

# Management's Discussion & Analysis

## Analysis of Business Results for the Fiscal Year

### Overview

#### Asset Management Business

In the Asset Management Business, the SBIH Group endeavors 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, primarily in the information technology sector. The SBIH Group provides risk capital to portfolio companies, mainly through investment funds managed by group companies. The SBIH 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 SBIH Group assists portfolio companies in forming business and equity alliances with each other, and conduct other forms of collaboration. The SBIH Group also provides portfolio companies with 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.

In Japan, the SBIH Group is using the Broadband Fund, the Media Fund, the Mobile Fund, the Biotechnology Fund, the Environment and Energy Fund, and other funds to make investments in emerging companies that are active in business fields with superior growth prospects. Targeted business fields include broadband networks, media and mobile communications, biotechnology, and environment and energy.

Overseas, the SBIH Group is placing priority on working more diligently on capitalizing on investment opportunities in Asian countries with rapidly growing economies. In accordance with this policy, the SBIH Group is using Singapore as the base for establishing funds that are managed jointly with prominent local partners, and for preparing to establish these funds. The SBIH Group will establish, as quickly as possible, a fully integrated framework extending from the solicitation of fund contributions from overseas investors to the management of such fund assets.

In the current fiscal year, amidst an extremely difficult business environment under which stock markets have cooled down and the number of new listings has drastically declined, there were no IPOs or M&As for the SBIH Group portfolio companies. Nevertheless, the New Horizon Fund, which entered its period of returns, contributed to earnings and the total investment amount moved up to the high level of ¥95.1 billion.

#### Brokerage & Investment Banking Business

Domestic stock markets during the current fiscal year witnessed a drastic fall of the Nikkei Stock Average in October due to the significant deterioration of the economy in the wake of global financial uncertainties. Despite showing signs of a recovery by posting figures in the ¥9,000 range as 2009 began, the Nikkei turned back down again in March. Foreign exchange markets saw an overall increase in the value of the yen as pressure to sell off dollars, euros and other currencies mounted resulting in postings of ¥80-range and ¥110-range trading of the yen against the dollar and euro, respectively. Such deflated stocks and high yen exchange rates greatly affected Japanese corporate earnings leading to the further deterioration of business confidence. Policy rates set by governments worldwide were lowered and a significant number of measures were implemented to stimulate the economy causing the yen to decline from around February down to the upper ¥90 range against the dollar and exceeding ¥125 against the euro. Further, domestic stock markets showed signs of a recovery from mid-March as the Nikkei moved back to the ¥8,000 range posting ¥8,109 on March 31, 2009, ending market trading approximately 35% lower compared with the previous fiscal year.

Under these circumstances, the SBIH Group made efforts to provide appealing products, services and fee structures based on its "Customer-centric principle" and, as a result, acquired 204,457 new customer accounts during the current fiscal year bringing the total at March 31, 2009 to 1,866,508, with the number of loan accounts at 192,015 and deposit assets of ¥2,979.8 billion.

\* Number of accounts and deposit assets are of SBI SECURITIES Co., Ltd. on a non-consolidated basis.

## Financial Services Business

In the marketplace business, the number of auto insurance estimates received by our insurance portal, "InsWeb" increased 12.3% year-on-year and the number of users of financial service websites grew 4.6% to 929,000.

In the financial products business, SBI Lease Co., Ltd. had leases outstanding of more than ¥74.8 billion at the end of March 2009, including subleasing and the arrangement of lease syndications. This represents leases of broadband communication infrastructure equipment and broadband content business equipment. The company also offers leases for mobile communication infrastructure equipment.

In the financial solutions business, SBI VeriTrans Co., Ltd., which offers online payment processing solutions for e-commerce businesses, continued to grow along with the

expansion of the Internet and e-commerce markets in Japan.

This company recorded a 37.7% increase in the number of transactions to more than 51.6 million. SBI Holdings, Inc. provides MoneyLook® technology to six companies. At the end of March 2009, there were more than 650,000 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., which provides evaluations of financial products, particularly investment trusts, is seeing increases in its sales of IR data, investment trust data and stock price data, while Gomez Consulting Co., Ltd., which provides website evaluation and ranking services and business support services, strives to create demand by strengthening its proposals in new areas such as consulting for accelerating website display speed.

