mobile and wireless communications companies with the highest potential for future expansion.

Turning to enterprise revitalization-related businesses, solicitation for the SBI Value Up Fund No.1 Limited Partnership, which targets both listed and unlisted companies, proceeded

#### SBI KOREA HOLDINGS CO., LTD.

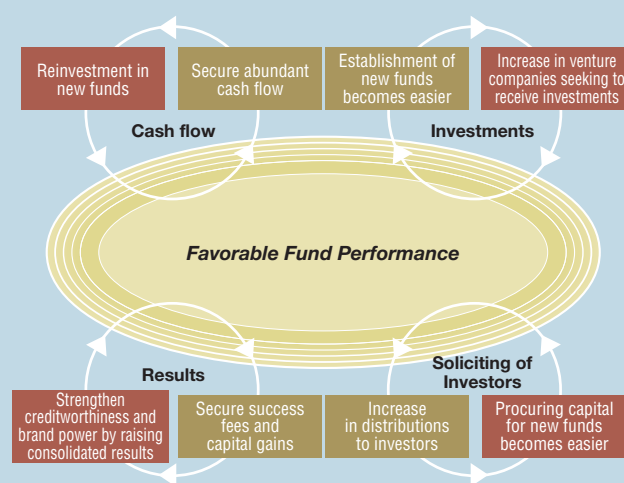
Venture capital investment

#### SBI Asset Management Co., Ltd.

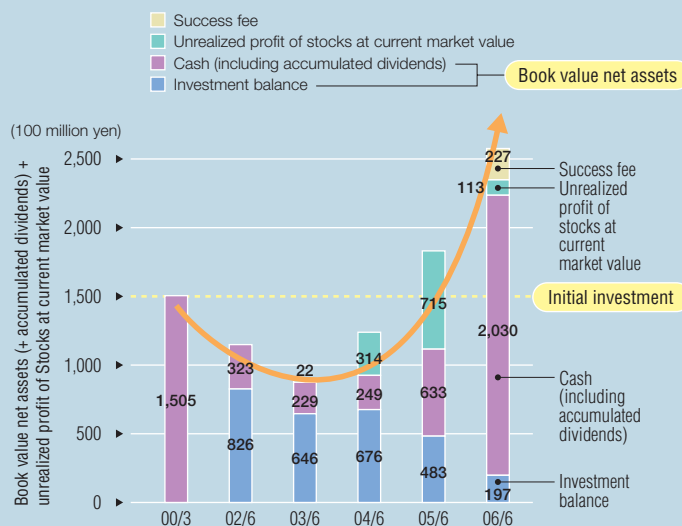
Investment trust management, investment advisory services

\*Name changed from SOFTBANK INVESTMENT CORPORATION on October 1, 2006.

### Favorable Cycle of the Asset Management Business



### IT Fund Management and Success Fee Structure



#### Success fee calculation table

Success fee as a proportion of capital gains\* exceeding initial investment  
 -Portion corresponding to 50% or below: 20%  
 -Portion corresponding to more than 50% and 200% or below: 35%  
 -Portion corresponding to more than 200%: 50%  
 \*Capital gains: Book value net assets - Initial investment

smoothly and the establishment of this fund was completed in September 2006 with invested capital of ¥23.1 billion. Aiming for high performance, this fund actively promotes buyout and enterprise revitalization investments, beginning with investments for business succession and management buyouts.

As reflected by these achievements, the SBI Group's fund business is progressing smoothly. While maintaining the current balance of assets under management, we will continue promoting our Asset Management Business.

We are also focusing on the global asset management business. For example, SBI Holdings is positioning itself to cultivate the overseas markets specifically starting with China and India, which are expected to experience high rates of economic growth. In line with this objective, in May 2005, together with a wholly owned subsidiary of Temasek Holdings (Private) Limited, a Singapore-based investment company, SBI Holdings jointly established the New Horizon Fund, L.P. with initial investment capital of US\$100 million. This fund is actively investing in promising companies in China utilizing our Beijing Representative Office, set up in September 2005, as a base. In August 2006, SBI Holdings and the investment banking subsidiary of State Bank of India (the largest commercial bank in India), reached a basic agreement for the joint establishment of a \$100 million investment fund to invest in promising emerging industries in India. Further expanding our overseas investment activities, in September 2006 SBI Holdings established a wholly owned subsidiary in Macau, a region which has achieved high growth in recent years, to invest mainly in housing and real estate businesses.

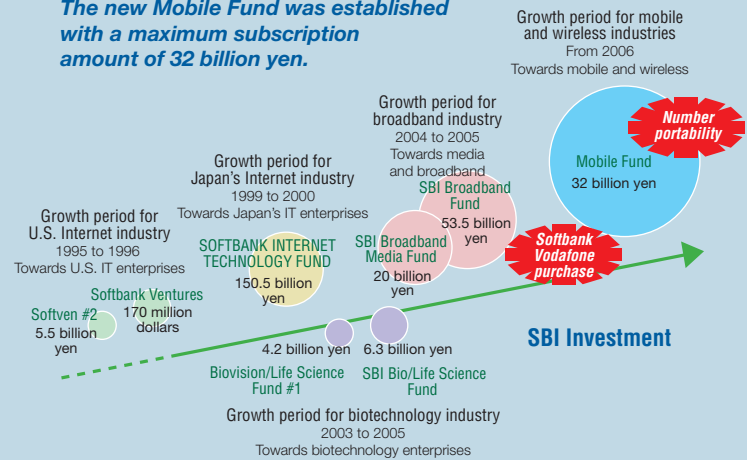
In this way, we will continue to aggressively pursue investment opportunities in high growth areas such as China, India and other BRICs countries. By helping to support the economic growth of these countries through our investment vehicles, we expect to achieve significant returns on our investments over time.

### Scale of the SBI Group's Current Fund Management

In addition to its traditional main investment domains of IT, biotechnology and enterprise revitalization, the SBI Group is also proactively establishing funds in its new core segment of real estate-related businesses. At the end of June 2006, total assets under management by the SBI Group stood at ¥477.6 billion, and the number of investee companies (cumulative) totalled nearly 300 companies.

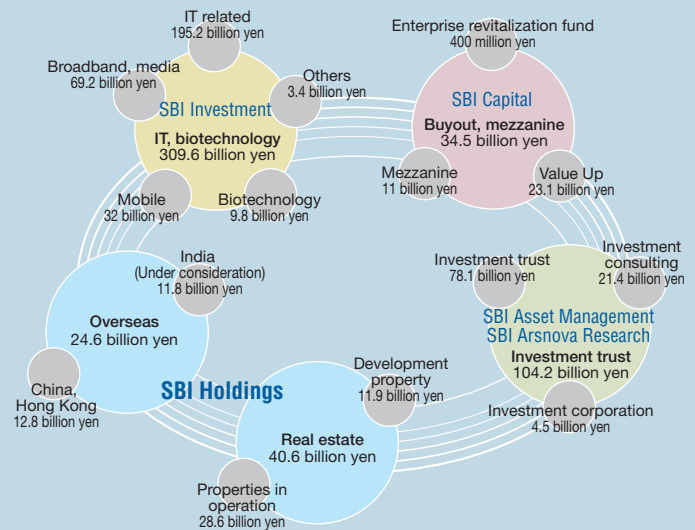
### New Mobile Fund Established

*The new Mobile Fund was established with a maximum subscription amount of 32 billion yen.*



### SBI Group's Asset Management Business

*SBI Group's asset management lineup is expected to continue to grow in both scale and quality.*

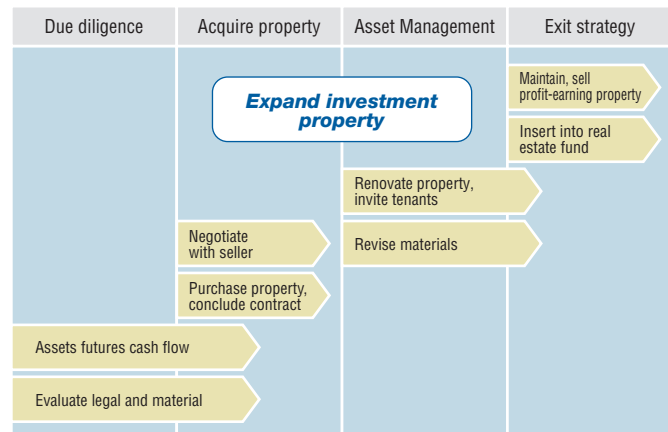


Note: Figures for real estate funds represent the amount of investment. Figures for investment trust and investment consulting represent the current value of net assets at the end of June 2006. Figures for other funds represent the current value of net assets based on the account settlement closest to June 2006 for each fund.

## Housing and Real Estate Business

As one of its new core businesses, the SBI Group is undertaking full-fledged initiatives to cultivate its Housing and Real Estate Business as a new growth field that transcends the framework of finance. In areas ranging from the development of real estate assets to fund exit strategies, we will fully utilize the SBI Group's business lines to proactively invest in real estate assets that promise increased asset values as we vigorously promote our real estate investment business. The SBI Group is also establishing new funds in this field. Drawing on the SBI Group's strength in venture investments, we formed the SBI Unlisted Stock Real Estate Fund Anonymous Partnership #1 (known as the Four-Leaf Clover Fund), a publicly solicited real estate fund investing in unlisted stocks. In promoting this fund, we are fully maximizing the SBI Group's management resources, which includes promoting sales targeted at individual investors via such channels as online securities company SBI E\*TRADE SECURITIES Co., Ltd. and brick-and-mortar securities company SBI Securities Co., Ltd.

In September 2006, we established a wholly owned subsidiary, SBI MACAU HOLDINGS LIMITED, in the Chinese Special Administrative Region (SAR) of Macau, which has registered high rates of economic growth in recent years. Through this subsidiary, SBI Holdings will invest in housing and real estate-related businesses in Macau, where buoyant tourism and entertainment industries and plans for building large casinos are fuelling sharp demand for housing and commercial real estate.



## Brokerage & Investment Banking Business

We are maintaining our overwhelmingly dominant position in the online securities business as we continue to offer the industry's lowest brokerage commission levels.

### Principal Companies in the Brokerage & Investment Banking Business

#### SBI E\*TRADE SECURITIES Co., Ltd.

Comprehensive online securities business listed on JASDAQ (code: 8701)

#### SBI Securities Co., Ltd.

Face-to-face type securities business

#### SBI Futures Co., Ltd.

Online commodity futures brokerage listed on Hercules Market of Osaka Securities Exchange (code: 8735)

#### E\*Trade Korea Co., Ltd.

Online securities business in Korea

### Positioning in the Online Securities Industry

Consistently offering the industry's lowest brokerage commission levels, SBI E\*TRADE SECURITIES is firmly positioned as the top company in the online securities industry. In January 2006, SBI E\*TRADE SECURITIES attained a noteworthy milestone when it became the first online securities company to surpass one million customer securities accounts. At the end of September 2006, the total number of customer securities accounts stood at 1,311,004 accounts (compared with 777,455 accounts a year earlier), while the number of customer margin accounts totaled 135,163 accounts (compared with 81,195 accounts at the end of the previous September), with total client assets amounting to ¥3,828.4 billion (up from ¥2,963.1 billion at the end of September 2005). Not only do these figures rank as the highest among all online securities companies in Japan, but SBI E\*TRADE SECURITIES continues to expand its share of this industry.

### Comparisons of Brokerage Trading Value

Since overtaking Nomura Securities in the January-March quarter of 2005, SBI E\*TRADE SECURITIES has further widened its lead over the second-ranked and other securities companies to establish a solid position as the No. 1 securities company among all companies in terms of the brokerage trading value (figures include institutional and foreign investors). The average daily brokerage trading value\* by SBI E\*TRADE SECURITIES in June 2006 amounted to ¥325,955 million, a sharp increase from ¥179,926 million in June 2005.

\*Figures not include institutional and foreign investors.

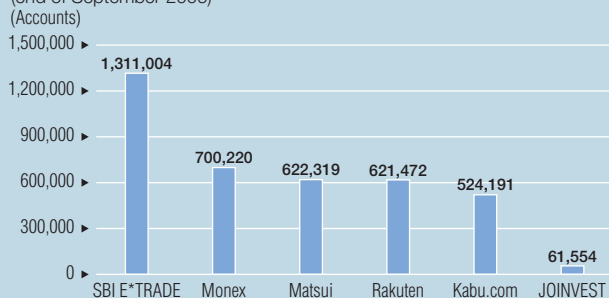
### SBI E\*TRADE SECURITIES' IPO Underwriting Performance

In the fiscal year ending March 2006, SBI E\*TRADE SECURITIES underwrote the IPO issues of 94 companies, raising its cumulative total to 330 companies. From April to June 2006, SBI E\*TRADE SECURITIES underwrote IPOs for 34 of the 49 companies making IPOs, thereby realizing an IPO participation rate of 69.4% and ranking SBI E\*TRADE SECURITIES as the top company among all securities companies. Since commencing the lead management of IPO issues in September 2005, we have lead managed IPO issues of two companies as of August 2006. Utilizing ties with the SBI Group's venture capital operations, SBI E\*TRADE SECURITIES will continue to compile further achievements in underwriting IPOs.

### Securing an Overwhelmingly Strong Customer Base

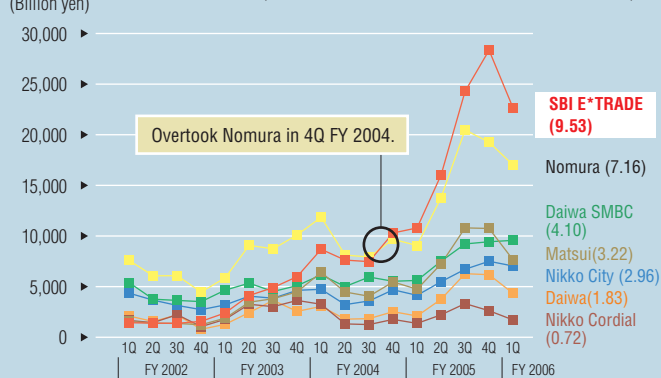
Number of accounts of main online securities companies

(end of September 2006)



### Brokerage Trading Value Comparison for Major Securities Companies

(Billion yen) (%: Share of commissions for the 1Q FY 2006)

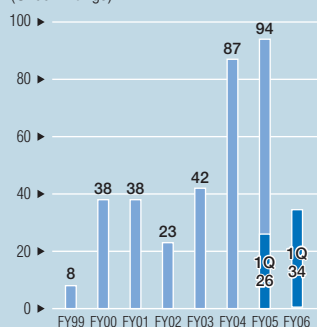


(Figures in parentheses indicate each brokerage trading value share as a percentage of total turnover in the three markets.)

Source: Figures are based on public documents from each securities company and the Tokyo Stock Exchange. (Figures for SBI E\*TRADE include orders from overseas investors.)

### IPO Underwriting Steadily Achieving Good Performance

SBI E\*TRADE SECURITIES  
IPO stock underwriting performance  
(Underwritings)



Note: Listing date base. Figures do not include agency transaction and real estate investment trusts.

IPO underwriting ranking  
(2006/4 to 2006/6)

**Top among all securities firms**

Rank	Name	(Underwritings)	Participation ratio (%)
1	SBI E*TRADE SECURITIES	34	69.4
2	Mitsubishi UFJ Securities	32	65.3
3	Shinko Securities	26	53.1
4	Monex Securities	26	53.1
5	Daiwa Shoken SMBC	23	46.9
6	Nomura Securities	22	44.9
7	Nikko City Group	21	42.9

Note: The data was obtained, to the extent possible, from public documents by SBI. Data was collected from 2006/4 until 2006/6 for domestic underwriting of 49 companies (listing date base) undergoing an IPO, not including secondary offerings.

### Strategies Derived from the “Long-Tail Theory”

Owing to the characteristics of the Internet, SBI E\*TRADE SECURITIES’ 1.31 million customer accounts represent a wide customer base that ranges from novice investors to active traders and from young investors to persons in their 60s and 70s. In covering this diverse customer base, which is shaped like a long tail, SBI E\*TRADE SECURITIES is working toward realizing what it calls “long-tail” earnings. In contrast to face-to-face type securities businesses that mainly target high net worth individuals, SBI E\*TRADE SECURITIES also targets lesser-lot customers with lesser amounts of financial assets. SBI E\*TRADE SECURITIES has cultivated numerous individual customers, which includes securing an overwhelmingly large number of lesser-lot customers, who to the present could not be served profitably through high-cost, face-to-face operations. This approach has enabled SBI E\*TRADE SECURITIES to successfully attain “long-tail” earnings.

As a strategy for further advancing its “long-tail theory,” SBI E\*TRADE SECURITIES is focusing on “securing new customers” and “increasing trading frequency,” which will enable a further lengthening and broadening of its “long-tail” customer base.

#### Strategy for Lengthening the “Long-Tail”: Securing New Customers

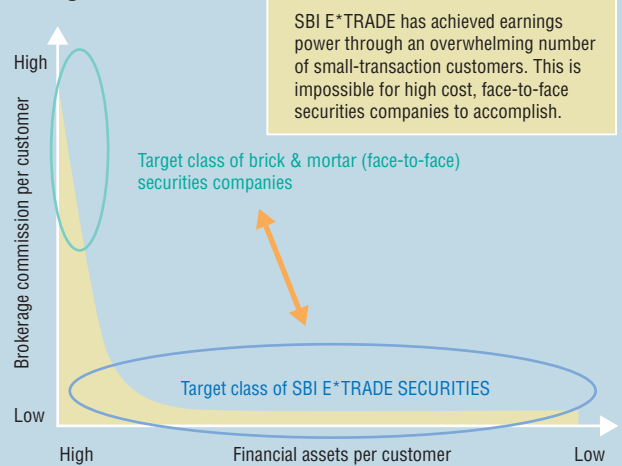
In the fiscal year ended March 2006, novice stock investors accounted for 64.5% of all new accounts opened at SBI E\*TRADE SECURITIES. In line with efforts to secure additional novice investors, SBI E\*TRADE SECURITIES is establishing an Internet site for these customers.

#### Strategy for Widening the “Long-Tail”: Increase Trading Frequency

SBI E\*TRADE SECURITIES will endeavor to increase trading frequency by customers through such means as offering HYPER E\*TRADE, a real-time trading tool, as well as HYPER MOBILE, a mobile version, which feature enhanced trading functions to support active trading. SBI E\*TRADE SECURITIES has also begun issuing ATM cards (cash card/ E\*TRADE JCB card).

In December 2005, we strengthened and expanded our trading system to enable the handling of 1.5 million accounts, compared with 1 million accounts previously. We further expanded this system to handle 1.75 million accounts in May 2006 and to handle 2 million accounts in July 2006. Recognizing that trading systems are the lifeblood of the operations of online securities companies, we plan to

### From Early-on, SBI E\*TRADE Has Achieved a “Long-Tail” Earnings Curve



Together by offering greater convenience and functionality, HYPER E\*TRADE is the online securities industry's first trading tool that enables the placement of orders using only mouse operations.

flexibly expand and fortify such systems in the future, thereby offering stress-free trading environments for individual investors.

In this manner, SBI E\*TRADE SECURITIES will continue to offer the industry's lowest brokerage commission levels, while striving to raise customer convenience. This will allow it to continue both lengthening and widening the “long-tail,” which represents a broad range of customers, and facilitate further business expansion.

### Harmonizing Internet and Brick-and-Mortar Operations in the Securities Business

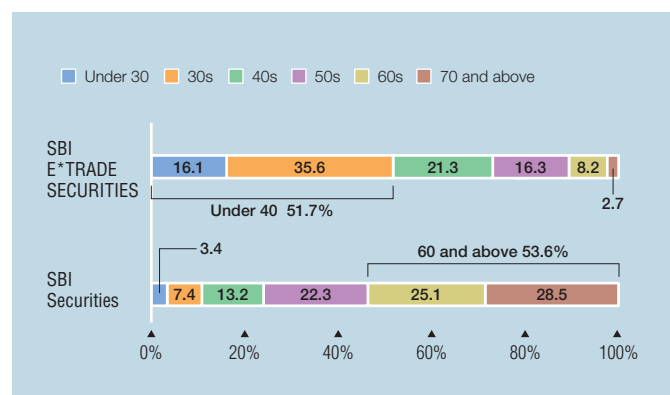
Customers under age 40 account for approximately 52% of the customers of online securities company SBI E\*TRADE SECURITIES. In contrast, customers aged 60 and above account for 53.6% of the customers of brick-and-mortar (face-to-face) securities company SBI Securities.

The SBI Group's “customer-centric” principle places emphasis on providing all types of products and services to customers in every age bracket regardless of whether or not these customers use the Internet. In keeping with this principle, we must offer a sufficient range of services to customers in age groups characterized by low Internet usage. For products requiring detailed explanations or for high-risk products, persons in charge of sales must answer all questions to ensure that customers have a solid understanding of these products when investing. Given the nature of these transactions, brick-and-mortar channels are more appropriate for sales of these products while conversely sales via the Internet can be problematic for certain segments. Accordingly, to ensure thorough adherence to the “customer-centric” principle, we believe that both Internet and brick-and-mortar channels are essential and will thus work to build an investment environment capable of addressing the broad-ranging needs of all customers.

### Harmonizing Internet and Brick-and-Mortar Customer Bases

Complement mutual customer base by age bracket

(At the end of March 2006)



## Financial Services Business

# The Financial Services Business is benefiting from a favorable business environment.

### Principal Companies in the Financial Services Business

**SBI Holdings, Inc.** (Financial Services Business Division)  
**Morningstar Japan K.K.**

Hercules Market of Osaka Securities Exchange (code: 4765): Ratings information on financial products centering on investment trusts

**Gomez Consulting Co., Ltd.**

Hercules Market of Osaka Securities Exchange (code: 3813): Business support and evaluation of e-commerce (EC) websites

**SBI VeriTrans Co., Ltd.**

Hercules Market of Osaka Securities Exchange (code: 3749): Provision of electronic settlement services for EC businesses

**SBI Mortgage Co., Ltd.**

Provision of long-term fixed-interest securitization housing loans

**SBI Equal Credit Co., Ltd.**

Non-collateralized consumer loans for individuals, loans to business owners

**SBI Lease Co., Ltd.**

Comprehensive lease services, specialized in IT fields

**SBI Technology Co., Ltd.**

Provision of account aggregation software "Money Look" and IT solutions for financial institutions

### Benefiting from the Shift "from Savings to Investment," Morningstar Japan K.K. is Achieving Favorable Results

Morningstar Japan is engaged in advertising for financial and other products through its Internet site, and secured large increases in page views (PVs) and users thanks to its growing brand recognition. During the six-month interim period from January through June 2006, Morningstar Japan recorded 46.9 million page views, up 119.6% from the same period of the previous year, and secured 4.5 million users, an increase of 57.9%.

