E*TRADE JAPAN

07 ANNUAL REPORT 2007

For the Year Ended March 31, 2007

SBI E*TRADE SECURITIES Co., Ltd.

PROFILE

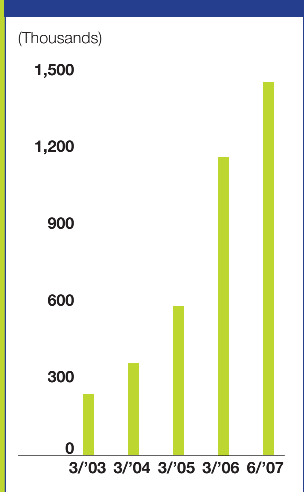
By operating as the on-line comprehensive securities company that offers the industry's lowest brokerage commission levels and highest service quality levels, SBI E*TRADE SECURITIES Co., Ltd., is working to achieve sustained growth in its business scale and enhance its corporate value.

SBI E*TRADE SECURITIES' Performance

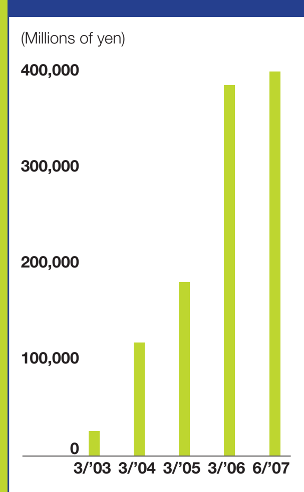
A core securities company in the SBI Group, which is expanding a broad array of financial businesses, SBI E*TRADE SECURITIES engages in five core businesses, including three financial businesses—"brokerage and investment banking," "asset management," and "financial services"—as well as two other businesses—"housing and real estate" and "lifestyle-related networks."

A pioneer in the field of on-line securities business in Japan, SBI E*TRADE SECURITIES is committed to a customer-oriented business philosophy that underlies its efforts to consistently offer the industry's lowest brokerage commission levels and highest service quality levels. This approach has enabled the Company to maintain its position as the top specialized on-line securities company in Japan in terms of customer account numbers, brokered trading value, and the value of assets in custody. In fiscal 2006, the Company's share of Japan's retail market reached the record high level of 29.4%.

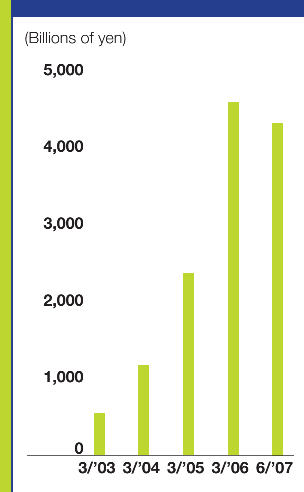
Number of General Securities Accounts



Average Daily Brokerage Trading Volume



Client Assets



Current and Future Business Strategies

Building on its overwhelming market share, SBI E*TRADE SECURITIES is focusing on expanding both brokerage business and investment banking business. During fiscal 2005, the Company participated in the underwriting of initial public offerings (IPOs) for 121 companies, or almost 60% of the total number of IPOs in Japan, making it the second most active securities company in terms of participation in IPOs, and the Company was the lead underwriter for the IPOs of 3 companies during fiscal 2006. In the future, plans call for the Company to prepare for the full-scale expansion of investment banking operations, including the provision of support for companies' post-IPOs and other corporate fund procurement measures by leveraging close cooperation with the SBI Group to provide diverse sophisticated services.

In October 2007, SBI E*TRADE SECURITIES is scheduled to merge with SBI Securities Co., Ltd., which has a network of 27 offices in Japan. Following the merger, the Company will utilize these real offices as a face-to-face marketing channel that facilitates marketing activities responsive to individual customers' special needs, the provision of additional services to corporate customers, and the progressive supplementation of various other resources in areas where on-line securities companies tend to have insufficient capabilities. The merged company will seek to create a new business model as a pioneering "Internet-based real securities company"— Japan's first on-line securities company to also operate a network of brick-and-mortar sales offices.

As Japan's leading on-line securities company, SBI E*TRADE SECURITIES will continue emphasizing the large-scale reduction of investment costs as well as the provision of appealing investment opportunities/products, an abundance of high-quality investment information, and transactional security. In these ways, the Company intends to help boost the profits of investors as it strives to maximize its own stock price and corporate value while also contributing to the development of financial markets and the invigoration of Japan's economy.

Forward-looking statements

This annual report contains statements about such topics as the Company's current plans, outlook, and strategies, and the portions of those statements that are not historical facts are forward-looking statements. In accordance with the Company's current management policies, these forward-looking statements are made based on currently available information and on assumptions that the Company judges to be rational. Consequently, the forward-looking statements are subject to diverse risks, including, but not limited to, risks related to economic trends in principal markets, trends in demand for services, and fluctuations in currency exchange rates. Because of these factors, actual results may differ greatly from those projected in this annual report.

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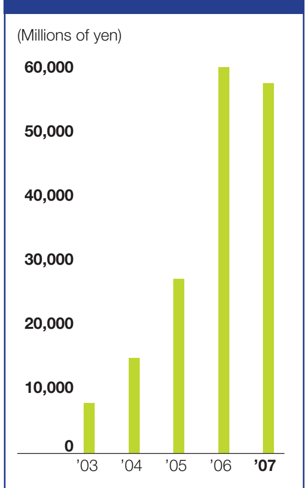
FINANCIAL HIGHLIGHTS

SBI E*TRADE SECURITIES Co., Ltd. (Former E*TRADE SECURITIES Co., Ltd.) and a Consolidated Subsidiary
Years ended March 31, 2006 and 2007

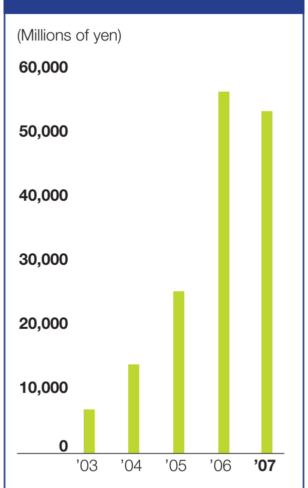
	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
At fiscal year-end:			
Total equity	¥119,851	**¥132,491**	**$1,122,330**
Total assets	957,337	**899,416**	**7,618,944**
Short-term bank borrowings	4,258	**22,512**	**190,699**
Cash used in operating activities	(58,371)	**(13,588)**	**(115,098)**
For the year:			
Operating revenues	60,214	**57,413**	**486,345**
Net operating revenues	56,317	**53,296**	**451,470**
Net income	16,971	**13,811**	**116,990**
	Yen		U.S. dollars
Per share:			
Net assets	¥37,751.31	**¥40,686.53**	**$344.66**
Basic net income	5,649.18	**4,365.31**	**36.98**
Equity ratio (%)	12.4	**14.4**	
Return on equity (ROE, %)	20.0	**11.1**	

Note: Yen amounts have been translated, for convenience only, at ¥118.05=US$1, the approximate exchange rate on March 31, 2007.

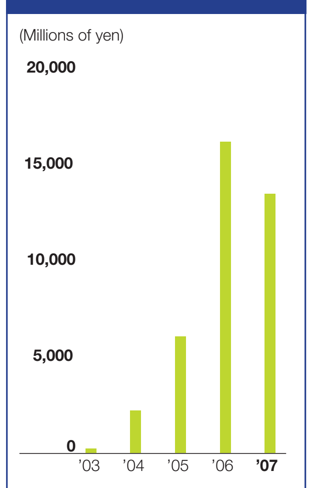
Operating Revenues



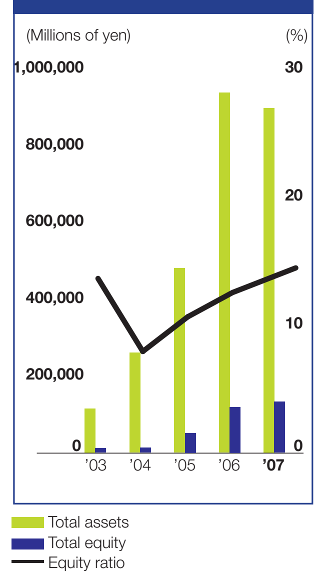
Net Operating Revenues



Net Income



Total Assets, Total Equity, and Equity Ratio



By operating as a comprehensive on-line securities company that offers the industry's lowest brokerage commissions and highest service quality, SBI E*TRADE SECURITIES aims to achieve sustained growth in its business scale and enhance its corporate value.

SBI E*TRADE SECURITIES is the core securities company of the SBI Group, anchoring the Group's brokerage and investment banking business as a comprehensive on-line securities company. The SBI Group is expanding in five core fields—the asset management, brokerage and investment banking, and financial services businesses in the financial sector and the housing and real estate and lifestyle-related networks businesses in non-financial sectors. Occupying an important space in the corporate ecosystem, the SBI Group aims to become Japan's largest financial products distributor and pursue more profitable opportunities and greater synergies through collaboration with other Group companies and foster competition-driven evolution throughout the Group.

Yoshitaka Kitao
Chairman

Taro Izuchi
President

A pioneer in the field of on-line securities brokerage, SBI E*TRADE SECURITIES is committed to a customer-oriented business philosophy. In keeping with this philosophy, we are working to materially reduce the cost of trading for our clients; provide attractive investment opportunities through our products; offer a large volume of high-quality investment-related information; and provide a secure, reliable transaction environment. This approach has helped make the Company into Japan's largest on-line securities company in brokerage operations with general securities accounts totaling 1,405,897 as of March 31, 2007. Likewise, we have been Japan's top-ranked securities company—including conventional securities companies with sales representatives that visit customers—by stock brokerage trading value for nine consecutive quarters since the fourth quarter of the fiscal year ended March 31, 2005. These achievements underscore the tremendous support we have received in securities markets. Moreover, our corporate business is expanding steadily. As of March 31, 2007, SBI E*TRADE SECURITIES had participated as an underwriter in the initial public offerings (IPOs) of 451 companies and was the lead underwriter in the IPOs of 4 of these companies.

To build on these achievements and expand our operational scale, we plan to merge with SBI Securities Co., Ltd., on October 1, 2007. The merger is aimed at deriving synergies from both on-line and face-to-face sales channels by combining SBI Securities' skilled sales force with SBI E*TRADE SECURITIES' strong on-line foundation, underpinned by the Company's dominant market share in Japanese stock markets. The merged company will seek to create a new business model as a pioneering "Internet-based real securities company—Japan's first on-line securities company to also operate a network of brick-and-mortar sales offices.

While working to maximize the benefits we provide investors, we also aim to increase the value of our shares and of the Company. In addition, we will continue to be an active contributor in developing financial markets and stimulating Japan's economy.

BUSINESS PHILOSOPHY

As a pioneering financial innovator, SBI E*TRADE SECURITIES has created a revolutionary business model centered on the Internet. Our aim is to provide high-value-added financial services based on our customer-oriented management philosophy. The Company also seeks to invigorate the Japanese economy by promoting greater stock market participation by ordinary Japanese and thereby help shift their financial assets from passive savings to market-linked investments.

SBI E*TRADE SECURITIES' mission is to provide customer-oriented financial services, and the Company is tirelessly working to further improve its services and realize still-higher levels of customer satisfaction.

THE SBI GROUP AT A GLANCE

SBI E*TRADE SECURITIES' parent company is SBI Holdings, Inc., which is the core enterprise of the SBI Group of companies.

The SBI Group focuses on five core fields—the asset management, brokerage and investment banking, financial services, housing and real estate, and lifestyle-related networks businesses. The Group is dynamically developing its operations in these core fields by working to realize synergies among Group member companies and aims to expand those operations on a global scale.

SBI E*TRADE SECURITIES plays a key role in the SBI Group's brokerage and investment banking segment as an on-line securities company that pursues business related to stocks, bonds, and other securities.

The SBI Group is studying ways to deliver innovative financial services, including the creation of an after-hours trading system through the establishment of SBI JapanNext Co., Ltd., and the launch of an Internet bank through a joint venture with Sumitomo Trust & Banking Co., Ltd. By offering new services formulated by the SBI Group, SBI E*TRADE SECURITIES is able to provide its clients with a suite of even more convenient services. The SBI Group also expects to expand its operations further through the effective use of the around 1.41 million client accounts held by SBI E*TRADE SECURITIES.

Retail

- Securities brokerage
- Public subscriptions and secondary offerings of securities
- Order placement and execution

SBI E*TRADE SECURITIES' main business fields include the brokerage of stock and other securities transactions through the Internet and telephone call centers; securities underwriting, public subscriptions, and secondary offerings of securities; as well as private placements of securities. Through these and other securities company operations, the Company seeks to provide financial services to its customers to assist them with their financial needs.

The Company offers a broad range of products and services that address diverse needs and enable individual clients to manage their assets in line with their unique investment goals.

In addition to offering attractively low commission fees, SBI E*TRADE SECURITIES is proactively working to upgrade and expand its order-placement systems so that it can augment the suite of products it offers to meet diverse customer needs and ensure that customers enjoy a stable transaction environment. Through measures consistent with its customer-oriented management philosophy, SBI E*TRADE SECURITIES has increased the value added of the services it provides as a comprehensive on-line securities company.

Principal Products

- Japanese Stocks
  - Spot transactions
  - Margin transactions (limited/general)
  - Odd-lot shares (numbering less than full trading units)
  - Initial stock listings (public offerings and secondary offerings)
  - Off-the-exchange placements
- Foreign Stocks
  - U.S. stocks
  - Chinese stocks
  - Korean stocks
- Investment Trusts
  - Equity investment trusts
  - Real estate investment trusts (REITs)
  - Money market funds (MMFs), Money reserve funds (MRFs), U.S.-dollar MMFs
  - Investment trusts with automatic monthly investment plans
- Bonds
  - Foreign bonds
  - Government bonds suitable for individuals
  - Corporate bonds
- Other Financial Products
  - Foreign exchange transactions on margin (E*TRADE FX)
  - Futures and options transactions
  - Covered warrants
  - Insurance
  - Real estate investment funds (anonymous associations)
  - Individual annuities

CORPORATE BUSINESS

Leveraging its overwhelmingly strong customer base in retail markets, SBI E*TRADE SECURITIES is expanding its underwriting of IPOs. As of the end of June 2007, the Company was the top-ranked specialized on-line securities company in terms of the number of IPOs underwritten. By strengthening collaboration with financial institutions positioned to refer potential IPO client companies, the Company is expanding its market-derived operations and aims to continue increasing the scale of its underwriting operations.

After the shares of IPO client companies have been listed, SBI E*TRADE SECURITIES continues to proactively provide those companies with follow-up financial services, such as post-IPO new stock issuances at market value and secondary offerings. The Company is also active in offering IPO client companies advice and proposals pertaining to their growth strategies, including M&A advisory services. In addition to adding retail outlets as a sales channel to the Company's operational platform, the October 2007 merger with SBI Securities will enable it to be more aggressive in making proposals aimed at helping client companies expand their operations, increase their competitiveness, and achieve other objectives.

In addition, SBI E*TRADE SECURITIES engages in off-the-exchange placements and other activities designed to meet the needs of listed companies seeking to increase their base of individual shareholders.

Q1 Could you briefly explain your earnings performance in fiscal 2006, ended March 31, 2007?

