

Management's Discussion & Analysis

Analysis of Business Results for the Fiscal Year

Asset Management Business

In the Asset Management Business, the SBI Group seeks to be an "industry creator." Operations are based on the management philosophy of serving as a leading company in creating and fostering the development of core industries of the 21st century, mainly in the information technology sector. The group provides risk capital to portfolio companies, mainly through investment funds managed by group companies. The group also supports portfolio companies by extending assistance for tax accounting and finance, consulting services for IPOs and other activities, the provision of executives and employees, and in other ways. In addition, the group helps portfolio companies form business and equity alliances with each other and conduct other forms of collaboration. The SBI Group also gives portfolio companies access to its business network and expertise in IPO support. All these activities contribute to improving returns at funds by helping portfolio companies to achieve further growth in their corporate value.

The group is using the SBI Broadband Fund, the SBI BB Media Fund, the SBI BB Mobile Fund, and the SBI Value Up Fund, (which was established in the previous fiscal year) and other funds to continue making investments in small companies active in business fields with excellent growth prospects. Targeted business fields include broadband networks, media and mobile communications, and biotechnology. During the past fiscal year, funds operated by the SBI Group made investments totaling ¥74.5 billion, and there were 10 portfolio companies that became publicly owned through an IPO or a merger or acquisition.

SOFTBANK INTERNET TECHNOLOGY FUND, the group's flagship fund that was established in March 2000 with an initial contribution of ¥150.5 billion, has completed the stage of realizing gains on past investments. The contractual period for this fund reached completion at the end of June 2007.

In the previous fiscal year, the SBI Group adopted the "Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations" (Accounting Standards Board of Japan Practical Solution Report No. 20, September 8, 2006). As a result, the group began treating as subsidiaries several funds which are effectively controlled by the group, and this in turn led to a subset of these funds being included within the scope of consolidation.

The Brokerage and Investment Banking Business

The Brokerage and Investment Banking Business represents mainly the operations of SBI E*TRADE SECURITIES Co., Ltd. and SBI Securities Co., Ltd. During the past fiscal year, Japan's stock markets were impacted by the high cost of crude oil, worldwide declines in stock prices and other events. In March 2007, the

Nikkei Average dropped below ¥17,000. Nevertheless, stock purchases by individual investors in Japan continued to grow. Total monetary trading volume on the first section of the Tokyo Stock Exchange during the past fiscal year increased to a record high of ¥650 trillion. Furthermore, the shift in consumers' financial assets from savings to investments is expected to gain momentum in the coming years. In addition, an increasingly broader range of investors is using the Internet to buy and sell stocks. At the end of March 2007, the SBI Group's securities business had assets in customer accounts of ¥4,718.3 billion and 1,603,294 customer accounts. During the fiscal year, average daily trading value was ¥377.8 billion.

The group plans to further accelerate initiatives aimed at the convergence of online securities services, which are provided mainly by SBI E*TRADE SECURITIES, and brick-and-mortar (face-to-face) securities services, which are provided mainly by SBI Securities. The group believes that combining these two services is essential to differentiating the securities business in a manner that competitors cannot match and to secure an overwhelming competitive advantage. To accomplish this objective, these two securities companies will merge on October 1, 2007. This merger will create Japan's first "real (bricks-and-mortar) based on online" securities company model. The model will be based on the advantages of online securities operations: low expenses, the ability to attract many customers, and a very large volume of transactions. At the same time, this model includes the strengths of face-to-face operations, notably activities deeply rooted in local markets and the ability to conduct consulting-based sales activities. The result is a unprecedented business model that can offer highly sophisticated services. By making full use of this model, the objective is to go beyond face-to-face and online securities operations by entering new business domains as a comprehensive securities company.

