

To Our Shareholders



北尾吉孝 

Yoshitaka Kitao
Representative Director & CEO

Profile

- 1951 : Born in Hyogo prefecture
- 1974 : Graduated Keio University with degree in Economics
Joined Nomura Securities Co., Ltd.
- 1978 : Received Economics degree from Cambridge University (England)
- 1989 : Named Managing Director of Wasserstein Perella & Co. International, Limited (London)
- 1991 : Named Director of Nomura Wasserstein Perella Co., Ltd. (concurrent with Wasserstein Perella International position)
- 1992 : Named General Manager of Corporate Finance & Services Dept. III, Nomura Securities Co., Ltd.
- 1995 : Joined SOFTBANK CORP. at invitation of founder Masayoshi Son (named Executive Vice President and Chief Financial Officer)
- Present Representative Director and CEO of SBI Holdings, Inc.

Selected books authored by Mr. Kitao

- **The SBI Group Vision and Strategy : Continuously Evolving Management**
(English language translation published by John Wiley & Sons, Inc.)
 - **Challenges of E-Finance I**
(Chinese translation published by The Commercial Press, Korean translation published by Dongbang Media Co., Ltd.)
 - **Challenges of E-Finance II**
(Korean translation published by Dongbang Media Co., Ltd.)
 - **"Value-Creation" Management**
(Chinese translation published by The Commercial Press, Korean translation published by Dongbang Media Co., Ltd.)
- (All of the above books are published in Japan by Toyo Keizai Inc.)
- **Why Do We Work?**
(published in Japan by Chichi Publication.)
 - **"Mysterious Powers" Gained from Chinese Classics**
(published in Japan by Mikasa Shobo Co., Ltd.)
(Chinese translation published by Peking University Press)
 - **Universal Management, Growth Management**
(Korean translation published by Dongbang Media Co., Ltd.)
 - **Developing Character**
(The above three books are published in Japan by PHP Research Institute)



SBI Holdings, Inc. continued to post strong revenues and earnings in the fiscal year ended March 31, 2007. This performance was supported by balanced growth across all business units. The result was our fourth consecutive year of growth in consolidated operating revenues and earnings (ordinary income, previous accounting standard). Under the new accounting standard, which includes newly consolidated funds, consolidated operating revenues increased 5.3% to ¥144.6 billion and ordinary income was up 76.6% to ¥90.7 billion, both of which are new records for us. In Japan, many companies with businesses involving the Internet saw revenues and earnings decline in the previous fiscal year. However, all of our core businesses generated broad-based profitability, and our venture capital and online securities operations maintained market leader positions. We also made steady progress during the fiscal year towards the launch of an Internet bank and other strategic businesses to help complete our financial services ecosystem.

Given our strong consolidated performance and our commitment to distribute earnings to our shareholders, we paid our first interim dividend during the previous fiscal year. Dividend payments applicable to the fiscal year totaled ¥13.5 billion, 80% more than in the previous fiscal year as we doubled the annual dividend to ¥1,200 per share, with a resulting payout ratio of 29.7% (consolidated basis).

From the first half of the past fiscal year, we began consolidating certain funds operated by the SBI Group to comply with the new accounting standard. Owing to this change, fund establishment, management, success

and other fees, the primary source of revenues for the Asset Management Business under the previous accounting standard, are now included in net income through an adjustment for minority interests. Although these fees are no longer included in operating income and ordinary income, the new accounting standard in theory has no impact on net income. However, the new accounting standard does influence the equity ratio, return on assets (ROA) and other ratios because total assets and operating revenues now include the interests of external investors.

Our equity ratio, an important indicator of financial soundness, was 18.1% at the end of March 2007. One reason for the decline was the consolidation of our funds, as well as the growth in balance sheet assets associated with our securities operations as the scale of these operations grew. Current assets include about ¥800 billion of margin transaction assets, loans secured by securities and other items involving the securities business. Of course, there are also corresponding liability items. The end-result was a very large volume of assets and liabilities in relation to the scale of our operations. After excluding securities-related current assets and consolidated funds (excluding the interests of external investors), our equity ratio rises to 48.6%, which indicates that the SBI Group is in a sound financial position.