A1 Supported by a robust corporate earnings trend that goes back to fiscal 2005, the Nikkei Stock Average eclipsed ¥17,500 en route to a year-to-date high in April 2006 but then fell back to a year-to-date low in June due to the impact of persistently high crude oil prices and other factors. Japanese stocks rebounded sharply in February 2007, with the Nikkei topping ¥18,000, as a period of uninterrupted economic expansion, surpassing the 57-month "Izanagi" boom. Yet, soon after stocks tumbled worldwide, pulling the Nikkei back below ¥17,000 in March 2007.

Amid these stock market trends, SBI E*TRADE SECURITIES rolled out a special discounted commission campaign for the period between June 1 and August 31, 2006, followed by a permanent reduction of more than 30% in brokerage commissions from September 2006. These reductions were aimed at ensuring that we continue to offer the industry's lowest brokerage commissions coupled with the highest service quality.

Reflecting the unstable market environment, the Company reported declines in operating revenues and earnings as it could not fully absorb the slide in revenues from the sharp reduction in brokerage commissions. Even so, despite declines in brokerage trading value at other securities companies, our brokerage trading value was up about 10% year on year in fiscal 2006, clearly showing that the reductions to our brokerage commissions were generating greater trading volume. On the other hand, as a result of our efforts to offer our clients products, services, and a commission structure that realize even higher levels of customer satisfaction, our customer accounts and assets under management both increased, and our financial income surged 31.8% year on year, thanks to increases in capital and other competitive sources and the number of margin accounts. In the market for listing new shares, we were the lead underwriter for the IPOs of three companies, and our revenues from underwriting, public subscriptions, and secondary offerings were steady.

E*Trade Korea Co., Ltd., our on-line brokerage subsidiary in South Korea, listed on the country's KOSDAQ exchange in February 2007. The listing was a positive for our performance, as we booked an assessed gain of about ¥200 million on the sale of shares in our consolidated earnings.

As a result of the aforementioned trends, operating revenues fell 4.7% from the previous fiscal year, to ¥57,413 million; operating income dropped 18.2%, to ¥24,543 million; recurring profit declined 18.3%, to ¥24,571 million; and net income contracted 18.6%, to ¥13,811 million.

Q2 The businesses of securities companies seem to be invariably linked to market conditions. For SBI E*TRADE SECURITIES to create a business model that is immune to market swings, does the Company need to diversify its sources of profit by expanding its corporate businesses further rather than focusing on only its retail operations?

A2 Since our stock brokerage commission structure is the lowest in the sector, our brokerage business is active and more resilient to downswings in the stock market than that of our peers. While brokerage commissions accounted for 70%-80% of our profits in the past, the growth of our financial income and investment banking operations (underwriting, public subscriptions, and secondary offerings) has lowered our profit weighting from brokerage commissions to 55%. In our retail business, we have expanded beyond Japanese stocks into a broad array of financial products, including foreign stocks, investment trusts, bonds, foreign exchange transactions on margin, and futures and options. Our aim is to build a well-balanced earnings structure by increasing the ratio of profits we earn outside of stock brokerage. As part of our "Kuuzenzetsugo-no-dai-sakusen" (Biggest Discount Ever Campaign), in May 2007, we have reexamined our commission levels for products aside from Japanese stocks to make them the lowest in the industry, and we are working to expand brokerage transactions in products beyond domestic stocks.

Since we launched our Internet trading service, we have expanded our retail business, built up a dominant position as measured by investor traffic to our website, and captured a leading share of trading volume by offering low-cost trading as a specialist on-line securities company. As a second phase of expansion, we are now stepping up our efforts to

Taro Izuchi
President

become a comprehensive securities company. To build up our corporate business, we have focused on the IPO business and participated in the IPO syndicates of 121 companies in fiscal 2006. This equates to nearly 60% of the companies that newly listed their shares in fiscal 2006, and, on this basis, we ranked second among all securities companies operating in Japan.

Future Direction

Q3 SBI E*TRADE SECURITIES is to merge with Group company SBI Securities in October 2007. What is the aim of this merger? Also, will there be a shift away from a business model centered on on-line securities operations?

A3 The Company plans to merge with SBI Securities on October 1, 2007. The SBI Group has for some time made a point of harmonizing its on-line and brick-and-mortar securities operations, with SBI E*TRADE SECURITIES taking the lead in on-line trading and SBI Securities taking the lead in face-to-face sales. This approach has enabled SBI E*TRADE SECURITIES to achieve a dominant market share and expand beyond our origins in the on-line securities sector into a formidable presence in domestic stock markets as a whole.

We have, however, become convinced that a new business model is necessary for us to expand our earnings further while adding on the client base we have built through our on-line operations. We believe that adding SBI Securities' skilled sales representatives to our large client base in on-line trading will enable us to bolster sales of investment trusts and structured bonds (bonds and derivatives sold as packages), two product categories where expanding sales through the Internet alone has proved difficult. Moreover, the merger will enable the Company to broaden the suite of services it offers to include private banking and proposal marketing where our sales representatives provide detailed product explanations to clients in face-to-face visits. We are also looking into using seminars at sales offices and service desks that help customers with application forms and other account opening procedures as channels to expand our base of on-line brokerage accounts.

In its corporate business, the Company has focused on investment banking (underwriting, public subscriptions, and secondary offerings) and captured a substantial share in the IPO underwriting business by using on-line channels, but there are limits to using the Internet for raising funds in post-IPOs since the period to confirm buyer interest (the application period) is much shorter than that for IPOs so as to restrict price fluctuation risk. Merging with SBI Securities, however, will enable the Company to step up its efforts to expand its investment banking operations by giving it, for the first time, the marketing power of face-to-face sales channels.

The merger is also aimed at compensating for shortcomings in our specialist on-line securities operations—especially in community-based sales through a retail sales office network, personalized sales focused on assisting individuals with their unique financial needs, and our ability to cater to corporate clients. The post-merger company will consequently hire more sales representatives, offer products and services that deliver even higher levels of customer satisfaction, and work to improve its operating efficiency by eliminating settlement and other back-office functions at existing sales offices. We believe that adding a face-to-face sales channel to our dominant position in the on-line retail marketing channel will enable us to provide advanced services and create a new business model without precedent in the Japanese market.

Q4 Even with uneven market conditions, the flow of money from individual Japanese investors into stocks continues to grow, as a growing number of individual investors make on-line trades and Japanese households shift more of their financial assets from savings accounts into market-linked investments. Could you tell us how the Company plans to approach the retail market in the future?

A4 We seek to retain our top position in the on-line securities sector in client accounts, stock brokerage trading value, and assets under management by continuing to offer the lowest commissions in the industry combined with the highest level of service. To do this, we look to tighten our focus on our customer-oriented business philosophy as an on-line comprehensive securities company. Our share of total brokerage trading value for individuals climbed to a record-high 29.4% in the fiscal year ended March 31, 2007. We believe this shows our thorough commitment to a strategy of providing the lowest commissions has solidified our positioning within the on-line securities sector. Yet, even now we see scope to further reduce brokerage commissions for Japanese stocks, and the large market share we have built up gives us a substantial advantage in cost-competitiveness that our rivals cannot match. We believe this is evidence that our many endeavors to raise customer satisfaction have been well received by many individual investors.

In fiscal 2006, we lowered our stock brokerage commissions by more than 30%, and in May 2007 as part of our "Kuuzenzetsugo-no-dai-sakusen" (Biggest Discount Ever Campaign), we lowered our commissions and interest rates for eight different financial products, including odd-lot shares, Chinese shares, Nikkei 225 futures, Mini Nikkei 225 futures, Nikkei 225 options, and e-warrants. In addition, to reduce the number of lost opportunities for customers due to an inability to revise or cancel orders placed in real time, we started to phase in from February 2007 the acceptance of stop-limit orders, which many investors have sought for some time.

The Company announced in July 2006 the start of preparations for an after-hours trading system, and SBI JapanNext Co., Ltd., a venture SBI Holdings set up with capital participation from Goldman Sachs Group Inc., received official approval for such a system on June 27, 2007. SBI E*TRADE SECURITIES is preparing to participate in the after-hours trading system this venture is planning.

Group Synergies

Q5 As a member of the SBI Group, what kind of synergies does SBI E*TRADE SECURITIES expect to generate with other Group members?

A5 Our system enables SBI E*TRADE SECURITIES customers to have all their financial service needs met with products developed and provided by SBI Group companies, along with the preferential deployment of Group company resources toward this goal. It also positions us to meet the securities investment needs of the customers of other Group companies. This is the largest synergistic benefit of intra-Group cooperation. Eyeing entry into the fields of Internet banking, nonlife insurance, and life insurance, the SBI Group has agreed to establish Internet business ventures in those fields with Sumitomo Trust & Banking Co., Ltd., Aioi Insurance Co., Ltd., and Axa Japan Holding Co., Ltd., respectively. We intend to maximize Group synergies derivable from these alliances as we explore new ways to market nonlife and life insurance products. In particular, the SBI Group intends to establish a new Internet bank together with Sumitomo Trust & Banking Co., Ltd., in autumn 2007. One aim of this Internet bank venture is to integrate on-line securities services and on-line banking services. Once we obtain approval to operate as a bank agency, we believe SBI E*TRADE SECURITIES can create synergies together with this Internet bank by offering greater convenience to investors through the simplification of fund transfers and other measures.

SBI E*TRADE SECURITIES also expects to be a major beneficiary of the greater convenience offered by the after-hours proprietary trading system to be run by SBI JapanNext, as just mentioned, a venture SBI Holdings set up with capital participation from the Goldman Sachs Group. This system will allow for the extremely efficient operation of our business. As in the cases cited above, we seek to reinforce and expand our client base by maximizing the synergies we create with other SBI Group companies to achieve the Group's goal of becoming Japan's largest financial products distributor.

System Construction

Q6 For an on-line comprehensive securities company, the stable operation of systems relating to order placement and acceptance is a lifeline. Could you tell us how SBI E*TRADE SECURITIES is strengthening its systems?

A6 We are aware that the stable operation of our systems is of vital importance to our business as an on-line comprehensive securities company. In recognition of this, we have taken steps to increase the account management capacity of our system, first to 1.75 million accounts in May 2006 and then to 2.0 million accounts in July 2006. Two of the strengths of our systems are (1) the high level of system stability that can be maintained in emergency situations because we have set up data centers separately in different sites and manage our systems from multiple locations and (2) the relative ease with which we can bolster the robustness of our systems. In addition, we made TradeWin Co., Ltd., which is skilled in back-office system development, and Traders Financial Systems Co., Ltd., which is skilled in front-office system development, such as mobile services, into wholly owned subsidiaries through a stock swap in July 2007. This move enables SBI E*TRADE SECURITIES to branch into new services swiftly and adeptly through the creation of an even stronger IT system development structure. It also strengthens the Company's competitive position within the IT sector and makes sizable cost reductions possible, thereby further increasing its corporate value. In an environment where system development competition is expected to grow tougher, we expect SBI E*TRADE SECURITIES to benefit from the important advantages of improved cost-competitiveness as well as better quality and speed in system development.

Compliance

Q7 What is SBI E*TRADE SECURITIES doing with regard to internal compliance and promoting proper practices in securities markets?

A7 To strengthen its compliance systems, SBI E*TRADE SECURITIES has to date worked to promote compliance with all relevant laws and regulations throughout its operations by making improvements to organizational structures and Company rules and sponsoring employee training programs. Through these activities, we strive to retain the trust and confidence of our customers. The Company convenes routine weekly meetings on internal management as well as compliance, where members seek to grasp problems concerning compliance items, debate measures to address them, and decide on a course of action. The Internal Audit Committee also meets from time to time to reinforce management systems by keeping everyone well informed about the know-how obtained from efforts to grasp and resolve problems and key issues pertaining to compliance. Moreover, we established an internal audit department that is completely independent of all the Company's divisions and is responsible for verifying whether operational practices are appropriate and conform to relevant laws and regulations.

We also monitor customer trading and have installed an in-house developed trading oversight system. This system is able to quickly detect signs of potential market manipulation, and by doing so at an early stage, it makes it possible for us, in some cases, to eliminate such behavior before actual problems arise by holding meetings with the customers in question and warning them about the potential problems.

Taking into consideration organizational changes and the increase in accounts and transaction execution that will accompany our merger with SBI Securities, we recognize the importance of further strengthening and expanding our compliance systems, and we are prepared to make those efforts in a timely manner when needed.

Regarding Dividend Plans

Q8 Please tell us the Company's basic policy with regards to returning value to shareholders through profit distributions and other means?

A8 Our basic policy on this matter is to take the initiative in paying dividends while taking into full consideration such factors as our historical dividend payment record and our earnings performance while also paying close attention to the level of internal reserves needed for future business development and strengthening the Company's base. A regular cash dividend of ¥1,600 per share was paid for fiscal 2006, along with a special dividend of ¥100 per share to commemorate the listing of our subsidiary E*TRADE Korea on South Korea's KOSDAQ exchange. This represents an effective ¥100 per share increase in dividends paid from ¥1,600 in fiscal 2005. We aim to further expand our earnings so we can aggressively pay dividends to investors.

REDUCTION OF STOCK BROKERAGE COMMISSIONS IN FISCAL 2006

SBI E*TRADE SECURITIES ran a special discounted commission campaign for all stock brokerage transactions completed between June 1 and August 31, 2006, followed by a permanent reduction of brokerage commissions in September 2006. As a result, we offer our clients a groundbreaking brokerage commission structure, including no charge for trades of up to ¥100,000 under our Active Plan.

Moreover, as part of our “Kuuzenzetsugo-no-dai-sakusen” (Biggest Discount Ever Campaign), we lowered commissions and interest rates for eight different financial products, including odd-lot shares, Chinese stocks, Nikkei 225 futures, Mini Nikkei 225 futures, Nikkei 225 options, and e-warrants, in May 2007. These moves are aimed at providing an even more attractive investment environment for individual investors through a sweeping overhaul of our commission structure to help each of our clients accumulate assets in keeping with their lifetime financial plans by finding ways to assist individual investors with their diverse array of investment needs.

E*TRADE KOREA LISTS ON SOUTH KOREA’S KOSDAQ EXCHANGE IN FEBRUARY 2007

On February 21, 2007, our subsidiary E*TRADE Korea Co., Ltd., listed its shares on South Korea’s KOSDAQ exchange. E*TRADE Korea has grown steadily by providing on-line securities trading to clients in South Korea, and is targeting further growth as a comprehensive on-line securities company based in South Korea.

