ÆON CREDIT SERVICE CO., LTD.

Annual Report 2007

For the Year Ended February 20, 2007

ÆON CREDIT SERVICE CO., LTD.

Supporting cardholders' lifestyles and maximizing future opportunities through effective use of credit

The unchanging corporate mission of ÆON Credit Service Co., Ltd., is to constantly benefit its cardholders through quality financial services. As a reflection of this, we have included "ÆON"—the Latin word for eternity—in our corporate name. In Japan and the rest of Asia, our management philosophy is to "support cardholders' lifestyles and enable each individual to maximize future opportunities through effective use of credit." To this end, we provide carefully tailored financial services by paying special attention to cardholders' needs. We also seek to earn cardholder trust by striving hard to raise standards of corporate behavior in the financial services industry, adhering to a strict code of corporate ethics and engaging in activities that conserve the environment and contribute to society.

CONTENTS

Forward-Looking Statements

Statements contained in this report with respect to the ÆON Credit Service Group's plans, strategies and beliefs that are not historical facts are forward-looking statements about the future performance of the ÆON Credit Service Group, which are based on management's assumptions and beliefs in light of the information currently available. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the ÆON Credit Service Group's actual results, performance or achievements to differ materially from the expectations expressed herein.

A Message From The President

Fiscal 2006 Performance

In fiscal 2006, AEON Credit Service reinforced efforts to generate interest in its credit cards, including the AEON Card, at the stores of alliance partners at home and abroad, and worked to develop additional co-branded cards. This emphasis was rewarded with a net increase of 1.11 million cardholders, to 17.22 million, on a consolidated basis.

In our domestic credit card business, we focused on mobile credit, using mobile phones and electronic money, commonly referred to as e-money, because both payment methods are gaining attention as settlement options for small transaction amounts. We also channeled energy into cultivating new demand segments, with a strategic spotlight on men and young adults, especially in the Tokyo metropolitan area, and reinforced ties with affiliated merchants to promote acceptance of electricity bills and bills from medical institutions, and thereby made payment processes more convenient for cardholders.

Noteworthy developments in our subsidiary network highlight a wider overseas presence, supported by the establishment of a credit guarantee company in the People's Republic of China (PRC), the start of business at an insurance agency in Thailand and at a hire purchase company in Indonesia, as well as the implementation of a fund procurement system in the Islamic lending style in Malaysia, the first such effort by a Japanese company.

Meanwhile, subsidiaries in Japan emphasized expansion of credit-peripheral businesses, such as servicer and insurance agency operations, which address outsourcing demand from both the private and public sectors.

In consideration of an accounting treatment recommendation released by the Industry Audit Committee of the Japanese Institute of Certified Public Accountants (JICPA) on October 13, 2006, regarding the calculation of reserves relating to losses incurred by consumer finance and related companies on interest repayment claims, as well as the impact of a new Money Lending Business Control and Regulation Law, issued December 20, 2006, AEON Credit Service booked reserves for future losses on interest repayment under expenses for fiscal 2006.

Given these factors, total transaction volume reached ¥2,483 billion on a consolidated basis, up 13.7% year-on-year. Total operating revenues climbed 19.8%, to ¥173,482 million, while operating income edged up 1.8%, to ¥40,956 million. Despite improved revenue performance, net income slipped 3.2%, to ¥20,592 million.

Fiscal 2007 Plans

The credit card business—our mainstay operations—has shown signs of expansion in lifestyle-related areas, a development that is sure to foster wider use of credit cards as an increasingly primary payment method for the ordinary expenses of daily living. However, the benefits of this positive trend may be eroded by major changes in the operating environment, especially a lower upper limit on interest rates, which could have a considerable impact on industry performance, and the promulgation of the Money Lending Business Control and Regulation Law, which restricts overall amounts extended to clients. These changes mark a turning point in the business infrastructure.

Against this operating backdrop, AEON Credit Service will strive to build a stronger client base and encourage cardholders to take advantage of next-generation settlement methods, namely e-money and mobile credit. The Company will also seek to create new products and nurture new businesses that utilize accumulated expertise in the credit card business, while directing concerted efforts toward the cultivation of additional profit sources.

On a social note, consumers are becoming progressively more aware about issues pertaining to corporate social responsibility. In response, AEON Credit Service has heightened efforts to maintain its reputation for safety, security and reliability, a commitment epitomized by strict measures to safeguard personal information.
Compliance is another aspect of operations that deserves—and will continue to receive—priority attention.

Moreover, AEON Credit Service will energetically capitalize on opportunities in the consumer finance industry in the rest of Asia, excluding its home base of Japan, and work to turn growth potential into real results. The Company will also endeavor to complement anticipated expansion in the credit card business with enhanced peripheral businesses utilizing know-how from operations in Japan. Another goal is to establish a presence in new markets.

On behalf of the Board of Directors, I ask you, our stakeholders—a term that encompasses not only shareholders, business partners and employees but also the communities in which we maintain a presence—for your continued support and encouragement as the Company and the Group it leads work toward greater successes.

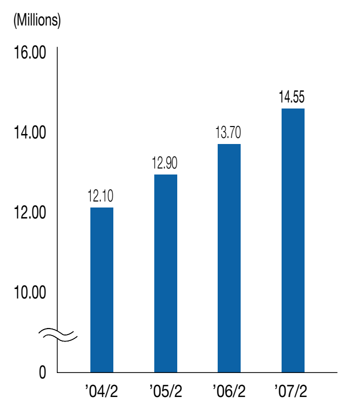
森 美樹

Yoshiki Mori
President and CEO

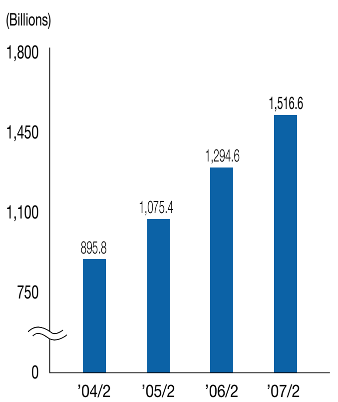
Domestic Activities

Maximum customer satisfaction is our goal. In our efforts to achieve this, we use cardholder feedback to provide attractive financial services through our credit card business and other operations.

Number of Cardholders (Non-consolidated)



Credit Card Shopping Transactions



Expanding the Cardholder Base

In the domestic credit card business, AEON Credit Service took solid steps to attract potential cardholders. For example, the opening of new locations by alliance partners with which the Company has formed alliances extended its scope of operations, and an appropriate response was implemented to address the needs of this expanded cardholder base.

AEON Credit Service also promoted the use of credit cards for small transactions and toward this end teamed up with Cosmo Oil Co., Ltd., to issue Cosmo the Card Opus, commenced AEON iD mobile credit services through a tie-up with mobile phone service provider NTT DoCoMo, Inc., and joined corporate hands with East Japan Railway Company to launch the AEON Suica Card, a credit card with e-money capabilities for rail ticket purchases.

These efforts were complemented by ongoing measures to raise the number of Electronic Toll Collection (ETC) Card cardholders and AEON Gold Card cardholders, as these groups of clients tend to use their cards particularly frequently.