The Asset Management Business made a significant contribution to consolidated earnings. Operating income in this segment was up about 180% as the approaching redemption of IT funds generated substantial success fees and capital gains. This performance clearly distinguished our asset management operations from those of our

competitors. In the Brokerage & Investment Banking Business, group companies faced severe competitive challenges as securities companies cut commissions to attract customers. Despite these difficulties, we captured a dominant market share and completed a foundation from which to compete as one of Japan's leading full-service securities companies. In the Financial Services Business, group companies achieved further growth in revenues and earnings as Internet utilization continued to both deepen and widen. Furthermore, strategic plans advanced toward the launch of an Internet bank, Internet nonlife insurance company and Internet life insurance company, which we plan to develop into core businesses in this market segment.

Our goal is to make this fiscal year ending March 31, 2008 a time when all of our businesses take significant steps to set the stage for future growth. For instance, we established a subsidiary in Singapore to start full-scale investing activities outside Japan, and in this regard we are also moving faster to form alliances with leading overseas partners in the investment business. In our securities operations, we are launching a Proprietary Trading System (PTS) venture and expanding activities involving investment trusts for retail investors. Furthermore, the upcoming merger of SBI E*TRADE SECURITIES Co., Ltd. and SBI Securities Co., Ltd. will give us a securities company that combines Internet and "brick and mortar" (face-to-face) infrastructures. One of the goals of the new company will be to establish a nationwide network of branch offices, as all of our initiatives will be guided by our customer-centric principle.

Furthermore, for this fiscal year we expect to launch our benchmark Internet bank, Internet nonlife insurance company and Internet life insurance company. With the launch of these businesses we will be much closer to our goal of establishing a truly-integrated financial ecosystem. Since its inception in 1999, the SBI Group has established many subsidiaries with operations that involve finance, and our financial ecosystem grew along with the number of these subsidiaries. Starting from ground zero only eight years ago, the SBI Group has developed into an organization with 48 consolidated subsidiaries and 13 equity-method affiliates, and during this period our workforce grew from 55 to 1,680 employees (March 31, 2007).

In August 2006, when our capital relationship with SOFTBANK CORP. was dissolved, we gained further independence and latitude to enter into non-financial business fields. Since then, the SBI Group has used the resources and expertise acquired from its financial businesses to start operations in many new fields. This includes business fields closely related to financial services as well as non-financial activities that are closely related to SBI Group companies. In every case, our ultimate objective is to expand and reinforce our financial ecosystem.

Today, our policy is "to utilize the finance as the nucleus to go beyond the sector," so that the SBI Group may develop into a diversified organization with a "nucleus" in fields other than the finance business. We envision the establishment of two more ecosystems: a housing and real estate ecosystem and an information systems ecosystem. We will then

pursue mutual synergies among these ecosystems, which will set the stage for transforming the SBI Group into a single multifaceted and self-reinforcing business ecosystem.

Another objective is to return to our origins as the most innovative Internet business group and roll-out a portfolio of "Finance 2.0" products and services – a concept for the coming age where real-time knowledge-based financial services will overtake the traditional by offering greater ease of use, trustworthiness, quality of service, and a lower cost. We expect to accomplish this vision by building-out a business ecosystem in the field of information systems, together unifying both finance and Internet; this ecosystem will provide the platform to sustain our future growth.

The SBI Group is determined to become "Japan's largest distributor of financial services," supplying customers with the best products in all categories of financial services. We will take full advantage of the extremely powerful vehicle known as the Internet, while retaining our commitment to the customer-centric principle. Having created a blueprint for taking the necessary actions to reach our goal, we will continue our endeavors to make the necessary progress.

The SBI Group will continue to create more innovative services and businesses that can produce benefits for our customers and investors. Our ultimate objective is to maximize corporate value, which we believe to be the aggregate of "customer value," "shareholder value" and "human capital value."