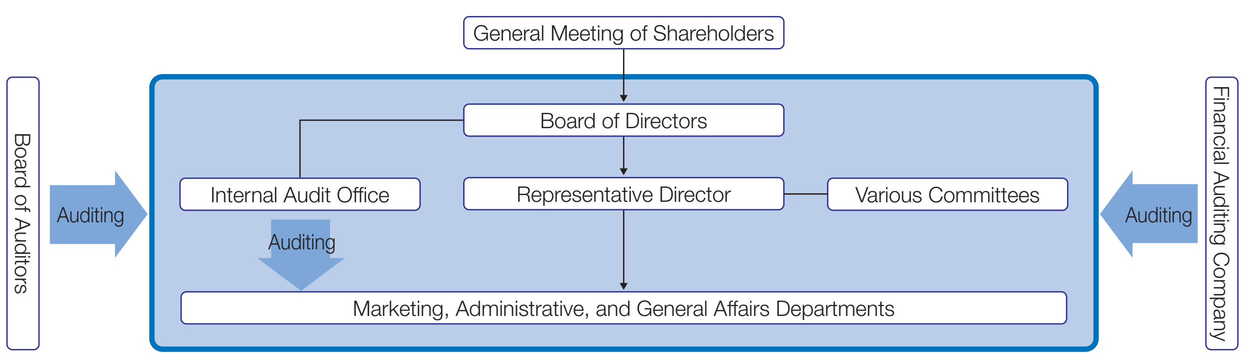
ACQUIRED IT SYSTEM SUBSIDIARIES IN JULY 2007

In July 2007, we acquired TradeWin Co., Ltd., which is skilled in back-office system development, with Traders Financial Systems Co., Ltd., which is skilled in front-office system development, like mobile services, through a stock swap. This combination enables SBI E*TRADE SECURITIES to branch into new services swiftly and adeptly through the creation of an even stronger IT system development structure, thereby enabling SBI E*TRADE SECURITIES to strengthen its competitive position within the IT sector and further increase its corporate value.

Our Basic Policy on Corporate Governance

Our basis position on corporate governance is as follows: "We recognize that companies cannot exist without employees, shareholders, customers, clients, and various other types of stakeholders and that each company must consider its capabilities for promoting the interests of each type of stakeholder. Companies are a means for all types of stakeholders to cooperatively thrive." Based on this conviction, SBI E*TRADE SECURITIES seeks to create a corporate governance system that strongly reflects the importance we place on "speed," "fairness," "transparency," and "a management posture that emphasizes the interests of shareholders." We aim to build closer relationships with our shareholders supported by constant two-way communication through our investor relations (IR) programs and general meetings of shareholders. In this way, management strives to be fully accountable to its stakeholders and inspire greater shareholder confidence. Moreover, SBI E*TRADE SECURITIES is working to promote compliance and to demonstrate the thoroughness of its compliance efforts via appropriate disclosure to all stakeholders.

Overview of Operational Execution, Supervision, and Internal Control Systems



CSR Activities

Companies are members of society and are able to operate as businesses precisely because of the existence of society. Therefore, unless companies contribute to the sustainable development of society, they will not be able to continue as going concerns. The SBI Group is acutely aware of the social context in which companies exist and aims to be a strong and respected corporate citizen by taking a proactive approach to corporate social responsibility (CSR) activities. As a member of the SBI Group, SBI E*TRADE SECURITIES will continue to play a role in the Group's CSR activities.

Bolstering Our Contribution through SBI Children's Hope Foundation

In making direct contributions to society, the SBI Group's basic policy is to donate an appropriate level of its earnings to child welfare facilities and other such programs. The Group is stepping up its direct contributions to society through active involvement in programs that address child welfare. One of the central planks of the Group's efforts thus far was setting up the SBI Children's Hope Foundation in October 2005 upon receiving approval from the Ministry of Health, Labour and Welfare.

Specific Actions Taken by SBI Children's Hope Foundation

Donations to Facilities

SBI Group companies donated a total of around ¥390 million in fiscal 2006 for programs aimed at improving the environment of welfare facilities that accept children who have been abused. Drawing on these funds, the SBI Children's Hope Foundation donated ¥259 million to 174 facilities.

Fiscal year	Amount donated (¥ million)	No. of facilities
FY06	259	174
FY05	155	105
FY04	167	173

In fiscal 2004, the SBI Children's Hope Foundation was active as a member of the SBI Group, and from fiscal 2005, it has been active as a foundation.

Our Efforts Aimed at Disaster Relief

SBI E*TRADE SECURITIES has developed a support structure to enable its clients to get back on their feet more quickly in the wake of earthquakes or other natural disasters. We also recently updated the standards applied to providing support to the victims of natural disasters. The Company is focusing on support for natural disaster sufferers as one part of its CSR programs.

Based on the standards we have drawn up for providing support to natural disaster victims, if clients living in districts recognized under the National Disaster Act as disaster zones reported that their registered personal seals were lost or that their marketable securities were harmed, we would take steps to accommodate and rectify these issues and post notice regarding such matters on our website as soon as possible. Moreover, to enable our clients to help those afflicted by a natural disaster, we added a menu with information on making transfers to disaster relief foundations under E*TRADE Points, our point program to promote customer loyalty. In addition, the Company considers on a case-by-case basis contributions to charitable concerns in an effort to do as much as it can to support natural disaster victims.

OVERVIEW

Throughout fiscal 2006, ended March 31, 2007, the Japanese stock market was supported by firmness of corporate profitability seen since the previous fiscal year. In April, the Nikkei average attained its highest level since the start of fiscal 2006, surpassing the ¥17,500 mark, but in June the impact of stubbornly high crude oil prices and other factors brought the average down to its lowest level since the start of fiscal 2006. The continuation of the current economic expansion, which surpassed the length of the Izanagi economic boom (November 1965 to July 1970) in November 2006, supported another uptrend in stock prices, which surged considerably in February 2007 and pushed the Nikkei average past the ¥18,000 mark. Soon afterwards, however, the worldwide stock price slump impacted the Japanese market and the Nikkei average fell below ¥17,000 in March. On the other hand, the net inflow of individual investor funds into the Japanese stock market that began in the previous fiscal year continued and expanded, pushing the aggregate value of stock trading on the First Section of the Tokyo Stock Exchange (TSE) to a new record high level in excess of ¥650 trillion. The shift of individuals' funds from savings to investments is expected to continue and further intensify, and it is anticipated that the number of individual investors engaging in on-line stock transactions will also grow. At the end of trading on March 31, 2007, the Nikkei average stood at ¥17,287, up approximately 1.3% from the end of the previous fiscal year.

Amid this operating environment, SBI E*TRADE's efforts to offer attractive products, services, and commission levels based on its customer-centric business strategy enabled the Company to create 238,119 new customer accounts during fiscal 2006. At the end of the fiscal year, the total number of customer accounts stood at 1,405,897, including 147,659 margin transaction accounts, and client assets in custody were ¥4,126.3 billion. (Note: Figures for numbers of customer accounts and client assets are for SBI E*TRADE SECURITIES on a nonconsolidated basis.)

Regarding performance, the Company's consolidated brokerage commissions amounted to ¥31.7 billion, down 21.1% from fiscal 2005.

Regarding margin transactions, receivables from customers decreased 9.6%, to ¥457.6 billion, and proceeds of securities sold for customers' accounts decreased 3.0%, to ¥62.6 billion. However, financial revenues surged 32.0%, to ¥17.5 billion.

Consequently, consolidated operating revenues amounted to ¥57.4 billion, down 4.7% from the previous fiscal year. Operating income fell 18.2%, to ¥24.5 billion, and net income decreased 18.6%, to ¥13.8 billion.

RESULTS OF OPERATIONS

Operating Revenue

In fiscal 2006, total operating revenues amounted to ¥57.4 billion, down ¥2.8 billion, or 4.7%, from the previous fiscal year. Operating revenues include commissions, trading profit, financial revenues, and other revenue.

Commission revenue decreased to ¥36.7 billion, down ¥7.4 billion, or 16.7%. Of commission revenue, brokerage commissions from on-line stock transactions fell to ¥31.7 billion, down 21.1%, but underwriting and selling commissions grew to ¥0.7 billion, up 47.5%. Offering and selling commissions related to sales of stocks, bonds, and investment trusts declined to ¥1.2 billion, down 18.6%. Other commissions rose to ¥3.0 billion, up 61.0%, reflecting the strong performance regarding such commission revenue as margin transaction administration fees and foreign exchange margin trading fees.

Trading profit increased to ¥2.8 billion, up 4.5%. Financial revenues grew 32.0%, to ¥17.5 billion, while financial expenses rose 4.6%, to ¥4.1 billion. Thus, net financial revenues amounted to ¥13.4 billion, up 43.5%.

SG&A Expenses and Other Income

Despite such initiatives as those to considerably expand and strengthen electronic systems, increase the number of servers installed, and develop additional transaction tools, the

Company's efforts to control costs restrained selling, general and administrative (SG&A) expenses to ¥28.8 billion, up 9.3%.

Within SG&A expenses, trading-related costs decreased 4.3%, to ¥8.8 billion, and administrative expenses declined 1.8%, to ¥6.7 billion. Both these falls reflected the effectiveness of the Company's cost-cutting measures, which offset upward pressure on costs associated with considerable increases recorded in the number of trading contracts and in trading value. In addition, owing to such factors as higher leasing fees due to the strengthening and expansion of electronic systems, real estate-related expenses totaled ¥5.4 billion, up 53.2%.

Reflecting the decline in operating revenues and the rise in the SG&A expenses ratio, operating income decreased to ¥24.5 billion, down ¥5.5 billion, or 18.2%. Operating income as a percentage of operating revenues decreased from 49.8% in fiscal 2005 to 42.7% in fiscal 2006. Despite a decrease from ¥2.3 billion to ¥1.6 billion in provision for statutory reserves within other income items, income before income taxes and minority interests declined to ¥23.1 billion, down ¥4.9 billion, or 17.5%. The effective tax rate was 39.5%, 0.6 percentage point higher than the 38.9% effective tax rate for fiscal 2005. As a result, net income amounted to ¥13.8 billion, down ¥3.2 billion, or 18.6%.

Financial Position

At the end of fiscal 2006, the SBI E*TRADE Group's total assets amounted to ¥899.4 billion, down ¥57.9 billion, or 6.1%, from the previous fiscal year-end. Current assets fell to ¥882.0 billion, down ¥62.0 billion, or 6.6%. Long-lived assets rose to ¥17.3 billion, up ¥4.2 billion, or 32.6%, and deferred assets amounted to ¥156 million, down ¥190 million, or 55.0%.

Regarding current assets, increases were seen in deposits, which advanced to ¥329.7 billion, up ¥8.9 billion, or 2.8%, and in short-term guarantee deposits, which advanced to ¥16.6 billion, up ¥5.5 billion, or 49.3%. However, the decline in current assets reflected decreases in margin transaction assets, which dropped to ¥468.9 billion, down ¥55.6 billion, or 10.6%, and in cash on hand and in banks, which fell to ¥36.8 billion, down ¥22.6 billion, or 38.1%. With respect to long-lived assets, the value of investment securities and investment in affiliated companies grew to ¥8.4 billion, up ¥3.3 billion, or 64.3%. Regarding deferred assets, the value of stock issue expense decreased to ¥85 million, down ¥119 million, and the value of bond issue expense decreased to ¥71 million, down ¥71 million.

Total liabilities were ¥766.9 billion, down ¥70.6 billion, or 8.4%. This decrease mainly resulted from a decrease in margin transaction liabilities, to ¥270.9 billion, down ¥63.6 billion, or 19.0%, and a decrease in income taxes payable, to ¥3.4 billion, down ¥7.0 billion. While short-term borrowings and current portion of long-term debt rose ¥18.3 billion, to ¥22.5 billion, long-term debt fell ¥20.0 billion, but these changes reflected the recategorization of syndicated loans that entered the period of one year before their maturity.

Equity expanded smoothly to ¥132.5 billion, up ¥12.6 billion, or 10.5%. The drop in both total assets and operating income caused the ratio of operating income to average total assets to decrease from 4.1% to 2.6%, but the rise in equity caused the shareholders' equity ratio to increase 2.0 percentage points, to 14.4%. This represents further progress in the Company's efforts to strengthen its financial position.

Cash Flow

Cash and cash equivalents (hereinafter, "cash") at the end of fiscal 2006 amounted to ¥28.7 billion, down ¥23.7 billion from the previous fiscal year-end.

This reflected cash inflows as those associated with ¥23.1 billion in income before income taxes and minority interests (compared with ¥28.0 billion in fiscal 2005) and ¥9.0 billion in increase in guarantee deposits received associated with a rise in margin transactions (compared with ¥160.3 billion in fiscal 2005), which were partially offset by such cash outflows as those associated with ¥8.0 billion in increase in margin transaction assets or liabilities (compared with ¥148.6 billion in fiscal 2005), ¥6.0 billion in increase in customers' segregated cash in trust (compared with ¥140.9 billion in fiscal 2005), ¥2.0 billion in decrease in short-term borrowings, net (compared with a ¥3.7 billion inflow in fiscal 2005), and ¥3.9 billion in purchase of investment securities (compared with ¥7.6 billion in fiscal 2005).

The following is a more-detailed analysis of cash flows.

Operating Activities—Net cash used in operating activities amounted to ¥13.6 billion (compared with ¥58.4 billion in fiscal 2005). This reflected such cash inflows as those associated with ¥23.1 billion in income before income taxes and minority interests (compared with ¥28.0 billion in fiscal 2005) and ¥9.0 billion in increase in guarantee deposits received associated with a rise in margin transactions (compared with ¥160.3 billion in fiscal 2005), which were partially offset by such cash outflows as those associated with ¥6.0 billion in increase in customers' segregated cash in trust (compared with ¥140.9 billion in fiscal 2005), ¥8.0 billion in increase in margin transaction assets or liabilities (compared with ¥148.6 billion in fiscal 2005), and ¥5.5 billion in increase in short-term guarantee deposits (compared with ¥7.8 billion in fiscal 2005).

Investing Activities—Net cash used in investing activities amounted to ¥6.7 billion (compared with ¥4.6 billion in fiscal 2005). This reflected such cash outflows as those associated with ¥3.9 billion in purchase of investment securities (compared with ¥7.6 billion in fiscal 2005) largely undertaken with the goal of further expanding investment banking business and ¥1.8 billion in purchase of intangible assets (compared with ¥1.7 billion in fiscal 2005) primarily undertaken with the goal of expanding and strengthening on-line securities transaction systems.

Financing Activities—Net cash used in financing activities amounted to ¥3.4 billion (compared with ¥111.8 billion of cash provided by financing activities in fiscal 2005). This reflected such cash outflows as those associated with ¥2.0 billion in decrease in short-term borrowings, net (compared with a ¥3.7 billion inflow in fiscal 2005) undertaken with the goal of improving the Company's financial position.

Basic Policy on Profit Distribution

The Company's basic policy on profit distribution calls for the Company to proactively set dividend levels based on the comprehensive consideration of such factors as previous dividend levels and corporate performance trends while also giving due consideration to the level of internal reserves needed for future business development and strengthening the Company's base. Cash dividends applicable to fiscal 2006—including an ordinary ¥1,600 per share dividend along with a special ¥100 per share dividend to commemorate the listing of E*TRADE Korea on Korea's KOSDAQ market—amounted to ¥1,700 per share.

Regarding internal reserves, the Company has the intention of making effective investments aimed at increasing its cost-competitiveness and enabling the providing of services that meet increasingly diverse customer needs. Consequently, the fiscal 2006 ratio of dividends to equity amounted to 4.3%, down from 5.8% for the previous fiscal year, but the dividend payout ratio for fiscal 2006 was 38.9%, up 10.6 percentage points from the 28.3% level for fiscal 2005.