As a result, AEON Credit Service achieved a net increase of approximately 850,000 active cardholders, which brought the domestic cardholder base to 14.55 million.

The Company plans to issue additional co-branded cards through alliances with airline companies and major travel agencies. Success in this pursuit will boost the cardholder base still further.

Improving Cardholder Satisfaction

In fiscal 2006, AEON Credit Service actively encouraged affiliated merchants to get involved in the Tokimeki Point Club, a program that enables cardholders to collect points for purchases at participating stores and redeem the points for gifts or apply them to charity donations. The Company also worked to extend the scope of affiliated merchants accepting cardholder details for settlement of monthly bills, such as electric power companies, newspaper delivery agents and health-care providers.

As a result, the annual card use rate—an indicator of card usage during a given year—increased 1.2 percentage points year-on-year, to 58.8%, supported by an 640,000-person increase in active cardholders, to 8.3 million, and a 17.1% rise in the volume of non-consolidated credit card shopping transactions, to ¥1,516.6 billion.

The Company will continue to enhance card privileges, such as shared privileges for AEON Card and SATY VIVRE Card cardholders, and will endeavor to improve card convenience, including greater acceptance of credit cards to pay taxes and national pension contributions as well as utilities, such as water bills.

Cultivating New Sources of Profit

AEON Credit Service issued its own e-wallet, WAON, and began related services in the Tokyo metropolitan area in April 2007. The Company is now working to raise the carrying rate of cards through the debut of a combination AEON Card and WAON Card as well as a credit-linked WAON Card, and is also seeking to boost the card use rate through the planned introduction of an e-money autocharging service.

The start of WAON acquiring services, to complement similar services for the AEON iD Card and the AEON Suica Card, marked the Company's full-scale entry into the e-money business. On the topic of acquiring services, efforts will also be directed toward adding these services to credit cards emblazoned with the names of Group companies and large alliance partners.

In September 2006, AEON Credit Service began issuing AEON Value Card VIP, a new cash advance card that helps clients realize their dreams. The Company aims to build this card into a new source of profit.

Banking-related activities will provide other new sources of profit. One will come through a Group effort—the establishment of a bank offering such financial products as deposits and trusts. Another will be achieved by AEON Credit Service on its own through the application of accumulated know-how to tackle such aspects of the credit guarantee business as loan guarantees and bank agency services, which includes the opening of bank accounts.

Building a Strong Operating Foundation

To minimize risk associated with interest rate fluctuations, the Company procured long-term funds, including an issue of seven-year unsecured straight bonds worth ¥20 billion. As a consequence, the long-term, fixed interest financing ratio remained above 70%, while the duration of long-term debt averaged 3 years and one month.

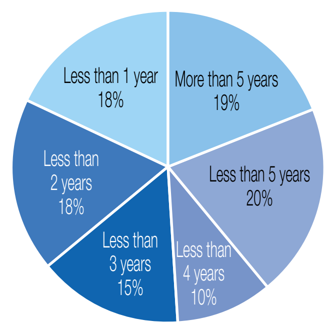
AEON Credit Service has expanded its business and maintained a healthy financial position for many years. This status has earned the Company a solid rating, substantiated by an upgrade to A+, from A, by Rating and Investment Information, Inc., in December 2006.

WAON Card

AEON Value Card <VIP>

Long-Term Debt Duration

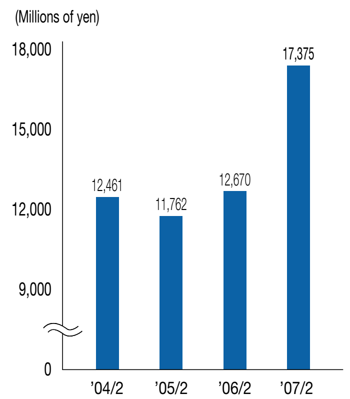
As of February 20, 2007



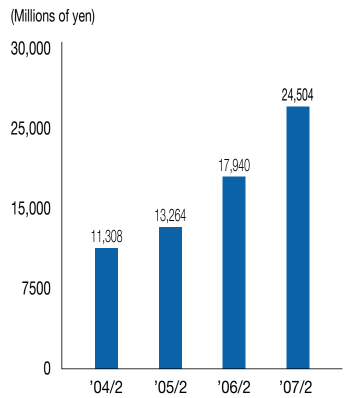
Overseas Activities

We have extended our business beyond Japan to China, Thailand, Malaysia, Taiwan and Indonesia. We enjoy strong support overseas, having established a reputation as a truly global company that offers services tailored to cardholder lifestyles.

Operating Revenues of AEON Credit Service (Asia)



Operating Revenues of AEON Thana Sinsap (Thailand)



China

AEON Credit Service (Asia) Co., Ltd.
AEON Information Service (Shenzen) Co., Ltd.
AEON Credit Guarantee (China) Co., Ltd.

In Hong Kong, AEON Credit Service maintains a high profile through its local subsidiary and an expanding branch network. Eight branches were opened in fiscal 2006, bringing the total to 28. This wider presence, as well as the start of sign-up activities for the China Union Pay Card through an alliance with China Union Pay Co., Ltd., which maintains a credit card settlement network in the PRC, and enhanced efforts to sign up cardholders through the issue of co-branded cards with major travel agencies, boosted the number of cardholders to approximately 950,000 and lifted operating revenues 37.1%, to ¥17,375 million (HK$1,152 million), and an all-time high.

In a first among Japanese credit card companies, AEON Credit Service acquired a license from the Beijing Administration for Industry and Commerce to undertake a credit guarantee business in the PRC and subsequently established AEON Credit Guarantee (China) Co., Ltd., in Beijing. The subsidiary commenced operations in April 2007 and is utilizing an operational alliance formed with the Bank of Communications Co., Ltd., in 2006, to expand operations. The Bank of Communications ranks No. 5 in the PRC in terms of asset scale.

Thailand

AEON Thana Sinsap (Thailand) Plc.
ACS Insurance Broker (Thailand) Co., Ltd.
ACS Life Insurance Broker (Thailand) Co., Ltd.

The branch network in Thailand grew by six, primarily in rural cities, to 76 locations. A solid effort to sign up cardholders, supported by the issue of new co-branded cards with airlines and mobile phone service providers, pushed the number of cardholders up 140,000, to 1.54 million.

Noteworthy new business developments in Thailand include the establishment of a life insurance agency to complement the non-life insurance agency already in business. In selling insurance products, these insurance agencies draw on the local credit card client base and existing marketing network to expand transaction volume. Meanwhile, the leasing business has turned in favorable results, underpinned by the start of automobile leasing to corporations.

These efforts led to a 31.5% jump in operating revenues, ¥24,504 million (7,730 million baht).

After the close of fiscal 2006 books, ACS Servicing (Thailand) Co., Ltd., was established as a servicer, further reinforcing AEON Credit Service's presence in Thailand.

