Analysis of Business Results for the Fiscal Year

In the business environment surrounding the SBI Group during the fiscal year, corporate profits, employment and income all improved in Japan, along with general signs of a recovery in household consumption. Meanwhile, legislation that reduced taxes in the U.S. provided some stimulus, and this created favorable conditions for the stock market, leading to a November rise in the Nikkei stock average to above the JPY 23,000 mark for the first time in 26 years. However, concerns then appeared, as long-term interest rates rose in the U.S. and international trade frictions deepened, which caused instability to appear in stock prices and foreign exchange rates. The economic outlook remained uncertain, and there were severe price movements in the markets. Overseas, along with uncertainties surrounding the U.S. administration's policy actions and monetary policy, the Chinese economy had a moderate slowdown, and political worries surfaced in the Middle East. On the other hand, consumption and investment were stimulated by the major tax reform in the U.S., raising prospects for an economic expansion. Under these circumstances, our business performance for the fiscal year consisted of a 28.7% year-on-year increase in revenue to ¥337,017 million, a 66.5% increase in profit before income tax expense to ¥71,810 million, and a 43.8% increase in profit for the year attributable to owners of the Company to ¥46,684 million.

Financial Services Business

The Financial Services Business revenue rose 20.7% year-on-year to ¥217,272 million, and profit before income tax expense rose 30.6% year-on-year to ¥63,888 million.

At SBI SECURITIES Co., Ltd., the total number of accounts at the end of the fiscal year rose by 422 thousand as compared to the previous fiscal year, to approximately 4,260 thousand accounts, as healthy expansion of the customer base continued. In terms of performance, brokerage commissions for the company increased 21.3% from the previous fiscal year, due to the strong performance of a 22.4% increase in the total individual stock brokerage trading value for Japan's two markets (TSE and NSE). Also, as a result of a solid expansion in balances for margin trading and investment trusts, financial revenues and investment trust fees had a substantial increase. As a result of these factors, profit before income tax expense (based on IFRSs) rose 39.7% year-on-year to ¥46,169 million.

SBI Insurance Co., Ltd. continued to see significant growth in the number of contracts for auto insurance, and a cost reduction effort led to an increase in profit before income tax expense (based on IFRSs) of 50.8% year-on-year to ¥199 million.

At SBI Sumishin Net Bank, Ltd., a company accounted for by the equity method, the number of accounts at the end of the fiscal year had a solid growth to 3,210 thousand accounts, and the deposit balance was ¥4,425.2 billion. As a result, investment income under the equity method was up 18.4% year-on-year to ¥3,770 million. The bank's consolidated earnings (based on JGAAP) consisted of a 5.6% year-on-year increase in ordinary revenue to ¥61,158 million, a 5.2% increase in ordinary income to ¥15,474 million, and a 5.8% increase in profit attributable to owners of the Company to ¥10,447 million. All three items represent record highs.

Asset Management Business

In the Asset Management Business, revenue rose 51.8% year-on-year to ¥117,572 million, and profit before income tax expense increased 307.6% to ¥56,491 million. In the fiscal year, there was a moderate rebound worldwide in the number of newly listed companies, with 79 companies in Japan (excluding the number of listings on the TOKYO PRO Market) newly listed. As for the Group's IPOs and M&A deals, there were five in Japan and eight overseas for a total of 13 investee company deals. Earnings in the overall Asset Management Business received solid contributions from the inclusion of a large profit arising from changes in fair value centered on FinTech-related portfolios invested through the FinTech Business Innovation Investment Limited Partnership (FinTech Fund), and from the completion of a stable revenue base through healthy increases in the balance of performing loans at SBI SAVINGS BANK of South Korea, which became a consolidated subsidiary in March 2013.

Biotechnology-related Business

In the Biotechnology-related Business, revenue fell 24.1% year-on-year to ¥4,199 million, and loss before income tax expense was ¥37,252 million, following a loss of ¥9,574 million in the previous fiscal year. Factors for the fiscal year loss was due to recognition of impairment losses of a total of ¥27 billion, which mainly comes from two of our entities. One was at Quark Pharmaceuticals, Inc., which revised its business plan with a focus on the upcoming IPO that the company is preparing for on the NASDAQ market in the U.S. The second was at Kubota Pharmaceutical Holdings Co., Ltd., a company accounted for under the equity method, and was made in light of the announced results of clinical trials for its drug development pipeline.

On the positive side, SBI Pharmaceuticals Co., Ltd., which oversees the core of the 5-Aminolevulinic Acid (5-ALA)-related business, achieved its second consecutive full-year profit. This result was enabled by the start of sales of "ALAGLIO® Divided Granules 1.5g" treatment for bladder cancer by Chugai Pharmaceuticals Co., Ltd. under domestic exclusive marketing rights that we provided, and by the out-licensing of pipeline drugs to Neopharma LLC, a pharmaceuticals manufacturer and distributor based in the United Arab Emirates (UAE), for the sale of drugs containing 5-ALA in the MENA and Indian regions. Also, SBI ALApromo Co., Ltd. capitalized on the start of sales in December 2015 of "ALAplus Tou (Sugar) Down," the first food with functional claims that contains 5-ALA, by increasing the number of stores handling 5-ALA related products. In addition, it started sales of foods with functional claims using non-5-ALA components, and enriched its product offerings with supplements containing 5-ALA. As a result, SBI ALApromo Co., Ltd. achieved its first full-year profit since its founding.