Outlook

Objectives and Management Indicators

To maximize corporate value over the medium-to-long term, the Company has designated the number of customer accounts, the value of brokerage volume for individual customers, and client assets in custody as key management indicators and laid plans to further raise the level of these indicators. Reflecting the effectiveness of those plans, at the end of fiscal 2006, the number of customer accounts stood at 1,405,897, up 238,119 from 1,167,778 at the end of fiscal 2005. Similarly, the average daily trading value during March 2007 was ¥403.4 billion, up ¥20.4 billion from ¥383.1 billion in March 2006. At the end of fiscal 2006, client assets were ¥4,126.3 billion, down ¥456.2 billion from the ¥4,582.5 billion level at the end of fiscal 2005.*

Note: *These indicator figures are nonconsolidated figures for SBI E*TRADE SECURITIES only.

Medium- to Long-Term Business Strategies

The Company intends to emphasize brokerage business, primarily on-line operations, along with investment banking business, including such operations as underwriting. Plans call for making efforts to make use of synergies between those two kinds of businesses as well as to increase the diversity of the Company's profit sources.

The Company's strategy for augmenting its profitability is to offer highly competitive commission levels and high-level service compared with other companies in the industry, thereby enabling itself to greatly increase the number of customer accounts and to create overwhelmingly strong marketing strength and brand power that enables the expansion of underwriting business and other corporate business. In the on-line brokerage industry, customers can easily compare competing companies' services and prices, making it even more important than usual to ensure that commissions and service quality are highly competitive. Ultimately, the Company anticipates that expanding the volume of its brokerage transactions will augment the profitability of brokerage operations while also increasing profit from such other sources as margin transactions. Similarly, the Company is seeking to upgrade its marketing capabilities in a manner that strengthens its underwriting capabilities and consequently increases profits from underwriting and product structuring operations. By progressively increasing the diversity of its profit sources, the Company is aiming to ease excessive dependence on brokerage operations and thereby strongly position itself to employ flexible brokerage commission strategies and continuously respond to changes in its operating environment.

BUSINESS RISKS AND OTHER RISKS

The following is a list of what are believed to be principal potential risk factors associated with the Company and its operations. Some items—items that the Company may not necessarily view as significant business risks but that are important items for investors to consider when they make investment decisions—are included below in line with the Company's policy of proactively disclosing information to investors. Recognizing the following potential risks, the Company has the policy of striving to avoid such risks and appropriately responding when risks are not avoidable. However, investors considering investments in the Company's stock should carefully consider the following potential risk factors as well as other potential risk factors. The following list should not be considered a comprehensive list of all potential risk factors, and items related to future developments reflect the Company's judgments at the time it announced its securities report (Yuka Shoken Hokoku-sho) for fiscal 2006 (on June 26, 2007).

(1) Systems

Recognizing that the stability of on-line transaction systems is an important management issue, the Company is making daily efforts to maintain and improve the level of related services. With the primary objective of increasing its responsiveness to and the satisfaction of customers that are active traders, in July 2003, the Company undertook a fundamental reevaluation of its systems platform. As a result, the Company became the first on-line securities company in Japan to release a "new on-line transaction system with a Linux platform as the basic operating system software (OS)," with this system being developed in cooperation with Nomura Research Institute, Ltd. (NRI).

Numerous U.S.-based financial institutions have already introduced Linux systems, and the high level of the systems' expandability and flexibility has been demonstrated. The Company's system comprises three levels—a presentation level (the portion responsible for display image processing), a business logic level (the portion responsible for calculating data needed for displaying images, checking inputs, etc.), and a database level (the portion consisting of stored data)—and Linux is employed for the presentation level and business logic level, with the goal of creating a structure with greater expandability. Compared with previous UNIX-based system structures, the Company's system has made it possible to greatly reduce hardware investment costs and running costs. At the same time, to rapidly respond to such measures as the introduction of new services and changes to securities-related systems, the Company reevaluated its previous methodology of having the front portion of its systems developed by U.S.-based E*TRADE Financial Corporation and having the middle and back portions of the systems developed by NRI, shifting to a methodology of having all elements—from front to back portions—of its system developed domestically by NRI. To ensure the system offers solid reliability to customers for whom the on-line trading system is a lifeline, NRI comprehensively handles processes from development through operational administration and is seeking to attain still-higher levels of stability and fault tolerance. In addition, in December 2004, the Company replaced its previous on-line transaction system by installing a new system, thereby expanding and strengthening its system on a large scale. Subsequently, measures to expand and strengthen the system have been implemented numerous times, and the system has become capable of handling as many as two million accounts. Moreover, to respond to customers' increasingly diverse needs, the Company began providing the HYPER E*TRADE real-time trading tool service in April 2005. To support investors that are active traders, this service offers "drag and drop" order functions that enable orders to be made, modified, and cancelled using only mouse operations and otherwise provides sophisticated functions. At the same time, the Company is making efforts regarding the expandability and stability of this system just as it is with respect to the front web system.

Recognizing that maintaining stable systems is a key prerequisite for providing customers with high-quality services, the Company is working to appropriately strengthen and expand its information systems based on projections of future growth in the number of customer accounts and in the volume of brokered transactions. Because strengthening and expanding information systems entails higher system-related expenses—such as depreciation and leasing expenses—if actual growth in customer accounts and brokered transactions is not achieved in line with the strengthening and expanding of information systems, there is a possibility that the situation could have a negative impact on corporate performance.

Moreover, there is a possibility that on-line transaction systems could be impaired by such situations as hardware- or software-related problems, human error, communications circuit problems, computer viruses, and cyber terrorists as well as natural disasters. To prepare for responding to such problems, the Company monitors its systems on a 24-hour-per-day, 365-day-per-year basis and also takes such measures as duplexing its main systems and constructing system backup facilities at different locations. However, if for some reason the Company's information systems were to fail and the rectification of the failure was not expeditious or the appropriate responses were not implemented, there is a possibility of demands for compensation for damages due to the failure, a decrease in customer confidence in the Company's systems and support systems and a resulting estrangement of customers, and other situations that could have a negative impact on corporate performance.

(2) Margin Transactions

Margin transactions in Japanese stocks are one of the Company's profit sources, but such transactions require the Company to extend credit to its customers. Customers sometimes suffer losses on margin transactions, and in the case that the value of the negotiable securities used as collateral security for the margin credit falls, there is a possibility that the value of the collateral may become insufficient to cover the amount of credit extended to the customer. In addition, the Company procures funds to finance margin transactions primarily from securities finance companies, but changes in securities market conditions will change the value of negotiable securities entrusted to securities finance companies as collateral.

If the value of this collateral falls, the securities finance companies may demand additional collateral, and the Company may have to rely on its own resources to obtain loans and otherwise finance the procurement of such additional collateral. There is a possibility that this situation could have a negative impact on the Company's performance.

(3) Underwriting

As part of its strategy of increasing the diversity of its profit sources, the Company is emphasizing measures to expand its underwriting and public subscription business, but such business entails underwriting risks stemming from the possibility that the Company will not be able to sell the securities it underwrites. There is a possibility that fluctuations in the price of unsold securities underwritten by the Company could have a negative impact on the Company's performance. Regarding the underwriting of initial public offerings (IPOs), when the Company is the lead managing underwriter for a company's IPO and the evaluation of that company drops during or soon after the IPO, the situation may have a negative impact on the Company's reputation in a manner that impairs the Company's capabilities for proceeding with underwriting operations. There is a possibility that this situation could have a negative impact on the Company's performance.

(4) SBI Group

The SBI Group includes two companies engaged in securities company operations in Japan—the Company and SBI Securities Co., Ltd.—and Korea-based E*TRADE Korea Co., Ltd., which became a subsidiary of the Company in March 2005. SBI Securities mainly provides services through face-to-face interaction between its employees and customers, while the Company mainly provides on-line services and is uniquely developing its operations as an on-line securities company. The Company is working to continue expanding its customer base by leveraging its special strengths in providing services via the Internet. Currently, the Company has a face-to-face marketing unit inherited from the former Osawa Securities Co., Ltd., and to a very limited extent engages in the kind of face-to-face marketing operations carried out by SBI Securities. In addition, both the Company and SBI Securities have positioned securities underwriting operations among their principal businesses, but the marketing of underwritten securities by the two companies is fundamentally different. In the case of the Company, this marketing is focused on investors who primarily engage in Internet-based transactions, while in the case of SBI Securities, this marketing is focused on relatively high-net-worth individuals of relatively senior ages. The Company and SBI Securities have operated with due attention to the SBI Group's securities operations strategy, and plans have called for the Company to shrink or eliminate its face-to-face marketing operations aimed at individual customers and consider the integration of underwriting operations. In November 14, 2005, the Company and SBI Securities approved a business alliance that entails the consolidation within the Company of the two companies' underwriting business.

The positioning of the Company and SBI Securities within the SBI Group is as described above; however, there is no guarantee of the future position or role of the Company within the SBI Group, and a change in the strategies or policies of the SBI Group could change the Company's position or role. There is a possibility that this situation could have a negative impact on the Company's performance.

As of March 31, 2006, the Company's principal shareholders included venture capital funds (SOFTBANK INTERNET TECHNOLOGY FUND No. 1, SOFTBANK INTERNET TECHNOLOGY FUND No. 2, and SOFTBANK INTERNET TECHNOLOGY FUND No. 3) with a total shareholding of 606,624 shares, or 19.3% of the Company's total outstanding shares. On April 3, 2006, however, these venture capital funds sold their shares to SBI Holdings and a third-party investor outside the SBI Group (Goldman Sachs (Japan) Ltd.). This transaction led to an increase in SBI Holdings' shareholding in the Company, which was 51.2% as of March 31, 2006, and 52.4% as of March 31, 2007.

(5) Legal Regulations

A. Securities Company Registration, Etc.

Because the Company is engaged in securities company operations, it is registered as a securities company based on Article 28 of the Securities Exchange Law. In addition, the Company has general trading participant or similar status in the Tokyo Stock Exchange, the Osaka Securities Exchange, the Nagoya Stock Exchange, and the JASDAQ Securities Exchange, and the Company is subject to regulations established by the Japan Securities Dealers Association (JSDA), an organization created based on Japan's Securities Exchange Law. Moreover, the Company is engaged in lending business, financial futures transactions business, defined contribution pension fund management administration business, insurance marketing business, and other businesses. In each of these business fields, the Company must execute business operations while complying with the laws that regulate those businesses as well as complying with the regulations established by the autonomous industry association and other institutions.

B. Capital Ratio Regulations

Based on the Securities Exchange Law and on Cabinet Office regulations regarding capital regulations for securities companies, a system of capital adequacy ratio regulations has been created. Capital adequacy ratios are ratios of capital to the aggregate value of the non-fixed portion of capital, potential fluctuations in securities holdings, and other potential risks (Securities Exchange Law, Article 52-1). Securities companies must maintain capital adequacy ratios of 120% or higher (Securities Exchange Law, Article 52-2). If the ratio falls below 120%, the Financial Services Agency will order changes to operational methods and other changes, and if the ratio falls below 100%, the agency may order the suspension of business operations for a period of up to three months. If the ratio is still below 100% after business has been suspended for three months and the agency does not recognize the prospect of the relevant company's recovery, the agency may cancel the company's registration for securities business (Securities Exchange Law, Articles 56-2 and 194-6-1). In addition, securities companies must on a quarterly basis prepare documents recording their capital adequacy ratios and make these documents available for public examination at all their facilities (Securities Exchange Law, Article 52-3), and a fine shall be levied in the case of nonconformance with this requirement (Securities Exchange Law, Article 198-5-3). As of March 31, 2007, the Company's capital adequacy ratio was 548.8%.

C. Separate Administration of Customer Assets/Investor Protection Funds

To help ensure that securities companies return customers' assets to customers in an appropriate and timely manner, securities companies are required to keep securities and cash entrusted by customers separate from the securities company's own assets. However, this separation requirement does not apply to securities purchased via margin transactions or to the proceeds of the sale of securities via margin transactions. As an additional means of protecting investors, the Securities Exchange Law requires securities companies to participate in a government-approved investor protection fund. The Company participates in the Japan Investor Protection Fund (JIPF). Investor protection funds obtain their funds by requiring contributions from their securities company members. If a member of the JIPF were to become bankrupt, the fund will ensure that customers of the bankrupt company receive the securities entrusted to that company as well as other specified claims on that company up to ¥10 million. Accordingly, if the bankruptcy of a member company requires the disbursal of funds greater than those already accumulated by the JIPF, the Company and other members may be required to make additional contributions. There is a possibility that this situation could have a negative impact on the Company's performance.

D. Law on Sales of Financial Products/Consumer Contract Law

Japan's Law on Sales of Financial Products was announced on May 31, 2000, and has been effective since April 1, 2001. Designed to protect investors when they purchase financial products, the law requires financial product sellers to provide specified explanations. In the case that investors lose money on investments in financial products that were not adequately explained, the law obliges financial product sellers to provide compensation and provides for measures to ensure that the noncompliant financial product sales methods are rectified.

Japan's Consumer Contract Law was announced on May 12, 2000, and applies to all consumer contracts (contracts between consumers and businesses) concluded on April 1, 2001, and subsequently. Focusing on the structural gaps between consumers and businesses with regard to the volume and quality of available information as well as negotiating capabilities, the law enables consumers in specified situations to repudiate contracts. The Company has established internal administration systems designed to ensure its rigorous compliance with this law, and there have not been any cases of noncompliance to date. However, if such a case were to arise in the future, it could entail the payment of compensation for damages, undermine customers' trust in the Company, and have other negative effects, and there is a possibility that such a situation could have a negative impact on the Company's performance.

(6) Competition

Competition is intensifying among securities companies engaged in brokering transactions in stocks and other securities. The Company reduced its stock brokerage commissions in September 2006, and it plans to continue offering the industry's lowest commission levels. According to the JSDA's Internet Transaction Survey Results (conducted at the end of March 2007), the number of on-line securities companies was 34 at the end of September 1999, just before the deregulation of stock trading commissions, but rose to 67 as of March 31, 2001. The number subsequently peaked out, with a portion of securities companies being culled out from the on-line securities market, and the number stood at 56 as of March 31, 2007. This number includes companies specializing in on-line securities business, such as the Company, as well as major securities companies that include on-line securities business among their various businesses.

In the future, the Company projects that it will face increasingly intense competition due to such factors as the increasing diversity of products and services and the globalization of the financial industry, which have been accompanied by such trends as a growing number of competitors from other industries, a rise in the number of foreign-based companies in the Japanese market, and a strengthening of the on-line brokerage capabilities of leading securities companies. The increasing intensity of competition could have the effect of increasing the marginal cost of obtaining additional customer accounts, and there is a possibility that such a situation could have a negative impact on the Company's performance.

(7) Industry Trends

A. Securities Markets

Stock transaction brokerage commissions account for the majority of the Company's operating income. Accordingly, the Company is strongly affected by such trends as those in stock market trading volume and commission levels. In general, commission revenues will decrease if stock prices fall due to the impact on the stock market or diverse other factors, such as trends in corporate profitability, interest rates, international affairs, the world's principal markets, and investor psychology. According to the JSDA's Internet Transaction Survey Results (conducted at the end of March 2007), the aggregate value of on-line stock transactions during the period from October 2006 through March 2007 accounted for 24.7% of the value of all transactions brokered by JSDA members (3.0 percentage points less than the share during the period from April 2006 through September 2006), reflecting the high level of Internet-based transactions by individual investors. The survey indicates that the importance within the industry of the Company and other specialized on-line securities companies is increasing. However, there is no guarantee that current positive stock market conditions will persist, and, if a drop in stock prices is accompanied by a drop in trading volume, there is a possibility that this situation could have a negative impact on the Company's performance. In addition, the government is moving forward with systemic reform measures related to the stock market. Although at this stage it is impossible to predict such future developments as future legal reforms, there is a possibility that the nature of such developments could have a negative impact on the Company's performance.