Gomez Consulting, a Morningstar Japan subsidiary that offers e-commerce site evaluations and rankings as well as business support, listed on the Hercules market of the Osaka Securities Exchange on August 16, 2006.

### Accelerating Growth of SBI VeriTrans Co., Ltd. and Marketplace Business Fuelled by the Advance of Broadband

SBI VeriTrans, providing online settlement solutions, recorded steady growth in business in tandem with the continued expansion of e-commerce (EC) and credit card markets. Underscoring these solid results, the number of transactions in SBI VeriTrans' settlement platform business in the fiscal year ended March 2006 rose 46.8% from the previous fiscal year to 21.25 million transactions. Moreover, the number of outlets using these settlement platforms grew to 2,219 at the end of June 2006.

Additionally, SBI VeriTrans is focusing on expanding earnings over the medium and long term through such measures as establishing alliances with affiliate (results-based remuneration) advertising companies and commencing support services for attracting customers to new EC sites.

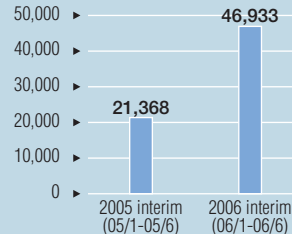
In our marketplace business, we operate websites that provide insurance and loan product comparison and estimate services. During the fiscal year, we expanded the number of our affiliated companies while achieving steady increases in the number of users of our variety of services, primarily for our mainstay financial comparison websites "InsWeb" and "E-LOAN," and carried out estimate and other transactions for approximately 800,000 users during the year.

Utilizing our know-how in the operation of financial-related sites, which have grown to become the best-in-class in Japan, we will expand and upgrade our service lineup and strengthen our business foundation through measures that include steadily opening new sites in both financial and non-financial fields. Additionally, we will provide content and high value-added information to major portal sites, as we work to further increase our name recognition, and expand the number of users.

### Page Views and Visitors Surge as Morningstar Enhances Brand Names

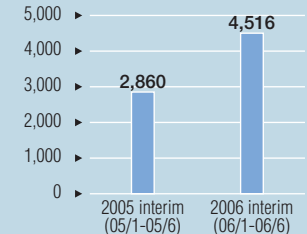
#### Page views

(1,000 page views)



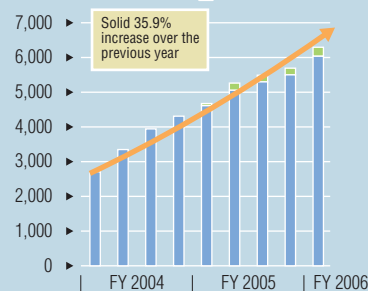
#### Number of users

(1,000 visitors)



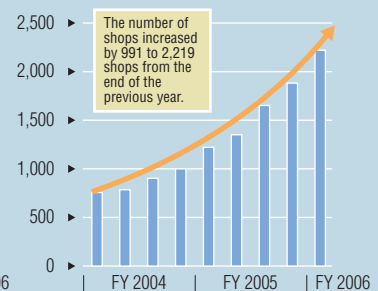
### Transactions Trends for SBI VeriTrans

(1,000 Transactions)



### E-Commerce Shop Trends for SBI VeriTrans

(Shops)

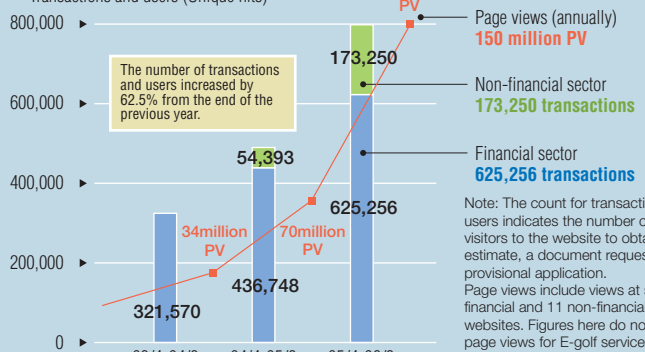


### Steady Performance for Marketplace Business

Steady expansion in the number of transactions and users and the number of participating companies reaches over 1,300

The non-financial sector is showing steady performance in transactions, number of users and page views.

Transactions and users (Unique hits)



Note: The count for transactions and users indicates the number of unique visitors to the website to obtain a total estimate, a document request, or a provisional application. Page views include views at six financial and 11 non-financial websites. Figures here do not include page views for E-golf service website (14 million page views per month).

## Rapid Growth of SBI Mortgage Co., Ltd. Supported by System Reforms for Housing Loans

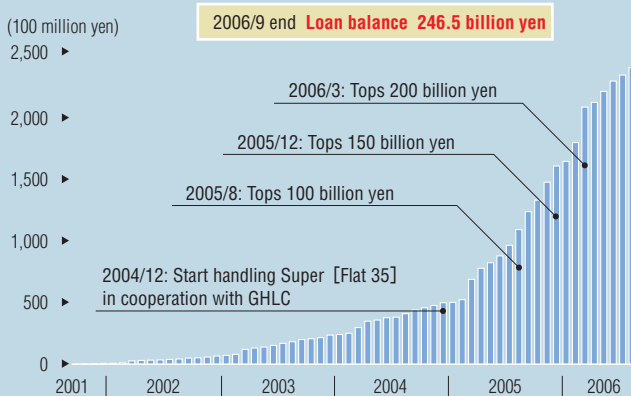
Continually providing long-term, fixed-interest housing loans with the industry's lowest level of interest rates, SBI Mortgage has recorded sharp growth in its housing loan execution balance, consisting mainly of the "Flat 35" loan (fixed-interest housing loans for 35 years, with effective interest rate of 2.781% in October 2006) promoted in cooperation with the Government Housing Loan Corporation (GHLC). After reaching ¥100 billion in August 2005, SBI Mortgage's housing loan execution balance surpassed ¥200 billion just seven months later and rose to ¥246.5 billion at the end of September 2006. SBI Mortgage plans to steadily increase its housing loan execution balance in the run-up to the transfer of GHLC's operations to an independent housing finance support organization, called the Japan Housing Finance Agency, in April 2007.

To strengthen its sales structure, SBI Mortgage has built a housing distribution loan system, formed alliances with 12 independent life insurance agencies across Japan and is focusing on expanding the number of its bases as it works to secure new sources of earnings.

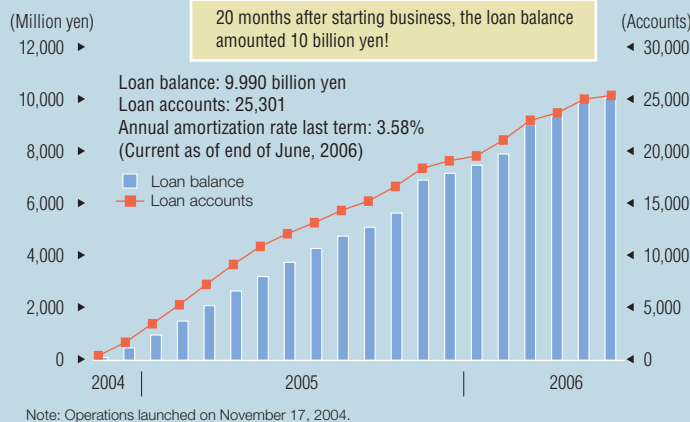
## SBI Equal Credit Co., Ltd. Achieves Monthly Profitability as Competitors' Record Earnings Declines

The loan balance of SBI Equal Credit, which provides loans to consumers and business operators, has reached approximately ¥10 billion after just 20 months since starting operations. Moreover, SBI Equal Credit has achieved profitability on a monthly basis at a time when competing companies are reporting declines in earnings. Amid deliberation about lowering the upper limit of interest rates under the Capital Subscription Law, SBI Equal Credit aims to establish a diversified earnings structure by building a business model to provide automated screening systems through Application Service Providers (ASPs) and in turn receive incurring fee income from the ASPs.

## Fast Growth for SBI Mortgage's Housing Loan Business



## SBI Equal Credit Loan Performance

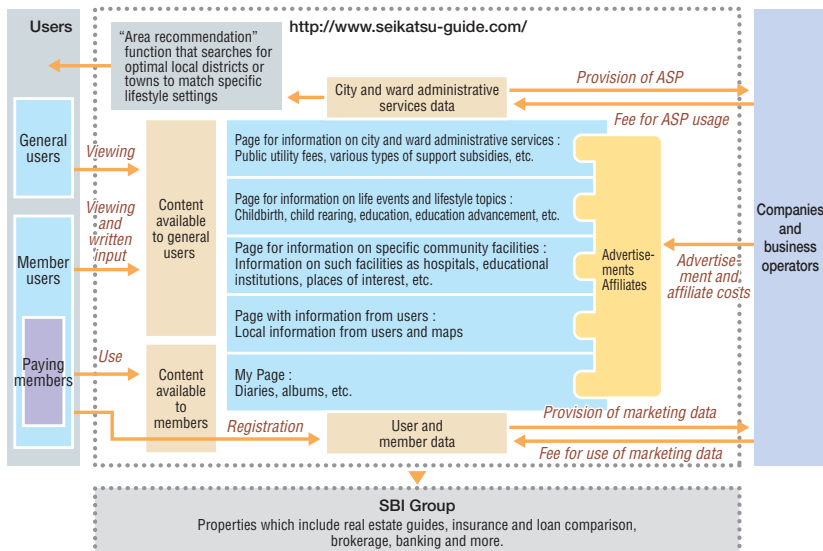


## Lifestyle Networks Business

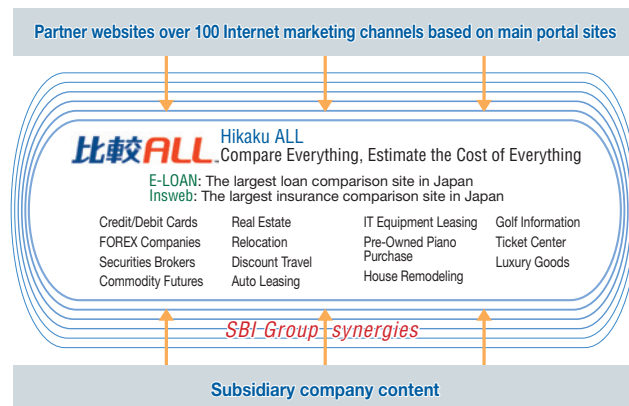
As one of the SBI Group's new core businesses, we have launched the full-scale operation of our Lifestyle Networks Business consisting mainly of the operation of "SeikatsuGuide.com" (<http://www.seikatsu-guide.com/>), a public services comparison website, as well as "Hikaku ALL" (<http://www.hikakuall.jp>), a comprehensive comparison website.

## "SeikatsuGuide.com" Community-based Site for Local and Lifestyle Information

This community-based site for local and lifestyle information utilizes local and government administrative services information as its base. The site provides an assortment of local lifestyle- and facility-related information as well as information on life-related events, plus enables user participation by allowing information to be added and shared.

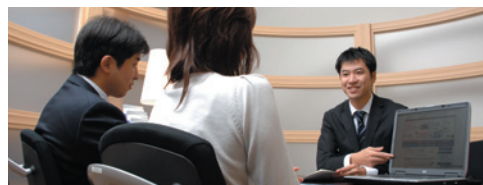


## "Hikaku ALL," a Portal Site for Comparisons and Estimates



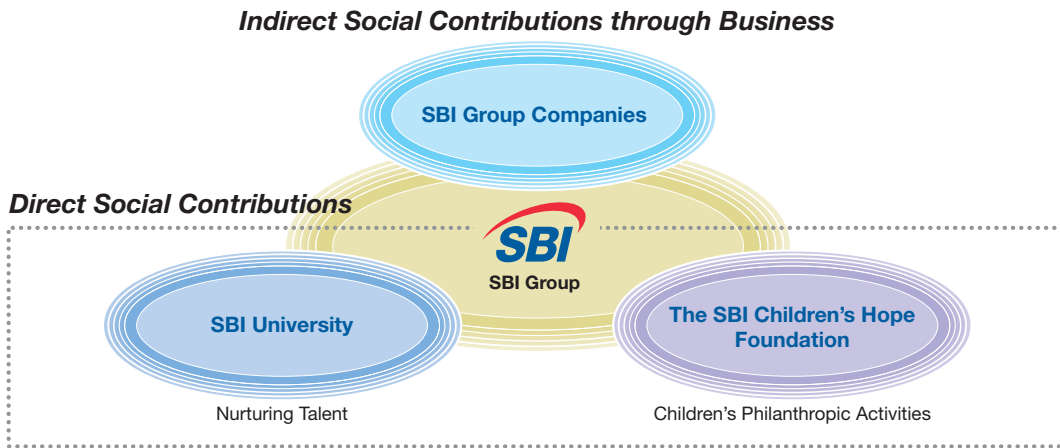
## SBI Mortgage's Network

SBI Mortgage has bases at 46 locations throughout Japan that can handle housing loan applications and contracts. SBI Mortgage will further expand its network of bases in Japan in the future as it offers customers highly focused services.



# SBI Group

## The Three Pillars of the SBI Group's Social Contributions



## Approach to Nurturing Human Capital

The SBI Group strives to produce “promising personnel,” or individuals who will eventually play important roles in leading Japan’s future. The “promising personnel” that we endeavor to nurture are not individuals who only contribute to the profits of one division or one company. They are those individuals who have a strong desire to contribute widely to the economy and society, possess a high level of expertise in business, maintain an international perspective and have concrete ethical values with a sense of boldness associated with firm capabilities for taking action.

### Commencing the Hiring of New University Graduates

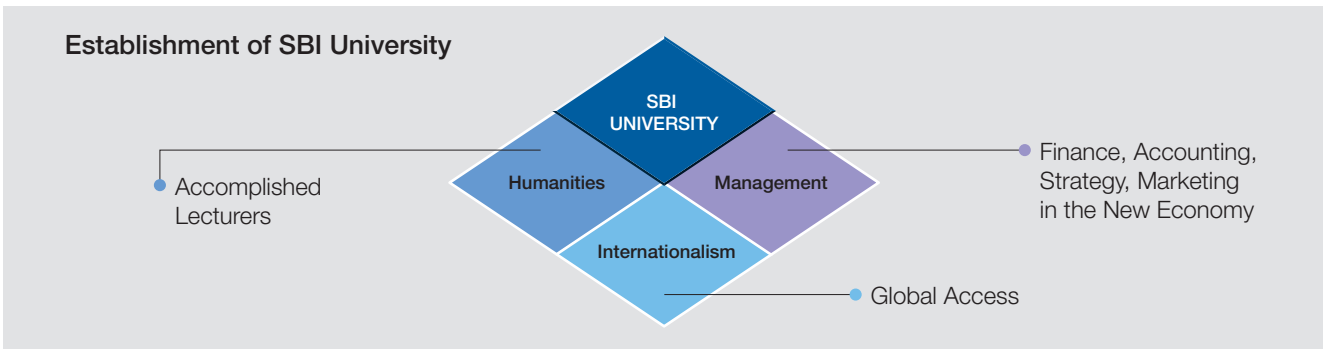
Until recently, the SBI Group focused mainly on hiring experienced individuals who were not averse to changing jobs in mid-career. In spring 2006, the SBI Group hired 42 new university graduates to secure a pool of outstanding candidates for positions as top managers, who in the future will lead the SBI Group as it continues to rapidly expand the scope of its business. In doing so, the SBI Group will nurture the talent of these individuals so that they will eventually inherit SBI’s unique corporate culture as well.

“intellectual education” involving the cramming of knowledge, SBI University emphasizes “moral ideals” focused on polishing the individual’s humanity. The university’s educational programs will incorporate leading-edge business management knowledge, and provide opportunities for “real learning,” equivalent to practical learning.

We are also soliciting course participants with high motivation and desire from a wide range of areas outside the Company. Instead of through the absorption of knowledge, the university aims to cultivate “promising personnel” through mutual dialogue and learning among people with a diversity of backgrounds and personalities, including between instructors and students and between students themselves.

### Establishment of an Open University

In May 2006, we established SBI University Co., Ltd. as a new method of “schooling in ideals” utilizing the Internet. Instead of





## CSR Initiatives

The SBI Group recognizes that it is a member of society and is able to operate its businesses only because of the very existence of society. Therefore, if a company does not contribute to the sustained development of society, that company is unable to exist as a going concern. For this reason, to be a “highly respected company”, the SBI Group maintains a strong awareness of the “social nature of companies” and proactively undertakes corporate social responsibility (CSR) activities.

### Basic Values of “Shin”(信)(Earning Trust and Reliability), “Gi”(義)(Executing Operations Properly) and “Jin”(仁)(Direct Contribution to Society) Permeate All Businesses of the SBI Group

The companies of the SBI Group are committed to pursuing the commercialization of businesses based on a sense of social justice. The foundation of our businesses is not based on earning profits but on the belief that we should contribute to the “realization of a society that is fair, comfortable, environmentally-

aware and safe.”

We also carry out our CSR activities in accordance with our own “three basic values” that are based on the aforementioned beliefs.

#### SBI Group’s Direct Social Contributions

As for direct social contributions, our basic policy is to contribute a reasonable level of our profits to such facilities as child welfare facilities.

On October 6, 2005, we established The SBI Children’s Hope Foundation to provide support for children, the weakest members of society, who have been abused, as well as to carry out activities to prevent child abuse.

##### January 2002

#### Basic policy decided by Board of Directors of SOFTBANK FINANCE CORPORATION

Group companies that record ¥300 million or more in net income will contribute around 1% of this amount to the Children’s Social Welfare Corporation.

##### July 2004

#### Contribution activities begin

The SBI Group donated approximately ¥167 million to 173 children’s homes and welfare organizations throughout Japan.

##### December 2004

#### Established SBI Child Welfare Limited Liability Intermediate Corporation

In addition to donations from each SBI Group company, SBI became the first company in Japan to make use of stock options and securities as donations from supporters.

##### October 2005

The SBI Children’s Hope Foundation was established upon receiving approval for establishment from the Ministry of Health, Labour and Welfare.

#### “Shin”(信)—Earning Trust and Reliability

- Strengthen our internal audit system
- Strengthen corporate communication
- Protect personal information
- Promote open employment opportunities and fair treatment

#### “Gi”(義)—Executing Operations Properly

- Pursue a total customer-centric business model
- Create and foster new industries
- Offer innovative financial services
- Promote businesses that will benefit society

#### “Jin”(仁)—Direct Contribution to Society

- Improve child welfare through foundation activities
- Support research in the field of medicine

#### Increasing Activities through The SBI Children’s Hope Foundation

Donations	Social contribution budget (million yen)	Amount (million yen)	Number of donations (facilities)
FY2004 (SBI Group activities)	¥167	¥167	173
FY2005 (Foundation activities)	¥200	¥155	105
FY2006 (Foundation activities)	¥380	( under consideration )	( under consideration )

# Corporate Governance

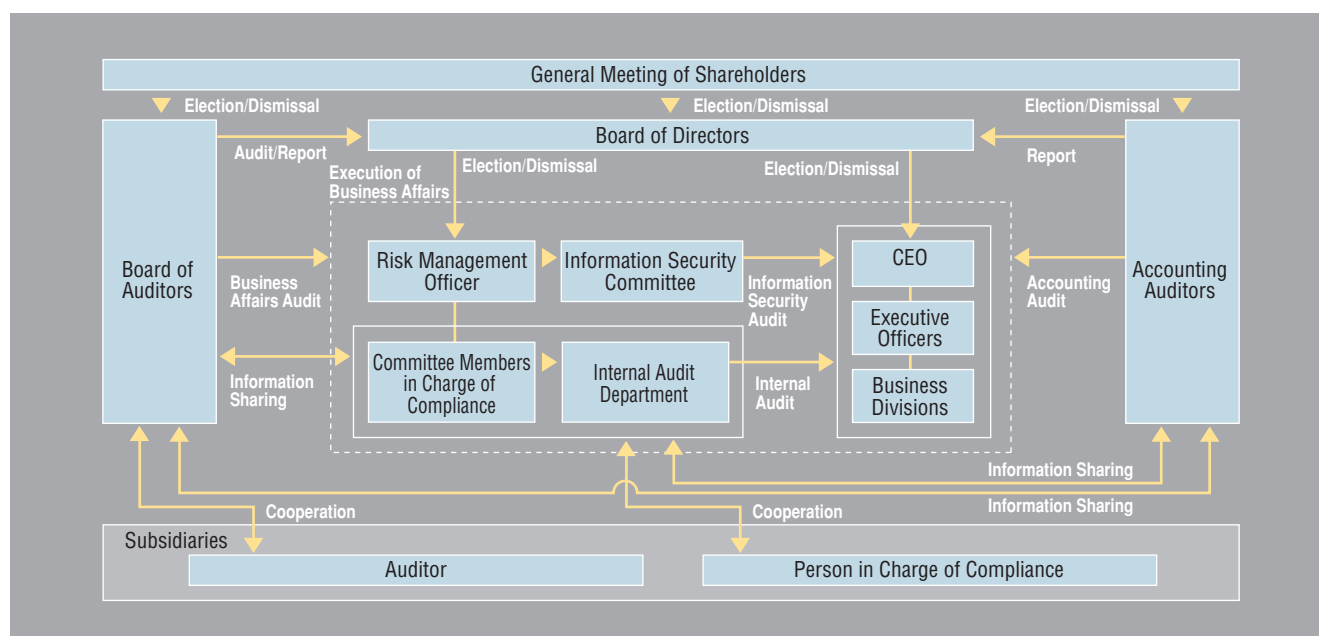
To enhance management transparency and corporate governance, SBI recognizes that one of its most crucial management tasks is to build and maintain an organizational structure capable of responding quickly to changes in the business environment as well as a fair management system that emphasizes the interests of shareholders.

## Basic Framework for Corporate Governance

SBI Holdings' Board of Directors consists of 13 directors (as of June 29, 2006), and the Company has adopted the Executive Officer System to clarify the functions and responsibilities of directors and the Board of Directors. Currently, 5 executive officers manage the execution of business affairs. These officers include the CEO, COO and CFO as well as two executive officers who manage each business division. By differentiating functions in this manner, SBI Holdings has built a flexible structure for executing business affairs that also facilitates quick

responses to changes in the management environment.

As a general rule, the Board of Directors convenes once per month to decide on important matters and to monitor the status and progress regarding the execution of business operations. With four corporate auditors, we strive to further reinforce the effectiveness of our corporate governance by systematically combining various types of audits by the accounting auditors, corporate auditors and Internal Audit Department.



## Initiatives for Strengthening Corporate Governance

### Establishment of an Internal Control Structure

Recognizing the importance of executing its business under a sound internal control system, SBI Holdings has established and is operating an internal control structure that enhances management transparency and corporate governance.