Malaysia

AEON Credit Service (M) Berhad

AEON Credit Service (M) Berhad. was established in 1997 as the Company's third base in Asia. Efforts to sign up clients at various locations, including the local AEON Shopping Center, brought the number of cardholders to around 70,000. To diversify methods of fund procurement in anticipation of business expansion, the Company was the first Japanese company to implement a fund procurement system in the Islamic lending style.

As a result, operating revenues surged 85.9%, ¥4,558 million (141 million ringit).

Also of note, in January 2007, AEON Credit Service achieved another first, this time as a non-bank setting up an automated teller machine network. This move was made to reinforce the Company's cash advance business.

In April 2007, the local subsidiary began identifying excellent clients eligible for the AEON Gold Card and continues to expand its cardholder base.

Taiwan

Taiwan

AEON Credit Service (Taiwan) Co., Ltd.
AEON Credit Card (Taiwan) Co., Ltd.

In AEON Credit Services' local hire purchase business, the affiliated merchant network grew to 5,000 stores, including major electric home appliance distributors, and transaction volume steadily increased thanks to the implementation of joint proposals with affiliated merchants.

In the Company's credit card business, the number of cardholders rose to around 110,000, reflecting the issue of four types of new co-branded cards and a well-executed campaign to sign up cardholders at the stores of alliance partners.

Hire purchase desk (Indonasia)

Indonesia

PT. AEON Credit Service Indonesia

AEON Credit Service conducted market surveys after opening a representative office in Jakarta in August 2004 before launching full-scale operations in June 2006. The subsidiary has drawn on the Company's credit business expertise, accumulated in Japan and other Asian countries, to start a hire purchase business targeting consumer electronics and furniture stores. The subsidiary is also building a network of affiliated merchants, creating a client-oriented structure and taking other approaches to develop a firm business base from which to promote credit card operations.

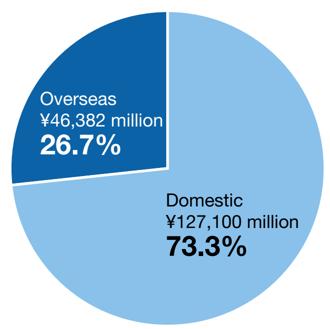
In addition, the Company maintains a representative office in Hanoi, Vietnam, which conducts research with a view to starting a credit business there.

On a yen basis, the activities undertaken abroad generated operating revenues of ¥46,382 million, up 38.6% year-on-year, and operating income of ¥9,301 million, up 29.7%. The overseas contribution to consolidated operating revenues reached 26.7%.

AEON Credit Service will continue to sharpen its competitive edge in Asia, a region of outstanding growth, to capitalize on emerging opportunities in credit and credit-related businesses.

Operating Revenues by Geographic Segment

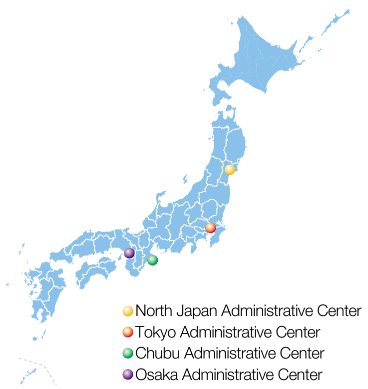
For the fiscal year ended February 20, 2007



CSR Activities

We aim to provide high levels of security so that cardholders may use their cards without worry. We realize we have an important responsibility to protect personal information carefully and ensure it is managed and used appropriately. In light of this, we make every effort to implement suitable strategies that will improve security and increase convenience for cardholders.

Disaster Recovery System



Monitoring Center

Corporate Governance

AEON Credit Service will pursue the goals outlined in its basic management policy and medium-term vision, while further increasing corporate value in a continually changing social environment. To this end, rigorous discussion and evaluation of business issues by decision-making bodies, such as the Board of Directors, are essential.

In response to the new Company Law in Japan and this country's version of the Sarbanes-Oxley Act, a compliance-oriented corporate reform law dubbed the SOX Act in the United States (where it was created in the wake of corporate financial scandals), AEON Credit Service set up a special project team at the start of fiscal 2006 with a mandate to reinforce internal controls.

Secure and Reliable Services

To address the challenges that accompany the expansion of business scale and to reinforce disaster recovery capabilities, AEON Credit Service opened its fourth administrative center, in Sendai, Miyagi Prefecture, to cover northern Japan. This facility joins existing centers assigned to operations in Tokyo, Osaka and Chubu (the area in and around Nagoya). The Company also maintains three backbone system centers to mitigate the risk of damage, either man-made or natural, to information systems.

AEON Credit Service will continue to strengthen its disaster recovery capabilities and thereby ensure provision of safe and secure services to clients.

Safeguarding Personal Information

AEON Credit Service views the protection of personal information collected from clients as a vital obligation. The Company applies several approaches to ensure secure management of such data, with efforts hinging on the Personal Information Protection Office.

To safeguard personal information, AEON Credit Service maintains a system that consolidates video capture, terminal operating logs and access data for rooms in every office where entry and exit is controlled. To organize the systems that centrally monitor this information around the clock, the Company opened a monitoring center in February 2007.

Environmental Protection Activities

Nature produces resources for our functioning and society provides a market for services. To repay both for their contribution to the Company's success, and in the spirit of recycling, AEON Credit Service teamed up with the National Land Afforestation Promotion Organization to issue the AEON Green Fund Card. When this card is used, a portion of each transaction is donated to aid tree planting and conservation activities. The Tokimeki Point Program supports similar environmental protection efforts. In addition, the Company endeavors to use materials that do not emit dioxins or other harmful substances when incinerated. Credit cards, for example, are made of glycol-modified polyethylene terephthalate— a non-polyvinyl chloride resin, and environment-friendly glassine is used for the envelope window of mailed credit-card billing statements.

AEON Credit Service acquired ISO14001 international environmental management certification for all offices in July 2001. The Company has set concrete numerical targets for improving green procurement and reducing paper and energy consumption in line with the ISO-certified program and will continue to uphold high standards.

AEON Green Fund card

Social Contribution

AEON Credit Service contributes to social welfare facilities and actively encourages employees to volunteer their time for seasonal events. In fiscal 2006, the Company made total donations of ¥10 million to 10 social welfare facilities.

To support the visually impaired, AEON Credit Service adds a monetary contribution to the converted point portion donated by clients in the Tokimeki Point Program to purchase braille and audio books for the Japan Braille Library and regional branches of the national organization.

In partnership with the Japan Committee for UNICEF, AEON Credit Service initiated a three-year plan in fiscal 2006 that allocates donations from the AEON 1% Club to promote construction of schools in Laos. The AEON 1% Club comprises AEON companies which donate funds equivalent to 1% of pre-tax profit.

©UNICEF/LAUS/JIM HOLMES

Support for construction of schools in Laos

CSR Report

In fiscal 2004, AEON Credit Service issued a CSR report, making it the first credit card company in Japan to do so. The Company will reexamine the various social responsibilities it must shoulder and provide pertinent updates on CSR activities through its CSR report.

