Management Discussion and Analysis

Analysis of Business Results for the Fiscal Year

During the fiscal year ended March 31, 2011, the business environment surrounding the Group continued to be severe as individual stock brokerage trading value in the domestic equity market declined 16.3% year-on-year and the number of IPO companies remained at a low level, although the number increased by 4 from a year earlier to 23. Meanwhile, overseas, markets of emerging countries with high growth expectations continued to be relatively steady despite showing signs of instability at times affected by global conditions, and the world's IPO market continues to recover, driven by China and Hong Kong. Under these circumstances, the Group's consolidated results of operations in the fiscal year ended March 31, 2011 were as follows. Net sales increased 13.3% year-on-year to ¥141,081 million, operating income climbed 160.3% to ¥8,932 million, ordinary income surged 216.8% to ¥3,525 million, and net income increased 93.0% year-on-year to ¥4,534 million. Amid the harsh business environment, we achieved higher income and profit than the results of the previous fiscal year.

Asset Management Business

In the Asset Management Business, net sales increased 52.1% year-on-year to ¥30,701 million and operating income surged 276.5% year-on-year to ¥9,577 million. Amid a continued tough business environment although the number of new companies listing on domestic stock markets increased from a year earlier, and the number of IPOs and M&As with which the Asset Management Business was involved increased from 11 in the previous fiscal year to 17, given that these activities took place primarily overseas where stock markets have been recovering ahead of domestic markets. In addition, NEW HORIZON FUND, L.P., which invests in unlisted stocks in China, contributed ¥3,325 million in operating income to the Group. Aggressive investments made in China and other emerging Asian countries since 2005 have paid off and are now generating significant profit. The Company believes that a lingering difficult business environment with weak stock market performance actually offers an ideal opportunity to make new investments, and the Company has taken advantage of the drop in investment costs since the Lehman Shock to continue investing aggressively. During the fiscal year ended March 31, 2011, funds managed by the Group invested ¥50,579 million, and together with direct investments of ¥13,856 million, investments by the Group amounted to a total of ¥64,435 million. The number of investees totaled 185 companies.

Brokerage & Investment Banking Business

In the Brokerage & Investment Banking Business, net sales declined 4.5% from the previous fiscal year to ¥47,873 million and operating income decreased 34.7% year-on-year to ¥6,123 million. The business environment remained harsh with individual stock brokerage trading value continuing to slide. However, SBI SECURITIES Co., Ltd. maintained favorable performance, adding 155,960 new customer accounts during the fiscal year ended March 31, 2011, and the number of accounts totaled 2,209,946 at year-end. The consolidated performance of SBI SECURITIES Co., Ltd. for the fiscal year ended March 31, 2011 resulted in net sales of ¥44,077 million, down 4.4% year-on-year and operating income of ¥9,896 million, down 20.5% year-on-year, due to the decline in brokerage commissions caused by the fall in individual stock brokerage trading value, although revenues relating to the investment trust business increased as a result of favorable sales of investment trusts and revenues from trading increased backed by higher sales of foreign bonds. At SBI Liquidity Market Co., Ltd., which began operations in November 2008, trading value has remained at a high level even after the introduction of leverage restrictions in August 2010. Non-consolidated results of the company for the fiscal year ended March 31, 2011 were operating revenue of ¥9,493 million and operating income of ¥1,991 million.

Financial Services Business

In the Financial Services Business, we recorded higher revenues again, and net sales increased 19.2% year-on-year to ¥30,530 million as a result of favorable performance of listed subsidiaries, SBI VeriTrans Co., Ltd. and Morningstar Japan K.K. However, operating losses in the consumer credit and card business had a material impact as a result of which the Financial Services Business segment recorded an operating loss of ¥536 million.

At SBI Sumishin Net Bank, Ltd., an affiliate accounted for under the equity method, the total deposit balance as at March 31, 2011 was ¥1,552.4 billion and the number of accounts topped 1 million in February 2011 and 1,049,000 in March 2011. These results significantly exceeded the initial plan, and consequently, the Bank recorded non-consolidated net income of ¥3,528 million, up 52.3% year-on-year.