## Operating Revenues by Segment

	Year ended 31st March, 2008		Year ended 31st March, 2009	
	Millions of Yen	%	Millions of Yen	%
<b>Asset Management Business</b>	¥ 58,008	26.1	¥ 15,982	12.2
Investment in Securities	54,670		12,924	
Revenue from Operational Investment Securities	53,446		11,804	
Fees from Funds	1,223		1,120	
Investment Advisory Services Fees and Others	3,338		3,057	
<b>Brokerage &amp; Investment Banking Business</b>	68,532	30.8	49,182	37.6
Revenue from Securities Transactions	67,625		48,613	
Revenue from Commodity Futures Transactions	905		568	
<b>Financial Services</b>	22,496	10.1	22,617	17.3
Marketplace Business	4,255		4,737	
Financial Products Business	9,748		8,015	
Financial Solutions Business	4,094		4,516	
Other Businesses	4,080		4,338	
New Businesses	316		1,008	
<b>Housing and Real Estate Business</b>	75,071	33.7	40,907	31.2
Real Estate Business	55,125		18,353	
Financial Real Estate Business	6,726		7,892	
Lifestyle Networks Business	13,218		14,661	
<b>System Solution Business</b>	322	0.1	6,354	4.9
<b>Intersegment Revenue</b>	(1,861)	(0.8)	(4,119)	(3.2)
<b>Total Operating Revenue</b>	¥222,568	100.0	¥130,923	100.0

In new businesses, SBI Card Co., Ltd., which issues a variety of MasterCard-branded SBI credit cards, used its skill in offering cards with some of the industry's best features to increase the number of cards issued to more than 47,000 (at the end of March 2009) after only 2 years and 4 months since starting operations. SBI Insurance Co., Ltd., which began operations in January 2008, is obtaining more auto insurance contracts owing to a decrease in premiums made in March of that year, a renewed website in August and an increase in new sales channels. SBI AXA Life Insurance Co., Ltd., which started in April 2008, is working to enhance services and increase the number of contracts by introducing a high premium policy discount program for term insurance starting in October of that year and commencing sales of income guarantee insurance, a new product, in March 2009.

### Housing and Real Estate Business

The real estate business, plagued by a deteriorating financial environment, a constricting real estate market and other factors, recorded significantly lower operating revenues and operating income due to unfavorable transactions with real estate funds, which are principal purchasers. It continued to make progress in building a stable base of operations by using alliances and other measures to increase the scale of operations, and to diversify its profit structure.

In the financial real estate business, SBI Mortgage Co., Ltd. has already established a distinctive identity as a provider of housing loans with fixed interest rates over the entire repayment period.

Housing loans continue to increase steadily, with the balance of loans amounting to ¥463.9 billion at the end of March 2009.

The lifestyle networks business supplies services designed to assist consumers at every stage and major event of their lives. The primary activity is the operation of comparison and search websites. In this fiscal year, the number of transactions using the six service sites of this business continued to grow, rising 33.4% to more than 380,000.

### System Solution Business

In the System Solution Business, the SBIH Group, as an internet-based financial conglomerate, is strengthening its system formulation and maintenance to serve as a base for providing various types of financial services, all the while working to integrate financial services with the internet. During the fiscal year under review, SBI Net Systems Co., Ltd., which provides information security services and solutions for financial institutions, saw increased operating revenues and a reduced operating loss compared to the previous fiscal year owing to favorable results from its contract development efforts and operation and maintenance services, among others.

### Operating Revenues

#### Asset Management Business

(Investment in Securities Business)

There are two components of operating revenues in this business. The first is revenue from operational investment securities, which is gains from the sales of securities that were purchased for the purpose of earning capital gains. The SBIH Group makes venture capital investments in industries such as information technology, biotechnology, broadband networks, media and mobile communications, and invests in companies in need of restructuring. The second is revenue from funds. This is the sum of fund establishment fees, which are a fixed percentage of a fund's initial contributions, fund management fees, which are normally a fixed percentage of initial investments or net assets, and success fees that are based on a fund's performance. When SBI Holdings, Inc. or its consolidated subsidiaries invest in a fund operated by the SBIH Group, revenue from funds that are consolidated is the entire amount of revenue from operational investment securities, including the portion corresponding to fund contributions from investors outside the SBIH Group.