The Financial Services Business

The Financial Services Business continued to achieve growth in revenues and earnings. Another year of aggressive promotional activities in the marketplace business, growth in transactions conducted from mobile devices and other factors were responsible for this performance. This business recorded a 29.4% increase in the number of active users (users who receive an estimate, request information, apply for an account or take other actions) at the service websites, mainly the InsWeb insurance site and E-LOAN. In addition, a number of new websites were established and existing service sites were significantly remodeled and updated. The marketplace business also formed alliances with prominent partners to enhance the content and functions of these sites. Collectively, these actions expanded the service lineup in this business.

In the financial products business, SBI Lease Co., Ltd. posted

Operating Revenues by Segment

	Year ended March 31, 2006		Year ended March 31, 2007	
	Millions of Yen	%	Millions of Yen	%
Asset Management Business	40,807	29.7	52,460	36.3
Investment in Securities	24,793		35,030	
Revenue from Operational Investment Securities	18,668		28,783	
Fees from Funds	6,125		6,247	
Housing and Real Estate Business	14,223		15,096	
Revenue from Operational Investment Securities	140		4,920	
Fees from Funds	10		51	
Other Real Estate Related Revenue	14,073		10,125	
Investment Advisory Service Fees and Others	1,791		2,334	
Brokerage & Investment Banking Business	80,816	58.9	66,419	45.9
Revenue from Securities Transactions	79,513		65,421	
Revenue from Commodity Futures Transactions	1,303		998	
Financial Services	19,844	14.5	27,660	19.1
Marketplace Business	3,280		3,915	
Financial Products Business	12,210		11,959	
Financial Solutions Business	2,406		3,209	
Other Businesses	1,948		8,577	
Intersegment Revenue	(4,220)	-3.1	(1,958)	-1.3
Total Operating Revenue	137,247	100.0	144,581	100.0

increases in leases of broadband communication infrastructure equipment and broadband content business equipment. The company also started offering leases for mobile communication infrastructure equipment. These activities resulted in strong growth in the volume of new leases and revenues from leases. SBI Equal Credit Co., Ltd., which extends loans to consumers and business owners, also continued to grow. This company expanded its operating base mainly by purchasing loans to achieve a large increase in loans outstanding and the number of active customers.

In the financial solutions business, SBI VeriTrans Co., Ltd., which offers online payment processing solutions for e-commerce businesses, continued to grow along with expansion of the e-commerce and credit card markets in Japan. This company recorded a 31.1% increase in the number of transactions to 27.88 million and was serving a total of 2,839 retailers at the end of March 2007. SBI Technology Co., Ltd. now provides its MoneyLook® technology to five companies. At the end of March 2007, there were more than 570,000 users of this software, which facilitates centralized management of transactions using accounts at two or more financial institutions. In Other Businesses, Morningstar Japan K.K. provides Internet-based evaluations of financial products, particularly investment trusts, and consulting services. Internet advertising revenue is steadily increasing at this company as the value of its advertising space climbs. Growth in asset investment needs among individuals in Japan is producing a consistent increase in the number of page views at this company's

investment trust rating Website. Gomez Consulting Co., Ltd. is a Morningstar Japan subsidiary that has a rating service and business support service for e-commerce websites. This company posted strong growth in revenues from website production services and financial institution advisory services. Other businesses also include HOMEOSTYLE, Inc., which was newly consolidated in the past fiscal year. This company is engaged in the beauty care and health food business and the sale of women's accessories and apparel.

Operating Revenues

1) Asset Management Business

Investment in Securities

There are two components of operating revenues in this business. The first is revenue from operational investment securities, which are gains on sales of securities that were purchased for the purpose of earning capital gains. The SBI Group makes venture capital investments, invests in companies in need of restructuring, and invests in companies in industries with good prospects for growth, such as biotechnology, broadband networks, media and mobile communications. The second is revenue from funds. This is the sum of fund establishment fees, which are a fixed percentage of fund contributions; fund management fees, which are normally a fixed percentage of a fund's initial investments or the market value of net assets; and success fees that are based on a fund's performance.