CSR Report 2007

Five-Year Summary

ÆON Credit Service Co., Ltd. and Subsidiaries
Years Ended February 20

	Millions of Yen					Thousands of U.S. Dollars[1]
	2007	2006	2005	2004	2003	**2007**
For the Year:						
Total operating revenues	**¥173,482**	¥144,751	¥122,811	¥109,389	¥101,540	**$1,445,681**
Total operating expenses	**132,526**	104,520	87,841	78,886	74,859	**1,104,386**
Income before income taxes and minority interests	**38,265**	38,655	34,867	30,292	26,065	**318,877**
Net income	**20,592**	21,262	18,684	16,179	13,984	**171,602**
	Yen					U.S. Dollars[1]
Per Share Data[2]:						
Net assets	**¥991.07**	¥883.44	¥748.31	¥647.70	¥562.45	**$8.26**
Basic net income	**131.23**	135.07	118.70	102.75	89.10	**$1.09**
	Millions of Yen					Thousands of U.S. Dollars[1]
At Year-End:						
Finance receivables—net of allowance for the possible credit losses	**¥727,716**	¥608,587	¥492,700	¥407,630	¥389,254	**$6,064,305**
Net property and equipment	**8,037**	6,374	5,404	5,455	7,780	**66,975**
Total assets	**834,254**	689,357	562,094	465,720	441,405	**6,952,118**
Total liabilities	**661,642**	535,472	432,747	353,837	343,390	**5,513,686**
Equity[3]	**172,611**	138,691	117,480	101,695	88,281	**1,438,432**
	Percentage					
Ratios:						
Equity ratio	**18.6%**	20.1%	20.9%	21.8%	20.0%	
Return on assets (ROA)	**2.7**	3.4	3.6	3.6	3.3	
Return on equity (ROE)	**14.0**	16.6	17.0	17.0	16.9	

1. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥120 to U.S.$1, the approximate rate of exchange on February 20, 2007. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.
2. On April 10, 2003, the Company made a stock split by way of a free share distribution at the rate of 1.1 shares for each outstanding share. On February 21, 2006, the Company made a stock split by way of a free share distribution at the rate of 3 shares for each outstanding share. Each figure included in Per Share Data was retroactively adjusted for the stock split.
3. According to a new accounting standard for presentation of equity, which is effective for fiscal years ending on or after May 1, 2006, stock acquisition rights, minority interests and any deferred gain or loss on derivatives under hedge accounting are now presented as components of equity. Accordingly the amount of equity as of February 20, 2007 is not directly comparable to shareholders' equity of prior years, stated above.

Financial Review

ÆON Credit Service Co., Ltd. and Subsidiaries
Years Ended February 20, 2007 and 2006

RESULTS OF OPERATIONS

	Millions of Yen			
	2007	2006	Amount Change	Percentage Change
Operating revenues:				
Credit card contracts	**¥ 39,776**	¥ 31,701	¥ 8,075	25.5%
Hire purchase contracts	**7,531**	7,635	(104)	(1.4)
Loan contracts	**118,207**	98,640	19,567	19.8
Service fees	**1,922**	2,375	(453)	(19.1)
Other operating revenues	**6,046**	4,400	1,646	37.4
Total operating revenues	**¥173,482**	¥144,751	¥28,731	19.8%
Operating expenses:				
Financial costs	**¥ 11,409**	¥ 7,810	¥ 3,599	46.1%
Provision for the possible credit losses and write-off of bad debts	**40,449**	30,103	10,346	34.4
Other operating expenses	**80,668**	66,607	14,061	21.1
Total operating expenses	**132,526**	104,520	28,006	26.8
Operating income	**¥ 40,956**	¥ 40,231	¥ 725	1.8%

Fiscal Summary

During the fiscal year ended February 20, 2007, AEON Credit Service enhanced efforts to attract consumer's interest at the stores of alliance partners at home and abroad, and worked to develop additional co-branded cards. This emphasis was rewarded with the expansion of the cardmember base (net 1.11 million increase), to 17.22 million, on a consolidated basis.

In the domestic credit card business, the company focused on mobile phone credit service and electronic money, commonly referred to as e-money or digital cash, which are gaining attention as a faster and more convenient alternative to cash transactions for "everyday" small purchases. The Company also channeled energy into diversification of the company's customer portfolio, with a strategic spotlight on youth and male customers in the Tokyo metropolitan area. In addition, the company reinforced its affiliated merchants network to increase merchant acceptance across a range of everyday spending locations (i.e. electricity bills and medical bills), for the cardmembers' convenience.

To ensure expeditious business responses, paralleling the expansion of services, the company established an administrative center in Sendai, Miyagi Prefecture, in fiscal 2007, bringing its administrative network facilities up to four. The Company also organized three core IT system centers in Japan which strive to limit the risk of information system malfunction or failure in the event of natural disasters.

Noteworthy developments in the subsidiary network highlight an expansion of the presence in Asia, supported by the establishment of a credit guarantee company in China, the roll out of the insurance agency in Thailand and the hire purchase company in Indonesia, as well as the implementation of a funding procedure in an Islamic lending style in Malaysia, the very first Sukuk by a Japanese company.

Meanwhile, domestic subsidiaries emphasized expansion of credit-peripheral businesses, such as a collection agency and an insurance agency, which address outsourcing demand from both the private and public sectors.

In consideration of an accounting treatment recommendation released by the Industry Audit Practice Committee of the Japanese Institute of Certified Public Accountants (JICPA) on October 13, 2006, regarding the application of auditing for provision of allowance for loss for reclaimed refund of interest in the accounting of consumer finance companies, as well as the impact of a new Money Lending Business Control and Regulation Law, issued December 20, 2006, AEON Credit Service booked a provision for loss on refund of interest received under expenses for fiscal 2007.

Given these factors, consolidated total transaction volume reached ¥2,483 billion, up 13.7% year-on-year. Total operating revenues climbed 19.8%, to ¥173,482 million, while operating income edged up 1.8%, to ¥40,956 million. Despite improved revenue performance, net income slipped 3.2%, to ¥20,592 million.

Transaction volume

	Millions of Yen			
	2007	2006	Amount Change	Percentage Change
Credit card contracts	**¥1,590,445**	¥1,348,861	¥241,584	17.9%
Hire purchase contracts	**44,360**	45,024	(664)	(1.5)
Loan contracts	**695,016**	609,944	85,072	13.9
Service fees	**141,751**	174,036	(32,285)	(18.6)
Other transaction volume	**11,348**	5,195	6,153	118.4
Total transaction volume	**¥2,482,920**	¥2,183,060	¥299,860	13.7%

Consolidated total transaction volume climbed 13.7%, or ¥299,860 million, reflecting a 17.9%, or ¥241,584 million, rise in credit card contracts transaction volume and a 13.9%, or ¥85,072 million, gain in loan contracts transaction volume. These improvements were attributable to steady growth of cardmembers and a variety of successful efforts to improve card-usage rates in Japan, Hong Kong, Thailand and Taiwan.