As a vital facet of this internal control structure, the Company has established an internal auditing structure that ensures thorough compliance with laws and ordinances and ethics behavior, which are prerequisites for realizing its Management Principles and Management Vision. Specifically, to promote smooth communication among directors while overseeing the execution of duties by representative directors

based on regulations prescribed by the Board of Directors, as a general rule, regular meetings of the Board are convened once a month and extraordinary meetings are held when necessary. Additionally, we have selected officers in charge of compliance and established the Internal Audit Department as the department with direct jurisdiction. To identify issues and problems concerning the SBI Group's compliance and to ensure business operations are carried out appropriately, officers in charge of compliance at SBI Holdings working together with officers responsible for compliance of the SBI Group, have set up conferences to exchange information on compliance for the entire SBI Group.



At meetings of the Board of Directors, individual directors exchange information regarding the respective SBI divisions and the SBI Group companies they manage, which enables us to pursue even more extensive Group synergies.

### **Establishment of a Risk Management Structure**

SBI Holdings strives to ascertain and appropriately evaluate and monitor any risks that could impede the execution of business or prevent us from realizing our Management Principles and Vision. These efforts include appointing a risk management officer as the person in charge of risk management based on related regulations stipulated by the Board of Directors.

In the event of any potential or actual management crisis threatening our continued existence, the risk management officer, as the person with overall responsibility, will gather pertinent information and consider and implement countermeasures and measures to prevent reoccurrences, while reporting on the situation to relevant institutions and disclosing information.

SBI Holdings has established a structure for the overall management of information, including customer information, and is strengthening its information management functions. As part of these efforts, we established the Information Security Committee composed of members appointed from each division, with the risk management officer serving as the committee chairman. We are also responding to computer system risk by building a structure, including redundant systems and backup structures at multiple locations, which allows us to respond to any type of contingency.

### **Audits by the Corporate Auditors, Internal Audits and Accounting Audits**

The Board of Corporate Auditors receives explanations from the accounting auditors on the annual auditing plan and other matters based on the Audit Report at the time of interim and full-year settlements. When necessary, the Board of Corporate Auditors also shares information and engages in discussions with the accounting auditor and the Internal Audit Department.

The Internal Audit Department audits the execution of duties by the directors, working to prevent any violations of laws, ordinances or the articles of incorporation, if necessary in cooperation with external specialists. Also, when needed, the Internal Audit Department shares information with the Board of Corporate Auditors and the accounting auditors regarding management-related issues or problems.

### **Initiatives during the Past Year to Upgrade Corporate Governance**

Responding to growth in the scope of our business, we increased the number of directors from 9 to 13, thereby strengthening our corporate governance and management functions.

Additionally, to bolster management oversight functions, extensive audits by the corporate auditors have been undertaken based on fiscal year auditing plans, while the Internal Audit Department implemented comprehensive internal audits that included the involvement of external specialists and covered the SBI Group companies. By taking such measures, we have further improved the efficiency of our business affairs and prevented improprieties and errors.

SBI Holdings also takes a proactive approach to disclosing information to investors. After the conclusion of the Ordinary Meeting of Shareholders, the Company holds a meeting to report on the recent state of its business. In addition, following the announcement of our full-year and interim business results, SBI Holdings also holds explanation meetings for individual shareholders in principal cities throughout Japan as well as small meetings for buy-side analysts. Moreover, we post various information in video and other formats on our website, including a brief summary of business results, and press releases in addition to quarterly results explanation meetings and Company explanation meetings for shareholders. Two or three times per month, we also offer the SBI Channel, which uses a streaming video format to provide direct explanations from the CEO about the SBI Group's overall business results and recent topics. As these examples illustrate, we undertake the utmost efforts to convey accurate corporate information to investors.

In August 2006, SBI Holdings received the Privacy Mark from the Japan Information Processing Development Corporation in recognition of SBI's objectively high level of personal information protection.

# Management's Discussion & Analysis

## Analysis of Business Results for the Fiscal Year

### Asset Management Business

We undertake our Asset Management Business guided by our management philosophy of being a New Industry Creator, as a leader in creating and cultivating core industries of the 21st century, mainly in IT fields. Accordingly, we will continuously provide risk capital to investee companies through the investment partnerships (funds) managed by the SBI Group, as well as provide comprehensive support services that include tax and financial management support services, consultation on public offerings, and the dispatching of our officers and regular staff. Additionally, we strive to raise the investment performance of our funds by promoting business and capital alliances between investee companies and utilizing the SBI Group's extensive network and its know-how in supporting public offerings with the aim of increasing the corporate value of investee companies.

Our flagship SOFTBANK INTERNET TECHNOLOGY FUND (hereafter "IT Fund"), which was established between March and July 2000 with an investment of ¥150.5 billion, has entered a period of the full-fledged harvesting of profits; accordingly, we have extended the operation of this fund two years for a planned redemption in June 2007. At the end of March 2006, the unrealized capital gain on the IT Fund totaled ¥161.1 billion in market value, and the sum of the investment balance, remaining cash equivalents that include accumulated dividends, and unrealized capital gains totaled ¥277.5 billion. We plan to continue investing in companies in broadband and mobile communications fields, which are expected to continue growing, through such funds as our SBI Broadband Fund, #1, Limited Liability Investment Partnership; SBI BB Media, Limited Liability Investment Partnership; and SBI BB Mobile Investment LPS that was established during the year under review. For the fiscal year, the total amount invested by investment partnerships operated by the SBI Group was ¥47.0 billion, and nine investee companies went public through IPO or M&A processes.

### Brokerage & Investment Banking Business

Our Brokerage & Investment Banking Business consists mainly of SBI E\*TRADE SECURITIES Co., Ltd. and SBI Securities Co., Ltd. During the fiscal year under review, SBI Holdings, SBI E\*TRADE SECURITIES, and SBI Securities set up the Securities Strategy Council and made various considerations on strategies for the SBI Group's securities business in the future. These deliberations led to the conclusion that it was imperative to accelerate the integration of Internet-based securities businesses undertaken mainly through SBI E\*TRADE SECURITIES with the brick-and-mortar (face-to-face customer service) securities

business undertaken mainly by SBI Securities to distinguish our securities business, as well as to secure our overwhelmingly dominant competitiveness that will ensure that we maintain our lead over competitors. To build a structure that will permit even speedier decision-making and allow us to resolutely execute new management innovations, we made SBI Securities a wholly owned subsidiary of SBI Holdings. At the same time, we significantly expanded the business foundations of each business in our core Asset Management and Brokerage & Investment Banking businesses, and actively promoted our private banking business.

Supported by buoyant stock markets, each of our securities subsidiaries posted favorable performances, with SBI E\*TRADE SECURITIES achieving record-high results. At the end of the fiscal year, the SBI Group's securities business had a total of ¥5,280.9 billion in deposits in customer accounts and 1,327,984 securities accounts, while the average daily trading value amounted to ¥344.3 billion.

### Financial Services Business

Regarding our Financial Services Business, vigorous promotions contributed to a steady expansion of earnings in our marketplace business, which included a large increase in the number of transactions and users (transactions include actual estimates, requests for materials, and provisional applications) for our InsWeb and E-Loan financial comparison sites. For the fiscal year, the number of transactions and users of these websites rose 43.2%, to 620,000. Additionally, we are working to expand and upgrade our service lineup and strengthen our business foundation, which includes opening 10 new financial and non-financial portal sites by utilizing our know-how in the operation of our existing financial sites, which have grown to be among the largest in Japan. In the financial products business, SBI Lease Co., Ltd. recorded robust growth in the value of new leases executed. SBI Mortgage Co., Ltd. made a significant contribution to earnings with a 202.7% increase in the outstanding balance of financing to ¥206.2 billion that was driven mainly by the "Super Flat 35" product. SBI Mortgage is also working to secure new earnings by opening additional brick-and-mortar outlets. In our financial solutions business, SBI VeriTrans Co., Ltd. achieved a 46.8% rise in settlement transactions to 21.25 million and steadily expanded the number of outlets that use its services to 1,881 outlets (at the end of the fiscal year). In other financial services businesses, we recorded favorable growth in businesses for website evaluations and consulting for sales financing institutions and businesses that are provided through Morningstar Japan K.K. and its subsidiary, Gomez Consulting Co., Ltd.

## Operating Revenues by Segment

	Year ended March 31, 2005		Year ended March 31, 2006	
	Millions of Yen	%	Millions of Yen	%
<b>Asset Management Business</b>	<b>24,463</b>	<b>30.0</b>	<b>40,807</b>	<b>29.7</b>
Investment in Securities	15,900		24,793	
Revenue from Operational Investment Securities	11,243		18,668	
Fees from Funds	4,657		6,125	
Housing and Real Estate Business	7,992		14,223	
Revenue from Operational Investment Securities	6,600		140	
Fees from Funds	—		10	
Other Real Estate Related Revenue	1,392		14,073	
Investment Advisory Service Fees and Others	571		1,791	
<b>Brokerage &amp; Investment Banking Business</b>	<b>46,224</b>	<b>56.7</b>	<b>80,816</b>	<b>58.9</b>
Revenue from Securities Transactions	44,923		79,513	
Revenue from Commodity Futures Transactions	1,301		1,303	
<b>Financial Services</b>	<b>12,408</b>	<b>15.2</b>	<b>19,844</b>	<b>14.5</b>
<b>Intersegment Revenue</b>	<b>(1,583)</b>	<b>-1.9</b>	<b>(4,220)</b>	<b>-3.1</b>
<b>Total Operating Revenue</b>	<b>81,512</b>	<b>100.0</b>	<b>137,247</b>	<b>100.0</b>

## Operating Revenues

### 1) Asset Management Business

#### Investment in Securities

The Asset Management Business invests in venture companies, companies in need of restructuring as well as in biotechnology, broadband, and media-related and other companies. Revenues consist of revenue from operational investment securities and fees from funds.

When securities (operational investment securities) are sold with the aim of realizing capital gains, the amount sold is recorded as revenue from operational investment securities. When the Company or one of its consolidated subsidiaries invests in a fund managed by the Group, an amount corresponding to contributed capital as a proportion of revenues from the fund in accordance with the fund settlement is calculated as revenue from operational investment securities.

Fees from funds consist of fund establishment fees that are calculated by multiplying the amount of solicited funds at the time of fund establishment by a fixed percentage; fund management fees that are calculated by multiplying initial contributed capital or net asset value by a fixed percentage;

and success fees, which are revenues received based on the performance of the management of the fund.

During the fiscal year under review, revenue from operational investment securities amounted to ¥18,668 million, up 66.0% from the previous fiscal year, and fees from funds totaled ¥6,125 million, an increase of 31.5%. The rise in operational investment securities was due mainly to the sale of shares of U.S.-based Morningstar, Inc. and the inclusion of fund settlements. Growth in fees from funds was derived mainly from the IT Fund (initial subscription ¥150,500 million) established between March and July 2000, as well as from SBI BROADBAND CAPITAL, Anonymous Investment Partnership established between September 2004 and April 2005, SBI Broadband Fund, SBI BB Media Fund and SBI BB Mobile Fund.

## Management's Discussion & Analysis

### Housing and Real Estate Business

This business makes investments in real estate, and revenues consist of revenue from operational investment securities, which is revenue received when shares of investments in funds are sold with the aim of realizing capital gains; fees from funds, consisting of fund establishment fees that are calculated by multiplying the amount of solicited funds at the time of real estate fund establishment by a fixed percentage; fund management fees that are calculated by multiplying initial contributed capital or net asset value by a fixed percentage; success fees, which comprise revenues received based on the performance of the management of the fund; and other real estate related revenue, which includes revenues from real estate planning and development as well as the brokerage and resale of land and buildings. When the Company or one of its consolidated subsidiaries invests in a fund managed by the Group, an amount corresponding to contributed capital as a proportion of revenues from the fund in accordance with the fund settlement is calculated as revenue from operational investment securities.

During the fiscal year under review, revenue from operational investment securities amounted to ¥140 million, down 97.9% from the previous fiscal year, and fees from funds totaled ¥10 million (no revenue from fees from funds in the previous fiscal year). Other real estate related revenue amounted to ¥14,073 million, a jump of 911.1% from the previous fiscal year.

### Revenue from Investment Advisory Service Fees and the like

During the fiscal year under review, revenue from investment advisory service fees and the like amounted to ¥1,791 million, an increase of 213.2% from the previous fiscal year. This rise was due mainly to revenue from investment advisory services by SBI Asset Management Co., Ltd. as well as revenue from investment trust management fees.

### 2) Brokerage & Investment Banking Business

Revenues in the Brokerage & Investment Banking Business consist mainly of revenue from securities transactions and revenue from commodity futures transactions.

### Revenue from Securities Transactions

Revenue from securities transactions consists of brokerage fees derived from buying and selling of securities; underwriting and sales fees for IPOs; and fees for placement and sales of stock. During the fiscal year under review, revenue from securities transactions amounted to ¥79,513 million, an increase of 77.0%. This revenue was derived mainly from SBI E\*TRADE SECURITIES, SBI Securities and E\*Trade Korea Co., Ltd.

### Revenue from Commodity Futures Transactions

Revenue from commodity futures transactions consists of fees received from commodity futures transactions. During the fiscal year under review, revenue from commodity futures transactions amounted to ¥1,303 million, an increase of 0.1%. This was derived from SBI Futures Co., Ltd.

### 3) Financial Services Business

Revenues in the Financial Services Business consist mainly of revenue from the financial marketplace business, which provides services through Japan's largest comparison and estimate portal sites for insurance and loan products: the financial products business, in which we engage in the lease business and offer long-term, fixed-interest housing loans through the use of securitization; the financial solutions business, in which we provide online payment settlement solutions for EC businesses and develop systems for use in the financial services industry; and other businesses that include Internet-based evaluations of financial products, mainly investment trusts, and Internet-based comparison and evaluation sites.

During the fiscal year under review, revenue in the Financial Services Business amounted to ¥19,844 million, an increase of 59.9%. This revenue was derived mainly from the SBI Lease and SBI Mortgage business.

Note: Figures for operating revenues in each segment and figures used for comparisons with the previous fiscal year are the amounts before eliminations for intersegment revenue.

## Operating Costs

### 1) Asset Management Business

Operating costs in the Asset Management Business amounted to ¥26,886 million, up 110.8% from the previous fiscal year. This consisted of ¥12,624 million in cost of operational investment securities, ¥450 million for provision of valuation allowance for operational investment securities, ¥9,099 million in cost of real estate for sale and ¥4,713 million in other operating costs, which includes personnel expenses.

### 2) Brokerage & Investment Banking Business

Operating costs in the Brokerage & Investment Banking Business amounted to ¥4,142 million, an increase of 77.9%, and consisted mainly of financial costs related to interest on lending and borrowing for margin transactions.

### 3) Financial Services Business

Operating costs in Financial Services Business were ¥9,385 million, an increase of 40.7% and consisted mainly of cost of leases incurred.

Note: Figures for operating costs in each segment and figures used for comparisons with the previous fiscal year are the amounts before eliminations for intersegment operating costs.

## Selling, General and Administrative Expenses

Selling, general and administrative expenses amounted to ¥50,056 million, up 41.7%, and consisted mainly of personnel expenses and expenses for commissioning the operation of securities systems.

## Other Income (Expenses)

Other income—amounted to a net of ¥27,317 million, an increase of 80.2%. Factors included dilution gains from changes in equity interest of ¥25,367 million, gain on sales of investment securities—net of ¥4,027 million and provision for statutory reserves of ¥2,420 million.

## Cash Flows

During the fiscal year, the SBI Group procured ¥99,555 million through the issue of unsecured straight bonds. Additionally, the Group procured ¥24,377 million through the issue of new shares through a third-party allotment. As a result, consolidated shareholders' equity at the end of the fiscal year amounted to ¥268,123 million, an increase of ¥138,704 million from ¥129,419 million at the previous fiscal year-end. The shareholders' equity ratio was 20.1%, up 3.0 percentage points from 17.1% at the previous fiscal year-end.

Cash and cash equivalents at fiscal year-end amounted to ¥132,545 million, an increase of ¥26,085 million from ¥106,460 million at the end of the previous year.

Cash flows for each category and factors affecting cash flows are as follows.

### Cash Flows from Operating Activities

Despite such cash inflows as ¥76,912 million in income before income taxes and minority interests, there were such outflows as ¥12,654 million in income taxes paid in addition to ¥172,818 million in net changes in margin transaction assets and liabilities that accompanied an increase in transactions by securities subsidiaries. This is because the management of funds procured as self-financing, including funds procured from public offering capital increases, is expressed as an outflow under cash flows from operating income rather than under cash flows from investing activities, a method of expression unique to securities companies. Also, there was an increase in operational investment securities and operational investments in funds amounting to ¥49,110 million due to the acquisition of shares

in the IT Fund managed by the SBI Group. As a result, net cash used in operating activities amounted to ¥132,740 million, compared with ¥25,531 million in net cash used in operating activities in the previous year.

### Cash Flows from Investing Activities

Cash outflows included ¥47,110 million in purchases of investment securities. This includes outflows of ¥15,385 million for the acquisition of shares of ZEPHYR Co., Ltd. in preparation for expanding the Housing and Real Estate Business. On the other hand, cash inflows included ¥11,567 million from proceeds from sales of investment securities. Therefore, net cash used in investing activities amounted to ¥33,137 million, compared with ¥3,352 million in net cash provided by investing activities in the previous fiscal year.

### Cash Flows from Financing Activities

Cash inflows included ¥99,555 million from proceeds from the issue of corporate bonds accompanying the issuance of unsecured straight bonds. Also, there was a cash inflow of ¥63,028 million from proceeds from issuance of common stock to minority shareholders. This includes ¥50,837 million in proceeds from the issue of new shares through a third-party allotment and a public offering by SBI E\*TRADE SECURITIES. Proceeds from long-term debt amounted to ¥52,100 million and proceeds from issuance of common stock totaled ¥24,377 million. Mainly because of these factors, net cash provided by financing activities amounted to ¥200,746 million, compared with ¥94,305 million in net cash provided by financing activities in the previous fiscal year.

Of the ¥11,480 million decrease in cash and cash equivalents due to exclusion from consolidation, the exclusion of ACE Securities Co., Ltd. from consolidation accounted for ¥11,112 million of this amount.

# Management's Discussion & Analysis

## Risk Information

The following principal categories of business risks and other risks affecting the SBI Group's businesses could have a material impact on investment decisions. Although the risks below are those recognized by the SBI Group at present, all risks are not necessarily limited to the following. In recognizing these latent risks, the Group will strive to avoid any such risks and take appropriate measures in the event that any risk arises.

### (1) Impact of Changes in the Business Environment

The SBI Group engages in a diverse range of businesses that include the investment, housing and real estate, securities, home loan and leasing businesses. Accordingly, there is a possibility that trends in such related markets as stock markets, money markets and real estate markets as well as political, economic and industry trends could have a significant impact on the Group. Therefore, such external factors over which the Group has no control could cause changes in business results and have a major impact on the SBI Group's overall business results.

Additionally, governments, government ministries and agencies as well as various stock exchanges are proceeding with system reforms and amendments to laws concerning stock markets and other markets related the Group's businesses. Although appropriate measures are taken upon sufficiently ascertaining these developments, additional major changes to system reforms and legal amendments in the future may have an impact on the Company's business results.

### (2) Competition

The SBI Group engages in businesses in fields characterized by innovation and expected high growth. In that these businesses are considered to have extremely strong growth potential in the future, competition is intense, which is evidenced by the entry of new participants. Consequently, there is no assurance the SBI Group can maintain its future competitiveness in the event of excessive competition that exceeds market growth. The Group will continue making further efforts in its businesses to maintain and increase its current competitive advantage. However, the emergence of strong competitors could cause the SBI Group to lose its dominant position and have an impact on its business results.

### (3) System Risk

The SBI Group fully utilizes the Internet in carrying out its businesses. Because a large portion of our business depends on computer systems, the SBI Group has devised various countermeasures that include the building of backup computer

systems. Nevertheless, the SBI Group's business results could be significantly affected if its computer systems become inoperable due to reasons unforeseen at present, including hardware and software malfunctions, human error, interruption or cessation of service due to a breakdown in communication lines or problems with the communications provider, computer viruses, cyber terrorism or a system malfunction caused by a natural disaster.

Particularly in the Brokerage & Investment Banking Business, which uses the Internet as a principal sales channel, we recognize that ensuring the stability of our system for online transactions is our most crucial management issue. The Group has thus implemented a number of countermeasures such as building redundant mission critical systems and monitoring functions as well as establishing backup sites at multiple locations and undertaking daily initiatives to maintain and enhance the level of service. Nevertheless, in the case of a system malfunction for some reason despite the implementation of these countermeasures, there is a possibility that a delay or failure to appropriately respond could result in claims for damage resulting from this malfunction as well as erode trust in the SBI Group's systems and support structure. This, in turn, could result in the loss of a large number of customers.

### (4) Investment Risk

In the Asset Management Business, the investee companies in the investment partnerships managed by the SBI Group include numerous venture companies and companies undergoing restructuring. These companies face numerous uncertainties regarding their future and there is a possibility that the business results of investee companies could change due to various factors in the future. These factors include but are not limited to changes in the competitive environment owing to sudden technological innovations or changes in industry standards, the inability to secure and maintain excellent managers and employees, a weak financial foundation, and nondisclosure of crucial information from investee companies.

In the Real Estate Business, the Company performs sufficient prior due diligence when acquiring real estate. However, the discovery of problems after acquisition in areas beyond the scope of the due diligence, including those related to rights that are unique to the real estate industry, ground geology, structures or the environment, could have a large impact on the value or profitability of the real estate. Also, the occurrence of any unforeseen accidents, incidents, or natural disasters such as fires, civil unrest, terrorism, earthquakes, volcanic eruptions or tidal waves could cause a loss of the value or profitability of the real estate.



## **(5) Protection of Personal Information**

Utilizing the Internet to the fullest, the SBI Group carries out wide-ranging business activities that include financial, real estate and lifestyle-related businesses, and in doing so, obtains and uses information on numerous customers. As a business enterprise that engages in financial businesses—which includes entry into the banking and life and non-life insurance industries—where reassurance, stability and safety are demanded, the SBI Group believes that preventing damage from the leakage of customer information and illegal access is extremely crucial. The Company thus recognizes that information security is its most crucial issue for ensuring that customers can use its services with a sense of reassurance.

With the full-fledged implementation of the Personal Information Protection Act in April 2005, the Company announced its Personal Information Protection Policies and formulated its Compliance Program (regulations on the management of personal information) to ensure strict adherence to its policies, as well as established security countermeasures based on this program. In ensuring that meticulous consideration is given to protecting customer information, we have also set up an internal management structure that includes establishing the Information Security Committee in addition to implementing related employee training programs. The Company has also implemented such thorough steps as entrance and exit log monitoring through the use of security cards as well as electronic file monitoring. Further, in August 2006 we received the Privacy Mark certification from the Japan Information Processing Development Corporation as a business operator that has established a structure for formulating appropriate measures to protect personal information. As illustrated by these measures, the SBI Group is working to maintain and enhance the level of security for protecting personal information.