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Further, when SBI Holdings or its consolidated subsidiaries invest in a fund operated by the SBI Group, the revenue of SBI Holdings or the consolidated subsidiary is calculated as a proportion of the operational investment securities revenue of the fund based on each fund's financial statements, such proportion being based upon the total amount invested by SBI Holdings or its consolidated subsidiary in the fund.

On the other hand, complying with the "Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations" (Accounting Standards Board of Japan Practical Solution Report No. 20, September 8, 2006), for revenue for funds which were characterized as within the scope of consolidation for this fiscal year, (such as the Softbank Internet Technology Funds (No 1, No2), as well certain other funds), the calculation for operational investment securities revenue also included investment amounts from investors outside the Group.

Due to these factors, consolidated revenue from operational investment securities increased by 54.2% to ¥28,783 million.

Revenue from funds increased by 2.0% to ¥6,247 million. This includes success fees of ¥2,724 million, mainly from SOFTBANK INTERNET TECHNOLOGY FUND No.3, RESTRUCTURING Fund No.1 and SBI LBO Fund No.1. Management fees totaled ¥2,916 million, mainly from SBI Broadband Fund No.1 and SBI BB Mobile Fund.

As is explained above, management fees from SOFTBANK INTERNET TECHNOLOGY FUND (No.1 and No.2) and other newly consolidated funds are no longer included in revenue because this fee income is offset by the corresponding expense.

Housing and Real Estate Business

There are three components of operating revenues in this business. The first is revenue from operational investment securities, which are gains on sales of investments in partnerships associated with residential real estate for the purpose of earning capital gains. The second is revenue from funds. This is the sum of fund establishment fees, which are a fixed percentage of fund contributions; fund management fees, which are normally a fixed percentage of a fund's initial investments or the market value of net assets; and success fees that are based on a fund's performance. The third component is 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.

From the fourth quarter of this fiscal year, SBI Mortgage Co., Ltd. became part of Housing and Real Estate Business. This company was formerly in the Financial Products Business.

Revenue in this business increased by 6.1% to ¥15,096 million.

Investment Advisory Services

Revenue from investment advisory services and other activities increased by 30.4% to ¥2,334 million. This increase was mainly attributable to higher investment advisory revenue and investment

trust management fees at SBI Asset Management Co., Ltd.

2) Brokerage & Investment Banking Business

Revenue in this business comes from the Securities Business and the Commodity Futures Business.

Securities Business

Revenue in this business is derived mainly from brokerage commissions from securities transactions, underwriting and sales fees for initial public offerings, and commissions for the placement and sale of stock.

Revenue decreased by 17.7% to ¥65,421 million. This revenue represents the operations of SBI E*TRADE SECURITIES Co., Ltd., SBI Securities Co., Ltd. and E*TRADE Korea Co., Ltd., which listed its shares on Korea's KOSDAQ market in February 2007.

Commodity Futures Business

Revenue in this business consists of fees received from commodity futures transactions. Revenue decreased by 23.4% to ¥998 million, all of which represents the operations of SBI Futures Co., Ltd.

3) Financial Services Business

There are four components of revenue in this business. The financial marketplace business operates Japan's largest comparison and estimate portal sites for insurance and loans. The financial products business includes a leasing business and a consumer and small company loan business. The financial solutions business provides online payment settlement solutions for e-commerce companies and develops systems the financial services industry. Other businesses mainly include financial information evaluations and consulting and website evaluations and rankings, primarily involving investment trusts.

Revenue increased by 39.4% to ¥27,660 million mainly because of contributions from SBI Lease Co., Ltd. and SBI Mortgage.

Note: Operating revenues in each segment and figures used for comparisons with the previous fiscal year are not adjusted for intersegment revenue.

Operating Costs

1) Asset Management Business

Operating costs increased by 78.4% to ¥47,971 million. This is the sum of the cost of operational investment securities of ¥33,807, a provision of ¥3,142 million for the valuation allowance for operational investment securities, cost of real estate for sale of ¥1,966 million and personnel and other operating costs of ¥9,055 million.