Housing and Real Estate Business

In the Housing and Real Estate Business, which is comprised of the real estate business, the financial real estate business and the lifestyle networks business, net sales increased 36.8% year-on-year to ¥23,467 million and operating income surged 286.4% year-on-year to ¥3,370 million. While the domestic real estate market has yet to show full-fledged recovery, sales of small and mid-size properties to wealthy individuals and other investors are on the rise. Under such circumstances, SBI Mortgage Co., Ltd. continues to offer "Flat 35," a long-term fixed interest rate housing loan product, in partnership with the Japan Housing Financing Agency, through over 100 "SBI housing loan shops/SBI Money Plaza" nationwide at the lowest rates in the industry. As a result, the company has been building up its loan balance, which exceeded ¥900 billion as of March 31, 2011. The company's non-consolidated net sales amounted to ¥9,555 million and operating income was ¥2,888 million.

Selling, General and Administrative Expenses

During the consolidated fiscal year, selling, general and administrative expenses amounted to ¥64,613 million, up 4.3% year-on-year, and consisted primarily of personnel expenses and securities system outsourcing costs.

Non-operating Income

Non-operating income for the consolidated fiscal year amounted to ¥1,186 million, up 0.1% year-on-year. This was primarily interest income and dividend income.

Non-operating Expenses

Non-operating expenses rose 88.1% from the previous consolidated fiscal year to ¥6,593 million, consisting primarily of interest expenses and foreign exchange loss.

Extraordinary Income

During the consolidated fiscal year, extraordinary income rose 189.0% year-on-year to ¥10,018 million. This was mainly gains on sales of investment securities.

Extraordinary Expense

Extraordinary expense increased 121.8% from the previous consolidated fiscal year to ¥8,113 million. This consisted primarily of provision of allowance for doubtful accounts.

Operating Revenues by Segment

	Year Ended 31 March 2010 (From 1 April 2009 to 31 March 2010)		Year Ended 31 March 2011 (From 1 April 2010 to 31 March 2011)	
Segment	Millions of Yen	%	Millions of Yen	%
Asset Management Business	¥ 20,189	16.2	¥ 30,701	21.8
Investment in Securities	17,374		28,475	
Revenue from Operational Investment Securities	16,103		27,127	
Fees from Funds	1,270		1,348	
Investment Advisory Services Fees and Others	2,815		2,225	
Brokerage & Investment Banking Business	50,122	40.2	47,873	33.9
Financial Services Business	25,605	20.6	30,530	21.6
Marketplace Business	5,733		5,699	
Financial Products Business	8,462		9,300	
Financial Solutions Business	5,519		8,309	
Other Businesses	5,890		7,220	
Housing and Real Estate Business	17,153	13.8	23,467	16.6
Real Estate Business	6,522		10,320	
Financial Real Estate Business	9,110		11,646	
Lifestyle Networks Business	1,520		1,500	
Sub-total	¥113,071	90.8	¥132,573	93.9
Others	16,889	13.6	15,631	11.1
Inter-segment revenues	(5,419)	(4.4)	(7,122)	(5.0)
Net sales	¥124,541	100.0	¥141,081	100.0

(Note) The "Others" column includes revenues in businesses not determined as reportable segments.

Cash Flows

As of 31 March 2011, total assets stood at ¥1,293,606 million, up ¥63,666 million from ¥1,229,939 million at the end of the previous consolidated fiscal year. Net assets amounted to ¥456,982 million, up ¥28,367 million from a year earlier, owing primarily to the issuance of new shares under an offering in which the payment date was 23 June 2010.

Cash and cash equivalents as at the end of the consolidated fiscal year totaled ¥148,786 million, up ¥6,204 million compared with the balance of ¥142,581 million a year earlier. The following is a summary of cash flows and underlying factors.

Net Cash Used in Operating Activities

Net cash used in operating activities totaled ¥742 million, compared with net cash used of ¥53,134 million in the previous consolidated fiscal year. This mainly reflected the cash outflow of ¥35,988 million for increase in operational investment securities and of ¥18,000 million for increase in cash segregated as deposits against the cash inflow of ¥26,760 million for increase in guarantee deposits received, of ¥6,341 million for increase in deposits from customers, and of ¥4,962 million for increase in margin transaction assets/liabilities.