## **(6) Business Reorganization**

As a Strategic Business Innovator, one of the SBI Group's basic policies is to perpetuate "Self Evolution." In line with this policy, in September 2005 the Company sold all its shares in ACE Securities Co., Ltd. and entered into a business and capital alliance with ZEPHYR Co., Ltd. In March 2006, the Company merged the operations of SBI Partners Co., Ltd. and FINANCE ALL CORPORATION, with SBI Holdings as the successor company, while converting SBI Securities Co., Ltd. into a wholly owned subsidiary.

In the future as well, the SBI Group will actively promote the expansion of its business content, which includes carrying out

M&A activities in businesses that will provide synergies with the Group's core businesses. Nevertheless, despite sufficient prior investment analysis and detailed investigations, there is a possibility that this business reorganization and expansion in the scope of business could have unanticipated effects and have an impact on the SBI Group's business results.

In undertaking the fund business, prior to the completion of the fund formation, there are instances in which the SBI Group establishes special purpose entities and temporarily invests in its own funds to make advanced acquisitions under favorable conditions. Taking into consideration the degree of influence of such factors as our share of investment and degree of control, we decide on a case-by-case basis whether the aforementioned special purpose entities will be subsidiaries or affiliated companies. However, the establishment of fixed rules based on accounting practices or changes in the SBI Group's accounting procedures could result in a change in the Group's scope of consolidation, which in turn could have an impact on the SBI Group's financial condition and business results.

## **(7) Entering New Businesses**

Based on the management principle of "Aiming to be a New Industry Creator," the SBI Group is proactively creating and cultivating core industries of the 21st century. During the fiscal year ended March 31, 2006, the SBI Group entered into several new businesses, which included forming a capital and business alliance with The Sumitomo Trust & Banking Co., Ltd. for the purpose of engaging in the Internet banking business and establishing SBI Card Co., Ltd. as a wholly owned subsidiary to carry out credit card and related businesses. Nevertheless, the inability of new businesses to attain initially forecast targets or the failure to achieve sufficient future profits commensurate with initial investments could have an adverse impact on the SBI Group's business results. There is also the possibility that these new businesses could become subject to new laws or placed under the guidance of oversight authorities, in which conflict with such laws and guidance and any subsequent punishment could impede the performance of these businesses.

## **(8) Reliance on Key Personnel**

The SBI Group relies on a management team with strong leadership capabilities, beginning with Representative Director and CEO Yoshitaka Kitao. In the event that the current management team does not remain in place and results in the inability to manage the Group's business activities, this could have an adverse impact on the SBI Group's business results.

# Consolidated Balance Sheets

SBI Holdings, Inc. (Formerly SOFTBANK INVESTMENT CORPORATION) and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	31st March		31st March,
	2005	2006	2006
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Note 15)	¥106,460	¥ 132,545	\$ 1,128,329
Time deposits	2,904	399	3,399
Cash required to be segregated under regulations (Note 4)	188,150	332,876	2,833,707
Account receivables—trade	1,013	1,303	11,096
Operational investment securities (Note 6)	39,829	61,668	524,965
Valuation allowance for operational investment securities	(463)	(338)	(2,876)
Operational loans receivable	8,059	16,501	140,473
Real estate inventory (Notes 5 and 15)		26,333	224,166
Trading assets (Note 7)	2,859	3,093	26,332
Margin transaction assets:			
Receivables from customers	317,801	562,693	4,790,099
Cash deposits as collateral for securities borrowed	15,680	18,547	157,884
Loans secured by securities:			
Resale agreement transactions	13,545		
Others	14	156	1,325
Short-term guarantee deposits (Note 4)	7,052	17,549	149,392
Deferred tax assets—current (Note 25)	986	1,959	16,676
Prepaid expenses and other current assets (Notes 4 and 9)	11,960	30,993	263,836
Allowance for doubtful accounts	(401)	(691)	(5,882)
Total current assets	715,448	1,205,586	10,262,921
<b>PROPERTY AND EQUIPMENT—Net</b> (Notes 10, 11 and 15)	4,715	4,144	35,279
<b>LEASED ASSETS—Net</b> (Note 12)	8,231	11,225	95,558
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 6 and 15)	11,686	28,127	239,438
Investments in unconsolidated subsidiaries and affiliated companies (Note 13)	807	23,534	200,341
Software, net of accumulated amortisation of ¥3,599 million and ¥3,600 million (\$30,649 thousand) at 31st March, 2005 and 2006, respectively	4,017	5,169	44,000
Rental deposits	4,323	4,358	37,096
Goodwill	1,581	44,638	379,994
Long-term trade receivables	2,824	1,701	14,485
Deferred tax assets—non-current (Note 25)	880	1,310	11,151
Other assets	3,362	3,760	32,012
Allowance for doubtful accounts	(2,870)	(1,908)	(16,241)
Total investments and other assets	26,610	110,689	942,276
<b>TOTAL</b>	¥755,004	¥1,331,644	\$11,336,034

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	31st March		31st March,
	2005	2006	2006
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Short-term borrowings (Notes 14 and 15)	¥ 8,732	¥ 11,398	\$ 97,025
Current portion of long-term debt (Note 14)	11,759	900	7,661
Income taxes payable	7,506	19,535	166,293
Margin transaction liabilities:			
Payables to financial institutions (Notes 14 and 15)	238,766	302,283	2,573,281
Proceeds of securities sold for customers' accounts	45,824	65,030	553,591
Loans secured by securities—repurchase agreement transactions (Note 14)	1,165	56,553	481,427
Consignment guarantee money received for margin transactions	151,652	303,385	2,582,658
Customers' deposits as collateral for commodity futures (Note 9)	19,309	32,072	273,026
Customers' deposits for securities transactions	15,427	21,495	182,979
Unearned income (Note 16)	2,667	3,671	31,248
Accrued expenses	2,654	3,594	30,599
Contingent reserve	5,219	5	46
Deferred tax liabilities—current (Note 25)	3,367	2,096	17,841
Other current liabilities (Notes 7, 14 and 29)	16,567	25,550	217,499
Total current liabilities	530,614	847,567	7,215,174
<b>LONG-TERM LIABILITIES:</b>			
Long-term debt, less current portion (Note 14)	36,000	152,410	1,297,438
Deferred tax liabilities—non-current (Note 25)	2,051	2,053	17,479
Other long-term liabilities (Notes 17 and 18)	302	1,469	12,503
Total long-term liabilities	38,353	155,932	1,327,420
<b>STATUTORY RESERVES (Note 19):</b>			
Reserve for liability for securities transactions	2,523	4,715	40,141
Reserve for liability for commodity transactions	152	213	1,813
Total statutory reserves	2,675	4,928	41,954
<b>MINORITY INTERESTS</b>	53,943	55,094	469,006
<b>SHAREHOLDERS' EQUITY (Notes 20, 21 and 33):</b>			
Common stock—authorised, 27,190,000 shares in 2005 and 34,169,000 shares in 2006; issued, 8,542,344 shares in 2005 and 12,290,692 shares in 2006	34,765	54,229	461,642
Capital surplus	53,467	115,692	984,863
Retained earnings	33,377	90,345	769,089
Unrealised gain on available-for-sale securities	7,633	12,830	109,216
Foreign currency translation adjustments	416	935	7,962
Treasury stock—at cost, 11,083 shares in 2005 and 135,664 shares in 2006	(239)	(5,908)	(50,292)
Total shareholders' equity	129,419	268,123	2,282,480
<b>TOTAL</b>	¥755,004	¥1,331,644	\$11,336,034

# Consolidated Statements of Income

SBI Holdings, Inc. (Formerly SOFTBANK INVESTMENT CORPORATION) and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Year Ended 31st March		<b>Year Ended 31st March, 2006</b>
	2005	<b>2006</b>	
<b>OPERATING REVENUES</b> (Notes 22 and 31)	¥81,512	<b>¥137,247</b>	<b>\$1,168,359</b>
<b>OPERATING COSTS</b> (Note 23)	21,323	<b>37,596</b>	<b>320,047</b>
Gross profit	60,189	<b>99,651</b>	<b>848,312</b>
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> (Note 24)	35,319	<b>50,056</b>	<b>426,116</b>
Operating income	24,870	<b>49,595</b>	<b>422,196</b>
<b>OTHER INCOME (EXPENSES):</b>			
Interest and dividends income	194	<b>277</b>	<b>2,361</b>
Interest expense	(63)	<b>(563)</b>	<b>(4,793)</b>
Foreign exchange gain—net	107	<b>826</b>	<b>7,027</b>
Gain on sale of investment securities—net	3,868	<b>4,027</b>	<b>34,282</b>
Dilution gain from changes in equity interest (Note 26)	10,569	<b>25,367</b>	<b>215,945</b>
Amortisation of negative goodwill—net	1,973	<b>1,443</b>	<b>12,285</b>
Provision for statutory reserves	(1,177)	<b>(2,420)</b>	<b>(20,604)</b>
Impairment loss		<b>(273)</b>	<b>(2,323)</b>
Other—net	(315)	<b>(1,367)</b>	<b>(11,636)</b>
Other income—net	15,156	<b>27,317</b>	<b>232,544</b>
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS</b>	40,026	<b>76,912</b>	<b>654,740</b>
<b>INCOME TAXES</b> (Note 25):			
Current	10,360	<b>22,990</b>	<b>195,707</b>
Reversal of the prior year's income taxes	(33)	<b>1,280</b>	<b>10,897</b>
Deferred	(904)	<b>(6,189)</b>	<b>(52,684)</b>
Total income taxes	9,423	<b>18,081</b>	<b>153,920</b>
<b>MINORITY INTERESTS IN NET INCOME</b>	(4,972)	<b>(12,947)</b>	<b>(110,217)</b>
<b>NET INCOME</b>	¥25,631	<b>¥ 45,884</b>	<b>\$ 390,603</b>
	Yen		U.S. Dollars
<b>PER SHARE OF COMMON STOCK</b> (Notes 2.w and 30):			
Basic net income	¥3,579.29	<b>¥4,957.08</b>	<b>\$42.20</b>
Diluted net income	3,280.47	<b>4,627.04</b>	<b>39.39</b>
Cash dividends applicable to the year	350	<b>600</b>	<b>5.11</b>

See notes to consolidated financial statements.

# Consolidated Statements of Shareholders' Equity

SBI Holdings, Inc. (Formerly SOFTBANK INVESTMENT CORPORATION) and Consolidated Subsidiaries

	Outstanding Number of Shares of Common Stock	Millions of Yen					
		Common Stock	Capital Surplus	Retained Earnings	Unrealised Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
<b>BALANCE, 1ST APRIL, 2004</b>	2,317,706	¥ 8,393	¥ 27,092	¥ 9,772	¥ 2,399	¥ 25	¥ (216)
Stock splits (Note 20)	4,650,593						
Stock issuance through public offering (Note 20)	1,250,000	22,414	22,413				
Stock issuance through private placement (Note 20)	187,500	3,362	3,362				
Exercise of warrants (Note 20)	125,678	596	599				
Cash dividends, ¥770 per share				(1,785)			
Bonuses to directors				(224)			
Adjustment of retained earnings for newly consolidated subsidiaries				(2)			
Adjustment of retained earnings for merged companies				11			
Adjustment of retained earnings due to exclusion from consolidation				(26)			
Net income				25,631			
Net increase in unrealised gain on available-for-sale securities					5,234		
Net increase in foreign currency translation adjustments						391	
Purchase of treasury stock	(247)						(24)
Reissuance of treasury stock	31		1				1
<b>BALANCE, 31ST MARCH, 2005</b>	8,531,261	34,765	53,467	33,377	7,633	416	(239)
Stock issuance through private placement (Note 20)	<b>481,861</b>	<b>9,927</b>	<b>9,927</b>				
Exercise of warrants (Note 20)	<b>289,889</b>	<b>2,392</b>	<b>2,392</b>				
Conversion of convertible bonds (Note 20)	<b>366,749</b>	<b>7,145</b>	<b>7,145</b>				
Adjustment of capital surplus for merger of subsidiaries through issuance of common stock (Note 20)	<b>2,077,252</b>		<b>8,544</b>				
Share-for-stock exchange (Note 20)	<b>532,597</b>		<b>34,109</b>				
Cash dividends, ¥350 per share (Note 20)				(2,986)			
Bonuses to directors				(568)			
Adjustment of retained earnings for merged companies				15,241			
Adjustment of retained earnings due to exclusion from consolidation				(41)			
Net income				45,884			
Other decrease in retained earnings				(562)			
Net increase in unrealised gain on available-for-sale securities					5,197		
Net increase in foreign currency translation adjustments						519	
Purchase of treasury stock	(50,121)						(2,909)
Reissuance of treasury stock	7		108				
Treasury stocks held by affiliated company accounted for by the equity method	(74,467)						(2,760)
<b>BALANCE, 31ST MARCH, 2006</b>	<b>12,155,028</b>	<b>¥54,229</b>	<b>¥115,692</b>	<b>¥90,345</b>	<b>¥12,830</b>	<b>¥935</b>	<b>¥(5,908)</b>

	Thousands of U.S. Dollars (Note 1)						
	Common Stock	Capital Surplus	Retained Earnings	Unrealised Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	
<b>BALANCE, 31ST MARCH, 2005</b>	\$295,949	\$455,151	\$284,134	\$ 64,979	\$3,542	\$( 2,034)	
Stock issuance through private placement (Note 20)	<b>84,506</b>	<b>84,503</b>					
Exercise of warrants (Note 20)	<b>20,363</b>	<b>20,365</b>					
Conversion of convertible bonds (Note 20)	<b>60,824</b>	<b>60,824</b>					
Adjustment of capital surplus for merger of subsidiaries through issuance of common stock (Note 20)		<b>72,732</b>					
Share-for-stock exchange (Note 20)		<b>290,367</b>					
Cash dividends, \$2.98 per share (Note 20)			(25,419)				
Bonuses to directors			(4,838)				
Adjustment of retained earnings for merged companies			129,741				
Adjustment of retained earnings due to exclusion from consolidation			(345)				
Net income			390,603				
Other decrease in retained earnings			(4,787)				
Net increase in unrealised gain on available-for-sale securities				44,237			
Net increase in foreign currency translation adjustments					4,420		
Purchase of treasury stock						(24,761)	
Reissuance of treasury stock		921				2	
Treasury stocks held by affiliated company accounted for by the equity method						(23,499)	
<b>BALANCE, 31ST MARCH, 2006</b>	<b>\$461,642</b>	<b>\$984,863</b>	<b>\$769,089</b>	<b>\$109,216</b>	<b>\$7,962</b>	<b>\$(50,292)</b>	

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

SBI Holdings, Inc. (Formerly SOFTBANK INVESTMENT CORPORATION) and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Year Ended 31st March		Year Ended 31st March, 2006
	2005	2006	
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes and minority interests	¥ 40,026	¥ 76,912	\$ 654,740
Adjustments for:			
Income taxes paid	(9,266)	(12,654)	(107,721)
Amortisation and depreciation	3,617	5,794	49,319
Provision for valuation allowance for operational investment securities		171	1,458
Provision for allowance for doubtful accounts	178	499	4,250
Impairment loss		273	2,323
Dilution gain from changes in equity interest	(10,569)	(25,367)	(215,945)
Write-down of operational investment securities	268	638	5,435
Equity loss (earnings) in funds	(2,944)	1,783	15,177
Gain on sales of investment securities—net	(3,868)	(4,027)	(34,282)
Changes in assets and liabilities:			
Increase in operational investment securities and operational investments in funds	(7,865)	(49,110)	(418,061)
Increase in operational loans receivable	(7,315)	(8,859)	(75,415)
(Increase) decrease in real estate inventory	788	(16,446)	(140,001)
Increase in segregated assets for customers	(81,640)	(142,543)	(1,213,439)
Increase in trading assets	(145)	(336)	(2,864)
Increase in leased assets	(3,047)	(6,879)	(58,564)
Net changes in margin transaction assets and liabilities	(21,025)	(172,818)	(1,471,170)
Increase in customers' deposits for securities transactions	11,862	523	4,451
Increase in consignment guarantee money received for margin transactions	63,580	153,297	1,304,985
Net changes in loans receivable and payable secured by securities	(2,562)	60,666	516,442
Increase in unearned income	1,305	411	3,498
Other—net	3,091	5,332	45,391
Net cash used in operating activities	¥(25,531)	¥(132,740)	\$(1,129,993)
<b>INVESTING ACTIVITIES:</b>			
Purchases of intangible assets	(2,040)	(2,461)	(20,953)
Purchases of investment securities	(1,978)	(47,110)	(401,038)
Proceeds from sales of investment securities	10,731	11,567	98,472
Proceeds from sales of subsidiaries' stock	5,303	981	8,347
Cash paid in business acquisition, net of cash acquired	(2,515)	14,724	125,346
Investments in subsidiaries	(1,901)	(4,286)	(36,489)
Investments in loans receivable	(8,437)	(10,703)	(91,115)
Collections of loans receivable	6,811	5,913	50,337
Payments for security deposits	(2,284)	(2,393)	(20,367)
Collection of security deposits	1,164	1,777	15,129
Other—net	(1,502)	(1,146)	(9,754)
Net cash provided by (used in) investing activities	¥ 3,352	¥ (33,137)	\$ (282,085)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Year Ended 31st March		Year Ended 31st March, 2006
	2005	2006	
<b>FINANCING ACTIVITIES:</b>			
Increase (decrease) in short-term borrowings—net	¥ (5,087)	¥ 1,879	\$ 15,999
Proceeds from long-term debt	24,262	151,655	1,291,009
Repayment of long-term debt	(3,025)	(31,800)	(270,708)
Dividends paid	(1,776)	(2,966)	(25,253)
Dividends paid to minority shareholders	(879)	(2,218)	(18,879)
Proceeds from issuance of common stock	52,481	24,377	207,519
Proceeds from issuance of common stock to minority shareholders	28,351	63,028	536,547
Reissuance of treasury stock	2	160	1,361
Purchase of treasury stock	(24)	(2,908)	(24,761)
Other—net		(461)	(3,923)
Net cash provided by financing activities	94,305	200,746	1,708,911
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b>			
	75	729	6,210
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	72,201	35,598	303,043
<b>CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES</b>	25	1,967	16,739
<b>CASH AND CASH EQUIVALENTS DECREASED DUE TO EXCLUSION FROM CONSOLIDATION</b>	(133)	(11,480)	(97,730)
<b>CASH AND CASH EQUIVALENTS OF NEWLY MERGED COMPANIES</b>	6		
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	34,361	106,460	906,277
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	¥106,460	¥132,545	\$1,128,329
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION (Note 2.a):</b>			
Fair value of assets acquired	¥ (63,890)	¥ (39,997)	\$ (340,490)
Liabilities assumed	46,894	10,550	89,812
Goodwill	(4,447)	(6,083)	(51,786)
Statutory reserves	128		
Minority interest	6,867	16,580	141,145
Foreign currency translation adjustments	(11)		
Acquisition costs	(14,459)	(18,950)	(161,319)
Cash acquired	11,944	17,999	153,227
Transfer from stock of affiliated company		15,675	133,438
Cash paid in business acquisitions, net of cash acquired	¥ (2,515)	¥ 14,724	\$ 125,346
Fair value of assets sold	¥ 7		
Liabilities relinquished	(1)		
Sale value	6		
Cash received in sale of subsidiaries, net of cash relinquished	¥ 6		

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

SBI Holdings, Inc. (Formerly SOFTBANK INVESTMENT CORPORATION) and Consolidated Subsidiaries  
Years Ended 31st March, 2005 and 2006

## 1. NATURE OF OPERATIONS AND BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

SBI Holdings, Inc. (the "Company") was incorporated in Tokyo, Japan in 1999 as a venture capital business principally for Internet-related companies, and has since expanded its line of business through mergers and acquisitions as well as expanding its asset management business to investments in certain non-Internet-related companies.

The Company and its consolidated subsidiaries (together, "SBI") are currently engaged in the provision of a wide range of financial services and are primarily active in their three core businesses of asset management, brokerage and investment banking and financial services. However SBI is expanding additional two core businesses of real estate and life related network and engaging in provision of a wide range of financial and non-financial area in five core businesses.

SBI's asset management business is principally carried out by the Company, SOFTBANK INVESTMENT CORPORATION ("SBINV"), SBI CAPITAL Co., Ltd. ("SBI-CAPITAL") and SBI BROADBAND CAPITAL K.K. ("SBI-BC"), and involves the management of venture capital investment funds, corporate restructuring funds and broadband media funds. SBI is one of the largest managers of venture capital funds in Japan in terms of net assets under management.

SBI's brokerage and investment banking businesses are principally carried out by the Company's subsidiaries, E\*TRADE SECURITIES Co., Ltd. ("ETS"), one of the largest online securities companies in Japan by number of accounts, deposits in customer accounts and daily average revenue from trades, and SBI Securities Co., Ltd. ("SBI-SEC"). Brokerage and investment banking businesses involve the provision of brokerage services as well as investment banking services such as underwriting, securitisations, corporate finance advisory services and private equity advisory services.

SBI's financial services business is principally executed by the Company, SBI Mortgage Co., Ltd., SBI Lease Co., Ltd. and Morningstar Japan K.K. ("MSJ"). Financial services include the provisions of low-interest home loans, lease arrangements specialised in Internet-related area and the marketplace where customers can compare financial products.

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

Certain disclosures contained herein are not required as part of the basic financial statements in Japan but are presented herein as additional information. 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. In addition, certain reclassifications have been made in the 2005 financial statements to conform to the classifications used in 2006.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥117.47 to \$1, the approximate rate of exchange at 31st March, 2006. Such translation should not be construed as representation 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 at 31st March, 2006 include the accounts of the Company and its 37 significant (36 in 2005) subsidiaries. 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 SBI has the ability to exercise significant influence are accounted for by the equity method.

Investments in 1 (nil in 2005) unconsolidated subsidiary and 7 (2 in 2005) affiliated companies are accounted for by the equity method. Investments in the remaining 42 (12 in 2005) unconsolidated subsidiaries and 3 (3 in 2005) affiliated companies 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 have been material.

Goodwill, representing the excess of the Company's investments in subsidiaries over the fair value of the net assets of the acquired subsidiaries at the date of acquisition, is being amortised by the straight-line method over the estimated useful life of goodwill, while goodwill is amortised over 20 years when the useful life of goodwill is not reasonably estimable. Negative goodwill, representing the excess of the fair value of the net assets of the acquired subsidiaries at the date of acquisition over the Company's investments in subsidiaries, is also being amortised by the straight-line method over the estimated useful life of negative goodwill, while negative goodwill is amortised over 20 years if the useful life of negative goodwill is not reasonably estimable. Immaterial goodwill or negative goodwill is charged to income when incurred.

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

Investments in 8 (5 in 2005) companies and 1 (1 in 2005) corporate type investment trust over 20 percent ownership are included in operational investment securities as the investments in these companies were made as part of the Company's operating activities.