2) Brokerage & Investment Banking Business

Operating costs increased by 3.7% to ¥4,295 million. These costs consisted mainly of financial costs resulting from interest expenses associated with margin transactions.

3) Financial Services Business

Operating costs increased by 85.9% to ¥17,450 million. These expenses mainly represent the cost of leases and the cost of sales for the beauty care products and women's accessories sales business at newly consolidated subsidiary HOMEOSTYLE, Inc.

Note: Operating costs in each segment and figures used for comparisons with the previous fiscal year are not adjusted for intersegment operating costs.

Selling, General and Administrative Expenses

These expenses increased by 5.4% to ¥52,741 million, consisting mainly of personnel expenses and expenses for outsourcing the operation of IT systems for securities operations.

Other Income (Expenses)

Net other income increased by 42.6% to ¥38,947 million mainly due to the amortization of negative goodwill of ¥69,094 million resulting from funds that were newly consolidated and loss on sales of investment securities of ¥23,575.

Cash Flow

Cash and cash equivalents totaled ¥115,092 million at the end of March 2007, a net decrease of ¥17,453 million compared with the balance of ¥132,545 million at the end of March 2006. A summary of cash flows is presented as follows.

Operating Activities

Net cash used in operating activities was ¥67,409 million compared with ¥132,740 million in the previous fiscal year. Income before income taxes and minority interests was ¥62,042 million, but income taxes paid totaled ¥43,132 million and there were net increases of ¥26,531 million in real estate inventory, ¥10,539 million in operational investment securities and operational investments in funds, and ¥8,417 million in operational loans receivable.

Investing Activities

Net cash provided by investing activities was ¥86,014 million compared with a negative cash flow of ¥33,137 million in the previous fiscal year. Proceeds from sales of subsidiaries' stock totaled ¥129,831 million. This primarily represents proceeds of

¥126,758 million from the sale by consolidated funds of stock of consolidated subsidiary SBI E*TRADE SECURITIES. Purchases of investment securities totaled ¥28,659 million. The largest components of this figure are payments of ¥13,095 million for investments in funds classified as non-consolidated subsidiaries and payments of ¥6,998 million for an investment in Sumishin SBI Net Bank Research Co., Ltd.

Financing Activities

Net cash used in financing activities was ¥58,176 million compared with a positive cash flow of ¥200,746 million in the previous fiscal year. There were payments of ¥47,165 million for the purchase of treasury stock. But this included payments of ¥47,156 million for the purchase of 1,047,900 shares of SBI Holdings common stock to permit a more flexible capital policy in response to changes in the operating environment. Proceeds from issuance of bonds totaled ¥29,871 million, but there were payments of ¥75,280 million for dividends paid by investment funds to minority investors.

The increase of ¥22,175 million in cash and cash equivalents due to newly consolidated companies is mainly the result of the consolidation of certain funds.

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Risk Information

The following principal categories of business risks and other risks affecting the SBI Group's businesses may have a material impact on investment decisions. Although the risks below are those currently recognized by the SBI Group, it is not necessarily a complete list of risks. In recognizing these latent risks, the Group will work to avoid any such risks and take appropriate measures in the event that any such risk arises.

(1) Impact of Changes and Other Events in the Operating Environment

The SBI Group is engaged 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 may 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. Furthermore, the Company's business results may suffer substantial fluctuations in the event investment gains/losses are concentrated in certain time periods. 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 to 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 is engaged in businesses in fields characterized by innovation and high growth. Since these businesses are considered to have promising growth potential, competition is intense and there are many new participants. Consequently, there is no assurance that the SBI Group can remain competitive in the event of excessive competition that exceeds market growth. The Group will continue making further changes 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 makes extensively utilizes the Internet in carrying out its businesses. Since a large portion of business activities depend on computer systems, the SBI Group has devised various countermeasures that include the build-up 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 utilizes the Internet as the 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, which include building redundant mission critical systems and monitoring functions as well as establishing backup sites at multiple locations and undertaking continual initiatives to maintain and enhance the level of service. Nevertheless, should a system malfunction occur despite the implementation of these countermeasures, there is a possibility that a delay or failure to appropriately respond may result in claims for damage resulting from such a malfunction, and this may also 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 portfolio companies of the investment partnerships managed by the SBI Group include numerous emerging companies and companies undergoing restructuring. These companies face numerous challenges regarding their future performance, and so is a possibility that the business results of these portfolio companies may 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 talented managers and employees, a weak financial position, and the failure of portfolio companies to disclose crucial information.