For this fiscal year, revenue from operational investment securities decreased by 77.9% to ¥11,804 million. This was mainly attributable to revenue from consolidated funds, and the inclusion of New Horizon Fund, L.P. results. Revenue from funds was down 8.4% to ¥1,120 million. This primarily represents management fees from the SBI Broadband Capital Fund and the SBI BB Media Fund.

(Investment Advisory Services and Other Businesses)

Operating revenues from investment advisory services and other businesses decreased 8.4% to ¥3,057 million primarily owing to the growth of income from investment trusts and in interest income from loans receivable.

### Brokerage & Investment Banking Business

(Securities Business)

Operating revenues in this business are 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.

Operating revenues decreased by 28.1% to ¥48,613 million. This revenue represents the operations of SBI SECURITIES Co., Ltd. (formerly SBI E\*TRADE SECURITIES Co., Ltd.) and SBI Liquidity Market Co., Ltd.

(Commodity Futures Business)

Operating revenues in this business consists of fees received from commodity futures transactions.

Revenue decreased by 37.2% to ¥568 million, all of which represents the operations of SBI Futures Co., Ltd.

### Financial Services Business

There are five components of revenue in this business. The marketplace business operates Japan's largest comparison and estimate portal websites 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 for the financial services industry.

Other businesses include financial information evaluations and consulting, primarily involving investment trusts and website evaluations and rankings. New businesses include the credit card business and the nonlife insurance business, and the life insurance business, which started operations on April 7, 2008.

Marketplace business revenue increased 11.3% to ¥4,737 million, financial products business revenue decreased 17.8% to ¥8,015 million, financial solutions business revenue increased 10.3% to ¥4,516 million, other businesses revenue increased 6.3% to ¥4,338 million, and new businesses revenue increased 219.1% to ¥1,008 million.

### Housing and Real Estate Business

There are three components of operating revenues in this business. The first is the real estate business, which basically includes real estate investments and real estate development projects. The second is the financial real estate business, which mainly represents the provision of long-term, fixed-rate housing loans and loans secured by real estate. The third is the lifestyle networks business. The main activities are the operation of websites for comparisons, searches and estimates of various products and services, and the sales and services for beauty care and health food products, women's accessories and other products.

Real estate business revenue decreased 66.7% to ¥18,353 million, financial real estate business revenue increased 17.3% to ¥7,892 million, and lifestyle networks business revenue increased 10.9% to ¥14,661 million.

### System Solution Business

Operating revenues in the System Solution Business over the fiscal year under review amounted to ¥6,354 million (¥322 million in the previous fiscal year), mainly consisting of contributions from SBI Net Systems Co., Ltd. (formerly C4 Technology, Inc.) and SBI Robo Corp.

\* Note that operating revenues by segment is represented prior to deducting inter-segment, internal operating revenues.

## Operating Costs

### Asset Management Business

The operating costs in the Asset Management Business during the fiscal year under review amounted to ¥10,333 million (down 73.0% year-on-year), mainly consisting of cost of operational investment securities including a valuation loss on operational investment securities.

### Brokerage & Investment Banking Business

The operating costs in the Brokerage & Investment Banking Business during the fiscal year under review amounted to ¥5,452 million (down 17.6% year-on-year), mainly consisting of financial costs such as interest expenses and rental fees incurred in loan and leasing transactions.

### Financial Services Business

The operating costs in the Financial Services Business during the fiscal year under review amounted to ¥14,276 million (up 8.5% year-on-year), mainly consisting of leasing costs.

### Housing and Real Estate Business

The operating costs in the Housing and Real Estate Business during the fiscal year under review amounted to ¥29,074 million (down 49.7% year-on-year), mainly consisting of cost of sales of real estate developed for sale.

### System Solution Business

The operating costs in the System Solution Business during the fiscal year under review amounted to ¥5,083 million (¥249 million in the previous fiscal year), mainly consisting of contributions from SBI Net Systems Co., Ltd. (formerly C4 Technology, Inc.) and SBI Robo Corp.

\* Note that operating revenues by segment is represented prior to deducting inter-segment, internal net sales.

### Selling, General and Administrative Expenses

During the fiscal year under review, selling, general and administrative expenses amounted to ¥62,885 million (down 2.7% year-on-year), mainly comprising of personnel costs and securities system consignment costs.