Operational investments in funds included in operational investment securities on the consolidated balance sheet are accounted for by the same way as the equity method based on SBI's percentage share in the contributed capital as these funds are investment partnerships. However, SBI consolidates the revenue and expenses of these funds in the consolidated statement of income. Revenue and expenses stated on the profit and loss statement of the funds are recorded in SBI's consolidated statement of income based on SBI's percentage share in each partnership's contributed capital.



Non-operational investments in funds included in investment securities on the consolidated balance sheet are accounted for by the same way as the equity method based on SBI's percentage share in the contributed capital as these funds are investment partnerships.

In accordance with accounting standards for consolidated financial statements, the amounts on the balance sheets and the profit and loss statements of dormant partnerships which are managed by the Company's consolidated subsidiaries, SOFTBANK CONTENTS PARTNERS CORPORATION (currently merged with SBINV), SBI-CAPITAL and SBI-BC in 2005, SBINV, SBI-CAPITAL and SBI-BC in 2006, are not consolidated into SBI's consolidated financial statements since the dormant partnerships' assets, liabilities, revenue and expenses are not attributable to partnership managers.

Upon resolution and approval of the Board of Directors on 19th April, 2004, the Company acquired a total of 6,000 shares of common stock of ASCOT CO., LTD. ("ASCOT," currently known as SBI Equal Credit Co., Ltd.) from SOFTBANK FINANCE CORPORATION ("SBF," currently known as SOFTBANK AM CORPORATION ("SBAM")) and ACOM CO., LTD. and a total of 3,600 shares of common stock of Swan Credit Corporation ("SWAN," currently known as SBI Equal Credit Co., Ltd.) from SBF on 19th April, 2004. ASCOT and SWAN became the Company's consolidated subsidiaries from April 2004. On 2nd August, 2004, ASCOT was eventually merged into SWAN which was the surviving company. As a result, equity of SWAN held by the Company was 82.5 percent as at 31st March, 2005.

On 15th May, 2004, TechTank Corporation ("TechTank," currently known as SBI Technology Co., Ltd.) established Finance All Solutions Co., Ltd. ("FAS") in Korea. TechTank held 85.7 percent of the shares of FAS in the aggregate amount of ¥71 million. The main business of FAS is to deploy system development businesses principally in the Korean financial industry. FAS became a consolidated subsidiary of the Company from May 2004.

On 29th June, 2004, FINANCE ALL CORPORATION ("FAC," currently merged with the Company) acquired INTER-EYE Co., Ltd. ("IE") through a stock exchange. Through this stock exchange, FAC issued 1,886 shares of common stock valued at ¥335 million. IE became a consolidated subsidiary of the Company from June 2004. The main business of IE was to provide full cost estimate services for discounted air tickets or rental computer servers. In July 2005, IE merged into FAC which was the surviving company.

Since the importance of SB NERVA CORPORATION ("SB-NERVA," currently known as SBI Nerva Co., Ltd.) for SBI's consolidated financial statements became more significant, SB-NERVA became a consolidated subsidiary of the Company from June 2004.

On 29th June, 2004, the Company established SBI-BC and held 100 percent of the shares of SBI-BC in the aggregate amount of ¥10 million.

On 10th and 17th June, 2004, the Company acquired 2,820,000 shares of common stock of E\*TRADE KOREA CO., LTD. ("ETK") from LG Investment & Securities Co., Ltd. and 2,400,000 shares from SOFTBANK CORPORATION, for the aggregate amount of ¥2,110 million. As a result, equity of ETK held by the Company as at 17th June, 2004 was 87.0 percent and ETK became a consolidated subsidiary of the Company from June 2004. Upon resolution and approval of the Board of Directors on 4th March, 2005, the Company sold all the shares of ETK to ETS on 11th March, 2005 and ETK became a consolidated subsidiary of ETS.

Upon resolution and approval of the Board of Directors on 26th July, 2004, the Company acquired 32,968 shares of common stock of MSJ from SBF in the aggregate amount of ¥7,085 million on 29th July, 2004. As a result, equity of MSJ held by the Company as at 29th July, 2004 was 50.43 percent and MSJ and its consolidated subsidiaries, Morningstar Asset Management Co., Ltd., Gomez Japan K.K. (currently known as Gomez Consulting Co., Ltd.) and E\*Advisor Co., Ltd. (currently merged with MSJ), became consolidated subsidiaries of the Company from July 2004.

On 1st July, 2004, the Company agreed in principle with NOMURA LAND AND BUILDINGS CO., LTD. and Nomura Research Institute, Ltd. that the Company acquired common stock of Ace Securities Co., Ltd. ("ASCL") through Take Over Bid ("TOB"), and the TOB was officially approved by the Company's Board of Directors on 14th July, 2004. The TOB was executed from 15th July, 2004 through 5th August, 2004. The number of shares acquired through TOB was 20,603,700 shares, and the aggregate investment amount was ¥4,430 million. As a result, equity of ASCL held by the Company was 55.93 percent and ASCL and its consolidated subsidiaries (ACE CONSULTING CO., LTD., ACE CORPORATION and ACE TOCHI-TATEMONO CO., LTD. ("ATC")) became consolidated subsidiaries of the Company from August 2004. ATC merged into ASCL which was the surviving company in March 2005.

In terms of importance for SBI's consolidated financial statements, SBI CAPITAL SOLUTIONS Co., Ltd. ("SBI-CS") became a consolidated subsidiary of the Company from July 2004. However, SBI-CS merged into SBI-CAPITAL which was the surviving company in December 2004.

On 1st September, 2004, the Company acquired 700 shares of common stock of Office Work Corporation ("OWC," currently known as SBI Business Solutions Co., Ltd.) from SBF in the aggregate amount of ¥88 million. As a result, OWC and its consolidated subsidiary, Office Work Systems Corporation ("OWSC," currently known as SBI Business Solutions Co., Ltd.) became consolidated subsidiaries of the Company from September 2004. However, in terms of importance for SBI's consolidated financial statements, OWC and OWSC were excluded from the scope of consolidation at the end of fiscal 2005.

On 29th November, 2004, the Company acquired 4,000 shares of common stock of Equal Credit Co., Ltd. ("ECC," currently known as SBI Equal Credit Co., Ltd.) from SBF in the aggregate amount of ¥200 million. As a result, ECC became a wholly owned consolidated subsidiary of the Company from November 2004.

On 1st July, 2005, the Company spun off its fund management business to subsidiary of SBI VENTURES, Inc. (currently known as SBINV) and changed its trade name to SBI Holdings, Inc.

Upon resolution and approval of the Board of Directors on 3rd August, 2005, ASCL issued 31,000,000 new shares of common stock through private allocation with issue price of ¥7,440 million (\$63,335 thousand) (¥240 (\$2.04) per share) on 25th August, 2005. Due to this transaction, ASCL became an affiliated company of the Company.

On 26th August, 2005, the Company acquired 516,700 shares of common stock of SBI Partners Co., Ltd. ("SBIP," currently merged with the Company) from individual shareholders in the aggregate amount of ¥1,093 million (\$9,303 thousand) additionally. As a result, SBIP became a consolidated subsidiary of the Company from August 2005.

In addition, on 2nd September, 2005, the Company sold all of its 20,603,700 shares of ASCL for an aggregate amount of ¥4,945 million (\$42,095 thousand). As a result, ASCL was no longer an affiliated company from September 2005.

On 29th September, 2005, the Company accepted new shares of ZEPHYR CO., LTD. ("ZPYR") and acquired 63,622 shares of common stock in the aggregated amount of ¥15,386 million (\$130,976 thousand). As a result, ZPYR became an affiliated company accounted for by the equity method from September 2005.

On 30th December, 2005, the Company acquired 12,000 shares of common stock of AUTOBYTEL-JAPAN K.K. ("ABTL") previously held by the Company as operational investment securities, for an additional investment amount of ¥600 million (\$5,108 thousand). As a result, ABTL became an affiliated company accounted for by the equity method from December 2005.

Upon approval of extraordinary shareholders meeting held on 27th January, 2006, the Company merged with SBIP on 1st March, 2006. Due to this merger, the Company issued 842,392 new shares of its common stock to SBIP's shareholders at an exchange ratio of 0.05 share for each outstanding share of SBIP's common stock.

Upon approval of extraordinary shareholders meeting held on 27th January, 2006, the Company merged with FAC on 1st March, 2006. Due to this merger, the Company issued 1,234,860 new shares of its common stock to FAC's shareholders at an exchange ratio of 2.5 shares for each outstanding share of FAC's common stock.

Upon approval of extraordinary shareholders meeting held on 27th January, 2006, the Company issued 483,338 new shares of its common stock to SBI-SEC's shareholders at an exchange ratio of 1.15 shares for each outstanding share of SBI-SEC's common stock. As a result of this share exchange, SBI-SEC became wholly owned by the Company.

**b. Cash Equivalents**—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, separate deposits and call deposits, all of which mature or become due within three months of the date of acquisition.

**c. Valuation of Securities**—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, with the related unrealised gains and losses are included in earnings and (2) available-for-sale securities, which are not classified as trading securities are reported at fair value, with unrealised gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average cost method.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average cost method. For other than temporary declines in fair value, non-marketable available-for-sale securities are reduced to net realisable value by a charge to income.

Investments in funds are accounted for as either operational investment securities or investment securities on the consolidated balance sheets, according to SBI's percentage shares in the contributed capital. Effective 31st March, 2006, the shares of the Company's subsidiary invested by abovementioned funds, are consolidated by the Company according to SBI's percentage shares in the contributed capital. Gain or loss on sales of shares of the Company's subsidiary sold by the abovementioned funds are recorded as "Gain on sale of investment securities—net" in the consolidated statements of income in proportion to SBI's percentage shares in the contributed capital. The effect of this change was to decrease gross profit and operating income for the year ended 31st March, 2006 by ¥2,830 million (\$24,091 thousand) while no effect has occurred to income before income taxes and minority interests.

In accordance with the Commodities Exchange Law, securities in custody for commodity futures related businesses are reported at a price determined by the commodity exchange. Determined prices of principal securities are as follows:

Interest-bearing government bonds:	85 percent of face value
Corporate bonds listed:	65 percent of face value
Equity securities listed on the first section market:	70 percent of fair value
Warehouse certificate:	70 percent of fair value

**d. Valuation Allowance for Operational Investment Securities**—Valuation allowance for operational investment securities is provided at an estimated amount of possible investment losses for operational investment securities based on the financial condition of investees.

**e. Real Estate Inventory**—Real estate inventory is stated at cost, by the specific identification method.

**f. Allowance for Doubtful Accounts**—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on SBI's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

**g. Property and Equipment**—Property and equipment are stated at cost less accumulated depreciation. Depreciation of property and equipment of the Company and its consolidated domestic subsidiaries is computed by using the declining-balance method over the estimated useful lives of assets, while the straight-line method is applied to buildings acquired after 1st April, 1998 and the property and equipment of consolidated foreign subsidiaries. The range of useful lives is principally from 3 to 50 years for buildings and leasehold improvements and from 2 to 20 years for furniture and equipment.

**h. Long-lived Assets**—In August 2002, the Business Accounting Council (“BAC”) issued a Statement of Opinion, “Accounting for Impairment of Fixed Assets,” and in October 2003 the Accounting Standards Board of Japan (“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 1st April, 2005 with early adoption permitted for fiscal years ending on or after 31st March, 2004.

The Company and domestic subsidiaries (together, the “Group”) adopted the new accounting standard for impairment of fixed assets as of 1st April, 2005.

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 recognised 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 for the year ended 31st March, 2006 by ¥273 million (\$2,323 thousand).

**i. Lease Accounting**—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 capitalised, while other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalised” information is disclosed in the notes to the lessee’s financial statements.

Tangible leased assets are stated at cost less accumulated depreciation as lessor accounting treatment. Depreciation is computed by using the straight-line method over the lease term with salvage value of the estimated disposal prices of tangible leased assets at the expiration of the lease term.

Intangible leased assets are stated at cost less accumulated amortisation as lessor accounting treatment. Amortisation is computed by using the straight-line method over the lease term.

**j. Software**—Software is recorded at cost, less accumulated amortisation. Amortisation of software used for internal purposes is computed by using the straight-line method over 5 years, the estimated useful life of the software. On the other hand, amortisation of software for sale to the market is computed by using the straight-line method over 3 years or less, the estimated salable period of the software.

**k. Other Assets**—Stock issuance costs and bond issuance costs are principally amortised by the straight-line method over 3 years in conformity with Japanese Commercial Code (the “Code”), while certain consolidated subsidiaries charge immaterial stock issuance costs and bond issuance costs to income as incurred, which is also in conformity with the Code. Intangible assets are amortised by using straight-line method.

**l. Contingent Reserve**—Contingent reserve is provided at an estimated amount of possible losses arising from contentious cases.

**m. Allowance for Compensation for Completed Construction Projects**—The allowance for compensation for completed construction projects included in other current liabilities is provided at an estimated amount of possible compensation for the contract amount of the Company’s certain subsidiary’s construction project completed in the year ended 31st March, 2006.

**n. Employees’ Retirement Benefits**—The liability for employees’ retirement benefits is accounted for based on projected benefit obligations and plan assets at the balance sheet date.

**o. Retirement Allowance for Directors**—Retirement allowance for directors of certain consolidated subsidiaries is recorded to state the liability at the amount that would be required if all directors retired at each balance sheet date.

**p. Revenue and Cost Recognition**—SBI’s revenues principally consist of revenue from operational investment securities, fees from funds and revenues from real estate related transactions, securities transactions and commodity futures transactions, while its costs principally consist of the cost of operational investment securities or real estate sold and a provision for valuation allowance for operational investment securities.

**Revenue from operational investment securities**—Revenue from operational investment securities consists of proceeds from the sales of operational investment securities and securities held by funds and interest and dividend income from these securities. Interest and dividend income are recognised on an accrual basis.

**Cost of operational investment securities**—Cost of operational investment securities consists of the cost of operational investment securities and securities held by funds, write-downs of operational investment securities and securities held by funds, and fees related to securities transactions. Write-downs of operational investment securities and securities held by funds are recognised at the balance sheet date for quoted and unquoted securities if impairment of value has occurred and been deemed other than temporary, and operational investment securities are reduced to their net realisable value by a charge to income. Fees related to securities transactions are recorded when incurred.

**Fees from funds**—Fees from funds consist of establishment fees for fund organisation, management fees and success fees from funds under management. Establishment fees for fund organisation are recognised when a fund organised by SBI is established and funded by investors. Management fees are recognised over the periods of fund management agreements primarily based on the net asset value of the funds under management. Success fees are computed based upon a formula which takes into account realised gains and losses on and write-downs of the investments under management in funds measured at the end of each accounting period, as well as certain other expenses.

**Revenue from construction projects**—Revenue from long-term construction projects whose contract amounts are not less than ¥100 million (\$851 thousand) and whose contract periods are beyond 1 year are recorded on percentage-of-completion method while construction projects other than aforementioned are recorded on completed-contract method.

**Revenue from securities transactions**—Revenue from securities transactions primarily consists of brokerage commissions from securities transactions, fees from underwriting and offering of securities for initial public offering and overriding fees for placements and sales of securities. Commissions charged for executing brokerage transactions are accrued on a trade date basis and are included in current period earnings. Underwriting fees are recorded when services for underwriting are completed. All other fees are recognised when related services are rendered.

**Revenue from commodity futures transactions**—Revenue from commodity futures transactions is recognised on the trading date.

**Financial charges and cost of funding**—Financial charges related to brokerage and investment banking businesses such as interest expense from margin transactions and costs from repurchase agreement transactions are accounted for as operating costs. Interest expense other than financial charges is categorised into either interests related to operating assets such as operational investment securities or leased assets or interests related to non-operating assets. Cost of funding related to operating assets is accounted for as operating costs while interest expense related to non-operating assets is recorded as non-operating expenses.

**q. 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 recognise 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.

A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before SBI is able to realise their benefits, or that future deductibility is uncertain.

**r. Accounting for Consumption Tax**—The consumption tax imposed on revenue from customers for SBI's services is withheld by SBI at the time of receipt and paid to the national government subsequently. The consumption tax withheld upon recognition of revenue and the consumption tax paid by SBI on the purchase of products, merchandise and services from vendors, are not included in the related accounts in the accompanying consolidated statements of income. The consumption tax paid is generally offset against the balance of consumption tax withheld, and net overpayment is included in current assets or net over withholding is included in current liabilities. Consumption tax that does not qualify for deduction is included in selling, general and administrative expenses and other expenses.

**s. 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 recognised in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

**t. Foreign Currency Financial Statements**—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as at the balance sheet date except for shareholders' equity, which is translated at the historical rate. Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity, except for the portion pertaining to minority shareholders, which is included in "Minority interests." Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

**u. Derivatives and Hedging Activities**—SBI primarily uses foreign currency forward contracts and interest rate swaps as a means of hedging exposures to foreign currency and interest rate risks. SBI also enters into derivatives such as stock-index futures, commodity futures and bond futures.

Derivatives are classified and accounted for as follows: (a) all derivatives are recognised as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognised 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.

Foreign currency forward contracts are utilised to hedge foreign currency exposures in SBI's operating activities. Receivables, payables and investment securities denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognised and included in interest expense or income.

**v. Appropriation of Retained Earnings**—Appropriations of retained earnings are reflected in the accompanying consolidated statements of shareholders' equity for the following year upon shareholders' approval.

**w. Per Share Information**—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 convertible notes and bonds 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, which is not retroactively adjusted for stock splits.

#### **x. New Accounting Pronouncements**

##### ***Business combination and business separation***

In October 2003, the BAC issued a Statement of Opinion, "Accounting for Business Combinations," and on 27th December, 2005 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 1st April, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

- (a) the consideration for the business combination consists solely of common shares with voting rights,
- (b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and
- (c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

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 systematically amortised over 20 years or less, 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 recognised 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 recognised.

##### ***Stock options***

On 27th December, 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 1st May, 2006.

This standard requires companies to recognise compensation expense for 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-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

##### ***Bonuses to directors and corporate auditors***

Prior to the fiscal year ended 31st March, 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 ASBJ Practical Issues Task Force (PITF) No. 13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on 29th November, 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 1st May, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

### 3. ACCOUNTING CHANGE

#### Revenue from Commodity Futures Transactions

According to the accounting standard for commodity futures transactions amended in May 2005, revenue from commodity futures transactions is recognised on the trading date which was recognised when an assignor settles a transaction by reselling, repurchasing or delivering before May 2005. The effect of this change was immaterial.

### 4. SEGREGATED ASSETS

At 31st March, 2005 and 2006, assets required to be segregated in certain financial institutions according to the Commodities Exchange Law were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	2006	2006
Cash required to be segregated under regulations	¥1,184	¥300	\$2,554
Short-term guarantee deposits	2,390		
Securities in custody	104		

At 31st March, 2005 and 2006, assets which belonged to assignors of customers' deposits as collateral for commodity futures and were segregated in conformity with the Commodities Exchange Law were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	2006	2006
Cash required to be segregated under regulations	¥58	¥6,519	\$55,493

### 5. REAL ESTATE INVENTORY

Real estate inventory at 31st March, 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	2006	2006
Real estate for sale	¥ 7,062		\$ 60,112
Real estate for developing	2,275		19,370
Beneficial interest of real estate investment trust	16,996		144,684
Total	¥26,333		\$224,166

### 6. OPERATIONAL INVESTMENT SECURITIES AND INVESTMENT SECURITIES

Operational investment securities and investment securities at 31st March, 2005 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	2006	2006
Current (operational investment securities):			
Marketable equity securities	¥12,900	¥ 1,820	\$ 15,495
Non-marketable equity securities	3,519	6,552	55,779
Corporate bonds	89	336	2,854
Investment in funds	23,083	52,960	450,837
Other	238		
Total	¥39,829	¥61,668	\$524,965
Non-current (investment securities):			
Marketable equity securities	¥ 6,768	¥17,682	\$150,521
Non-marketable equity securities	2,566	2,142	18,232
Investment in funds	2,250	5,667	48,247
Government bonds	16	15	126
Corporate bonds		2,000	17,026
Trust fund investment	86	621	5,286
Total	¥11,686	¥28,127	\$239,438

The carrying amounts and aggregate fair value of operational investment securities and investment securities at 31st March, 2005 and 2006 were as follows:

	Millions of Yen			
	Cost	Unrealised Gains	Unrealised Losses	Fair Value
<b>31st March, 2005</b>				
Securities classified as available-for-sale:				
Equity securities	¥12,533	¥7,339	¥204	¥19,668
Government bonds	10			10
Trust funds investments	100		14	86
<b>31st March, 2006</b>				
Securities classified as available-for-sale:				
Equity securities	<b>¥14,568</b>	<b>¥5,248</b>	<b>¥314</b>	<b>¥19,502</b>
Government bonds	<b>10</b>		<b>1</b>	<b>9</b>
Trust funds investments	<b>605</b>	<b>17</b>	<b>1</b>	<b>621</b>

	Thousands of U.S. Dollars			
	Cost	Unrealised Gains	Unrealised Losses	Fair Value
<b>31st March, 2006</b>				
Securities classified as available-for-sale:				
Equity securities	<b>\$124,012</b>	<b>\$44,678</b>	<b>\$2,674</b>	<b>\$166,016</b>
Government bonds	<b>85</b>		<b>13</b>	<b>72</b>
Trust funds investments	<b>5,150</b>	<b>145</b>	<b>9</b>	<b>5,286</b>

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

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	31st March 2005	2006	31st March, 2006
Available-for-sale:			
Equity securities	¥ 6,085	<b>¥ 8,694</b>	<b>\$ 74,011</b>
Investment in funds	25,333	<b>58,627</b>	<b>499,084</b>
Debt securities and other	333	<b>2,342</b>	<b>19,934</b>
<b>Total</b>	<b>¥31,751</b>	<b>¥69,663</b>	<b>\$593,029</b>

Proceeds from sales of available-for-sale securities for the years ended 31st March, 2005 and 2006 were ¥22,626 million and ¥22,822 million (\$194,282 thousand), respectively. Gross realised gains and losses on these sales, computed on the moving average cost basis, were ¥5,108 million and ¥119 million, respectively, for the year ended 31st March, 2005 and ¥6,489 million (\$55,244 thousand) and ¥192 million (\$1,639 thousand), respectively, for the year ended 31st March, 2006.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at 31st March, 2006 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
Due in one year or less	¥ 2		\$ 15
Due after one year through five years	2,013		17,136
Due after five years through ten years	1		14

Due to the change in the purpose of holding securities, available-for-sale equity securities in the aggregate amount of ¥106 million and ¥5,298 million (\$45,099 thousand) were reclassified from operational investment securities into investments in subsidiaries and affiliated companies for the years ended 31st March, 2005 and 2006, respectively. In addition, available-for-sale equity securities in the aggregate amount of ¥5 million were reclassified from investment securities into investments in subsidiaries and affiliated companies for the year ended 31st March, 2005 and investments securities in subsidiaries and affiliated companies were reclassified into available-for-sale equity securities in the aggregated of ¥139 million (\$1,183 thousand) for the year ended 31st March, 2006.