Finance receivables

	Millions of Yen			
	2007	2006	Amount Change	Percentage Change
Installment sales receivables:				
Credit card contracts	**¥229,253**	¥172,073	¥ 57,180	33.2%
Hire purchase contracts	**31,538**	25,019	6,519	26.1
Subtotal	**260,791**	197,092	63,699	32.3
Operating loans receivables	**507,115**	439,366	67,749	15.4
Allowance for the possible credit losses	**(40,190)**	(27,871)	(12,319)	(44.2)
Total finance receivables	**¥727,716**	¥608,587	¥119,129	19.6%

Consolidated total finance receivables increased ¥119,129 million. Significant factors included a 32.3%, or ¥63,699 million, gain in installment sales receivables and a 15.4%, or ¥67,749 million, rise in operating loans receivables. Both of these results benefited from greater transaction volume in our domestic and overseas credit card businesses due to vigorous sales activities.

Operating revenues

	Millions of Yen			
	2007	2006	Amount Change	Percentage Change
Credit card contracts	**¥ 39,776**	¥ 31,701	¥ 8,075	25.5%
Hire purchase contracts	**7,531**	7,635	(104)	(1.4)
Loan contracts	**118,207**	98,640	19,567	19.8
Service fees	**1,922**	2,375	(453)	(19.1)
Other operating revenues	**6,046**	4,400	1,646	37.4
Total operating revenues	**¥173,482**	¥144,751	¥28,731	19.8%

The 19.8%, or ¥28,731 million, increase in consolidated total operating revenues mentioned in the summary section is largely the result of a ¥8,075 million, or 25.5%, rise in revenues from credit card contracts and a ¥19,567 million, or 19.8%, gain in revenues from loan contracts.

The positive change in revenues from credit card contracts stems from a higher number of active cardmembers among the expanded cardmember base as well as higher transaction volume, which was achieved through an enduring commitment to provide services reflecting the needs of clients. Toward this end, the Company endeavored to promote wider interest in its credit cards at the stores of alliance partners to develop additional co-branded cards and to enhance the convenience of credit cards through a broader network of affiliated merchants accepting credit cards to pay for utilities and medical bills.

The improvement in revenues from loan contracts reflects a larger balance of operating loan receivables precipitated by a favorable increase in the volume of cash advance transactions, as well as efforts to promote new lending products, such as personal loans.

Operating expenses

	Millions of Yen			
	2007	2006	Amount Change	Percentage Change
Financial costs	**¥ 11,409**	¥ 7,810	¥ 3,599	46.1%
Provision for possible credit losses and write-off of bad debts	**40,449**	30,103	10,346	34.4
Other operating expenses	**80,668**	66,607	14,061	21.1
Total operating expenses	**¥132,526**	¥104,520	¥28,006	26.8%

Consolidated total operating expenses grew 26.8%, to ¥132,526 million, paralleling increases in key components of this category. Specifically, ¥10,346 million was applied to the provision for possible credit losses and write-off of bad debts, ¥4,802 million to the provision for loss on refund of interest received, ¥2,089 million to the provision for advertising, sales promotion and expenses for the point program, and ¥2,133 million to salaries and benefits.

The primary reason for the higher provision for possible credit losses and write-off of bad debts is a ¥9,947 million increase in the portion allocated to bad debt write-offs. This amount was assigned to reserves to address the larger credit balance that emerged with a favorable expansion in transaction volume.

The need to allocate a greater amount to the provision for loss on refund of interest received stems from an accounting treatment recommendation released by the Industry Audit Practice Committee of JICPA on October 13, 2006, regarding the application of auditing for provision of allowance for loss for reclaimed refund of interest in the accounting of consumer finance companies, as well as the impact of a new Money Lending Business Control and Regulation Law, issued December 20, 2006, which prompted the Company to set aside reserves for future losses on interest repayments.

The main reason for the higher provision for advertising, sales promotion and expenses for the point program is that an expanded cardmember base required the use of more promotional materials.

The rise in salaries and benefits parallels the hiring of more employees to handle the widening scope of businesses undertaken by the Company and the Group.

CASH FLOWS

Net cash used in operating activities amounted to ¥64,235 million, up 7.7% year-on-year, as a favorable expansion of credit card transaction volume at home and abroad inflated finance receivables and pushed cash used in operating activities to ¥141,901 million. This clearly exceeded cash provided by operating activities, namely ¥38,265 million in net income before income taxes and minority interests.

Net cash used in investing activities surged 30.4%, to ¥10,077 million, primarily because of investment in next-generation IT systems geared toward diversifying client needs and an expanded volume of transactions.

Net cash provided by financing activities jumped 19.0%, to ¥79,664 million, owing to the procurement of funds through the issuance of unsecured straight bonds and long-term debt to ensure stable funding and offset the risk of rising interest rates.

Cash and cash equivalents at February 20, 2007, amounted to ¥25,870 million, up ¥9,371 million, or 56.8%, from a year earlier, owing to the aforementioned changes in cash flow as well as the addition of companies to the scope of consolidation, which added ¥3,582 million to cash and cash equivalents at the beginning of the year, compared with the end of the previous fiscal year.

BUSINESS PERFORMANCE BY GEOGRAPHIC AREA

Total assets and total operating revenues by geographic area

	Millions of Yen			
	2007	2006	Amount Change	Percentage Change
Total assets:				
Domestic	**¥640,282**	¥547,445	¥ 92,837	17.0%
Overseas	**203,746**	148,121	55,625	37.6
Elimination/Corporate	**(9,774)**	(6,209)		
Total assets	**¥834,254**	¥689,357	¥144,898	21.0%
Operating revenues:				
Domestic	**¥127,100**	¥111,296	¥15,804	14.2%
Overseas	**46,382**	33,460	12,923	38.6
Elimination/Corporate		(5)		
Total operating revenues	**¥173,482**	¥144,751	¥28,731	19.8%