B. Internet Diffusion

The number of Internet users is increasing steadily each year. A survey conducted by Japan's Ministry of Internal Affairs and Communications indicated that the number of users in Japan at the end of 2005 was 85 million, or 67% of the population, and the number at the end of 2006 was 88 million, or 69% of the population. Such previous problems as the high level of Japanese monthly access fees compared with levels in other countries and the use of non-fixed monthly fee systems have all been progressively alleviated in the course of the shift to broad-band Internet connections, and this improvement is believed to be encouraging growth in the number of users. Currently, as the Internet continues to become an increasingly common tool, many companies are offering diverse services via the Internet and, at the same time, the Internet has become firmly established as an information development tool for investors. This decreasing cost of information is believed to be further increasing the convenience of active investors who personally undertake proactive information gathering and active trading activities. On the other hand, the Internet has a short history, and there is no guarantee that the number of users will continue to steadily increase. If the number of Internet users were to not increase, there is a possibility that such a situation could have a negative impact on the Company's performance.

(8) Prospective Business Expansion

Based on its customer-oriented management strategy and goal of offering the industry's highest-quality services as well as the industry's lowest commissions, the Company is seeking to respond to the increasing diversity of customer needs, increase the diversity of its profit sources, and thereby realize additional growth in its operations and corporate value. In the future, the Company expects to broaden the range of products handled and increase the level of services offered and thereby further strengthen and expand its existing operations while also considering measures to enter new business fields and thereby increase the diversity of its profit sources. Based on its recognition of the necessity of these strategies, the Company has the policy of taking the measures outlined below. If these measures are not sufficiently successful or do not accurately reflect customer needs, however, there is a possibility that the situation could be a factor obstructing the Company's growth and have a negative impact on the Company's performance.

A. Diversifying Profit Sources

The Company has a policy of expanding its brokerage business by expanding and strengthening the array of products it handles and the range of information it supplies. At the same time, the Company is seeking to rectify its profit structure's excessive dependence on brokerage commissions by increasing the diversity of its profit sources. It is therefore expanding its business related to products other than domestic stocks through such initiatives as those to begin handling trading in overseas bonds and foreign currency guarantees. The Company is also seeking to leverage its customer base developed through brokerage business as it emphasizes the expansion of underwriting and distribution business. In the future, plans call for the Company to strengthen the array of products it handles in line with customer needs while also considering the further diversification of its profit sources. In addition, there is a possibility that the Company will expand the scope of its operations to include M&A business that can be expected to generate synergies with businesses the Company is developing in other fields.

B. Increasing Customer Convenience

The Company recognizes that maintaining consistently high levels of performance regarding such issues as transaction page operational ease as well as responsiveness and system reliability are key sources of competitiveness in the on-line securities industry. Regarding systems capabilities, the Company expanded and strengthened its systems to enable the handling of up to 1.5 million accounts in December 2005, up to 1.75 million accounts in May 2006, and up to two million accounts in July 2006, thereby maintaining its capabilities for providing pleasant transaction execution environments. To increase customer convenience, the Company has taken such measures as those to introduce FOMA700i series mobile phone-compatible HYPER MOBILE Lite services in July 2006, a year-end account creation reception service in September 2006, and a stop-limit order acceptance system in February 2007, and plans call for the Company to continue proactively taking such measures.

C. Strengthening Compliance Systems

To date, the Company has worked to strengthen its compliance systems by creating such infrastructure as organizational systems and internal rules, undertaking employee training programs and taking other measures that promote rigorous performance throughout the Company regarding social standards related to legal compliance and other kinds of compliance, and worked to maintain customer trust and confidence. The Company has a policy of continuing to take measures to further strengthen its compliance systems, with the goal of ensuring it can maintain rigorous compliance performance despite such future challenges as those associated with increases in the number of accounts and contracts handled.

(9) Customer Information Security

The Company believes it extremely important to prevent damages associated with the improper utilization or alteration of customer information. Based on its strict customer information handling rules, the Company has devised adequate security countermeasures, and there have not been any past cases in which the Company has been shown to have allowed improper securities transaction orders or the leakage, damage, or improper use of important customer data. Moreover, there has not been any demands for compensation associated with such problems.

However, in the future, if any kind of problem regarding the management of customer information arises, there is a possibility that situation could have a negative impact on the Company's performance. Japan's Personal Information Protection Law took effect from April 1, 2005. The Company will work to ensure its rigorous compliance with this law and related regulations by creating internal administration systems as well as making sustained efforts to make related improvements. However, if a case of noncompliance or information leakage were to arise in the future, it could undermine customers' trust in the Company and have other negative effects, and there is a possibility that such a situation could have a negative impact on the Company's performance.

(10) Corporate Organization

A. Internal Administration Systems

The Company creates internal administration systems designed to promote rigorous legal compliance, endeavors to thoroughly comply with all relevant laws and regulations, and strives to maintain its customers' trust. In April 2002, the Company took measures to clarify the allocation of authority and responsibility with respect to compliance and, to expand and strengthen its internal administration system, eliminated its Compliance Department and adopted a new compliance oversight system centered on three departments—the Audit Department, Trading Administration Department, and Marketing Administration Department. The Company has subsequently moved ahead with additional measures to strengthen its internal administration system, which now encompasses the Legal Affairs Department, the Trading Administration Office, the Marketing Administration Section of the Operations Department, and the Internal Audit Office.

In December 2001, the Company developed a trading monitoring system to enable the early detection/prevention of transactions suspected of association with market manipulation. The use of this system makes it possible to promptly detect such problematic situations as those associated with disguised trading, matched-order trading, the protracted coincidence of correlated transactions, transactions apparently aimed at ramping prices up or down, and transactions apparently aimed at manipulating closing prices. By using this system to quickly detect transactions that may be related to such situations (or other transactions that give cause for concern regarding their potential connection to market manipulation), this system enables the Company, in some cases corresponding to the Company's attention standards, to eliminate such behavior before actual problems arise by conducting telephone hearings with the customers in question to determine the motives and objectives of the questionable transactions and warn the customers about potential problems. In cases when warnings have been made but no subsequent improvement is seen in the problematic behavior, the Company may in some cases restrict the transactions of the customer in question. Depending on the nature of the problematic behavior, the Company may in some cases consider responses involving reports to or consultations with such authorities as the management of each stock market and the Securities and Exchange Surveillance Commission (SESC).

While the Company has striven to strengthen its internal administration system, in the case that these strengthening measures are not sufficient and internal administration system failures or other problems arise for some reason, it could undermine customers' trust in the Company, and there is a possibility that such a situation could have a negative impact on the Company's performance.

B. Officers and Employees

As of March 31, 2007, the Company had four directors, four corporate auditors, and 140 employees. The Company is introducing an array of systems to reduce the number of employees handling routine general tasks and also has a policy of working to broaden its operational scope by emphasizing Internet-based transaction operations that are expected to continue expanding as well as investment banking operations. Consequently, the Company has a need for high-grade human resources with high levels of specialized skills and knowledgeability.

Because of the rarity of people with a high level of capabilities, there is a possibility that it will become impossible to hire the kind of employees the Company requires. The Company has a policy of working to increase employees' motivation and maintain appropriate employee incentives by introducing a system for appropriately evaluating employees' capabilities and by creating a stock option system and taking other measures, but in the case that the Company becomes unable to obtain and train appropriate personnel, there is a possibility that this situation could restrict the expansion of business operations and could have a negative impact on the Company's performance.

(11) Stock Options

With the objectives of increasing the motivation of officers and employees to improve corporate performance and enhancing the morale of officers and employees as well as facilitating the recruitment of outstanding human resources, the ordinary general meetings of shareholders held on June 21, 2004, and June 23, 2005, passed resolutions calling for the issuance of stock options to officers and employees in the form of share warrants.

As of March 31, 2007, the Company had issued share warrants that could potentially lead to the issuance of 24,987 shares. If all the warrants were exercised, the resulting shares would correspond to 0.8% of 3,213,480 outstanding shares. There also is a possibility that the Company will distribute share warrants as part of a stock option system in the future, and the shares issued due to the warrants could have the effects of diluting the Company's stock value and affecting the supply-demand relationship for the Company's shares, and there is a possibility that this situation could have a negative impact on the Company's performance.

(12) Trademarks

U.S.-based E*TRADE Financial Corporation is a company that provides diverse financial services to individual customers in many countries throughout the world. Based on a licensing contract with that company, the Company has obtained the right to use the E*TRADE name and related names (hereinafter, the "E*TRADE brand") in Japan for an unlimited period of time. However, if for some reason this contract were made void, there is a possibility that this situation could have a negative impact on the Company's performance. In addition, this contract stipulates the following restrictions on the use of the E*TRADE brand.

A. Financial Business

Within Japan: The brand may be used for business development. However, regarding securities brokerage operations targeting institutional investors, the brand may only be used in the following conditions.

- The customer is a Japanese enterprise.
- The transaction is in Japanese securities.
- The transaction is settled within Japan.

Overseas: The brand may not be used for business development. (However, the Company's Korea-based subsidiary, E*TRADE Korea Co., Ltd., has a license from U.S.-based E*TRADE Financial Corporation that authorizes the unlimited use of the E*TRADE brand for financial business (excluding banking, insurance, etc.) within Korea.)

B. Fields Other than Financial Business

Business fields other than financial business are outside the permitted usage scope. However, the Company has preferential rights to negotiate for the use of the E*TRADE brand for nonfinancial business in Japan.

In addition, in the case of the Company undertaking any kind of financial business within Japan without using the E*TRADE brand, it is not permitted for such business to compete with and convert business conducted using the E*TRADE brand based on the contract. Currently, the Company is not anticipating the independent development of overseas business, the undertaking of nonfinancial business, or the undertaking of financial business in Japan without using the E*TRADE brand. However, there is a possibility that the prohibition of such undertakings due to the license contract could have a negative impact on the Company's performance.

SBI E*TRADE SECURITIES Co., Ltd. (Former E*TRADE SECURITIES Co., Ltd.) and Subsidiaries
March 31, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2006	**2007**	**2007**
CURRENT ASSETS:			
Cash on hand and in banks:			
Cash and cash equivalents	¥ 52,470	**¥ 28,740**	**$ 243,458**
Time deposits maturing over three months	399	**522**	**4,424**
Segregated cash (Note 3)	6,500	**7,502**	**63,548**
Deposits:			
Customers' segregated cash in trust	308,800	**314,800**	**2,666,667**
Other deposits	12,023	**14,874**	**125,996**
Trading accounts (Note 4)	2,041	**3,875**	**32,822**
Margin transaction assets:			
Receivables from customers	506,158	**457,613**	**3,876,431**
Cash deposits as collateral for securities borrowed	18,281	**11,249**	**95,290**
Loans collateralized by securities:			
Cash deposits as collateral for securities borrowed	156	**102**	**863**
Resale agreement transactions	8,143	**7,005**	**59,338**
Short-term guarantee deposits	11,097	**16,567**	**140,341**
Operational loans receivable	8,338	**8,088**	**68,511**
Deferred tax assets – current (Note 15)	1,052	**585**	**4,959**
Prepaid expenses and other current assets	8,790	**10,895**	**92,294**
Allowance for doubtful accounts	(296)	**(443)**	**(3,753)**
Total current assets	943,952	**881,974**	**7,471,189**
PROPERTY AND EQUIPMENT — Net (Note 7)	695	**518**	**4,389**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 5)	5,129	**8,327**	**70,535**
Investment in affiliated companies (Note 5)		**102**	**862**
Goodwill		**215**	**1,822**
Software	3,734	**4,483**	**37,975**
Guarantee deposits	685	**699**	**5,921**
Deferred tax assets – non-current (Note 15)	1,382	**1,989**	**16,851**
Other assets	1,845	**1,306**	**11,070**
Allowance for doubtful accounts	(85)	**(197)**	**(1,670)**
Total investments and other assets	12,690	**16,924**	**143,366**
TOTAL	¥957,337	**¥899,416**	**$7,618,944**

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of yen 2006	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2007
CURRENT LIABILITIES:			
Short-term borrowings (Note 9)	¥ 4,258	**¥ 2,512**	**$ 21,279**
Current portion of long-term debt (Note 9)		**20,000**	**169,420**
Income taxes payable	10,410	**3,381**	**28,640**
Margin transaction liabilities:			
Payables to financial institutions (Notes 9 and 10)	269,977	**208,367**	**1,765,076**
Proceeds of securities sold for customers' accounts	64,529	**62,568**	**530,016**
Payables collateralized by securities:			
Cash deposits as collateral for securities loaned	55,347	**55,825**	**472,897**
Repurchase agreement transactions (Note 9)	1,206		
Deposits received	28,445	**20,684**	**175,213**
Guarantee money received	323,669	**333,091**	**2,821,611**
Accrued expenses	2,559	**2,395**	**20,289**
Other current liabilities (Note 4)	2,458	**1,913**	**16,198**
Total current liabilities	762,858	**710,736**	**6,020,639**
LONG-TERM LIABILITIES:			
Corporate bonds (Note 9)	50,000	**50,000**	**423,549**
Long-term debt (Note 9)	20,000		
Other long-term liabilities (Note 11)	65	**31**	**263**
Total long-term liabilities	70,065	**50,031**	**423,812**
STATUTORY RESERVE			
Reserve for liability for securities transactions (Note 12)	4,563	**6,158**	**52,163**
Total statutory reserves	4,563	**6,158**	**52,163**
EQUITY : (Note 13)			
Common stock, authorized, 11,400,000 shares in 2006 and 2007; issued, 3,143,817 shares in 2006 and 3,188,493 shares in 2007	46,875	**47,864**	**405,457**
Capital surplus	45,647	**46,636**	**395,054**
Stock acquisition rights		**14**	**119**
Retained earnings	24,920	**33,476**	**283,573**
Unrealized gain on available-for-sale securities (Note 5)	775	**970**	**8,215**
Foreign currency translation adjustments	691	**783**	**6,631**
Total	118,908	**129,743**	**1,099,049**
Minority interests	943	**2,748**	**23,281**
Total equity	119,851	**132,491**	**1,122,330**
TOTAL	¥957,337	**¥899,416**	**$7,618,944**

CONSOLIDATED STATEMENTS OF INCOME

SBI E*TRADE SECURITIES Co., Ltd. (Former E*TRADE SECURITIES Co., Ltd.) and Subsidiaries
Years ended March 31, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	**2007**	**2007**
OPERATING REVENUES (Note 17)	¥60,214	**¥57,413**	**$486,345**
COST OF SALES (Note 18)	3,897	**4,117**	**34,875**
Net operating revenue	56,317	**53,296**	**451,470**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 19)	26,305	**28,753**	**243,570**
Operating income	30,012	**24,543**	**207,900**
OTHER INCOME (EXPENSES):			
Interest and dividends income	28	**58**	**493**
Gain (loss) on sale of investment securities – net	211	**(1)**	**(5)**
Provision for statutory reserves	(2,286)	**(1,595)**	**(13,512)**
Other – net (Note 8)	2	**74**	**622**
Other expenses – net	(2,045)	**(1,464)**	**(12,402)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	27,967	**23,079**	**195,498**
INCOME TAXES (Note 15)**:**			
Current	12,433	**9,395**	**79,586**
Deferred	(1,557)	**(271)**	**(2,295)**
Total income taxes	10,876	**9,124**	**77,291**
MINORITY INTERESTS IN NET INCOME	120	**144**	**1,217**
NET INCOME	¥16,971	**¥13,811**	**$116,990**