Securities whose fair value declines below 50 percent of the acquisition cost are deemed to be other than temporary declines and are reduced to net realisable value by a charge to income. In the case where the fair value of securities declines by 30 to 50 percent, impairment losses will be recognised, if necessary, considering the possibility of market value recovery or other factors. For the years ended 31st March, 2005 and 2006, the impairment losses were recorded in the aggregate amount of ¥232 million and ¥1 million (\$7 thousand).

At 31st March, 2005 and 2006, investments in funds consisted of the following:

	Millions of Yen		Thousands of
	31st March		U.S. Dollars
	2005	2006	31st March, 2006
SOFTBANK INTERNET TECHNOLOGY FUND No. 1	¥ 2,274	<b>¥13,930</b>	<b>\$118,583</b>
SOFTBANK INTERNET TECHNOLOGY FUND No. 2	2,342	<b>13,141</b>	<b>111,870</b>
SOFTBANK INTERNET TECHNOLOGY FUND No. 3	4,393	<b>1,787</b>	<b>15,212</b>
SOFTBANK INTERNET FUND	550	<b>1,123</b>	<b>9,557</b>
SBI-LBO-FUND No. 1	2,601	<b>2,434</b>	<b>20,722</b>
RESTRUCTURING Fund No. 1	5,945	<b>3,488</b>	<b>29,695</b>
SBI Mezzanine Fund No. 1	1,671	<b>2,485</b>	<b>21,154</b>
SBI BB Media Fund	1,959	<b>1,898</b>	<b>16,156</b>
BIOVISION Life Science Fund I	1,710	<b>2,232</b>	<b>18,998</b>
Other funds	1,888	<b>16,109</b>	<b>137,137</b>
<b>Total</b>	<b>¥25,333</b>	<b>¥58,627</b>	<b>\$499,084</b>

## 7. TRADING ASSETS AND LIABILITIES

At 31st March, 2005 and 2006, trading assets and liabilities consisted of the following:

	Millions of Yen		Thousands of
	31st March		U.S. Dollars
	2005	2006	31st March, 2006
Trading assets:			
Equity securities	¥ 64	<b>¥ 93</b>	<b>\$ 791</b>
Debt securities	2,693	<b>2,888</b>	<b>24,585</b>
Derivatives	1	<b>4</b>	<b>37</b>
Others	101	<b>108</b>	<b>919</b>
<b>Total</b>	<b>¥2,859</b>	<b>¥3,093</b>	<b>\$26,332</b>
Trading liabilities:			
Equity securities		<b>¥ 7</b>	<b>\$ 59</b>
Derivatives		<b>19</b>	<b>160</b>
<b>Total</b>		<b>¥ 26</b>	<b>\$ 219</b>

## 8. SECURITIES DEPOSITED AND RECEIVED

Fair value of the securities deposited by SBI in securities-related businesses at 31st March, 2005 and 2006 was as follows:

	Millions of Yen		Thousands of
	31st March		U.S. Dollars
	2005	2006	31st March, 2006
Securities loaned on margin transactions	¥ 47,553	<b>¥ 68,596</b>	<b>\$ 583,948</b>
Securities pledged for loans payable for margin transactions	235,423	<b>313,451</b>	<b>2,668,351</b>
Securities sold in resell agreement transactions	2,117	<b>1,211</b>	<b>10,311</b>
Substitute securities for guarantee money paid	102,984	<b>161,916</b>	<b>1,378,362</b>
Securities loaned under agreement		<b>53,796</b>	<b>457,955</b>
Others	791	<b>907</b>	<b>7,719</b>



Fair value of the securities received by SBI in securities-related businesses at 31st March, 2005 and 2006 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	2006	2006
Securities pledged for loans receivable for margin transactions	¥303,551	<b>¥551,701</b>	<b>\$4,696,527</b>
Securities borrowed on margin transactions	15,374	<b>18,746</b>	<b>159,580</b>
Securities purchased on repurchase agreement transactions	14,290		
Substitute securities for guarantee money received, which were agreed on using as collateral for other transactions	195,624	<b>313,503</b>	<b>2,668,795</b>
Substitute securities for guarantee money received on futures	130	<b>213</b>	<b>1,809</b>
Others	14	<b>154</b>	<b>1,311</b>

## 9. DEPOSITARY ASSETS

In substitution for transactional margin deposits, SBI sets aside to Japan Commodity Clearing House Co., Ltd. in custody securities in the aggregate amount of nil and ¥625 million (\$5,322 thousand) as at 31st March, 2005 and 2006, respectively, and to fiduciary agents securities in custody in the aggregate amount of ¥482 million and ¥4 million (\$41 thousand) as at 31st March, 2005 and 2006, respectively, which were recorded as securities in custody included in other current assets or as customers' deposits as collateral for commodity futures on the consolidated balance sheets.

## 10. PROPERTY AND EQUIPMENT

Property and equipment at 31st March, 2005 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	2006	2006
Land	¥ 1,678	<b>¥ 1,403</b>	<b>\$ 11,943</b>
Buildings and leasehold improvements	4,972	<b>3,567</b>	<b>30,371</b>
Furniture and equipment	3,951	<b>3,954</b>	<b>33,661</b>
Others	88	<b>21</b>	<b>177</b>
Total	10,689	<b>8,945</b>	<b>76,152</b>
Less accumulated depreciation	(5,974)	<b>(4,801)</b>	<b>(40,873)</b>
Property and equipment—net	¥ 4,715	<b>¥ 4,144</b>	<b>\$ 35,279</b>

## 11. LONG-LIVED ASSETS

SBI recognised an impairment loss of ¥273 million (\$2,323 thousand) during the year ended 31st March, 2006 consisting of the following assets which are held by the Company's certain consolidated subsidiary.

A certain subsidiary has grouped its long-lived assets depending on sales branches which are the minimum unit for management accounting. Corporate dormitory and welfare provisions are classified as common use assets. In addition, head office is considered separately as it is determined to be moved.

The carrying amounts of the assets of head office in Tokyo were reduced to recoverable amounts, which were determined based on the net selling price as it is to be moved. As a result, the reduced amount of ¥261 million (\$2,224 thousand) was recorded as impairment loss during the year ended 31st March, 2006. The abovementioned impairment loss consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
Buildings	¥136		\$1,156
Furniture and equipment	11		97
Leasehold	114		971
Total	¥261		\$2,224

The carrying amounts of the assets of sales branch in Hiratsuka were reduced to recoverable amounts, which were appraised at zero as it is to be moved and scrapped. As a result, the reduced amount of ¥7 million (\$59 thousand) was recorded as impairment loss during the year ended 31st March, 2006. The abovementioned impairment loss consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
Buildings	¥6		\$50
Furniture and equipment	1		9
Total	¥7		\$59

The carrying amounts of the assets of sales branch in Nagoya were reduced to recoverable amounts, which were determined based on value in use, the sum of the net projected future cash flows discounted at a rate of 9.3 percent due to decrease of operating revenues. As a result, the reduced amount of ¥5 million (\$40 thousand) was recorded as impairment loss during the year ended 31st March, 2006. The abovementioned impairment loss consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Buildings	¥4	\$34
Furniture and equipment	1	6
<b>Total</b>	<b>¥5</b>	<b>\$40</b>

## 12. LEASED ASSETS

Leased assets at 31st March, 2005 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	2006	2006
Furniture and equipment	¥16,113	¥ 21,932	\$ 186,707
Software	1,331	1,853	15,773
Total	17,444	23,785	202,480
Less accumulated depreciation	(9,213)	(12,560)	(106,922)
<b>Leased assets—net</b>	<b>¥ 8,231</b>	<b>¥ 11,225</b>	<b>\$ 95,558</b>

Rental income and depreciation expense were ¥3,994 million and ¥3,497 million, respectively, for the year ended 31st March, 2005 and ¥4,792 million (\$40,796 thousand) and ¥4,183 million (\$35,608 thousand), respectively, for the year ended 31st March, 2006.

The minimum future rentals on noncancellable operating lease contracts at 31st March, 2005 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	2006	2006
Due within one year	¥222	¥137	\$1,164
Due after one year	240	93	793
<b>Total</b>	<b>¥462</b>	<b>¥230</b>	<b>\$1,957</b>

Pro forma information of leased assets such as future minimum lease payments to be received and interest income under finance leases that do not transfer ownership of the leased assets to the lessee on an "as if capitalised" basis for the years ended 31st March, 2005 and 2006 was as follows:

Future minimum lease payments to be received under finance leases, including those of subleases:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	2006	2006
Due within one year	¥4,640	¥ 5,037	\$ 42,879
Due after one year	4,871	15,628	133,036
<b>Total</b>	<b>¥9,511</b>	<b>¥20,665</b>	<b>\$175,915</b>

Interest income under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	2006	2006
Interest income	¥576	¥592	\$5,036

Interest income, which was not reflected in the accompanying consolidated statements of income, was computed by the interest method.

### 13. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND AFFILIATED COMPANIES

Investments in unconsolidated subsidiaries and affiliated companies of ¥807 million and ¥23,534 million (\$200,341 thousand) at 31st March, 2005 and 2006, respectively, consisted of common stock of unconsolidated subsidiaries of ¥492 million and ¥3,688 million (\$31,391 thousand), and common stock of affiliated companies of ¥315 million and ¥19,846 million (\$168,950 thousand), respectively.

### 14. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at 31st March, 2005 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March, 2006
	2005	2006	
Short-term borrowings:			
From banks, 0.58 to 2.38 percent in 2005 and 1.11 to 1.69 percent in 2006	¥5,812	¥ 7,100	\$60,441
From other, 0.23 to 2.13 percent in 2005 and 0.20 to 5.25 percent in 2006	2,920	4,298	36,584
<b>Total</b>	<b>¥8,732</b>	<b>¥11,398</b>	<b>\$97,025</b>

Weighted average interest rates of loans payable for margin transactions and loans payable for repurchase agreement transactions were 0.63 percent and 0.57 percent, respectively, for the year ended 31st March, 2005 and 0.63 percent and 0.60 percent, respectively, for the year ended 31st March, 2006.

Long-term debt at 31st March, 2005 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March, 2006
	2005	2006	
Zero coupon unsecured Japanese yen convertible bonds with warrants due November 2008	¥ 13,000	¥ 5,940	\$ 50,566
Zero coupon unsecured Japanese yen convertible bonds with warrants due April 2009	20,000	12,770	108,708
Unsecured Japanese yen bonds with a fixed interest rate of 1.23 percent		50,000	425,641
Unsecured Japanese yen bonds with a fixed interest rate of 1.24 percent		50,000	425,641
Unsecured Japanese yen bonds with a fixed interest rate of 2 percent	1,400	1,400	11,918
Unsecured Japanese yen bonds with a fixed interest rate of 3 percent	459		
Unsecured loans from financial institutions, due serially through March 2010 with a weighted average floating interest rate of 1.25 percent in 2005 and 0.40 percent in 2006 and a weighted average fixed interest rate of 3.27 percent in 2005 and 1.83 percent in 2006	12,900	33,200	282,625
<b>Total</b>	<b>47,759</b>	<b>153,310</b>	<b>1,305,099</b>
Less current portion	(11,759)	(900)	(7,661)
<b>Long-term debt, less current portion</b>	<b>¥ 36,000</b>	<b>¥152,410</b>	<b>\$1,297,438</b>

Annual maturities of long-term debt as at 31st March, 2006 for the next five years were as follows:

Year Ending 31st March	Millions of Yen	Thousands of U.S. Dollars
2007	¥ 900	\$ 7,661
2008	21,900	186,430
2009	106,040	902,699
2010	24,470	208,309
2011		
<b>Total</b>	<b>¥153,310</b>	<b>\$1,305,099</b>

On 25th November, 2003, the Company issued ¥13,000 million of zero coupon unsecured Japanese yen convertible bonds with warrants mainly in the Euro market. The bonds are due 25th November, 2008, and the warrants are exercisable at ¥38,486.10 (\$327.62) per share as at 31st March, 2006. Upon exercise of the warrants, the bonds are convertible into the Company's common stock. The issue price of the bonds was 100 percent of the face value of the bonds, and remaining number of the warrants and number of shares to be issued upon exercise of the warrants are 594 warrants and 154,350 shares, respectively, as at 31st March, 2006.

On 8th April, 2004, the Company issued ¥20,000 million of zero coupon unsecured Japanese yen convertible bonds with warrants mainly in the Euro market. The bonds are due 8th April, 2009, and the warrants are exercisable

at ¥39,438.50 (\$335.73) per share as at 31st March, 2006. Upon exercise of the warrants, the bonds are convertible into the Company's common stock. The issue price of the bonds was 100 percent of the face value of the bonds, and remaining number of the warrants and number of shares to be issued upon exercise of the warrants are 1,277 warrants and 323,803 shares, respectively, as at 31st March, 2006.

On 13th September, 2005, the Company issued ¥42,000 million (\$357,538 thousand) of unsecured Japanese yen straight bonds with a fixed rate of 1.23 percent. The bonds are due 29th September, 2008.

On 11th October, 2005, the Company issued ¥8,000 million (\$68,102 thousand) of unsecured Japanese yen straight bonds with a fixed rate of 1.23 percent. The bonds are due 29th September, 2008.

On 10th March, 2006, ETS, the Company's subsidiary, issued ¥50,000 million (\$425,641 thousand) of unsecured Japanese yen straight bonds with a fixed rate of 1.24 percent. The bonds are due 10th March, 2009.

The Company repurchased all of the warrants attached to bonds previously issued and already redeemed and distributed these repurchased warrants to officers and employees of the Company as a means of stock-based incentive compensation. At 31st March, 2006, these warrants were included in other current liabilities.

Exercise prices and exercise periods of warrants outstanding at 31st March, 2006 were as follows:

Exercise Period		Per Share Exercise Price		Number of Common Stock to Purchase
From	To	Yen	U.S. Dollars	
1st April, 2002	31st March, 2007	¥ 2,083.30	\$ 17.73	2,592.02
1st April, 2003	31st March, 2008	2,083.30	17.73	18,792.25
1st April, 2002	31st March, 2007	25,464.90	216.78	3,952.04
1st April, 2003	31st March, 2008	25,464.90	216.78	4,010.13
1st October, 2003	30th September, 2008	25,464.90	216.78	581.10
				29,927.54

The Company took over the warrants issued by E\*TRADE Japan K.K. ("ETJ") due to the merger on 2nd June, 2003. Exercise prices and exercise periods of these warrants outstanding at 31st March, 2006 were as follows:

Exercise Period		Per Share Exercise Price		Number of Common Stock to Purchase
From	To	Yen	U.S. Dollars	
1st April, 2002	28th March, 2007	¥1,910.70	\$16.27	7,960.19
1st April, 2003	28th March, 2008	1,910.70	16.27	10,953.82
12th June, 2002	28th March, 2007	2,116.40	18.02	1,496.88
12th June, 2003	28th March, 2008	2,116.40	18.02	2,959.74
				23,370.63

The Company took over the warrants issued by FAS due to the merger on 1st March, 2006. Exercise prices and exercise periods of these warrants outstanding at 31st March, 2006 were as follows:

Exercise Period		Per Share Exercise Price		Number of Common Stock to Purchase
From	To	Yen	U.S. Dollars	
1st April, 2002	28th March, 2009	¥4,464.00	\$38.00	30,216

The exercise prices of the warrants are subject to adjustments to reflect stock splits and certain other events.

SBI has bank lines of credit of ¥92,846 million (\$790,384 thousand) available for working capital use, ¥88,346 million (\$752,076 thousand) of which was unused at 31st March, 2006.

## 15. PLEDGED ASSETS

The carrying amounts of assets pledged as collateral for short-term borrowings of ¥2,190 million and ¥2,140 million (\$18,217 thousand) at 31st March, 2005 and 2006 and for long-term debt of nil and ¥11,700 million (\$99,600 thousand) at 31st March, 2005 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2006	31st March, 2006
Cash and cash equivalents	¥ 275	¥ 40	\$ 341
Real estate inventory		19,266	164,004
Buildings and leasehold improvements	152		
Land	152		
Investment securities	612		
<b>Total</b>	<b>¥1,191</b>	<b>¥19,306</b>	<b>\$164,345</b>

Securities received as collateral for financing from broker's own capital of ¥2,211 million and ¥801 million (\$6,820 thousand) were pledged as collateral for short-term bank loans at 31st March, 2005 and 2006, respectively.

Securities received as collateral for financing from broker's own capital of ¥6,507 million and ¥19,392 million (\$165,083 thousand) were pledged as collateral for loans payable for margin transactions at 31st March, 2005 and 2006, respectively. Substitute securities for guarantee money received from customers of ¥12,474 million and ¥17,487 million (\$148,862 thousand) were also pledged as collateral for loans payable for margin transactions at 31st March, 2005 and 2006, respectively.

Substitute securities for guarantee money received from customers of ¥130 million and ¥213 million (\$1,809 thousand) and securities received as collateral for financing from broker's own capital of ¥35 million and ¥18 million (\$152 thousand) were pledged as collateral for substitute securities for trade margin on futures at 31st March, 2005 and 2006, respectively.

Securities received as collateral for financing from broker's own capital of ¥66 million and nil were pledged as collateral for substitute securities for guarantee money for the securities exchange at 31st March, 2005 and 2006, respectively.

Securities received as collateral for financing from broker's own capital of ¥10 million and ¥25 million (\$215 thousand) were pledged as collateral for substitute securities for guarantee money for when-issued transactions at 31st March, 2005 and 2006, respectively.

In addition, cash and cash equivalents of ¥2,500 million were pledged as collateral for payment guarantee by a financial institution upon the court decree concerning suits for damages at 31st March, 2005.

## 16. UNEARNED INCOME

Unearned income at 31st March, 2005 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	2006	2006
SOFTBANK INTERNET TECHNOLOGY FUND No. 1	¥ 67	¥ 71	\$ 609
SOFTBANK INTERNET TECHNOLOGY FUND No. 2	559	684	5,821
SOFTBANK INTERNET TECHNOLOGY FUND No. 3	107	34	289
SOFTBANK INTERNET FUND	291	291	2,474
SBI-LBO-FUND No. 1	48	12	104
RESTRUCTURING Fund No. 1	90	36	311
SBI BB Media Fund	475	472	4,022
SBI Broadband Fund No. 1	162	258	2,192
BIOVISION Life Science Fund I	121	88	753
SOFTBANK CONTENTS FUND		212	1,800
SBI Bio Life Science Investment LPS.		133	1,129
SBI-BC		262	2,229
Advance received from customer for lease		211	1,795
Others	747	907	7,720
<b>Total</b>	<b>¥2,667</b>	<b>¥3,671</b>	<b>\$31,248</b>

## 17. LIABILITY FOR EMPLOYEES' RETIREMENT BENEFITS

The Company and certain domestic consolidated subsidiaries have a contributory funded defined benefit pension plan and a defined contribution pension plan. The Company's certain domestic consolidated subsidiaries have a non-contributory funded defined benefit pension plan and either of a contributory funded defined benefit pension plan, a defined contribution pension plan or an advance payment system for the employees' retirement plan, or more, while certain foreign consolidated subsidiaries have a termination allowance plan according to their own retirement benefit policies.

Under the contributory or non-contributory funded defined benefit pension plan, employees terminating their employment are, in most circumstances, entitled to pension payments based on their average pay during their employment, length of service and certain other factors. Under the defined contribution pension plans, the Company and certain domestic consolidated subsidiaries contribute an amount equal to 3 percent of the employee's annual salary up to ¥216,000 per year.

As at 31st March, 2005 and 2006, fair value of plan assets under the contributory funded defined benefit pension plan managed by Kanto IT Software Health Insurance Society was ¥438 million and ¥721 million (\$6,139 thousand), respectively, which was calculated based on a ratio of the number of plan beneficiaries from the Company and its subsidiaries to the total number of plan beneficiaries.

As at 31st March, 2005 and 2006, fair value of plan assets under the contributory funded defined benefit pension plan managed by Association of Welfare Pension Fund in the Commodity Futures Industry was ¥238 million and ¥319 million (\$2,712 thousand), respectively, which was calculated based on a ratio of the contribution amount made by the Company's subsidiary to the total contribution amount.

The liability for employees' retirement benefits included in other long-term liabilities at 31st March, 2005 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	2006	2006
Projected benefit obligation	¥ 1,855	¥ 139	\$ 1,181
Fair value of plan assets	(1,810)	(143)	(1,215)
Unrecognised actuarial loss	(66)		
Prepaid pension costs	36	4	34
Net liability	¥ 15		

Other than the liability mentioned above, the liability for employees' retirement benefit of a foreign consolidated subsidiary in the aggregate amount of ¥61 million and ¥26 million (\$220 thousand) was included in the SBI's liability for employee's retirement benefit at 31st March, 2005 and 2006, respectively.

The components of net periodic benefit costs for the years ended 31st March, 2005 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended 31st March		Year Ended 31st March,
	2005	2006	2006
Service cost	¥260	¥123	\$1,049
Interest cost	54	18	152
Expected return on plan assets	(42)	(12)	(100)
Recognised actuarial loss	84	14	123
Net periodic benefit costs	356	143	1,224
Contributions to the defined contribution pension plan and advance retirement payments	65	178	1,513
Total	¥421	¥321	\$2,737

The service cost mentioned above included contributions to the contributory funded defined benefit pension plan managed by Kanto IT Software Health Insurance Society in the aggregate amounts of ¥41 million and ¥70 million (\$594 thousand) for the years ended 31st March, 2005 and 2006, respectively, to the contributory funded defined benefit pension plan managed by Japanese Securities Dealers Employees Pension Fund in the aggregate amount of ¥61 million for the year ended 31st March, 2005, and to the contributory funded defined benefit pension plan managed by Association of Welfare Pension Fund in the Commodity Futures Industry in the aggregate amount of ¥8 million and ¥10 million (\$83 thousand) for the years ended 31st March, 2005 and 2006, respectively.

Other than the costs mentioned above, SBI accounted for the benefit costs in the aggregate amount of ¥27 million and ¥40 million (\$342 thousand) which was incurred by a foreign consolidated subsidiary for the years ended 31st March, 2005 and 2006, respectively.

Certain domestic consolidated subsidiaries have applied the simplified method for computation of projected benefit obligation. Under the simplified method, the liability for employees' retirement benefits is recorded to state the liability at the amount that would be required if all employees voluntarily terminate at each balance sheet date. Net periodic benefit costs of consolidated domestic subsidiaries which applied the simplified method for computation of projected benefit obligation were included in service cost.