Net Cash Used in Investing Activities

Net cash used in investing activities totaled ¥16,642 million, compared with net cash used in the previous consolidated fiscal year of ¥15,563 million. This was mainly attributable to cash outflows of ¥13,621 million for purchases of investment securities, and ¥22,069 million for payments of loans receivable, despite cash inflows of ¥11,212 million for proceeds from sales of investment securities, and of ¥15,496 million in collection of loans receivable.

Net Cash from Financing Activities

Net cash from financing activities totaled ¥25,154 million, compared with net cash from financing activities in the previous consolidated fiscal year of ¥84,599 million. This mainly reflected cash outflows of ¥113,100 million for redemption of bonds payable despite the cash inflow of ¥71,019 million for proceeds from issuance of bonds payable, an increase in short-term loans payable in the amount of ¥39,259 million, and proceeds from stock issuance of ¥35,698 million.

Note: Forward-looking descriptions provided herein are based on judgments of the Company as of June 29, 2011.

Business Plan

The Group has completed the creation of a business structure in Japan as a comprehensive financial conglomerate centered on Internet-based financial services. Overseas, the Group has been rapidly expanding its investment business and establishing an investment framework primarily in Asian countries with remarkable growth.

Going forward, we will aggressively promote further expansion of our overseas investment business and provide local foreign financial institutions we invest in with innovative know-how on Internet financial services fostered through our businesses in Japan. By so doing, we expect to become a comprehensive financial group that can make contributions globally with a focus on Asia.

The Company became the first listed company in Japan to be listed on the Main Board of the Hong Kong Exchanges and Clearing Limited on 14 April 2011. We will maximize this opportunity to enhance our credibility and recognition in Asia to further develop businesses of the Group.

In Japan, we will accelerate growth as a provider of diverse low-cost, high-quality financial products and services by effectively taking into account the growing sentiment among consumers to cut back on their spending and the increased use of the Internet for executing various financial transactions, and further provoking synergistic effects among businesses we have developed in the Group.

In the Asset Management Business, we recognize that a high priority lies in expanding our investments in emerging countries, primarily in Asia, and establishing an effective investment system. The Company will pursue setting up funds jointly with our leading local partners while monitoring the economic conditions of such countries as we continue to push establishment and penetration of our global network. We pursue private equity investment by identifying targets and concentrating our investments in growth areas in the aim to contribute in developing industries while benefiting from high investment performance. The Group will continue to invest in four key areas of IT, biotechnology, environment and energy, and finance going ahead. In the financial sectors, we will transfer the know-how of the Group and pursue direct investment in overseas financial institutions by which we can expect to enhance the value of corporations we invest in. The Group will also invest in and finance corporations of varying sizes and in different phases of development through operating buy-out and mezzanine funds. In undertaking these business activities, the Group will strive for further growth by continuing to aggressively utilize the resources both inside and outside of the Group and heightening the performance of the funds we operate as we promptly improve the corporate value of companies we invest in.

In the Brokerage & Investment Banking Business, we will aim to achieve greater growth even under unstable conditions in the Japanese stock markets. SBI SECURITIES Co., Ltd. will continue to expand its overseas product lineups and strengthen foreign exchange transactions and further enhance its call center operations that receive high recognition from evaluating agencies in heightening its service level even more. We will also promote integration of “net” and “real” channels and actively make use of the intermediary business to continue expanding the face-to-face channel while achieving effective cost reductions. Furthermore, in the aim to maximizing synergies within the financial conglomerate, the Company will tighten grips with financial companies in the Group, in particular with SBI Sumishin Net Bank, Ltd., to develop the Group’s Internet-based one-stop financial service system. In the consolidated fiscal year, PTS (proprietary trading system) of high public nature operated by SBI Japannext Co., Ltd. posted a considerable increase in trading value. Going forward, we will aim to handle a greater trading value by primarily increasing participants and improving liquidity. SBI Liquidity Market Co., Ltd., which began operation in November 2008, provides liquidity and market infrastructure for FX transactions to SBI SECURITIES Co., Ltd. The firm will make improvements to the transaction environment, enhance liquidity as well as provide services to parties outside of the Group in the aim to further diversify sources of revenue in this business.