### Other Income (Expenses)

Net other loss was ¥20,536 million (net other loss of ¥13,788 million in the previous fiscal year) mainly owing to impairment losses of investment securities of ¥7,548 million, equity in loss of unconsolidated subsidiaries and affiliated companies of ¥2,508 million and interest expense of ¥2,450 million.

## Cash Flows

Cash and cash equivalents totaled ¥126,313 million at the end of March 2009, a net decrease of ¥32,694 million compared with the balance of ¥159,007 million at the end of March 2008. The equity ratio increased by 13.0 points to 32.8% compared with 19.8% in the previous fiscal year.

The following is a summary of cash flows.

### Operating Activities

Net cash provided by operating activities amounted to ¥103,035 million (net cash provided in the previous fiscal year amounted to ¥50,074 million). This is mainly due to ¥108,341 million in net changes in margin transaction assets and liabilities despite decreasing factors such as a ¥16,132 million loss before income taxes and minority interests and changes in operational investment securities resulting in a ¥20,646 million expense.

### Investing Activities

Net cash used by investing activities amounted to ¥1,104 million (net cash used in the previous fiscal year amounted to ¥20,610 million). This is mainly due to ¥7,345 million in purchases of investment securities, ¥5,621 million in investments in subsidiaries and ¥4,636 million in net changes in loans receivable despite increasing factors such as ¥19,341 million in proceeds from sales of subsidiaries' stock associated with a change in the scope of consolidation as a result of the sale of E\*TRADE Korea Co., Ltd. stock.

### Financing Activities

Net cash used by financing activities amounted to ¥137,515 million (net cash used in the previous fiscal year amounted to ¥9,957 million). This is mainly due to factors such as ¥108,366 million in bond redemptions.

## Risk Information

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

### **Impact of Changes and Other Events in the Operating Environment**

The SBIH Group is engaged in a diverse range of businesses that include investments, housing and real estate, financial instrument trading, proprietary trading system, banking, insurance, housing loan, and leasing businesses. Accordingly, there is a possibility that trends in such related markets as the stock markets, money markets, foreign exchange market and real estate markets as well as political, economic and industry trends may have a significant impact on the SBIH Group. Therefore, such external factors over which the SBIH Group has no control could cause changes in business results and have a major impact on the SBIH Group's overall business results. Furthermore, the Company's business results may experience substantial fluctuations in the event that investment gains/losses are concentrated in certain time periods.

Additionally, governments, government ministries and agencies, as well as various financial markets are proceeding with system reforms and amendments to laws concerning stock markets and other markets related to the SBIH 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 SBIH Group's business results.

### **Competition**

The SBIH 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 new participants continue to enter these fields. Consequently, there is no assurance that the SBIH Group can remain competitive in the event of excessive competition that exceeds market growth. The SBIH Group will continue to endeavor in its efforts to maintain and increase its current competitive business advantages. However, the emergence of strong competitors could cause the SBIH Group to lose its dominant position, and therefore have an impact on its business results.

### **System Risk**

The SBIH Group extensively utilizes the Internet in carrying out its businesses. Since a large portion of business activities depend on computer systems, the SBIH Group has devised various countermeasures that include the build-up of backup computer systems. Nevertheless, the SBIH Group's business results may 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, the SBIH Group recognizes that ensuring the stability of its system for online transactions is the most crucial management issue. The SBIH 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 SBIH Group's systems and support structure. This, in turn, may result in the loss of a large number of customers.

The businesses in which the SBIH Group is engaged involve various intellectual property rights such as patent rights and copyrights. The inadequate safeguarding of the SBIH Group's intellectual property rights or the lack of proper licensing for the use of intellectual property rights owned by a third party may complicate technological development efforts or the provision of services.

### Investment Risk

In the Asset Management Business, the portfolio companies of the investment associations managed by the SBIH Group include numerous emerging companies and companies undergoing restructuring. These companies face numerous challenges regarding their future performance, resulting in the possibility of a change in the business results of these portfolio companies 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, or the failure of portfolio companies to disclose crucial information.

In the Real Estate Business, the SBIH Group conducts 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.

In addition, investment activities outside Japan may be affected by changes in local economies, politics and legal systems, terrorism, or unforeseen social unrest. The SBIH Group is thoroughly studying and analyzing conditions in other countries in order to reduce exposure to country risk. However, since it is difficult to completely avoid the effects of these risks, the occurrence of any of these problems may have an impact on the SBIH Group's business results.