Cash Flows

As of March 31, 2018, total assets amounted to ¥4,535,964 million, an increase of ¥685,963 million from total assets of ¥3,850,001 million as of March 31, 2017. The Group's equity increased by ¥78,300 million to ¥493,824 million, from the fiscal year ended March 31, 2017. As of March 31, 2018, the Group's cash and cash equivalents amounted to ¥437,148 million, an increase of ¥45,576 million from that of ¥391,572 million as of March 31, 2017. The changes in cash flow for each activity, and the reasons for changes are as follows:

Operating Cash Flow

Cash flow from operating activities amounted to ¥33,235 million in net cash outflows (¥17,952 million in net cash outflows for the fiscal year ended March 31, 2017). The net cash outflows were primarily due to a ¥93,182 million cash outflow from an increase in accounts receivables, and other receivables and a ¥79,465 million cash outflow from an increase in operational investment securities, despite a ¥71,810 million cash inflow from profit before income tax expense, and a ¥49,015 million cash inflow from an increase in customer deposits in the banking business.

Investing Cash Flow

Cash flow from investing activities amounted to ¥7,881 million in net cash inflows (¥2,437 million in net cash inflow for the fiscal year ended March 31, 2017). The net cash inflows were primarily due to a ¥48,514 million cash inflow from proceeds from sales or redemption of investment securities, despite a ¥35,555 million cash outflow from purchases of investment securities.

Financing Cash Flow

Cash flow from financing activities amounted to ¥74,575 million in net cash inflows (¥159,467 million in net cash inflow for the fiscal year ended March 31, 2017). The net cash inflows were primarily due to a ¥140,025 million cash inflow from proceeds from issuance of bonds payable, and a ¥40,336 million cash inflow from proceeds from long-term loans payable, despite a ¥37,039 million cash outflow from redemption of bonds payable, a ¥31,180 million cash outflow from decrease in short-term loans payable and ¥28,261 million cash outflow from repayment of long-term loans payable.

Forward-looking descriptions provided herein are based on judgments of the Company as of the date of June 28, 2018.

Risk Factors

The Group's business and other risk factors that may potentially have significant influence on investment decisions are included below. From the point of information disclosure, the Group has also listed risk factors which may not completely match such investment decisions. 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.

Only risks from general businesses are included below. This section contains forward-looking statements, of which are judged as of June 28, 2018.

1) The Group's corporate structure, which consists of a large number of public and private companies in multiple business fields, exposes the Group to challenges not found in companies with a single business focus

The Group consists of portfolio companies operating in multiple industries, including Financial Services, Asset Management, Biotechnology-related Businesses, and other businesses. The Group also comprises of some publicly listed subsidiaries. Owing to the diverse characteristics of the portfolio companies, the Group faces challenges not found in companies with a single business focus. Specifically, the following three aspects can be sited:

- The Group is exposed to business, market and regulatory risks relating to different industries. Therefore, the Group must devote substantial resources to monitor changes in different operating environments, in order to react with appropriate strategies that fit the needs of the portfolio companies affected.
- Owing to the large number of portfolio companies involved, successful operation of the Group requires an effective management system that emphasizes accountability, imposes financial discipline on portfolio companies and creates value-focused incentives for management. As the Group continues to grow through acquisitions of businesses in an increasing number of diverse industries, its operations will become more complex, which increases the difficulty of implementing its management system.
- The portfolio companies in different operating segments may determine that it is in their respective shareholders' interests to pursue business ventures together. However there is no assurance that such business ventures will be successful or generate the synergies expected.

2) The Group's voting interests in its portfolio companies may be diluted

The Group's portfolio companies may become publicly traded, which will dilute the Group's voting interests in these entities. In addition, the Group's portfolio companies may from time to time need additional capital to achieve their growth strategy or other business objectives, and may issue additional shares or other equity securities to meet their capital needs. The Group may choose not to, or be unable to, subscribe for the securities offered in any such additional issuances by its portfolio companies. If the Group fails to subscribe for additional securities of a portfolio company on a pro-rata basis to its existing shareholding in such a company, the equity interest in the portfolio company will be diluted.

A dilution in the Group's equity interest in a portfolio company would reduce its share of the profits earned by such a portfolio company, which may have an adverse effect on its financial condition and results of operations. Further, if the Group's ownership is reduced significantly, it may cause its representation on such company's annual general meeting to be reduced, or otherwise reduce its ability to direct or influence the operations of that portfolio company.

3) Risks relating to the Internet business

Owing to the SBI Group businesses' providing services that mainly use the Internet, the Group makes the maximum effort to