In the Financial Services Business, we established SBI Sumishin Net Bank, Ltd., SBI Insurance Co., Ltd. and other new companies during 2007 and 2008 for undertaking new businesses in our aim to build an earnings structure that does not depend solely on stock markets. It is our key objective to further develop these businesses by provoking stronger synergistic effects among Group companies. In the Marketplace Business centered on the operation of comparison websites such as “InsWeb” and “E-LOAN,” we must continue to expand our service lineups including enhancing content and improving functions. Additionally, in striving for higher growth, we see the need to push development of Morningstar Japan K.K., which continues to expand its services and channel offerings, supported by growing asset management needs, and SBI VeriTrans Co., Ltd., that has begun moving ahead with the Chinese business on the backdrop of the expansion in EC and credit card markets.

In the Housing and Real Estate Business, we will pursue real estate development, while monitoring market conditions, through making efforts to capture business opportunities and to diversify and stabilize revenues. In the financial real estate category, SBI Mortgage Co., Ltd. has established its own brand as a provider of housing loans with low, all-term fixed interest rates. We will continue to enhance "SBI Money Plaza," a franchise-based face-to-face channel, to continue attracting customers and increasing loan drawdowns. In the lifestyle networks business category, we are determined to focus our efforts in operating brokering sites to provide useful, attractive services in assisting consumers at every stage and major event of their lives.

With a view to making a big step forward in our overseas business activities by further spurring synergies among companies within the Group, we will pursue our "Pentagon Management" strategy for the financial services business as follows:

1. Position five core businesses from the Group's financial business ecosystem, which are securities, banking, nonlife insurance, life insurance and payment settlement services
2. Aim for exponential growth of the overall Group by driving interactions and provoking synergistic effects among core businesses.
3. With each of the core businesses in the center, place related companies and businesses as support functions around the businesses, and persist in promoting synergies among the core businesses to differentiate the Group from competing companies and stretch growth.
4. Expand "SBI Money Plaza" and other "real" channels nationwide as the infrastructure business that accelerates growth of the five core businesses and promote harmony between "net" and "real" channels. Simultaneously provide a selection of competitive products to customers by taking a "neutral position" regardless of being inside or outside the Group to become "Japan's largest financial products distributor."
5. Transfer the systems and know-how of the Group's core businesses accumulated in Japan to emerging countries in accordance with the phase of economic development to develop the financial services business in those countries.

Furthermore, in July 2010, the Group launched a concept called the "Brilliant Cut Initiative." By modeling the Group companies and businesses on facets of a diamond, namely a "58 brilliant-cut diamond," known to be the brightest and the most beautiful with each of the facets giving the best shine when cut this way. The 58 major companies and business entities of the Group's business ecosystem reflect the 58 facets of a brilliant-cut diamond, which together shine most beautifully as one. In the aim to give out the best shine as a Group, we will pursue the "Brilliant Cut initiative" in shifting our management emphasis from the traditional group-wide expansion to profitability.

Under the "Brilliant Cut Initiative" we will pursue the following three basic policies in the next three years:

Companies and businesses in the black:
Further expand profits through the pursuit of mutual synergies

Companies and businesses in the red:
Aim to be in the black within the next three years (for companies to be newly founded, in three years after establishment) by making effective use of Group resources and more aggressively pursuing Group-wide synergies

*Any company or business not expected to be in the black will be dissolved or sold as a general rule.
—New establishments: With the exception of companies currently in the process of founding, no new business company will be established.

—Acquisition: Limited only to profitable companies and cases that can be expected to promote strong synergies with the existing companies in the Group's business ecosystem.

The Group recognizes that continuous enhancement of human resources is an essential Group-wide initiative. It has become increasingly important to secure highly competent individuals that support the rapid expansion of our businesses and to continue developing the skills of our employees. For this purpose, we have been exerting greater efforts in hiring excellent individuals who are willing to share the management philosophy of the Group as well as recruiting university graduates to secure human capital for passing on the Group's unique corporate culture from one generation of employees to the next. The initiative of recruiting university graduates that began in April 2006 has resulted in individuals with the potential to advance to senior executive positions to already contribute strongly in key positions of the organization. We will continue to secure highly competent and global-oriented human resources and promote career development of our staff in pursuing perpetual growth and development of the Group.