In the Real Estate Business, the Company performs sufficient prior due diligence when acquiring real estate. However, the discovery of problems after acquisitions in areas beyond the scope of the due diligence, including problems related to rights that are unique to the real estate industry, soil and geological issues involving the site, or the environment, may have a significant impact on the value or profitability of a property. Also, the occurrence of any unforeseen accidents, incidents, or natural disasters such as fires, civil unrest, terrorism, earthquakes, volcanic eruptions or tidal waves may impact the value or profitability of the property.

(5) Protection of Personal Information

By extensively utilizing the Internet, the SBI Group carries out wide-ranging business activities that include financial, real estate and lifestyle-related businesses. In the course of these activities, the Group 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 confidence, stability and safety are demanded, the SBI Group believes that preventing damage from leaks of customer information and unauthorized access is extremely crucial. The Company thus recognizes that information security is its most crucial issue for ensuring that customers may use its services with confidence. 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, and 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 measures such 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 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.

Going forward, the SBI Group will actively promote the expansion of its business portfolio, which includes carrying out M&A activities in fields 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 activities may 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 prior 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 these special purpose entities will be treated as subsidiaries or affiliated companies for accounting purposes. However, the establishment of fixed rules based on accounting practices or changes in the SBI Group's accounting procedures may result in a change in the Group's scope of consolidation, which in turn may have an impact on the SBI Group's financial condition and business results.

In the fiscal year that ended in March 2007, the SBI Group adopted "Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations" (Accounting Standards Board of Japan Practical Solution Report No. 20, September 8, 2006). As a result, the Group began treating as consolidated subsidiaries several funds that the Group manages and all assets, liabilities and other items at these funds are included in the consolidated balance sheet of SBI Holdings. In addition, management and other fees from these funds that were previously

recognized as operating revenues in the Asset Management Business are now eliminated in consolidation. These fees are now included in the income statement as minority interests in net income. Moreover, all revenues and expenses of the newly consolidated funds are included in the consolidated income statement irrespective of the SBI Group's ownership. An adjustment is made through minority interests in net income for the portion of revenues and expenses corresponding to external investors. There may be a similar effect on consolidated financial statements if an existing or newly established fund is newly included in the scope of consolidation.

In the fiscal year that ended in March 2007, for some newly consolidated funds, the difference between the SBI Group's interest in the acquisition cost of the fund and the Group's interest in the market value of the fund upon consolidation was recorded as negative goodwill. As stocks in these funds were sold during the fiscal year, this negative goodwill was primarily amortized and the resulting gain included in other income. Overall, the new accounting standard concerning the consolidation of funds decreased operating revenues by ¥7,749 million and operating income by ¥30,620 million, and decreased income before income taxes and minority interests by ¥26,322 million compared with the previous accounting standard. In addition, the newly consolidated funds increased total assets by ¥34,657 million. Consequently, these points must be taken into consideration when comparing the SBI Group's consolidated financial condition and results of operations in the fiscal year that ended in March 2007 with prior fiscal years.

(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 that ended in March 2006, the SBI Group started several new businesses, including 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. The inability of new businesses to attain initially forecast targets or the failure to achieve sufficient future profits commensurate with initial investments may have an adverse impact on the SBI Group's business results. In addition, these new businesses may become subject to new laws or placed under the guidance of regulatory authorities. Subsequent violations of with such laws with resulting administrative actions or other 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 is no longer able to continue managing the Group's business activities, there may be an adverse impact on the SBI Group's business results.