	Yen		U.S. Dollars
	2006	**2007**	**2007**
PER SHARE OF COMMON STOCK (Notes 2.u and 22)**:**			
Basic net income	¥5,649.18	**¥4,365.31**	**$36.98**
Diluted net income	5,521.31	**4,320.77**	**36.61**
Cash dividends applicable to the year	1,600.00	**1,700.00**	**14.40**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

SBI E*TRADE SECURITIES Co., Ltd. (Former E*TRADE SECURITIES Co., Ltd.) and Subsidiaries
Years ended March 31, 2006 and 2007

	Outstanding Number of Shares of Common Stock	Millions of Yen								
		Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustments	Total	Minority Interests	Total Equity
Balance, APRIL 1, 2005	956,856	¥21,330	¥18,982		¥10,319	¥290		¥50,921		¥50,921
(Changes of items during the period)										
Stock splits	2,082,718									
Stock issuance through public offering	66,000	22,552	22,552					45,104		45,104
Stock issuance through private placement	6,000	2,050	2,050					4,100		4,100
Adjustment of capital surplus for merger of Fides Securities Co., Ltd. through issuance of common stock	5,500		1,120					1,120		1,120
Exercise of warrants	26,743	943	943					1,886		1,886
Cash dividends, ¥2,300 per share					(2,201)			(2,201)		(2,201)
Bonuses to directors					(170)			(170)		(170)
Adjustment of retained earnings due to exclusion from application of equity method					1			1		1
Net income					16,971			16,971		16,971
Net increase in unrealized gain on available -for-sale securities						485		485		485
Net increase in foreign currency translation adjustments							691	691		691
BALANCE, MARCH 31, 2006	3,143,817	46,875	45,647		24,920	775	691	118,908		118,908
(Changes of items during the period)										
Reclassified balance as of March 31,2006 (Note 2.h)									**¥ 943**	**943**
Exercise of warrants	**44,676**	**989**	**989**					**1,978**		**1,978**
Cash dividends, ¥1,600 per share					**(5,030)**			**(5,030)**		**(5,030)**
Bonuses to directors					**(225)**			**(225)**		**(225)**
Net income					**13,811**			**13,811**		**13,811**
Net change in the year				**¥14**		**195**	**92**	**301**	**1,805**	**2,106**
BALANCE, MARCH 31, 2007	**3,188,493**	**¥47,864**	**¥46,636**	**¥14**	**¥33,476**	**¥970**	**¥783**	**¥129,743**	**¥2,748**	**¥132,491**

	Thousand of U.S. Dollars								
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustments	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2006	$397,076	$386,673		$211,096	$6,565	$5,868	$1,007,278		$1,007,278
(Changes of items during the period)									
Reclassified balance as of March 31,2006 (Note 2.h)								**$7,991**	**7,991**
Exercise of warrants	**8,381**	**8,381**					**16,762**		**16,762**
Cash dividends, $13.6 per share				**(42,608)**			**(42,608)**		**(42,608)**
Bonuses to directors				**(1,905)**			**(1,905)**		**(1,905)**
Net income				**116,990**			**116,990**		**116,990**
Net change in the year			**$119**		**1,650**	**763**	**2,532**	**15,290**	**17,822**
BALANCE, MARCH 31, 2007	**$405,457**	**$395,054**	**$119**	**$283,573**	**$8,215**	**$6,631**	**$1,099,049**	**$23,281**	**$1,122,330**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

SBI E*TRADE SECURITIES Co., Ltd. (Former E*TRADE SECURITIES Co., Ltd.) and Subsidiaries
Years ended March 31, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	**2007**	**2007**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥27,967	**¥23,079**	**$195,498**
Adjustments for:			
Income taxes paid	(6,057)	**(16,401)**	**(138,936)**
Amortization and depreciation	1,509	**1,770**	**14,997**
Payment of directors' bonuses	(170)	**(225)**	**(1,906)**
Net (gain) loss on sales of investment securities	(211)	**12**	**106**
Foreign exchange gain	(61)	**(6)**	**(53)**
Increase in statutory reserve	2,286	**1,595**	**13,512**
(Increase) in customers' segregated cash in trust	(140,940)	**(6,000)**	**(50,826)**
(Increase) in segregated cash	(6,500)	**(1,002)**	**(8,486)**
(Increase) in short-term guarantee deposits	(7,766)	**(5,471)**	**(46,341)**
(Increase) decrease in operational loans receivable	(6,024)	**522**	**4,424**
(Increase) decrease in trading assets	120	**(1,669)**	**(14,140)**
(Increase) in margin transaction assets or liabilities	(148,556)	**(8,000)**	**(67,768)**
Increase in guarantee deposits received	160,349	**9,039**	**76,572**
Increase (decrease) in deposits received	11,644	**(7,827)**	**(66,298)**
Net increase in (loans and) payables collateralized by securities	59,645	**465**	**3,937**
Other – net	(5,606)	**(3,469)**	**(29,390)**
Net cash used in operating activities	(58,371)	**(13,588)**	**(115,098)**
INVESTING ACTIVITIES:			
Payment for time deposits	(295)	**(171)**	**(1,446)**
Withdrawal of time deposits	82	**62**	**524**
Purchase of investment securities	(7,551)	**(3,861)**	**(32,704)**
Proceeds from sales of investment securities	5,294	**1,008**	**8,538**
Purchase of shares of a subsidiary (Note 21)		**(238)**	**(2,012)**
Purchase of tangible fixed assets	(178)	**(192)**	**(1,630)**
Proceeds from sales of tangible fixed assets	10	**83**	**706**
Purchase of intangible assets	(1,652)	**(1,801)**	**(15,260)**
Purchase of equity interest	(1)		
Proceeds from sale of other assets		**3**	**25**
Investments in loan receivables	(894)	**(29,119)**	**(246,669)**
Collection of loan receivables	864	**27,478**	**232,769**
Other – net	(319)	**12**	**96**
Net cash used in investing activities	(4,640)	**(6,736)**	**(57,063)**
FINANCING ACTIVITIES:			
Increase (decrease) in short-term borrowings – net	3,741	**(1,959)**	**(16,594)**
Repayments of liabilities for finance leases	(8)	**(6)**	**(49)**
Proceeds from long-term debt	20,000		
Repayments of long-term debt	(10,400)		
Proceeds from issuance of corporate bonds	49,788		
Proceeds from issuance of common stock	50,837	**1,938**	**16,421**
Proceeds from issuance of common stock to minority shareholders		**1,636**	**13,855**
Dividends paid	(2,195)	**(5,011)**	**(42,450)**
Net cash provided by (used in) financing activities	111,763	**(3,402)**	**(28,817)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	93	**(4)**	**(34)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	48,845	**(23,730)**	**(201,012)**
CASH AND CASH EQUIVALENTS DUE TO A MERGER	500		
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,125	**52,470**	**444,470**
CASH AND CASH EQUIVALENTS, END OF YEAR	¥52,470	**¥28,740**	**$243,458**

See notes to consolidated financial statements.

SBI E*TRADE SECURITIES Co., Ltd. (Former E*TRADE SECURITIES Co., Ltd.) and Subsidiaries
Years Ended 31st March, 2006 and 2007

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

On December 27, 2005, the Accounting Standards Board of Japan (the "ASBJ") published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006. The consolidated statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under generally accepted accounting principles in Japan and has been renamed "the consolidated statement of changes in equity" in the current fiscal year.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2006 financial statements to conform to the classification used in 2007.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which SBI E*TRADE SECURITIES Co., Ltd. (the former E*TRADE SECURITIES Co., Ltd. , the "Company") is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and has been made at the rate of ¥118.05 to $1, the approximate rate of exchange at March 31, 2007. Such translation should not be construed as representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT POLICIES

a. Consolidation – The consolidated financial statements as of March 31, 2006 and 2007 include the accounts of the Company and its subsidiaries (E*TRADE Korea Co., Ltd. and SBI Benefit Systems Co., Ltd.) (together, the "Group"). Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

(Subsidiaries)

All of subsidiaries are consolidated.

SBI Benefit Systems Co., Ltd was newly consolidated using the full fair value method as of September 30, 2006, since the Company acquired 87% of the outstanding shares on August 31, 2006. As a result, the number of consolidated subsidiaries increased from 1 to 2 as of March 31, 2007.

(Affiliated companies)

Investment in 1 (0 in 2006) affiliated company is accounted for by the equity method.

Traders Financial Systems Co., Ltd. was newly accounted for by the equity method as of March 31, 2007, since the Company acquired 20% of its outstanding shares in March 2007.

Goodwill, representing the excess of the Company's investment in its subsidiary over the fair value of the net assets of the acquired subsidiary at the date of acquisition, was equally amortized over the estimated useful years. However, when there is no materiality in the amount, such amount is fully charged to income when incurred.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Cash Equivalents – Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, separate deposits and call deposits, all of which mature or become due within three months of the date of acquisition.

c. Securities – Securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities and derivatives, which are held for the purpose of earning capital gains in the near term are reported at fair value, with the related unrealized gains and losses are included in earnings and (2) available-for-sale securities, which are not classified as trading securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of securities is determined based on the moving-average cost method.

Non-marketable available-for-sale securities are stated at cost determined by the moving average cost method. For other than temporary declines in fair value, non-marketable available-for-sale securities are reduced to net realizable value by a charge to income.

Investments in funds are accounted for as investment securities on the consolidated balance sheets, according to the Group's contributed capital in investment partnerships.

d. Allowance for Doubtful Accounts – The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

e. Property and Equipment – Property and equipment are stated at cost less accumulated depreciation. Depreciation of property and equipment of the Company is computed by using the declining-balance method over the estimated useful lives of assets, while the straight-line method is applied to buildings acquired on and after April 1, 1998 and the property and equipment of consolidated subsidiary. The range of useful lives is principally from 3 to 50 years for buildings and from 2 to 20 years for furniture and equipment.

f. Long-lived assets – The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset or asset group exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or asset group or the net selling price at disposition.

g. Stock Option – The stock options are accounted for as compensation expense for employee or non-employee based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised.

h. Presentation of Equity – On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006. The consolidated balance sheet as of March 31, 2007 is presented in line with this new accounting standard.

i. Leases – All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

j. Software – Software is recorded at cost, less accumulated amortization. Amortization of software used for internal purposes is computed by using the straight-line method over 5 years, the estimated useful life of the software.

k. Other Assets – Stock issuance costs and bond issuance costs which were incurred prior to May, 2006 are principally amortized by the straight-line method over 3 years. Stock issuance costs which were incurred on or after May 1, 2006 are charged to income as incurred in accordance with ASBJ PITF No.19 “Tentative Solution on Accounting for Deferred Assets”, which was issued by the ASBJ on August 11, 2006 and is effective for fiscal years ending on or after May 1, 2006. Intangible assets are amortized by using straight-line method.

l. Employees’ Retirement Benefits – The liability for employees’ retirement benefits is accounted for based on projected benefit of a overseas subsidiary obligations and plan assets at the balance sheet date.

m. Retirement Allowance for Directors – Retirement allowance for directors of a overseas subsidiary is recorded to state the liability at the amount based on the internal rule that would be required if all directors retired at each balance sheet date.

n. Statutory Reserve – Statutory reserve is provided for the possible losses resulting from securities accidents in the amount provided by the Article 35 of the “Cabinet Office Ordinance concerning Securities Companies” in accordance with the provision of the Article 51 of the Securities and Exchange Law.

o. Bonuses to directors and corporate auditors – Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No.13, “Accounting Treatment for Bonuses to Directors and Corporate Auditors”, which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

The Company adopted the new accounting standard for bonuses to directors and corporate auditors in the year ended March 31, 2007. The effect of adoption of this accounting standard was to decrease income before income taxes and minority interests for the year ended March 31, 2007 by ¥ 169 million ($ 1,429 thousand).

p. Income Taxes – The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred tax assets are measured by applying currently enacted tax laws to the temporary differences.

A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Group is able to realize their benefits, or that future deductibility is uncertain.

q. Consumption Tax – The consumption tax imposed on revenue from customers for the services is withheld upon recognition of revenue and the consumption tax paid by the Company on the purchase of merchandise and services from vendors, are not included in the related accounts in the accompanying consolidated statements of income. The consumption tax paid is generally offset against the balance of consumption tax withheld, and net overpayment is included in current assets or net over withholding is included in current liabilities.

r. Foreign Currency Transactions – All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

s. Foreign Currency Financial Statements – The balance sheet accounts of the consolidated subsidiary are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity, except for the portion pertaining to minority shareholders, which is included in "Minority interest."
Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

t. Appropriation of Retained Earnings – Appropriation of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

u. Per Share Information – Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.
Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax and full exercise of outstanding warrants.
Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year, which is not retroactively adjusted for stock splits.

v. New Accounting Pronouncements

Lease Accounting

On March 30, 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions", which revised the existing accounting standard for lease transactions issued on June 17, 1993.
Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.
The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No.18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements". The new task force prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

(1) Amortization of goodwill
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalization of intangible assets arising from development phases
(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
(5) Retrospective application when accounting policies are changed
(6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

3. SEGREGATED CASH

At March 31, 2006 and 2007, assets required to be segregated in certain financial institutions according to the Article 91 of the Financial Futures Trading Law were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Cash on hand and in banks	¥6,500	**¥7,502**	**$63,548**

4. TRADING ACCOUNTS

Trading accounts including derivative contracts, are recorded at fair value, and unrealized gains and losses are reflected in net gain on trading under operating revenue. Trading activities consist of customer transactions to meet customers' needs including asset management and risk hedging and also proprietary trading with the aim of realizing capital gains. The Company's trading positions arise mainly from cash transactions of equities, bonds and other trading securities. The trading activities of the Company are principally exposed to market risk and counterparty risk. Market risk is arising from the changes in the value caused by fluctuations in equity prices, interest rates and foreign currency exchange rates and counterparty risk is a default risk on the counterparties. The management believes it is critical to identify the accurate positions and fair market value for managing the market risk and evaluate the counterparties appropriately and to identify accurate credit positions and their fair market value for managing counterparty risk. Market risk is managed by computing the positions, realized gains or losses and unrealized gains or losses against position limits established and by monitoring the trading status by the Risk Management Division. Counterparty risk is managed by rating the counterparties and identifying credit positions and their fair market value by the Risk Management Division. These risk management activities are reported to the management every day.