Consolidated Balance Sheets

ÆON Credit Service Co., Ltd. and Subsidiaries
February 20, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	**2007**
ASSETS			
Current assets:			
Cash and cash equivalents	**¥ 25,870**	¥ 16,499	**$ 215,581**
Finance receivables—net of allowance for possible credit losses (Note 4)	**727,716**	608,587	**6,064,305**
Deferred tax assets (Note 10)	**14,679**	10,228	**122,324**
Prepaid expenses and other current assets	**28,237**	23,780	**235,310**
Total current assets	**796,502**	659,094	**6,637,520**
Property and equipment:			
Structures	**2,507**	1,914	**20,894**
Vehicles	**991**	223	**8,255**
Equipment	**21,553**	19,914	**179,607**
Total	**25,051**	22,051	**208,756**
Accumulated depreciation	**(17,014)**	(15,677)	**(141,781)**
Net property and equipment	**8,037**	6,374	**66,975**
Investments and other assets:			
Investment securities (Note 3)	**14,185**	13,474	**118,209**
Investments in associated companies	**73**	39	**608**
Software	**7,527**	6,061	**62,727**
Deferred tax assets (Note 10)	**61**	8	**511**
Guarantee money deposits	**3,289**	2,894	**27,404**
Deferred charges	**116**		**963**
Long-term prepaid expenses	**4,135**	1,101	**34,458**
Other assets	**329**	312	**2,743**
Total investments and other assets	**29,715**	23,889	**247,623**
TOTAL	**¥834,254**	¥689,357	**$6,952,118**
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable (Note 15)	**¥ 68,198**	¥ 56,338	**$ 568,316**
Short-term borrowings (Note 5)	**34,019**	28,238	**283,493**
Commercial paper (Note 5)		7,000	
Current portion of long-term debt (Note 5)	**98,478**	46,383	**820,651**
Accrued expenses	**3,822**	2,934	**31,846**
Allowance for the point program	**2,748**	1,938	**22,900**
Allowance for loss on refund of interest received		224	
Deferred revenue	**811**	576	**6,762**
Accrued income taxes	**11,463**	11,015	**95,524**
Other current liabilities	**2,290**	3,286	**19,080**
Total current liabilities	**221,829**	157,932	**1,848,572**
Long-term liabilities:			
Long-term debt (Note 5)	**428,358**	371,748	**3,569,649**
Deferred tax liabilities (Note 10)	**823**	3,290	**6,858**
Allowance for loss on refund of interest received	**6,990**		**58,246**
Other liabilities	**3,643**	2,502	**30,361**
Total long-term liabilities	**439,814**	377,540	**3,665,114**
Minority Interests (Note 2-m)		15,194	
Equity (Note 7):			
Common stock—authorized, 540,000,000 shares; issued, 156,967,008 shares in 2007 authorized, 180,000,000 shares; issued, 52,322,336 shares in 2006	**15,467**	15,467	**128,888**
Capital surplus	**17,053**	17,051	**142,110**
Retained earnings	**115,270**	99,975	**960,586**
Unrealized gain on available-for-sale securities	**5,750**	5,679	**47,921**
Deferred gain (loss) on derivatives under hedge accounting	**(43)**		**(357)**
Foreign currency translation adjustments	**2,105**	608	**17,541**
Treasury stock—at cost, 52,769 shares in 2007 and 17,642 shares in 2006	**(90)**	(89)	**(751)**
Total	**155,512**	138,691	**1,295,938**
Minority interests (Note 2-m)	**17,099**		**142,494**
Total equity	**172,611**	138,691	**1,438,432**
TOTAL	**¥834,254**	¥689,357	**$6,952,118**

See notes to consolidated financial statements.

Consolidated Statements of Income

ÆON Credit Service Co., Ltd. and Subsidiaries
Years Ended February 20, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	**2007**
Operating revenues (Notes 4 and 15)**:**			
Credit card contracts	**¥ 39,776**	¥ 31,701	**$ 331,465**
Hire purchase contracts	**7,531**	7,635	**62,757**
Loan contracts	**118,207**	98,640	**985,063**
Service fees	**1,922**	2,375	**16,014**
Other operating revenues	**6,046**	4,400	**50,382**
Total operating revenues	**173,482**	144,751	**1,445,681**
Operating expenses (Note 15)**:**			
Financial costs	**(11,409)**	(7,810)	**(95,076)**
Provision for possible credit losses and write-off of bad debts	**(40,449)**	(30,103)	**(337,073)**
Other operating expenses (Note 8)	**(80,668)**	(66,607)	**(672,237)**
Total operating expenses	**(132,526)**	(104,520)	**(1,104,386)**
Operating income	**40,956**	40,231	**341,295**
Non-operating expenses, net (Note 9)	**(2,691)**	(1,576)	**(22,418)**
Income before income taxes and minority interests	**38,265**	38,655	**318,877**
Income taxes (Note 10)**:**			
Current	**(21,650)**	(19,586)	**(180,416)**
Deferred	**7,117**	4,929	**59,307**
Total income taxes	**(14,533)**	(14,657)	**(121,109)**
Minority interests in net income	**(3,140)**	(2,736)	**(26,166)**
Net income	**¥ 20,592**	¥ 21,262	**$ 171,602**

	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Note 14)**:**			
Basic net income	**¥131.23**	¥135.07	**$1.09**
Cash dividends applicable to the year	**40.00**	30.00	**0.33**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

ÆON Credit Service Co., Ltd. and Subsidiaries
Years Ended February 20, 2007 and 2006

	Thousands	Millions of Yen									
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Deferred gain (loss) on derivative under hedge accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority interests	Total Equity
Balance, February 20, 2005	52,306	¥15,467	¥17,049	¥82,692	¥3,414		¥(1,066)	¥(76)	¥117,480		¥117,480
Net income				21,262					21,262		21,262
Cash dividends, ¥30 per share				(3,922)					(3,922)		(3,922)
Bonuses to directors and corporate auditors				(57)					(57)		(57)
Purchase of treasury stock	(2)							(17)	(17)		(17)
Disposal of treasury stock	1		2					4	6		6
Net increase in unrealized gain on available-for-sale securities					2,265				2,265		2,265
Net change in foreign currency translation adjustments							1,674		1,674		1,674
Balance, February 20, 2006	52,305	15,467	17,051	99,975	5,679		608	(89)	138,691		138,691
Reclassified balance as of February 20, 2006										**¥15,194**	**15,194**
Net income				**20,592**					**20,592**		**20,592**
Cash dividends, ¥40 per share				**(5,230)**					**(5,230)**		**(5,230)**
Bonuses to directors and corporate auditors				**(67)**					**(67)**		**(67)**
Purchase of treasury stock	**1**							**(4)**	**(4)**		**(4)**
Disposal of treasury stock	**(1)**		**2**					**3**	**5**		**5**
Net change in the year					**71**	**¥(43)**	**1,497**		**1,525**	**1,905**	**3,430**
Stock split	**104,609**										
Balance, February 20, 2007	**156,914**	**¥15,467**	**¥17,053**	**¥115,270**	**¥5,750**	**¥(43)**	**¥2,105**	**¥(90)**	**¥155,512**	**¥17,099**	**¥172,611**

