

Management's Discussion & Analysis

Analysis of Business Results for the Fiscal Year

Asset Management Business

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

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

Brokerage & Investment Banking Business

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

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

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

Financial Services Business

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

Operating Revenues by Segment

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

Operating Revenues

1) Asset Management Business

Investment in Securities

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

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

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

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

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

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Housing and Real Estate Business

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

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

Revenue from Investment Advisory Service Fees and the like

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

2) Brokerage & Investment Banking Business

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

Revenue from Securities Transactions

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

Revenue from Commodity Futures Transactions

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

3) Financial Services Business

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

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

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

Operating Costs

1) Asset Management Business

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

2) Brokerage & Investment Banking Business

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

3) Financial Services Business

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

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

Selling, General and Administrative Expenses

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

Other Income (Expenses)

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

Cash Flows

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

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

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

Cash Flows from Operating Activities

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

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

Cash Flows from Investing Activities

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

Cash Flows from Financing Activities

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

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

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Risk Information

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

(1) Impact of Changes in the Business Environment

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

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

(2) Competition

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

(3) System Risk

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

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

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

(4) Investment Risk

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

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

(5) Protection of Personal Information

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

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

(6) Business Reorganization

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

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

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

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

(7) Entering New Businesses

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

(8) Reliance on Key Personnel

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