Trading accounts at March 31, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Trading securities – assets:			
Equities	¥ 73	**¥ 26**	**$ 216**
Bonds	1,859	**3,717**	**31,485**
Others	108	**105**	**892**
Total	¥2,040	**¥3,848**	**$32,593**
Derivatives – assets:			
Foreign currency forward contracts:			
Contractual amount	¥ 222	**¥1,369**	**$11,598**
Fair value	1	**27**	**229**
Derivatives – liabilities included in other current liabilities:			
Foreign currency forward contracts:			
Contractual amount	1,027	**281**	**2,380**
Fair value	11	**2**	**21**

5. INVESTMENT SECURITIES

Investment securities at March 31, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Available-for-sale securities:			
Marketable equity securities	¥1,292	**¥1,740**	**$14,738**
Non-marketable equity securities	267	**438**	**3,711**
Investment in funds	3,564	**6,144**	**52,046**
Non-marketable foreign bonds	6	**5**	**40**
	5,129	**8,327**	**70,535**
Investment in an affiliated company		**102**	**862**
Total	¥5,129	**¥8,429**	**$71,397**

The carrying amounts and aggregate fair value of marketable equity securities at March 31, 2006 and 2007 were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2006				
Securities classified as available-for-sale:				
Equity securities	¥106	¥1,186		¥1,292
March 31, 2007				
Securities classified as available-for-sale:				
Equity securities	**¥106**	**¥1,634**		**¥1,740**

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2007				
Securities classified as available-for-sale:				
Equity securities	**$901**	**$13,837**		**$14,738**

Available-for-sale securities whose fair value is not readily determinable at March 31, 2006 and 2007 were as follows:

	Carrying Amount		
	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Available-for-sale:			
Non-marketable equity securities	¥ 267	**¥ 438**	**$ 3,711**
Investment in funds	3,564	**6,144**	**52,046**
Non-marketable foreign bonds	6	**5**	**40**
Total	¥3,837	**¥6,587**	**$55,797**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2006 and 2007 were ¥4,748 million and ¥121 million ($1,025 thousand), respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥213 million and ¥2 million, respectively, for the year ended 31 March, 2006 and ¥0 million ($3 thousand) and ¥1 million ($8 thousand), respectively for the year ended March 31, 2007.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2007 are as follows:

	Millions of yen	Thousands of U.S. dollars
Due in one year or less		
Due after one year through five years	¥5	$40
Due after five years through 10 years		

6. SECURITIES DEPOSITED AND RECEIVED

Fair value of the securities deposited by the Group in securities-related businesses at March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Securities loaned on margin transactions	¥ 68,037	**¥ 64,970**	**$ 550,358**
Securities pledged for loans payable for margin transactions	279,796	**207,400**	**1,756,883**
Securities loaned by loan agreements	53,796	**54,747**	**463,759**
Securities sold in resale agreement	1,211		
Substitute securities for guarantee money paid	161,916	**101,018**	**855,726**
Others	907	**1,681**	**14,240**

Fair value of the securities received by the Group in securities-related businesses at March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Securities pledged for loans receivable for margin transactions	¥500,031	**¥429,441**	**$3,637,791**
Securities borrowed on margin transactions	18,476	**11,194**	**94,825**
Securities borrowed by loan agreements	154	**39**	**333**
Securities purchased on repurchase agreement transactions	8,176	**6,993**	**59,237**
Substitute securities for guarantee money received	278,600	**258,009**	**2,185,590**

7. PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Land	¥ 147	**¥ 37**	**$ 314**
Buildings and leasehold improvements	266	**213**	**1,803**
Furniture and equipment	1,601	**1,738**	**14,723**
Total	2,014	**1,988**	**16,840**
Less accumulated depreciation	(1,319)	**(1,470)**	**(12,451)**
Property and equipment – net	¥ 695	**¥ 518**	**$ 4,389**

8. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the year ended March 31, 2007 and, as a result, recognized an impairment loss of ¥ 53 million ($448 thousand) as other expense for certain rental property group in Hanyu City, Saitama prefecture due to a continuous declines in the fair market value of the land price and the carrying amount of the relevant rental property was written down to the recoverable amount. The recoverable amount of that rental property group was measured at its net selling price determined by quotation from assessed value of fixed assets tax.

9. SHORT-TERM BORROWINGS, CORPORATE BONDS AND LONG-TERM DEBT

Short-term borrowings, corporate bonds and long-term debt at March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars	Average interest rate(%)	Maturity date
	2006	**2007**	**2007**	2007	2007
Short-term borrowings	¥ 4,258	**¥ 2,512**	**$ 21,279**	5.150%	
Current portion of long-term debt		**20,000**	**169,420**	0.956	
Long-term debt	20,000				
Other interest bearing liabilities:					
Loans payable on margin transactions	269,977	**208,367**	**1,765,076**	1.032	
Loans payable on repurchase agreement transactions	1,206				
Total	¥295,441	**¥230,879**	**$1,955,775**		
Unsecured corporate bonds, issued on March 10, 2006	¥ 50,000	**¥ 50,000**	**$ 423,549**	1.24%	March 10, 2009

10. PLEDGED ASSETS

The equity securities in the amounts of ¥19,098 million and ¥19,554 million ($165,645 thousand) were pledged as collateral for payables on margin transactions at March 31, 2006 and 2007, respectively.

11. LIABILITY FOR EMPLOYEES' RETIREMENT BENEFITS

The Company and its consolidated subsidiary have adopted defined contribution pension plans and its overseas subsidiary has a defined benefit lump-sum payment plan. The overseas subsidiary adopts a simplified method in computing its liability for employees' retirement benefits. At March 31, 2006 and 2007, the reserve for employees' retirement benefits included in other long-term liabilities is computed as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Defined benefits obligations	¥73	**¥41**	**$347**
Plan assets	(47)	**(40)**	**(342)**
Reserve for employees' retirement benefits	¥26	**¥ 1**	**$ 5**

Plan assets represent accumulated fund of insurance paid by the subsidiary to cover the retirement benefits.

Retirement benefit expenses for the years ended March 31, 2006 and 2007 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Contribution to the defined contribution pension plan	¥31	**¥42**	**$356**
Provision for the reserve	40	**39**	**327**
Retirement benefit expenses	¥71	**¥81**	**$683**

12. STATUTORY RESERVE

According to the Securities and Exchange Law, a securities company is required to set aside a reserve in proportion to its securities and other related trading to cover possible customer losses incurred by default of the securities company on securities transactions.

13. EQUITY

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the “Corporate Law”), which reformed and replaced the Commercial Code of Japan (the “Code”) with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥ 3 million.

(b) Increases / decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity. The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

On April 1, 2005, due to the merger with Fides Securities Co., Ltd. (“Fides”) the Company issued 5,500 shares of its common stock to Fides’s shareholders listed in shareholder list as at 31st March, 2005 at an exchange ratio of 0.275 shares for each outstanding share of Fides’s common stock. Dividends for newly issued shares in relation to this merger were computed from April 1, 2005. As a result, the Company’s capital surplus increased by ¥1,120 million ($9,485 thousand).

Upon resolution and approval of the Board of Directors on November 29, 2005, the Company issued 66,000 new shares of common stock through public offering on December 16, 2005. The Company’s common stock and capital surplus increased by ¥22,552 million ($191,034 thousand) and ¥22,552 million ($191,034 thousand), respectively.

Upon resolution and approval of the Board of Directors on November 29, 2005, the Company issued 6,000 new shares of common stock through private placement on January 16, 2006. The Company’s common stock and capital surplus increased by ¥2,050 million ($17,367 thousand) and ¥2,050 million ($17,367 thousand), respectively.

On February 1, 2006, the Company made a stock split by way of a free share distribution at the ratio of 3 shares for each outstanding share, and 2,082,718 shares of the Company's common stock were issued to shareholders of record on January 31, 2006. Dividends for newly issued shares in relation to this stock split were computed from October 1, 2005. In addition, on February 1, 2006, the Company increased the number of authorised shares by 7,600,000 shares to 11,400,000 shares through amendment of articles of incorporation.

During the year ended March 31, 2006, the Company issued 26,743 shares of its common stock pursuant to the exercise of options granted based on the stock option plans. As a result, common stock and capital surplus increased by ¥943 million ($7,991 thousand) and ¥943 million ($7,991 thousand), respectively.

During the year ended March 31, 2007, the Company issued 44,676 shares of its common stock pursuant to the exercise of options granted based on the stock option plans. As a result, common stock and capital surplus increased by ¥989 million ($8,381 thousand) and ¥989 million ($8,381 thousand), respectively.

14. STOCK OPTIONS

The stock option outstanding as of March 31, 2007 is as follows:

Stock Option	Persons Granted	Number of Options granted	Date of Grant	Exercise Price	Exercise Period
The Company Stock Option 1	7 directors 88 employees 6 employees of parent company	116,190 shares	July 8, 2004	¥ 44,290 ($ 375)	From December 22, 2004 to June 21, 2010
The Company Stock Option 2	1 directors	4,500 shares	July 21, 2004	¥ 44,290 ($ 375)	From December 22, 2004 to June 21, 2010
The Company Stock Option 3	2 employees	90 shares	August 3, 2004	¥ 44,290 ($ 375)	From December 22, 2004 to June 21, 2010
The Company Stock Option 4	40 employees	5,610 shares	November 29, 2005	¥171,417 ($ 1,452)	From January 1, 2006 to June 23, 2013
The Company Stock Option 5	12 employees	750 shares	December 30, 2005	¥200,638 ($ 1,670)	From January 1, 2006 to June 23, 2013
E*TRADE Korea Co., Ltd. Stock Option 1	3 directors of subsidiary 63 employees of subsidiary	121,500 shares	September 15, 2000	5,000 Won ($ 5)	From September 16, 2003 to September 15, 2010
E*TRADE Korea Co., Ltd. Stock Option 2	9 employees of subsidiary	10,500 shares	May 11, 2001	5,000 Won ($ 5)	From May 12, 2004 to May 11, 2011
E*TRADE Korea Co., Ltd. Stock Option 3	5 directors of subsidiary 55 employees of subsidiary	236,500 shares	October 5, 2004	5,000 Won ($ 5)	From October 6, 2007 to October 5, 2014
E*TRADE Korea Co., Ltd. Stock Option 4	5 directors of subsidiary 10 employees of subsidiary	228,000 shares	March 3, 2006	7,000 Won ($ 7)	From March 4, 2008 to March 3, 2015

The stock option activity is as follows:

	The Company Stock Option 1	The Company Stock Option 2	The Company Stock Option 3
		(Shares)	
For the year ended March31, 2007			
Non-vested			
March 31, 2006 – Outstanding			
Granted			
Canceled			
Vested			
March 31, 2007 – Outstanding			
Vested			
March 31, 2006 – Outstanding	63,351	2,250	63
Vested			
Exercised	44,613		63
Canceled	747		
March 31, 2007 – Outstanding	17,991	2,250	
Exercise price	¥ 44,290 ($ 375)	¥44,290 ($ 375)	¥ 44,290 ($ 375)
Average stock price at exercise	¥146,459 ($ 1,241)		¥156,571 ($ 1,326)

	The Company Stock Option 4	The Company Stock Option 5	E*TRADE Korea Co., Ltd. Stock Option 1
		(Shares)	
For the year ended March31, 2007			
Non-vested			
March 31, 2006 – Outstanding			
Granted			
Canceled			
Vested			
March 31, 2007 – Outstanding			
Vested			
March 31, 2006 – Outstanding	5,007	699	89,000
Vested			
Exercised			39,000
Canceled	960		7,500
March 31, 2007 – Outstanding	4,047	699	42,500
Exercise price	¥171,417 ($ 1,452)	¥200,638 ($ 1,670)	5,000 Won ($ 5)
Average stock price at exercise			17,150 Won ($ 18)

	E*TRADE Korea Co., Ltd. Stock Option 2	E*TRADE Korea Co., Ltd. Stock Option 3	E*TRADE Korea Co., Ltd. Stock Option 4
		(Shares)	
For the year ended March31, 2007			
Non-vested			
March 31, 2006 – Outstanding		224,500	228,000
Granted			
Canceled		67,500	3,000
Vested			
March 31, 2007 – Outstanding		157,000	225,000
Vested			
March 31, 2006 – Outstanding	4,000		
Vested			
Exercised			
Canceled	2,000		
March 31, 2007 – Outstanding	2,000		
Exercise price	5,000 Won ($ 5)	5,000 Won ($ 5)	7,000 Won ($ 7)
Average stock price at exercise			

15. INCOME TAXES

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rate of 40.69 percent for the years ended March 31, 2006 and 2007.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Deferred tax assets:			
Current:			
Allowance for doubtful accounts	¥ 54	**¥ 96**	**$ 812**
Write-down of trading securities	82	**82**	**694**
Accrued enterprise tax and business place tax	803	**251**	**2,124**
Advertising expenses	112	**86**	**727**
Other	11	**72**	**614**
Less valuation allowance	(10)	**(1)**	**(7)**
Deferred tax assets - current	1,052	**586**	**4,964**
Deferred tax liabilities-current		**1**	**5**
Net deferred tax assets – current	¥1,052	**¥ 585**	**$ 4,959**
Non-current:			
Allowance for doubtful accounts	¥ 33	**¥ 66**	**$ 559**
Tax loss carryforwards		**390**	**3,305**
Reserve for liability for securities transactions	1,857	**2,506**	**21,225**
Write-down of investment securities	12	**16**	**139**
Depreciation	19	**106**	**902**
Loss on impairment of land	62	**22**	**182**
Other	10	**28**	**241**
Less valuation allowance	(0)	**(480)**	**(4,067)**
Deferred tax assets – non-current	1,993	**2,654**	**22,486**
Deferred tax liabilities:			
Non-current:			
Deferred revenue on fixed assets	79		
Unrealized gain on available-for-sale securities	532	**665**	**5,635**
Deferred tax liabilities – non-current	611	**665**	**5,635**
Net deferred tax assets – non-current	¥1,382	**¥1,989**	**$16,851**

The analysis of the reconciliation between the normal effective statutory tax rate and the actual effective tax rate is omitted since the difference is less than 5% of the normal effective statutory tax rate.

16. LEASES

The following pro forma amounts represent the acquisition cost, accumulated depreciation and net book value of leased assets at March 31, 2006 and 2007, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases as allowed under Japanese GAAP.

	2006		
	Millions of yen		
	Furniture and Equipment	Software	Total
Acquisition cost	¥6,051	¥1,276	¥7,327
Accumulated depreciation	1,663	476	2,139
Net book value	¥4,388	¥ 800	¥5,188

	2007					
	Millions of yen			Thousands of U.S. dollars		
	Furniture and Equipment	Software	Total	Furniture and Equipment	Software	Total
Acquisition cost	**¥9,440**	**¥1,534**	**¥10,974**	**$79,965**	**$12,993**	**$92,958**
Accumulated depreciation	**3,277**	**782**	**4,059**	**27,756**	**6,628**	**34,384**
Net book value	**¥6,163**	**¥ 752**	**¥ 6,915**	**$52,209**	**$ 6,365**	**$58,574**

Obligations under finance leases at March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Due within one year	¥1,386	**¥2,123**	**$17,981**
Due after one year	3,898	**4,919**	**41,673**
Total	¥5,284	**¥7,042**	**$59,654**

Lease payments related to finance leases accounted for as operating leases in the accompanying consolidated financial statements and the related depreciation expense and interest expense for the years ended March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Lease payments	¥1,182	**¥2,030**	**$17,199**
Depreciation expense	1,098	**1,924**	**16,296**
Interest expense	119	**138**	**1,172**

Depreciation expense is computed by the straight-line method over the respective lease terms assuming no residual value. The excess of total lease payments over acquisition cost equivalent is regarded as amounts representing interest expense and is allocated to each period using the interest method.