		Thousands of U.S. Dollars (Note 1)									
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Deferred gain (loss) on derivative under hedge accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority interests	Total Equity
Balance, February 20, 2006	52,305	$128,888	$142,095	$833,125	$47,327		$5,063	$(738)	$1,155,760		$1,155,760
Reclassified balance as of February 20, 2006										**$126,612**	**126,612**
Net income				**171,602**					**171,602**		**171,602**
Cash dividends, $0.33 per share				**(43,587)**					**(43,587)**		**(43,587)**
Bonuses to directors and corporate auditors				**(554)**					**(554)**		**(554)**
Purchase of treasury stock	1							**(35)**	**(35)**		**(35)**
Disposal of treasury stock	(1)		**15**					**22**	**37**		**37**
Net change in the year					**594**	**$(357)**	**12,478**		**12,715**	**15,882**	**28,597**
Stock split	**104,609**										
Balance, February 20, 2007	**156,914**	**$128,888**	**$142,110**	**$960,586**	**$47,921**	**$(357)**	**$17,541**	**$(751)**	**$1,295,938**	**$142,494**	**$1,438,432**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ÆON Credit Service Co., Ltd. and Subsidiaries
Years Ended February 20, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	**2007**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 38,265**	¥ 38,655	**$ 318,877**
Adjustments for:			
Income taxes—paid	**(21,320)**	(17,503)	**(177,663)**
Depreciation	**4,602**	3,949	**38,351**
Provision for possible credit losses	**37,615**	27,668	**313,459**
Provision for the point program	**804**	1,217	**6,702**
Provision for loss on refund of interest received	**5,335**	224	**44,459**
Gain on sales of software	**(143)**		**(1,190)**
Loss on disposal of software	**231**	527	**1,927**
Loss due to changes in accounting policy	**1,045**	312	**8,709**
Gain on sales of investment securities	**(767)**	(605)	**(6,390)**
Bonuses to directors and corporate auditors—paid	**(66)**	(57)	**(554)**
Revaluated gain from interest rate swaps		(72)	
Changes in assets and liabilities:			
Increase in finance receivables	**(141,901)**	(122,857)	**(1,182,510)**
Increase (decrease) in other assets	**(2,127)**	1,503	**(17,728)**
Decrease in prepaid pension expenses	**37**	81	**308**
Increase in accounts payable	**10,720**	7,327	**89,329**
Increase (decrease) in other current liabilities	**1,065**	(914)	**8,873**
Increase in liability for retirement benefits	**41**		**340**
Other	**2,329**	902	**19,407**
Net cash used in operating activities	**(64,235)**	(59,643)	**(535,294)**
INVESTING ACTIVITIES:			
Decrease in time deposits—net	**(984)**		**(8,204)**
Purchases of property and equipment	**(4,426)**	(3,428)	**(36,880)**
Proceeds from sale of property and equipment	**495**	27	**4,125**
Purchases of software	**(3,702)**	(3,379)	**(30,847)**
Proceeds from sale of software	**470**		**3,915**
Purchases of investment securities	**(691)**	(398)	**(5,762)**
Proceeds from sale of investment securities	**905**	609	**7,539**
Other	**(2,144)**	(1,159)	**(17,866)**
Net cash used in investing activities	**(10,077)**	(7,728)	**(83,980)**
FINANCING ACTIVITIES:			
Payment of short-term bank loans—net	**(1,302)**	(1,098)	**(10,852)**
Decrease (increase) in commercial paper—net	**(7,000)**	7,000	**(58,333)**
Proceeds from long-term debts	**143,123**	120,594	**1,192,694**
Repayments of long-term debts	**(48,872)**	(54,819)	**(407,267)**
Increase in treasury stock—net		(10)	**2**
Dividends paid to the Company's shareholders	**(5,230)**	(3,923)	**(43,587)**
Dividends paid to minority shareholders	**(1,133)**	(857)	**(9,438)**
Other	**78**	74	**650**
Net cash provided by financing activities	**79,664**	66,961	**663,869**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**437**	223	**3,643**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**5,789**	(187)	**48,238**
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	**3,582**		**29,848**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**16,499**	16,686	**137,495**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 25,870**	¥ 16,499	**$ 215,581**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended February 20, 2007 and 2006

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, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards and accounting principles generally accepted in the United States of America ("U.S. GAAP").

On December 27, 2005, the Accounting Standard Board of Japan ("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 statement of changes in equity" for the fiscal year ended February 20, 2007.

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 classifications used in 2007.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which AEON Credit Service Co., Ltd. (the "Company") is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥120 to $1, the approximate rate of exchange at February 20, 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 ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of February 20, 2007 include the accounts of the Company, its 17 significant (12 in 2006) subsidiaries and 1 (2 in 2006) company in the equity method (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.

The differences between the cost of an acquisition and the fair value of the net assets of the acquired subsidiary at the date of acquisition are amortized within 20 years (estimated effective period) for the Company and consolidated subsidiaries.

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 on the Consolidated Balance Sheets—Cash equivalents on the consolidated balance sheets 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, certificate of deposits, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

c. Finance Receivables—Finance receivables that the companies have the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any write-off or valuation allowance.

d. Allowance for the possible credit losses—The allowance for the possible credit losses is stated in amounts considered to be appropriate based on the companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

e. Investment Securities—Investment securities are accounted as follows : available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

f. Property and Equipment—Property and equipment are stated at cost. Depreciation of property and equipment is computed under the straight-line method based on the estimated useful lives of the assets.

g. Software—Software is carried at cost less accumulated amortization. Amortization of software of the Group is calculated by the straight-line method over five years.

h. Allowance for the point program—The allowance for the point program is stated in amounts considered to be appropriate based on the company's past redemption experience.

i. Allowance for Loss on refund of interest received—The allowance for loss on refund of interest received (the amount of interest that exceeds the ceiling rate imposed by the Interest Rate Restriction Law) is stated in amounts considered to be appropriated based on the companies' past refund experience.

j. Retirement and Pension Plans—The Company has a defined benefit pension plan, advance payment plan and defined contribution pension plan covering substantially all employees. Liability for employees' retirement benefits are accounted for based on the projected benefit obligations and plan assets at the balance sheet date.

k. Bond issue Cost—Bond issue cost is amortized over the period the bonds are outstanding. Bond issue cost at February 20, 2007 which is included in deferred charges is ¥116 million ($963 thousand).

l. Recognition of Operating Revenues—The operations of the Group mainly comprise the following areas, and the recognition of operating revenues is different according to each business. See Note 4 for amounts of transactions and realized operating revenues for each business.

(1) Credit card contracts and hire purchase contracts
Installment sales receivables are recorded after the Group has accepted the relevant contracts that participating member stores refer to the Group.

The Group receives fees for collection of the installment sales and the related administrative services from the member stores under credit card contracts and hire purchase contracts for shopping. The fees from the member stores are generally recognized at the time when the Group makes payments for the installment sales receivables to the member stores in advance.

The Group receives fees from customers under credit card contracts and hire purchase contracts. The fees from customers are recognized principally by the interest method.

(2) Loan contracts
The Group provides credit card cash advances and personal loans. Operating loans receivables are recorded when the Group loans cash to customers. The interest income and the customer charge at the start of the contract are recognized principally by the interest method.

m. 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 under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

n. 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.

o. 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 taxes are measured by applying currently enacted tax laws to the temporary differences.

p. Appropriations of Retained Earnings—Appropriations of retained earnings are reflected in the financial statements for the following year upon approval by the shareholders.

q. 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 each balance sheet date. The foreign exchange gains and losses from translation are recognized in the statements of income to the extent that they are not hedged by forward exchange contracts.

r. Foreign Currency Financial Statements—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of each balance sheet date except for 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 equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

s. Derivatives and Hedging Activities—The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign currency exchange and interest rates. Derivative financial instruments are comprised principally of foreign exchange forward contracts, currency swaps and interest rate swaps utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes. Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gain or loss on derivative transactions are recognized in the statements of income and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gain or loss on derivatives are deferred until maturity of the hedged transactions.