A certain domestic consolidated subsidiary which had applied the principal accounting treatment for computation of projected benefit obligation under accounting principles generally accepted in Japan ("the principal method") was excluded from consolidation scope at the end of August 2005. Consequently all consolidated subsidiaries have applied the simplified method for computation of projected benefit obligation from September 2005. The net periodic benefit costs under the principal method were included in service cost from April 2005 to August 2005.

Assumptions used for the year ended 31st March, 2005 were set forth as follows:

	2005
Discount rate	Principally 2.50 percent
Expected rate of return on plan assets	Principally 2.50 percent
Recognition period of actuarial gain/loss	Principally 8 to 10 years

## 18. RETIREMENT ALLOWANCE FOR DIRECTORS

Retirement allowance for directors is paid subject to approval of the shareholders in accordance with the Code.

The Company and its subsidiary recorded liabilities of ¥44 million and ¥7 million (\$61 thousand) for its unfunded retirement allowance plan covering all of their directors at 31st March, 2005 and 2006, respectively, which was included in other long-term liabilities.

## 19. STATUTORY RESERVES

According to the Securities and Exchange Law and the Commodities Exchange Law of Japan, a securities company and a commodities company are required to set aside reserves in proportion to its securities or commodities transactions and other related trading to cover possible customer losses incurred by default of the securities company on securities transactions or the commodities company on commodities transactions.

## 20. SHAREHOLDERS' EQUITY

Through 1st May, 2006, Japanese companies are subject to the Code.

The Code requires that all shares of common stock be issued with no par value and at least 50 percent of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount of 10 percent or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25 percent of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25 percent of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥69,769 million (\$593,934 thousand) as of 31st March, 2006, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of fiscal year to which the dividends are applicable. Semi-annual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

On 1st May, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after 1st May, 2006 and for the fiscal years ending on or after 1st May, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarised 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 the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of 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 (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semi-annual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

### b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Corporate Law requires that an amount equal to 10 percent 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 legal reserve and additional paid-in capital equals 25 percent of the common stock. Under the Code, the aggregate amount of addi-

tional paid-in capital and legal reserve that exceeds 25 percent 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.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On 9th December, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after 1st May, 2006.

On 5th October, 2004, the Company made a stock split by way of a free share distribution at the ratio of 3 shares for each outstanding share, and 4,657,939 shares of the Company's common stock were issued to shareholders of record on 11th August, 2004 and 7,346 shares of treasury stock increased. Dividends for newly issued shares in relation to this stock split were computed from 1st October, 2004. In addition, on 5th October, 2004, the Company increased the number of authorised shares by 18,126,000 shares to 27,190,000 shares through amendment of articles of incorporation.

During the year ended 31st March, 2005, the Company issued 125,678 shares of its common stock pursuant to the exercise of warrants attached to various unsecured corporate bonds already redeemed and options granted based on the stock option plans. As a result, common stock and capital surplus increased by ¥596 million and ¥599 million, respectively.

Upon resolution and approval of the Board of Directors on 23rd February, 2005, the Company issued 1,250,000 new shares of common stock through public offering on 15th March, 2005. The Company's common stock and capital surplus increased by ¥22,414 million and ¥22,413 million, respectively.

Upon resolution and approval of the Board of Directors on 23rd February, 2005, the Company issued 187,500 new shares of common stock through private placement on 23rd March, 2005. The Company's common stock and capital surplus each increased by ¥3,362 million.

Upon resolution and approval of the Board of Directors on 2nd September, 2005, the Company issued 347,861 new shares of common stock through private placement on 29th September, 2005. The Company's common stock and capital surplus increased by ¥6,448 million (\$54,887 thousand) and ¥6,448 million (\$54,884 thousand), respectively.

Upon resolution and approval of the Board of Directors on 25th October, 2005, the Company issued 134,000 new shares of common stock through private placement on 16th November, 2005. The Company's common stock and capital surplus each increased by ¥3,479 million (\$29,619 thousand).

Upon resolution and approval of the Board of Directors meeting held on 13th October, 2005, to own SBI-CAPITAL wholly, the Company issued 49,259 shares of its common stock to SBI-CAPITAL's shareholders listed in shareholder list as at 30th November, 2005 at an exchange ratio of 3.01 shares for each outstanding share of SBI-CAPITAL's common stock on 1st December, 2005. Dividends for newly issued shares in relation to this exchange of shares were computed from 1st October, 2005. As a result, the Company's capital surplus increased by ¥2,267 million (\$19,299 thousand).

Upon resolution and approval of the extraordinary shareholders meeting held on 27th January, 2006, to merge with SBIP, the Company issued 842,392 shares of its common stock to SBIP's shareholders listed in shareholder list as at 28th February, 2006 at an exchange ratio of 0.05 share for each outstanding share of SBIP's common stock on 1st March, 2006. Dividends for newly issued shares in relation to this merger were computed from 1st October, 2005. As a result, the Company's capital surplus increased by ¥8,544 million (\$72,732 thousand).

Upon resolution and approval of the extraordinary shareholders meeting held on 27th January, 2006, to merge with FAC, the Company issued 1,234,860 shares of its common stock to FAC's shareholders listed in shareholder list as at 28th February, 2006 at an exchange ratio of 2.5 shares for each outstanding share of FAC's common stock on 1st March, 2006. Dividends for newly issued shares in relation to this merger were computed from 1st October, 2005. There was no effect on the Company's capital surplus.

Upon resolution and approval of the extraordinary shareholders meeting held on 27th January, 2006, to own SBI-SEC wholly, the Company issued 483,338 shares of its common stock to SBI-SEC's shareholders listed in shareholder list as at 28th February, 2006 at an exchange ratio of 1.15 shares for each outstanding share of SBI-SEC's common stock on 1st March, 2006. Dividends for newly issued shares in relation to this exchange of shares were computed from 1st October, 2005. As a result, the Company's capital surplus increased by ¥31,842 million (\$271,068 thousand).



During the year ended 31st March, 2006, the Company issued 289,889 shares of its common stock pursuant to the exercise of warrants attached to various unsecured corporate bonds already redeemed and options granted based on the stock option plans. As a result, the Company's common stock and capital surplus increased by ¥2,392 million (\$20,363 thousand) and ¥2,392 million (\$20,365 thousand), respectively.

During the year ended 31st March, 2006, the Company issued 366,749 shares of its common stock pursuant to the exercise of warrants attached to zero coupon unsecured Japanese yen convertible bonds. As a result, the Company's common stock and capital surplus each increased by ¥7,145 million (\$60,824 thousand).

## 21. STOCK OPTION PLAN

The stock option plan, which was approved by shareholders of the Company at the general shareholders meeting held on 19th December, 2001, provides for granting options to 118 key employees of the Company to purchase the Company's common stock at an exercise price of ¥20,796 per share during the period from 20th December, 2003 to 19th December, 2011. The maximum number of shares to be issued upon exercise of the options was 12,382 shares. In the case where the Company makes a stock split or stock consolidation subsequent to the date of option grant, the number of shares to be issued will be adjusted based upon a certain formula, as defined.

At the Board of Directors meeting on 19th December, 2002, details of the stock option plan which had been approved by the Company's shareholders at the general shareholders meeting on the same date were determined. According to the resolution, this stock option plan provides for issuing options to 9 directors and 109 key employees of the Company to purchase the Company's common stock at an exercise price of ¥5,984 per share during the period from 20th December, 2004 to 19th December, 2012. The maximum number of shares to be issued upon exercise of the options was 53,748 shares.

At the Board of Directors meeting on 17th September, 2003, details of the stock option plan which had been approved by the Company's shareholders at the general shareholders meeting on 19th December, 2002 were determined. According to the resolution, this stock option plan provides for issuing options to 2 directors and 4 key employees of the Company and 3 directors of consolidated subsidiaries to purchase the Company's common stock at an exercise price of ¥17,879 per share during the period from 20th December, 2004 to 19th December, 2012. The maximum number of shares to be issued upon exercise of the options was 22,428 shares.

At the Board of Directors meeting on 17th September, 2003, details of the stock option plan which had been approved by the Company's shareholders at the general shareholders meeting on 23rd June, 2003 were determined. According to the resolution, this stock option plan provides for issuing options to 2 directors and 110 key employees of the Company and 6 directors and 86 key employees of consolidated subsidiaries to purchase the Company's common stock at an exercise price of ¥17,879 per share during the period from 24th June, 2005 to 23rd June, 2013. The maximum number of shares to be issued upon exercise of the options was 191,646 shares.

The stock option plan, which was approved by shareholders of ETJ at the general shareholders meeting held on 20th June, 2002 and taken over by the Company due to the merger on 2nd June, 2003, provides for issuing options to purchase the Company's common stock at an exercise price of ¥12,079 per share during the period from 21st June, 2004 to 20th June, 2012. The maximum number of shares to be issued upon exercise of the options was 122,325 shares.

At the Board of Directors meeting on 23rd October, 2003, details of the stock option plan which had been approved by the Company's shareholders at the general shareholders meeting on 23rd June, 2003 were determined. According to the resolution, this stock option plan provides for issuing options to 17 directors of consolidated subsidiaries to purchase the Company's common stock at an exercise price of ¥27,655 per share during the period from 24th June, 2005 to 23rd June, 2013. The maximum number of shares to be issued upon exercise of the options was 25,227 shares.

At the Board of Directors meeting on 20th July, 2005, details of the stock option plan which had been approved by the Company's shareholders at the general shareholders meeting on 29th June, 2005 were determined. According to the resolution, this stock option plan provides for issuing options to 7 directors and 89 key employees of the Company and 14 directors and 36 key employees of subsidiaries to purchase the Company's common stock at an exercise price of ¥35,078 per share during the period from 28th July, 2005 to 29th June, 2013. The maximum number of shares to be issued upon exercise of the options was 35,057 shares.

The stock option plan, which was approved by shareholders of Digit Brain, Inc. at the general shareholders meeting held on 27th June, 2003 and taken over by the Company due to the merger on 1st March, 2006, provides for issuing options to purchase the Company's common stock at an exercise price of ¥13,000 per share during the period from 1st January, 2004 to 31st December, 2006. The maximum number of shares to be issued upon exercise of the options was 8,655 shares.

The stock option plan, which was approved by shareholders of SBI HOME Planner Co., LTD. ("SBIHP," currently known as SBI Planners Co., LTD.) at the general shareholders meeting held on 27th June, 2003 and taken over by SBIP due to the share exchange on 15th January, 2005, was succeeded to the Company due to the merger on 1st March, 2006. This stock option plan provides for issuing options to purchase the Company's common stock at an exercise price of ¥23,200 per share during the period from 28th June, 2005 to 27th June, 2013. The maximum number of shares to be issued upon exercise of the options was 786 shares.

The stock option plan, which was approved by shareholders of SBIHP at the extraordinary shareholders meeting held on 27th September, 2004 and taken over by SBIP due to the share exchange on 15th January, 2005, was succeeded to the Company due to the merger on 1st March, 2006. This stock option plan provides for issuing options to purchase

the Company's common stock at an exercise price of ¥25,600 per share during the period from 1st April, 2005 to 30th March, 2007. The maximum number of shares to be issued upon exercise of the options was 930 shares.

The stock option plan, which was approved by shareholders of SBIHP at the extraordinary shareholders meeting held on 27th September, 2004 and taken over by SBIP due to the share exchange on 15th January, 2005, was succeeded to the Company due to the merger on 1st March, 2006. This stock option plan provides for issuing options to purchase the Company's common stock at an exercise price of ¥25,600 per share during the period from 2nd October, 2006 to 30th September, 2010. The maximum number of shares to be issued upon exercise of the options was 934 shares.

At the Board of Directors meeting on 25th October, 2004, details of the stock option plan which had been approved by shareholders of SBIHP at the extraordinary shareholders meeting on 27th September, 2004 were determined. This stock option plan had been taken over by SBIP due to the share exchange on 15th January, 2005, and it has been succeeded to the Company due to the merger on 1st March, 2006. This stock option plan provides for issuing options to purchase the Company's common stock at an exercise price of ¥25,600 per share during the period from 2nd October, 2006 to 30th September, 2010. The maximum number of shares to be issued upon exercise of the options was 60 shares.

The stock option plan, which was approved by shareholders of SBIP at the general shareholders meeting held on 22nd September, 2005 and taken over by the Company due to the merger on 1st March, 2006, provides for issuing options to purchase the Company's common stock at an exercise price of ¥37,060 per share during the period from 1st December, 2005 to 31st October, 2013. The maximum number of shares to be issued upon exercise of the options was 800 shares.

The stock option plan, which was approved by shareholders of FAC at the extraordinary shareholders meeting held on 24th September, 2002 and taken over by the Company due to the merger on 1st March, 2006, provides for issuing options to purchase the Company's common stock at an exercise price of ¥4,465 per share during the period from 25th September, 2004 to 24th September, 2012. The maximum number of shares to be issued upon exercise of the options was 6,840 shares.

The stock option plan, which was approved by shareholders of FAC at the extraordinary shareholders meeting held on 1st August, 2003 and taken over by the Company due to the merger on 1st March, 2006, provides for issuing options to purchase the Company's common stock at an exercise price of ¥4,465 per share during the period from 2nd August, 2005 to 1st August, 2013. The maximum number of shares to be issued upon exercise of the options was 38,240 shares.

The stock option plan, which was approved by shareholders of SOFTBANK FRONTIER SECURITIES CO., LTD ("SFS," currently known as SBI-SEC) at the general shareholders meeting held on 18th June, 2002 and taken over by WORLD NICHIEI FRONTIER Securities Co., LTD. ("WNF," currently known as SBI-SEC) due to the merger on 2nd February, 2004, was succeeded to the Company due to the share exchange on 1st March, 2006. This stock option plan provides for issuing options to purchase the Company's common stock at an exercise price of ¥7,740 per share during the period from 19th June, 2004 to 18th June, 2008. The maximum number of shares to be issued upon exercise of the options was 986 shares.

The stock option plan, which was approved by shareholders of SFS at the general shareholders meeting held on 27th June, 2003 and taken over by the Company due to the share exchange on 1st March, 2006, provides for issuing options to purchase the Company's common stock at an exercise price of ¥17,392 per share during the period from 1st July, 2005 to 26th June, 2013. The maximum number of shares to be issued upon exercise of the options was 2,565 shares.

At the Board of Directors meeting on 29th June, 2004, details of the stock option plan which had been approved by shareholders of WNF at the general shareholders meeting on the same date were determined. This stock option plan, which had been taken over by the Company due to the share exchange on 1st March, 2006, provides for issuing options to purchase the Company's common stock at an exercise price of ¥50,174 per share during the period from 30th June, 2006 to 29th June, 2014. The maximum number of shares to be issued upon exercise of the options was 32,059 shares.

At the Board of Directors meeting on 22nd December, 2004, details of the stock option plan which had been approved by the shareholders of WNF at the general shareholders meeting on 29th June, 2004 were determined. This stock option plan, which had been taken over by the Company due to the share exchange on 1st March, 2006, provides for issuing options to purchase the Company's common stock at an exercise price of ¥31,914 per share during the period from 30th June, 2006 to 29th June, 2014. The maximum number of shares to be issued upon exercise of the options was 98 shares.

The stock option plan, which was approved by shareholders of SBI-SEC at the general shareholders meeting held on 29th June, 2005 and taken over by the Company due to the share exchange on 1st March, 2006, provides for issuing options to purchase the Company's common stock at an exercise price of ¥46,957 per share during the period from 30th June, 2007 to 29th June, 2015. The maximum number of shares to be issued upon exercise of the options was 39,017 shares.

The stock option plan, which was approved by the Company's shareholders at the general shareholders meeting held on 23rd June, 2004, lapsed on 28th June, 2005.

The exercise prices of the above options will be adjusted for subsequent transactions such as stock splits, stock consolidations, or stock issuances or disposal of treasury stock with a lower price than market value, based upon certain formulas, as defined. There are also certain restrictions in exercising the stock option rights.

## 22. REVENUE FROM TRADING

Gain (loss) on trading included in operating revenues for the years ended 31st March, 2005 and 2006 consisted of the following:

	Millions of Yen						Thousands of U.S. Dollars		
	2005			2006			2006		
	Realised Gain	Unrealised Gain (Loss)	Total	Realised Gain	Unrealised Gain (Loss)	Total	Realised Gain	Unrealised Gain (Loss)	Total
Equity securities	¥ 670	¥(26)	¥ 644	¥ 999	¥(8)	¥ 991	\$ 8,506	\$(66)	\$ 8,440
Debt securities	2,495		2,495	2,747	7	2,754	23,383	57	23,440
Others	187	22	209	882	(2)	880	7,505	(20)	7,485
<b>Total</b>	<b>¥3,352</b>	<b>¥ (4)</b>	<b>¥3,348</b>	<b>¥4,628</b>	<b>¥(3)</b>	<b>¥4,625</b>	<b>\$39,394</b>	<b>\$(29)</b>	<b>\$39,365</b>

Gains on certain businesses other than securities-related business of ¥7 million and ¥71 million (\$604 thousand) were included in the gain (loss) on trading for the years ended 31st March, 2005 and 2006, respectively.

## 23. OPERATING COSTS

Operating costs for the years ended 31st March, 2005 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended 31st March		Year Ended 31st March, 2006
	2005	2006	
Cost of operational investment securities	¥10,240	¥12,467	\$106,129
Provision for (reversal of) valuation allowance for operational investment securities	(71)	450	3,828
Financial charges	2,327	4,127	35,130
Rental and lease costs	5,374	6,075	51,713
Others, including administrative expenses	3,453	14,477	123,247
<b>Total</b>	<b>¥21,323</b>	<b>¥37,596</b>	<b>\$320,047</b>

The above cost of operational investment securities for the years ended 31st March, 2005 and 2006 included a write-down of operational investment securities and securities held by funds of ¥616 million and ¥209 million (\$1,777 thousand), respectively.

## 24. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31st March, 2005 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended 31st March		Year Ended 31st March, 2006
	2005	2006	
Compensation for directors	¥ 973	¥ 1,280	\$ 10,895
Provision for allowance for doubtful accounts	239	678	5,770
Payroll and bonuses	6,309	7,048	59,997
Provision for retirement allowances for directors	13	8	72
Retirement benefit costs	285	104	889
Provision for accrued bonuses	593	818	6,960
Subcontracting fees	5,731	8,432	71,779
Others	21,176	31,688	269,754
<b>Total</b>	<b>¥35,319</b>	<b>¥50,056</b>	<b>\$426,116</b>

## 25. 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 40.69 percent for the years ended 31st March, 2005 and 2006.

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

	Millions of Yen		Thousands of
	31st March		U.S. Dollars
	2005	2006	31st March, 2006
<b>Deferred tax assets:</b>			
Current:			
Write-down of operational investment securities	¥ 951	¥ 3,216	\$ 27,376
Valuation allowance for operational investment securities	769	854	7,268
Allowance for doubtful accounts	125	123	1,046
Accrued bonuses	266	274	2,329
Fee from funds	24		
Tax loss carryforwards	294	998	8,498
Accrued enterprise taxes	717	1,381	11,759
Other	455	406	3,459
Less valuation allowance	(904)	(565)	(4,813)
Total	2,697	6,687	56,922
Non-current:			
Tax loss carryforwards	3,199	1,758	14,967
Allowance for doubtful accounts	898	525	4,471
Write-down of investment securities	753	730	6,210
Reserve for liability for securities transactions	1,036	2,005	17,071
Other	603	541	4,603
Less valuation allowance	(5,419)	(3,492)	(29,726)
Total	1,070	2,067	17,596
Total	¥ 3,767	¥ 8,754	\$ 74,518
<b>Deferred tax liabilities:</b>			
Current:			
Unrealised gain on available-for-sale securities	¥ 5,077	¥ 6,823	\$ 58,087
Other	1		
Total	5,078	6,823	58,087
Non-current:			
Unrealised gain on available-for-sale securities	1,914	2,744	23,363
Other	327	67	562
Total	2,241	2,811	23,925
Total	¥ 7,319	¥ 9,634	\$ 82,012

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended 31st March, 2005 and 2006 was as follows:

	Year Ended 31st March	
	2005	2006
Normal effective tax rate	40.69%	40.69%
Permanent differences	0.10	0.22
Dilution gain from changes in equity interest	(10.63)	(13.21)
Amortisation of goodwill	(2.70)	(0.76)
Valuation allowance	(3.95)	(4.61)
Other—net	0.03	1.18
Actual effective tax rate	23.54%	23.51%

## 26. DILUTION GAIN FROM CHANGES IN EQUITY INTEREST

The "Dilution gain from changes in equity interest" arose from changes in the Company's and its consolidated subsidiaries' equity interest as a result of capital transactions by investees, including an initial public offering. Dilution gain principally consisted of an initial public offering by ETS for the year ended 31st March, 2005 and allocation of new stocks to a third party by ETS for the year ended 31st March, 2006.

## 27. LEASES

SBI leases certain office equipment, computer equipment, office space and other assets.

Total rental expenses for the years ended 31st March, 2005 and 2006 were ¥3,288 million and ¥4,130 million (\$35,159 thousand), respectively, including ¥794 million and ¥1,222 million (\$10,404 thousand) of lease payments under finance leases.

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

	Year Ended 31st March, 2005		
	Millions of Yen		
	Furniture and Equipment	Software	Total
Acquisition cost	¥3,954	¥1,025	¥4,979
Accumulated depreciation	1,000	292	1,292
Net leased property	¥2,954	¥ 733	¥3,687

	Year Ended 31st March, 2006					
	Millions of Yen			Thousands of U.S. Dollars		
	Furniture and Equipment	Software	Total	Furniture and Equipment	Software	Total
Acquisition cost	<b>¥6,124</b>	<b>¥1,317</b>	<b>¥7,441</b>	<b>\$52,134</b>	<b>\$11,211</b>	<b>\$63,345</b>
Accumulated depreciation	<b>1,849</b>	<b>516</b>	<b>2,365</b>	<b>15,739</b>	<b>4,395</b>	<b>20,134</b>
Net leased property	<b>¥4,275</b>	<b>¥ 801</b>	<b>¥5,076</b>	<b>\$36,395</b>	<b>\$ 6,816</b>	<b>\$43,211</b>

Obligations under finance leases including interest portion as at 31st March, 2005 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	2006	2006
Due within one year	¥1,730	<b>¥ 2,547</b>	<b>\$ 21,679</b>
Due after one year	3,203	<b>12,508</b>	<b>106,485</b>
Total	¥4,933	<b>¥15,055</b>	<b>\$128,164</b>

Depreciation expense and interest expense under finance leases for the years ended 31st March, 2005 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended 31st March		Year Ended 31st March,
	2005	2006	2006
Depreciation expense	¥740	<b>¥1,143</b>	<b>\$ 9,729</b>
Interest expense	86	<b>114</b>	<b>969</b>
Total	¥826	<b>¥1,257</b>	<b>\$10,698</b>

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

The future minimum lease payments under noncancellable operating leases at 31st March, 2005 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	31st March		31st March,
	2005	2006	2006
Due within one year	¥111	<b>¥ 8</b>	<b>\$ 71</b>
Due after one year	8	<b>7</b>	<b>57</b>
Total	¥119	<b>¥15</b>	<b>\$128</b>

## 28. RELATED PARTY TRANSACTIONS

Transactions of SBI with related parties for the years ended 31st March, 2005 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended 31st March		Year Ended 31st March,
	2005	2006	2006
Purchase of common stock		¥ 759	\$ 6,462
Purchase of investment in securities		50,500	429,897
Sales of common stock	¥486		

## 29. DERIVATIVES

SBI enters into foreign currency forward contracts and interest rate swap agreements primarily to hedge foreign exchange risk associated with receivables, payables and securities denominated in foreign currencies and to manage its interest rate exposures on borrowings and does not hold or issue them for speculative purpose. Stock-index futures, commodity futures and a portion of foreign currency forward contracts and commodity futures are used for increasing underlying assets and supplementing revenue, respectively. SBI enters into stock-index futures and commodity futures for the purpose of day trading or capping of the size of their transactions. In addition, SBI uses bond futures and a portion of foreign currency forward contracts for trading purpose. In the trading operation, these derivatives are used in response to clients' needs and facilitation of trading in the normal course of business.