17. OPERATING REVENUES

Operating revenues for the years ended March 31, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Commissions:			
Brokerage commissions	¥40,175	**¥31,695**	**$268,489**
Underwriting and selling commissions	492	**725**	**6,145**
Offering and selling commissions	1,511	**1,230**	**10,416**
Other commissions	1,881	**3,030**	**25,667**
Total	44,059	**36,680**	**310,717**
Trading profit	2,666	**2,786**	**23,597**
Financial revenues	13,231	**17,471**	**147,996**
401K related revenue		**75**	**637**
Other	258	**401**	**3,398**
Total operating revenues	¥60,214	**¥57,413**	**$486,345**

Net gain (loss) on trading for the years ended 31st March, 2006 and 2007 consisted of the following:

	Millions of yen						Thousands of U.S. dollars		
	2006			2007			2007		
	Realized Gain	Unrealized Gain(Loss)	Total	Realized Gain	Unrealized Gain(Loss)	Total	Realized Gain	Unrealized Gain(Loss)	Total
Equity securities	¥ 333	¥(5)	¥ 328	**¥ 154**	**¥ (2)**	**¥ 152**	**$ 1,309**	**$ (17)**	**$ 1,292**
Debt securities	1,456	9	1,465	**1,413**	**(3)**	**1,410**	**11,966**	**(27)**	**11,939**
Other	875	(2)	873	**1,190**	**34**	**1,224**	**10,079**	**287**	**10,366**
Total	¥2,664	¥ 2	¥2,666	**¥2,757**	**¥29**	**¥2,786**	**$23,354**	**$243**	**$23,597**

Financial revenues for the years ended March 31, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Revenues from margin transactions	¥11,319	**¥13,492**	**$114,292**
Interest income on bonds	77	**235**	**1,987**
Revenues from repo transactions	101	**14**	**121**
Interest income	1,336	**2,540**	**21,514**
Other	398	**1,190**	**10,082**
Total	¥13,231	**¥17,471**	**$147,996**

18. COST OF SALES

Cost of sales for the years ended March 31, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Cost of margin transactions	¥3,430	**¥2,828**	**$23,954**
Interest expense on bonds	36	**620**	**5,252**
Interest expense	306	**407**	**3,444**
Cost of repo transactions	29	**0**	**2**
Others	96	**262**	**2,223**
Total	¥3,897	**¥4,117**	**$34,875**

19. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Trading related costs	¥ 9,189	**¥ 8,798**	**$ 74,528**
Personnel costs	2,850	**3,222**	**27,290**
Real estate related expenses	3,521	**5,395**	**45,700**
Administrative expenses	6,837	**6,713**	**56,870**
Depreciation expense	1,314	**1,519**	**12,871**
Taxes and dues	440	**417**	**3,533**
Provision for allowance for doubtful accounts	207	**289**	**2,444**
Others	1,947	**2,400**	**20,334**
Total	¥26,305	**¥28,753**	**$243,570**

20. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥13 million and ¥14 million ($120 thousand) for the years ended March 31, 2006 and 2007, respectively.

21. PURCHASE OF SHARES OF A SUBSIDIARY

The Company acquired the shares in SBI Benefit Systems Co., Ltd. and consequently, it became a consolidated subsidiary during the year ended March 31, 2007.

The assets and liabilities at the beginning of consolidation and the relationship between the acquisition cost of the shares of SBI Benefit Systems Co., Ltd. and payment for its acquisition were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥376	$3,186
Fixed assets	82	698
Goodwill on consolidation	239	2,024
Other assets	1	5
Current liabilities	(50)	(422)
Minority interests	(53)	(452)
Acquisition cost	¥595	$5,039
Transfer from investment securities	(10)	(83)
Cash and cash equivalents	(347)	(2,944)
Payment for shares of SBI Benefit Systems Co., Ltd.	¥238	$2,012

22. PER SHARE INFORMATION

Basic net income and diluted net income for the years ended March 31, 2006 and 2007 were computed based on the following data:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Net income	¥16,971	**¥13,811**	**$116,990**
Amount not attributable to common shareholders	225		
(of which, directors' bonuses by appropriation of earnings)	(225)		
Net income available to common shareholders	16,746	**13,811**	**116,990**
Average number of common stocks	2,964,298	**3,163,830**	
Effect of dilutive shares	68,652	**32,614**	
(Of which, warrants)	(68,652)	**(32,614)**	

The Company executed stock splits of three shares for one share on 1st March, 2005 and 1st February, 2006. The average number of common stocks and effect of dilutive shares are adjusted on the assumption that these stock splits were executed at the beginning of the fiscal year ended 31st March, 2005.

23. SUBSEQUENT EVENTS

a. Merger with SBI Securities Co., Ltd.:

The Company entered into a merger agreement with SBI Securities Co., Ltd. pursuant to the resolution of the Board of Directors' meeting held on April 26, 2007. 259,733 common shares will be issued to the shareholders of SBI Securities Co., Ltd. for the net assets amounting to ¥25,139 million ($219,956 thousand) without any increase in capital and capital reserve. The name of the Company after the merger is SBI E*Trade Securities Co., Ltd. and the merger will come into effect on October 1, 2007.

b. Stock-for-stock exchanges – Tradewin Co., Ltd.

The Company entered into a stock-for stock swap agreement with Tradewin Co., Ltd. to acquire 100% of the company pursuant to the resolution of the Board of Directors' meeting held on May 17, 2007. Effective July 9, 2007, 8,462 common shares of the Company will be issued to the shareholders of Tradewin at the exchange ratio of 1.859 shares of the Company for 1.00 common share of Tradewin Co., Ltd.

c. Stock-for-stock exchanges – Traders Financial Systems Co., Ltd.

The Company entered into a stock-for-stock swap agreement with Traders Financial Systems Co., Ltd to acquire 100% of the company pursuant to the Board of Directors' meeting held on May 17, 2007. Effective July 9, 2007, 1,541 common shares of the Company will be issued to the shareholders of Traders Financial Systems Co., Ltd. at the exchange ratio of 0.520 share of the Company for 1.00 common share of Traders Financial Systems Co., Ltd.

d. Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2007 was approved at the Company's shareholders meeting held on June 26, 2007:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥1,700 ($14.40) per share	¥5,420	$45,913

24. SEGMENT INFORMATION

The Group is engaged in securities related services including trading of securities, brokerage services, underwriting and selling of securities, offering and selling of securities and private placement of securities. These activities are accompanied by financial and other services and the business segment of the Company and its consolidated subsidiaries is within one business segment that is “Investment and Financial Services”.

The geographical segment information for the year ended March 31, 2006 was omitted since total operating revenues and total assets of the overseas subsidiary are less than 10 percent of the total operating revenues and total assets of the consolidated group. Overseas sales information for the year ended March 31, 2006 is also omitted since the overseas revenue is less than 10 percent of the consolidated revenue.

The geographical segment information of the Group for the year ended March 31, 2007 was as follows:

	Millions of yen				
	2007				
	Japan	Korea	Total	Eliminations or corporate	Consolidated
I. Operating revenue and operating income					
Outside customers	¥ 51,633	¥ 5,780	¥ 57,413		¥ 57,413
Intersegment revenue	8	1	9	¥ (9)	
Total	51,641	5,781	57,422	(9)	57,413
Operating expenses	28,572	4,307	32,879	(9)	32,870
Operating income	23,069	1,474	24,543		24,543
II. Assets	¥867,281	¥32,262	¥899,543	¥(127)	¥899,416

	Thousands of U.S. dollars				
	2007				
	Japan	Korea	Total	Eliminations or corporate	Consolidated
I. Operating revenue and operating income					
Outside customers	$ 437,383	$ 48,962	$ 486,345		$ 486,345
Intersegment revenue	68	8	76	$ (76)	
Total	437,451	48,970	486,421	(76)	486,345
Operating expenses	242,035	36,486	278,521	(76)	278,445
Operating income	195,416	12,484	207,900		207,900
II. Assets	$7,346,727	$273,289	$7,620,016	$(1,072)	$7,618,944

Overseas revenue information of the Group for the year ended March 31, 2007 was as follows:

	Millions of Yen	Thousands of U.S. dollars
Overseas revenue	¥6,000	$50,826
Consolidated operating revenue	57,413	486,345
% of overseas sales to consolidated revenue	10.5%	

25. RELATED PARTY TRANSACTIONS

Transactions with related parties for the years ended March 31, 2006 and 2007 and related account balances outstanding at each year end by related parties were as follows:

		Millions of yen		Thousands of U.S. dollars
		2006	**2007**	**2007**
SBI Holdings Inc.	System development	70		
	System maintenance	45		
	Borrowing on repos	14,792		
	Other payables	2		
	Accrued expenses	3		

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
SBI E*TRADE Securities Co., Ltd.:

We have audited the accompanying consolidated balance sheets of SBI E*TRADE Securities Co., Ltd. (the former E*TRADE Securities Co., Ltd., the "Company") and subsidiaries (together, the "Group") as of March 31, 2006 and 2007, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SBI E*TRADE Securities Co., Ltd. and subsidiaries as of March 31, 2006 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

(1) As discussed in Note 2. o to the consolidated financial statements, the Company adopted the new accounting standard for bonuses to directors and corporate auditors in the year ended March 31, 2007.

(2) As discussed in Note 23. a to the consolidated financial statements, the Company entered into a merger agreement with SBI Securities Co., Ltd. pursuant to the resolution of the Board of directors' meeting held on April 26, 2007.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 26, 2007

Member of
Deloitte Touche Tohmatsu

CORPORATE OFFICERS

Directors and Executive Officers

Yoshitaka Kitao	Chairman of the Board
Taro Izuchi	Representative Director and President
Yoshihito Sato	Representative Director and Senior Managing Director
Takeki Saito	Director and Executive Officer
Naoki Iwayoshi	Director and Executive Officer
Masato Takamura	Director and Executive Officer
Hiroyuki Kamata	Executive Officer
Kyoji Noma	Executive Officer
Tokihito Yamada	Executive Officer
Kazumori Morita	Executive Officer

Corporate Auditors

Isao Korenaga	Managing Corporate Auditor
Norikazu Nakagawa	Corporate Auditor
Minoru Tada	Corporate Auditor
Atsushi Fujii	Corporate Auditor

Assuming the October 1, 2007, merger between SBI E*TRADE SECURITIES and SBI Securities is approved, the three persons listed below are to join our Board of Directors as new members.

Ken Izawa
Masanobu Yashiki
Yukio Todoroki

HISTORY

October 1998
E*TRADE Japan K.K., which was formed through the joint investments of Softbank Corp. and E*TRADE Group, Inc. (a U.S. corporation, currently E*TRADE Financial Corporation), acquired Osawa Securities Co., Ltd., as a wholly owned subsidiary. (Osawa Securities was founded in March 1944 and became a regular member of the Tokyo Stock Exchange in April 1949.)

December 1998
Accompanying the transition in Japan's securities industry to a registered company system, the Company received an official registration.

April 1999
The Company began call center operations.
The Company name was changed from Osawa Securities to E*TRADE SECURITIES Co., Ltd.

October 1999
E*TRADE SECURITIES began Internet transactions services.

April 2000
The Company became a regular member of the Osaka Securities Exchange.

March 2003
The Company became a special regular member of the Fukuoka Stock Exchange.

April 2003
The Company became a full-service, regular member of the Nagoya Stock Exchange.

November 2004
E*TRADE SECURITIES listed on the JASDAQ exchange (company code: 8701).

December 2004
Nine companies of the SBI Group formed the SBI Child Welfare Limited Liability Intermediate Corporation.
The Company became a participating member of the JASDAQ Stock Exchange.

March 2005
E*TRADE Financial Corporation, of the United States, invested in the Company.
E*Trade Korea Co., Ltd., became a subsidiary of the Company.

April 2005
E*TRADE SECURITIES merged with Fides Securities Corporation.

August 2005
The Company became a special regular member of the Sapporo Stock Exchange.
The Company began underwriting activities for initial public offerings (IPOs).

January 2006
E*TRADE SECURITIES became the first specialized on-line securities company to attain one million full-service customer accounts.

March 2006
The Company's first unsecured bonds were issued.

July 2006
The Company name was changed from E*TRADE SECURITIES CO., LTD., to SBI E*TRADE SECURITIES Co., Ltd.
The Company introduced a large-scale, on-line trading system capable of handing two million customer accounts.

August 2006
SBI Benefit Systems Co., Ltd., became a subsidiary.

February 2007
Subsidiary E*TRADE Korea Co., Ltd., listed on the KOSDAQ stock market.

July 2007
E*TRADE SECURITIES made TradeWin Co., Ltd., and Traders Financial Systems Co., Ltd., into subsidiaries.

CORPORATE DATA

Corporate Name	SBI E*TRADE SECURITIES Co., Ltd.
Location	1-6-1, Roppongi, Minato-ku, Tokyo
Tel.	(81) 3-5562-7210
Established	March 30, 1944
Paid-in Capital	¥47,864,185,651 (As of March 31, 2007)
Number of Employees	140 (As of March 31, 2007)
Consolidated Subsidiary	E*Trade Korea Co., Ltd.
URL	http://www.etrade.ne.jp/

INVESTOR INFORMATION (As of March 31, 2007)

Shares Authorized	11,400,000 shares
Shares Issued	3,188,493 shares
Number of Shareholders	104,540

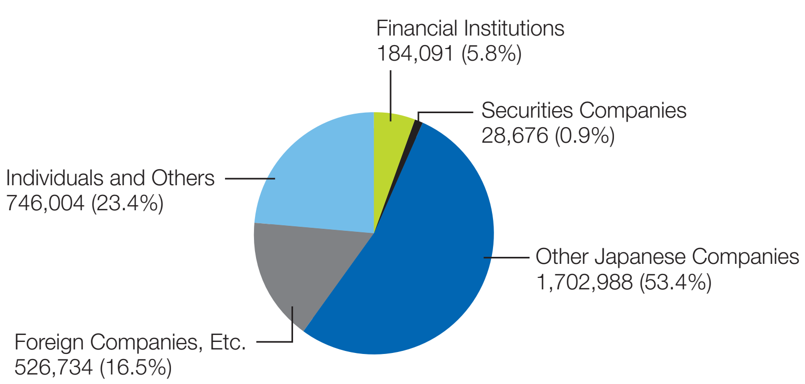
Principal Shareholders

	Number of shares	Share of voting rights (%)
SBI Holdings, Inc.	1,671,465	52.42
The Chase Manhattan Bank, N.A. London	129,534	4.06
Lehman Brothers International (Europe)	86,363	2.70
State Street Bank and Trust Company	64,546	2.02
JAPAN SECURITIES FINANCE CO., LTD.	46,884	1.47
The Master Trust Bank of Japan, Ltd. (Trust Account)	40,388	1.26
Japan Trustee Services Bank, Ltd. (Trust Account)	35,090	1.10

* Shareholding and voting rights figures for JAPAN SECURITIES FINANCE CO., LTD., include figures for 1,050 shares held in that company's commercial account.

Shareholder Information (As of March 31, 2007)

Number of shares held
Percentage of total shares issued (%)



E*TRADE JAPAN

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