### Protection of Personal Information

By extensively utilizing the Internet, the SBIH Group carries out wide-ranging business activities that include Financial Services, Real Estate and Lifestyle Networks businesses. In the course of these activities, the SBIH Group obtains and uses information on numerous customers. The SBIH Group is engaged in financial service businesses, including the recently started banking and insurance operations. Since financial service

businesses demand confidence, stability and safety, the SBIH Group believes that preventing damage from leaks of customer information and unauthorized access is extremely crucial. The SBIH Group thus recognizes that information security is its most crucial issue for ensuring that customers may use its services with confidence.

The SBIH Group has established an internal management structure, and is constantly working on making improvements for the purpose of complying with Japan's Personal Information Protection Act and associated regulations. In the event of a violation of a law or regulation at the SBIH Group, or an information leak, the resulting loss of trust among customers and other consequences may have an impact on the SBIH Group's business results.

### Business Reorganization

As a "Strategic Business Innovator," one of the SBIH Group's basic policies is to perpetuate "Self Evolution."

During the fiscal year under review, SBI E\*TRADE SECURITIES Co., Ltd. changed its trade name to SBI SECURITIES Co., Ltd. in July 2008 and became a wholly owned subsidiary of the SBIH Group through a stock swap in August of that year.

Further, SBI Futures Co., Ltd. abolished its commodities transactions brokerage business in July 2009 and became a wholly owned subsidiary of the SBIH Group through a stock swap in August of that year.

Going forward, the SBIH Group will actively expand its business portfolio by taking actions that include M&A activities in fields that can produce synergies with the SBIH Group's core businesses. Nevertheless, despite sufficient prior investment analysis and detailed diligence, there is a possibility that this business reorganization and expansion in the range of business activities may have unanticipated results that impact the SBIH Group's business results.

In the fiscal year that ended in March 2007, the SBIH 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 SBIH Group began treating as consolidated subsidiaries several funds that the SBIH Group manages.

Therefore, all assets, liabilities and other items at these funds are now included in the consolidated balance sheets 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 through this 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 SBIH Group's ownership. An adjustment is made through minority interests in net income for the portion of revenues and expenses corresponding to external investors.

Consequently, the above changes caused by the application of "Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations" must be taken into consideration when comparing the SBIH Group's consolidated financial condition, and results of operations in past fiscal years.

### Entering New Businesses

Based on the management principle of "Aiming to Be a New Industry Creator," the SBIH Group is aggressively creating and cultivating core industries of the 21st century. The SBIH Group is entering a broad spectrum of new businesses. However, an inadequate risk management system may prevent a business from operating as planned. Furthermore, the inability of new businesses to attain initially forecasted targets, or the failure to achieve sufficient future profits commensurate with initial investments may have an adverse impact on the SBIH Group's business results. In addition, these new businesses could become subject to new laws or placed under the guidance of regulatory authorities. Subsequent violations of such laws with any resulting administrative actions, or other punishment could impede the performance of these businesses.

### Status as a Financial Conglomerate

The SBIH Group is classified as a financial conglomerate as defined by regulations of the Financial Services Agency. As a result, the SBIH Group is further strengthening its risk management and compliance systems in order to maintain financial soundness, and to conduct business activities properly. However, if the SBIH Group is subject to an administrative action or

other punishment by the Financial Services Agency, for whatever reason, the SBIH Group may have difficulty conducting its business operations.

### Funding Liquidity Risk

The SBIH Group secures the funds required for its business operations by procuring equity capital from capital markets, taking out loans from financial institutions, issuing bonds, and taking other actions. The SBIH Group's ability to procure funds at the required time and desired terms may be restricted, and the cost of fund procurement may rise in the event of turmoil in financial markets, the reluctance of financial institutions to extend credit, a reduction in SBI Holdings' credit rating, or other events. Such events may have an impact on the SBIH Group's business results.

### Reliance on Key Personnel

The SBIH 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 SBIH Group's business activities, there could be an adverse impact on the SBIH Group's business results.

### Employees

The SBIH Group has always hired talented personnel under its management, which possesses strong leadership capabilities, however, its results may be negatively impacted should the continuous hiring of such personnel be rendered impossible.