Derivatives are subject to market risk and credit risk. Market risk is the exposure created by potential fluctuations in market conditions, including interest or foreign exchange rates, stock price, foreign commodity markets for products, economic trends or weather conditions. Credit risk is the possibility that a loss may result from counterparty's failure to perform according to the terms and conditions of the contract. Because the counterparties to foreign currency forward contracts and interest rate swap agreements are limited to major domestic financial institutions, and stock-index futures, commodity futures and bonds futures are traded in the public market, SBI does not anticipate any losses arising from credit risk. Potential risks inherent in the trading operation are also subject to market risk and credit risk.

Derivatives used for the hedging purpose are planned and executed by the administrative headquarters department upon approval of a director in-charge. Each derivative transaction is periodically reported to the management, where evaluation and analysis of derivatives are made. Derivatives used for trading purpose have been made in accordance with internal policies which regulate the nature of derivatives, credit limit amounts and administrative structure, which is monitored by the administrative headquarters department on a daily basis.

### Fair Value of Derivatives

The fair values of SBI's derivatives at 31st March, 2005 and 2006 were as follows:

	Millions of Yen			
	2005			
	Assets		Liabilities	
	Contract Amount	Fair Value	Contract Amount	Fair Value
Foreign currency forward contracts	¥ 67	¥2	¥256	¥3
Bond futures			139	
Total	¥ 67	¥2	¥395	¥3

	Millions of Yen			
	2006			
	Assets		Liabilities	
	Contract Amount	Fair Value	Contract Amount	Fair Value
Foreign currency forward contracts	¥222	¥1	¥1,027	¥11
Nikkei average futures transactions			6	2
Bond futures	403	3		
Total	¥625	¥4	¥1,033	¥13

	Thousands of U.S. Dollars			
	2006			
	Assets		Liabilities	
	Contract Amount	Fair Value	Contract Amount	Fair Value
Foreign currency forward contracts	\$1,888	\$10	\$8,743	\$ 97
Nikkei average futures transactions			48	15
Bond futures	3,435	27		
Total	\$5,323	\$37	\$8,791	\$112

Gains or losses on deemed settlements are recorded in the "Fair value" above. In addition, the fair value of foreign currency forward contracts, Nikkei average futures transactions and bond futures were stated at the market values using forward exchange rates, Nikkei average future rates and bond future rates, respectively, on the balance sheet date.

Derivative liabilities for trading purposes are included in other current liabilities.

Derivatives used for the hedging purpose are excluded from the above table.

### 30. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended 31st March, 2005 and 2006 was as follows:

	Millions of Yen	Shares	Yen	U.S. Dollars
	Net Income	Weighted-average Shares	EPS	
<b>Year Ended 31st March, 2005</b>				
Basic EPS—Net income available to common shareholders	¥25,251	7,054,857	¥3,579.29	
Effect of dilutive securities—Warrants	(188)	585,307		
Diluted EPS—Net income for computation	¥25,063	7,640,164	¥3,280.47	
<b>Year Ended 31st March, 2006</b>				
Basic EPS—Net income available to common shareholders	¥45,369	9,152,365	¥4,957.08	\$42.20
Effect of dilutive securities—Warrants	(113)	628,469		
Diluted EPS—Net income for computation	¥45,256	9,780,834	¥4,627.04	\$39.39

### 31. SEGMENT INFORMATION

SBI operates in the following business segments:

"Asset Management Business" primarily consists of fund management and investment in Internet technology, bio and restructuring companies.

"Brokerage and Investment Banking Businesses" primarily consists of the provision of a wide range of high value-added financial services, such as access to financial assets including equity securities, debt securities, foreign exchanges, insurances or commodity futures, financing from the capital market, securitisations, mergers and acquisitions and structured financing.

"Financial Services Business" primarily consists of the provision of information regarding financial products, leasing business and mortgage loan business.

Information about business segments, geographical segments and revenue from foreign customers of SBI for the years ended 31st March, 2005 and 2006 was as follows:

#### (1) Business Segments

	Millions of Yen					
	Year Ended 31st March, 2005					
	Asset Management Business	Brokerage and Investment Banking Businesses	Financial Services Business	Total	Eliminations/Corporate	Consolidated
<b>a. Revenue and Operating Income</b>						
Revenue from customers	¥ 24,258	¥ 45,397	¥11,857	¥ 81,512		¥ 81,512
Intersegment revenue	205	827	551	1,583	¥(1,583)	
Total revenue	24,463	46,224	12,408	83,095	(1,583)	81,512
Operating expenses	13,843	31,409	11,366	56,618	24	56,642
Operating income	¥ 10,620	¥ 14,815	¥ 1,042	¥ 26,477	¥(1,607)	¥ 24,870
<b>b. Total Assets, Depreciation and Capital Expenditures</b>						
Total assets	¥101,083	¥617,000	¥41,160	¥759,243	¥(4,239)	¥755,004
Depreciation	48	1,256	3,986	5,290	(59)	5,231
Capital expenditures	589	2,067	3,664	6,320	(47)	6,273

Millions of Yen

Year Ended 31st March, 2006						
	Asset Management Business	Brokerage and Investment Banking Businesses	Financial Services Business	Total	Eliminations/ Corporate	Consolidated
<b>a. Revenue and Operating Income</b>						
Revenue from customers	¥ 37,822	¥ 80,221	¥19,204	¥ 137,247		¥ 137,247
Intersegment revenue	2,985	595	640	4,220	¥ (4,220)	
Total revenue	40,807	80,816	19,844	141,467	(4,220)	137,247
Operating expenses	30,387	42,279	17,548	90,214	(2,562)	87,652
Operating income	¥ 10,420	¥ 38,537	¥ 2,296	¥ 51,253	¥ (1,658)	¥ 49,595
<b>b. Total Assets, Depreciation and Capital Expenditures</b>						
Total assets	¥156,197	¥1,085,433	¥61,075	¥1,302,705	¥28,939	¥1,331,644
Depreciation	178	1,535	4,835	6,548	(44)	6,504
Capital expenditures	443	2,526	8,717	11,686	(21)	11,665

Thousands of U.S. Dollars

Year Ended 31st March, 2006						
	Asset Management Business	Brokerage and Investment Banking Businesses	Financial Services Business	Total	Eliminations/ Corporate	Consolidated
<b>a. Revenue and Operating Income</b>						
Revenue from customers	\$ 321,969	\$ 682,907	\$163,483	\$ 1,168,359		\$ 1,168,359
Intersegment revenue	25,408	5,063	5,451	35,922	\$ (35,922)	
Total revenue	347,377	687,970	168,934	1,204,281	(35,922)	1,168,359
Operating expenses	258,676	359,915	149,385	767,976	(21,813)	746,163
Operating income	\$ 88,701	\$ 328,055	\$ 19,549	\$ 436,305	\$ (14,109)	\$ 422,196
<b>b. Total Assets, Depreciation and Capital Expenditures</b>						
Total assets	\$1,329,677	\$9,240,089	\$519,920	\$11,089,686	\$246,348	\$11,336,034
Depreciation	1,515	13,072	41,159	55,746	(377)	55,369
Capital expenditures	3,769	21,501	74,209	99,479	(180)	99,299

- Notes: 1. Operating expenses mainly incurred in the Company's administrative headquarters could not be allocated based upon the business segments above and, therefore, were included in "Eliminations/corporate" of operating expenses with the aggregate amount of ¥2,024 million and ¥1,807 million (\$15,383 thousand) for the years ended 31st March, 2005 and 2006, respectively.
2. Total corporate assets of nil and ¥40,904 million (\$348,211 thousand) included in "Eliminations/corporate" of total assets as at 31st March, 2005 and 2006, respectively, mainly consisted of surplus funds (cash, bank deposits and cash in trust).
3. As mentioned in Note 2, the share of the Company's subsidiary invested by certain funds are consolidated by the Company according to SBI's contributed capital in investment partnerships. As a result, "Operating income" and "Total assets" in "Asset management business" decreased by ¥2,830 million (\$24,091 thousand) and ¥76,658 million (\$652,576 thousand), respectively, for the year ended 31st March, 2006. Total assets of "Brokerage and investment banking businesses" increased by ¥15,500 million (\$131,951 thousand) and total assets of "Eliminations/corporate" decreased by ¥655 million (\$5,573 thousand) for the year ended 31st March, 2006.

## (2) Geographical Segments

Operating revenue and identifiable assets of consolidated foreign subsidiaries are not significant, therefore, geographical segment information is not presented herein.



### (3) Revenue from Foreign Customers

	Year Ended 31st March, 2006		
	Millions of Yen		
	North America	Others	Total
Sales to foreign customers (A)	¥13,344	¥7,870	¥ 21,214
Consolidated sales (B)			137,247
(A)/(B)	9.7%	5.8%	15.5%

	Thousands of U.S. Dollars		
	North America	Others	Total
	Sales to foreign customers (A)	\$113,596	\$66,999
Consolidated sales (B)			1,168,359
(A)/(B)	9.7%	5.8%	15.5%

Note: North America and others primarily consisted of the United States of America, and Europe, Hong Kong and Korea, respectively.

Operating revenue from foreign customers for the year ended 31st March, 2005 is not significant; therefore, the information is not presented herein.

### 32. MARKETABLE SECURITIES LOANED

Fair value of marketable securities loaned was ¥89,487 million as at 31st March, 2005, which was an off-balance sheet item. None of fair value of marketable securities loaned was as at 31st March, 2006.

### 33. SUBSEQUENT EVENTS

#### a. Appropriations of Retained Earnings

At the general shareholders meeting held on 29th June, 2006, the Company's shareholders approved the following events:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥600 (\$5.11) per share	¥7,338	\$62,464
Bonuses to directors	200	1,703

#### b. Exercise of Stock Options

Due to the exercise of stock options previously granted (see Note 21), 6,385.12 shares of the Company's common stock were additionally issued in the period from 1st April to 31st May, 2006. The Company's common stock and capital surplus increased by ¥58 million (\$493 thousand) and ¥58 million (\$493 thousand), respectively.

#### c. NEXUS CO., LTD.

Upon resolution and approval of the Board of Directors meeting held on 12th May, 2006, the Company purchased 30,500 shares of common stock newly issued by NEXUS CO., LTD. ("NEXUS"), for an investment amount of ¥3,498 million (\$29,781 thousand) (¥114,700 (\$976.42) per share) on 29th May, 2006. As a result, equity of NEXUS held by the Company as at 29th May, 2006 was 22.8 percent, and NEXUS became an affiliated company of the Company from May 2006 and will be accounted for by the equity method from fiscal year 2007.

#### d. Purchase of Treasury Stock

Upon resolution and approval of the Board of Directors meeting held on 31st July, 2006, the Company purchased 1,047,900 shares of treasury stock, amounting to ¥47,156 million (\$401,426 thousand), from SBAM, the Company's principal shareholder, on 1st August, 2006. As a result, the voting rights of the Company held by SBAM and its parent company, SOFTBANK CORPORATION, decreased, so the Company has been excluded from their affiliated companies accounted for by the equity method listings.



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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of  
SBI Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of SBI Holdings, Inc. (formerly SOFTBANK INVESTMENT CORPORATION) and consolidated subsidiaries as at 31st March, 2005 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SBI Holdings, Inc. and consolidated subsidiaries as at 31st March, 2005 and 2006, 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.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

*Deloitte Touche Tohmatsu*  
29th June, 2006 (4th August, 2006 as to Note 33)

# Main SBI Group Companies

(As of October 1, 2006)

## Asset Management Business

### SBI Investment Co., Ltd.

Venture fund management  
<http://www.sbinvestment.co.jp/>

### Soft Trend Capital Corporation

Venture fund management

### SBI CAPITAL Co., Ltd.

Buy-out and enterprise revitalization funds management

### SBI Capital Solutions Co., Ltd.

Mezzanine fund management

### SBI BROADBAND CAPITAL K.K.

Venture fund management specializing in the broadband field

### SBI KOREA HOLDINGS CO., LTD.

Venture Capital Investment

### SBI Asset Management Co., Ltd.

Investment trust management, investment advisory services (securities, etc.)  
<http://www.sbi-am.co.jp/>

## Brokerage & Investment Banking Business

### SBI E\*TRADE SECURITIES Co., Ltd.

Comprehensive online securities business  
<http://www.etrade.ne.jp/>

### E\*Trade Korea Co., Ltd.

Online securities business  
<http://www.etrade.co.kr/en/index.html>

### SBI Securities Co., Ltd.

Securities business  
<http://www.sbi-sec.co.jp/>

### SBI Futures Co., Ltd.

Online commodity futures brokerage  
<http://www.ecommodity.co.jp/>

## Financial Services Business

### Morningstar Japan K.K.

Provides Internet-based evaluations of financial products, particularly investment trust  
<http://www.morningstar.co.jp/>

### Gomez Consulting Co., Ltd.

Rating service and business support to e-commerce websites  
<http://www.gomez.co.jp/>

### SBI VeriTrans Co., Ltd.

Provides electronic payment settlement for EC businesses  
<http://www.veritrans.co.jp/>

### SBI Lease Co., Ltd.

Comprehensive lease services primarily for the IT industry  
<http://www.weblease.co.jp/>

### SBI Equal Credit Co., Ltd.

Unsecured consumer loans for individuals and loans for business owners  
<http://www.equalcredit.co.jp/>

### SBI Technology Co., Ltd.

IT solutions  
<http://www.sbi-tech.jp/>

### SBI Mortgage Co., Ltd.

Housing loans  
<http://www.sbi-mortgage.co.jp/>

### CANOW CO., LTD.\*

Internet advertising agency business specializing in the financial sector  
<http://www.canow.jp/>

### AUTOBYTEL-JAPAN K.K.\*

Internet car purchase support service  
<http://www.autobytel-japan.com/>

## Real Estate Business

### SBI Planners Co., Ltd.

Architecture/construction business, property design and administration business, and consulting business for real estate purchases and financial planning  
<http://www.sbi-planners.co.jp/>

### ZEPHYR Co., Ltd.\*

Trading and brokerage of real estate, consultation service for effective use of land, construction, leasing and management of real estate, development of home furnishing-related equipment, etc.  
<http://www.zephyr.co.jp/eng/>

\*Equity-method affiliate

# Corporate History

1999	March	SOFTBANK CORP.'s Administrative Division spun off as an independent company, SOFTBANK FINANCE CORPORATION, as part of business reorganization accompanying the conversion of SOFTBANK CORP. into a pure holding company; SOFTBANK FINANCE CORPORATION. becomes an operating holding company for overseeing financial-related business activities	October	SBI acquired WORLD NICHIEI Securities Co., Ltd. (currently SBI Securities Co., Ltd.) and converted this company into a subsidiary	
	July	SOFTBANK INVESTMENT CORPORATION (currently SBI Holdings, Inc., hereafter "SBI") established to undertake venture capital and incubation business	2004	October	Listed VeriTrans Inc. (currently SBI VeriTrans Co., Ltd.), a subsidiary of FINANCE ALL CORPORATION, on the Hercules market of the Osaka Securities Exchange
2000	June	Morningstar Japan K.K. listed on NASDAQ Japan (currently Hercules market of the Osaka Securities Exchange)	November	Listed subsidiary E*TRADE SECURITIES Co., Ltd. (currently SBI E*TRADE SECURITIES Co., Ltd.) on JASDAQ	
	September	E*TRADE Japan K.K. (currently SBI E*TRADE SECURITIES Co., Ltd.) listed on NASDAQ Japan (currently Hercules market of the Osaka Securities Exchange)	2005	March	Percentage of equity share held by SOFTBANK CORP. decreases due to a capital increase through a public offering; changed from a consolidated subsidiary to an equity-method affiliate
	December	SBI listed on NASDAQ Japan (currently Hercules market of the Osaka Securities Exchange)	July	Changed name to SBI Holdings, Inc. Transferred venture fund management business to SOFTBANK INVESTMENT CORPORATION (formerly SBI VENTURES K.K.) and moved to a holding company structure	
2001	August	SOFTBANK FRONTIER Securities Co., Ltd. (SBI Securities Co., Ltd. after merger with WORLD NICHIEI Securities Co., Ltd.) listed on NASDAQ Japan (currently Hercules market of the Osaka Securities Exchange)	2006	March	SBI Holdings, Inc. merged with consolidated subsidiaries of SBI Partners Co., Ltd. and FINANCE ALL CORPORATION  SBI Securities Co., Ltd. became a wholly owned consolidated subsidiary through a share exchange
	February	SBI listed on First Section of Tokyo Stock Exchange	May	Listed SBI Futures Co., Ltd. on the Hercules market of the Osaka Securities Exchange	
2002	November	SBI listed on First Section of Osaka Securities Exchange	August	Listed Gomez Consulting Co., Ltd., a subsidiary of Morningstar Japan K.K., on the Hercules market of the Osaka Securities Exchange	
	June	SBI merged with E*TRADE Japan K.K. (currently SBI E*TRADE SECURITIES Co., Ltd.) and converted E*TRADE SECURITIES Co., Ltd. into a subsidiary; reorganization of business accelerates thereafter, with SBI positioned as the core company		SBI Holdings, Inc. purchased its stock held by majority shareholder SOFTBANK CORP. via its subsidiary, and is no longer an equity method affiliate of SOFTBANK CORP.	
2003	September	Listed FINANCE ALL CORPORATION on the Hercules market of the Osaka Securities Exchange			

# Board of Directors

(As of June 29, 2006)



**Yoshitaka Kitao**  
Representative Director and CEO



**Yasutaro Sawada**  
Director and COO



**Kenji Hirai**  
Director and CFO



**Shiho Aihara**  
Director and Executive Officer



**Hiroyoshi Kido**  
Director and Executive Officer



**Ken Izawa**  
Director



**Taro Izuchi**  
Director



**Shinji Matsui**  
Director



**Katsuya Kawashima**  
Director



**Takashi Nakagawa**  
Director



**Reiko Kinoshita**  
Director



**Noriaki Maruyama**  
Director



**Hiroshi Tasaka**  
Director



**Susumu Watanabe**  
Standing Corporate Auditor



**Norio Kurosawa**  
Corporate Auditor



**Ryujiro Shimamoto**  
Corporate Auditor



**Atsushi Fujii**  
Corporate Auditor

# Company Outline

(As of March 31, 2006)

<b>Company Name:</b>	SBI Holdings, Inc.	<b>Number of Employees:</b>	1,272 (consolidated)
<b>Date of Establishment:</b>	July 8, 1999	<b>Paid-in Capital:</b>	¥54,229,109,209
<b>Head Office:</b>	1-6-1, Roppongi, Minako-ku, Tokyo 106-6019, Japan Tel: +81(3)6229 0100	<b>Fiscal Year:</b>	April 1 to March 31

# Stock Information

(As of March 31, 2006)

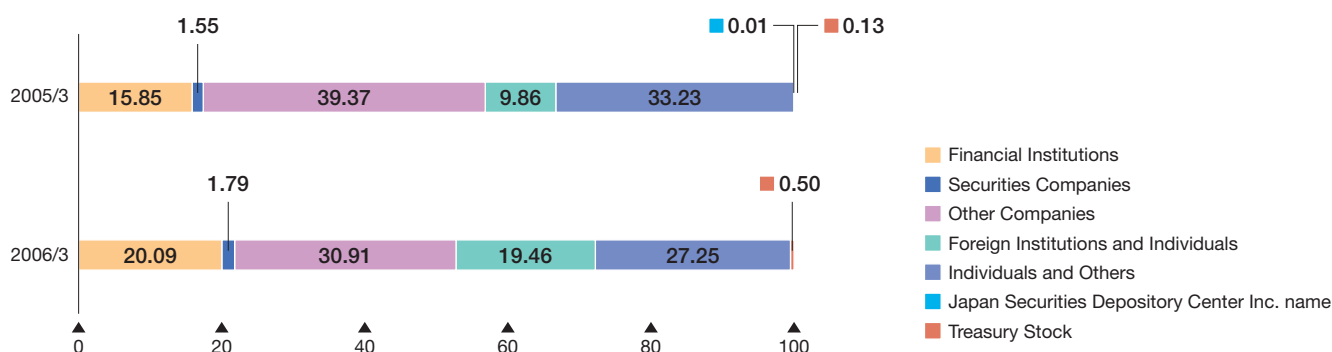
<b>Shareholder Register:</b>	Mizuho Trust & Banking Co., Ltd.
<b>Listings:</b>	First Section of the Tokyo Stock Exchange First Section of the Osaka Securities Exchange (Code: 8473)

<b>Number of Shares:</b>	Shares Authorized 34,169,000 shares Shares Issued 12,290,691.89 shares
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<b>Number of Shareholders:</b>	135,676
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Principal Shareholders:	Name	Number of shares held (shares)	Percentage of total shares issued (%)
	SOFTBANK AM CORPORATION	3,245,899.41	26.40
	The Master Trust Bank of Japan, Ltd. (Trust account)	697,781.75	5.67
	Japan Trustee Service Bank, Ltd. (Trust account)	399,239.65	3.24
	Japan Securities Finance Co., Ltd.	358,573.00	2.91
	ZEPHYR Co., Ltd.	347,861.00	2.83
	The Nomura Trust and Banking Co., Ltd. (Investment Trust account)	189,452.00	1.54
	Yoshitaka Kitao	165,312.98	1.34
	Bank of New York GCM Client Accounts EISG	156,046.15	1.26
	The Sumitomo Trust and Banking Co., Ltd.	134,000.00	1.09
	Trustee of individually operated designated money trust, Mitsui Asset Trust and Banking Co., Ltd. (Account 1)	128,028.00	1.04

## Distribution of Ownership among Shareholders



**SBI Holdings, Inc.**

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