Long-term debt denominated in foreign currencies for which currency swaps are used to hedge the foreign currency fluctuations are translated at the contracted rate if the forward contracts qualify for hedge accounting. Interest rate swaps are utilized to hedge interest rate exposures of long-term debt. In principle, these swaps which qualify for hedge accounting are measured at market value at the balance sheet date and the unrealized gain or loss, net of applicable taxes are deferred until maturity as "Deferred Gain (Loss) on Derivatives under Hedge Accounting" in a separate component of equity. The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are exceptionally not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expenses or income.

t. 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 is not disclosed as there is no potential dilution existing.

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, retroactively adjusted for stock splits.

u. 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 retaind 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 February 20, 2007. The effect of adoption of this accounting standard was to decrease income before income taxes and minority interests for the year ended February 20, 2007 by ¥72 million ($604 thousand).

v. New Accounting Pronouncements

Lease Accounting

On March 31, 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. INVESTMENT SECURITIES

Investment securities as of February 20, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Non-current:			
Marketable equity securities	**¥12,947**	¥12,211	**$107,895**
Other equity securities	**1,238**	1,263	**10,314**
Total	**¥14,185**	¥13,474	**$118,209**

The carrying amounts and aggregate fair values of investment securities as of February 20, 2007 and 2006 were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
February 20, 2007				
Securities classified as:				
Available-for-sale:				
Equity securities	**¥3,271**	**¥9,991**	**¥315**	**¥12,947**
February 20, 2006				
Securities classified as:				
Available-for-sale:				
Equity securities	¥2,685	¥9,559	¥ 33	¥12,211

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
February 20, 2007				
Securities classified as:				
Available-for-sale:				
Equity securities	**$27,261**	**$83,262**	**$2,628**	**$107,895**

Available-for-sale securities whose fair value was not readily determinable as of February 20, 2007 and 2006 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Available-for-sale:			
Equity securities	**¥1,238**	¥1,263	**$10,314**
Total	**¥1,238**	¥1,263	**$10,314**

Proceeds from sales of available-for-sale securities for the year ended February 20, 2007 were ¥828 million ($6,896 thousand).

4. FINANCE RECEIVABLES

Finance receivables as of February 20, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Installment sales receivables:			
Credit card contracts	**¥229,253**	¥172,073	**$1,910,440**
Hire purchase contracts	**31,538**	25,019	**262,816**
Subtotal	**¥260,791**	¥197,092	**$2,173,256**
Operating loans receivables	**507,115**	439,366	**4,225,963**
Allowance for the possible credit losses	**(40,190)**	(27,871)	**(334,914)**
Total	**¥727,716**	¥608,587	**$6,064,305**

For the years ended February 20, 2007 and 2006, the Group securitized finance receivables and subsequently transferred the cash flow interests in those assets mainly to unconsolidated special purpose entities.

The total of securitized receivables as of February 20, 2007 and 2006 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
The Company	**¥40,217**	¥50,000	**$335,145**
The consolidated subsidiaries		6,885	
Total	**¥40,217**	¥56,885	**$335,145**

Some of the interests in the securitized financial assets are retained in the form of seller or subordinated tranches ("remaining interests"), which are included in finance receivables.

The remaining interests included in finance receivables as of February 20, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Finance receivables:			
Installment sales receivables	**¥ 343**	¥ 3,098	**$ 2,856**
Operating loans receivables	**6,787**	12,163	**56,563**
Total	**¥7,130**	¥15,261	**$59,419**

Transaction volume and realized operating revenue by type of contract for the years ended February 20, 2007 and 2006 consisted of the following:

	Millions of Yen				Thousands of U.S. Dollars	
	2007		2006		**2007**	
	Transaction Volume	Operating Revenue	Transaction Volume	Operating Revenue	Transaction Volume	Operating Revenue
Credit card contracts	**¥1,590,445**	**¥ 39,776**	¥1,348,861	¥ 31,701	**$13,253,705**	**$ 331,465**
Hire purchase contracts	**44,360**	**7,531**	45,024	7,635	**369,671**	**62,757**
Loan contracts	**695,016**	**118,207**	609,944	98,640	**5,791,802**	**985,063**
Service fees	**141,751**	**1,922**	174,036	2,375	**1,181,257**	**16,014**
Other	**11,348**	**6,046**	5,195	4,400	**94,568**	**50,382**
Total	**¥2,482,920**	**¥173,482**	¥2,183,060	¥144,751	**$20,691,003**	**$1,445,681**

5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of February 20, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Bank loans, 0.92% to 8.40% (2007) and 0.96% to 4.81% (2006)	**¥34,019**	¥28,238	**$283,493**
Commercial paper at 0.04% (2006)		7,000	
Total	**¥34,019**	¥35,238	**$283,493**

Long-term debt as of February 20, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Issued by the Company:			
Unsecured 1.97% Japanese yen notes due 2007	**¥ 10,000**	¥ 10,000	**$ 83,333**
Unsecured 1.22% Japanese yen notes due 2008	**15,000**	15,000	**125,000**
Unsecured 1.47% Japanese yen notes due 2009	**15,000**	15,000	**125,000**
Unsecured 0.81% Japanese yen notes due 2010	**10,000**	10,000	**83,333**
Unsecured 1.60% Japanese yen notes due 2011	**10,000**	10,000	**83,333**
Unsecured 1.08% Japanese yen notes due 2012	**20,000**	20,000	**166,667**
Unsecured 1.55% Japanese yen notes due 2013	**10,000**	10,000	**83,333**
Unsecured 1.79% Japanese yen notes due 2014	**20,000**		**166,667**
Issued by AEON Thana Sinsap (Thailand) Plc.:			
Unsecured 4.45% Thai baht notes due 2008	**1,805**	1,510	**15,042**
Unsecured 4.77% Thai baht notes due 2008	**1,877**	1,570	**15,643**
Unsecured 4.94% Thai baht notes due 2010	**1,083**	906	**9,025**
Issued by AEON Credit Service (M) Berhad:			
Medium Term Note Malaysia Ringgit due 2010(*1)	**663**		**5,521**
Medium Term Note Malaysia Ringgit due 2010(*1)	**663**		**5,521**
Medium Term Note Malaysia Ringgit due 2012(*2)	**1,273**		**10,609**
Loans from banks and other financial institutions, due through 2014 with interest rates ranging from 0.81% to 5.88% (2007) and from 1.04% to 5.12% (2006):			
Unsecured	**402,572**	315,345	**3,354,773**
Loans from the subsidiaries of the Company's parent company due through 2008 with interest rates ranging from 0.43% to 1.13% (2007) and from 0.43% to 0.77% (2006):			
Unsecured	**6,900**	8,800	**57,500**
Total	**526,836**	418,131	**4,390,300**
Less current portion	**(98,478)**	(46,383)	**(820,651)**
Long-term debt, less current portion	**¥428,358**	¥371,748	**$3,569,649**

(*1) Profit return rate: 4.30% (*2) Profit return rate: 4.50%

The annual maturities of long-term debt as of February 20, 2007 were as follows:

Years ending February 20	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 98,478	$ 820,651
2009	101,715	847,625
2010	93,431	778,590
2011	54,906	457,553
2012	89,315	744,294
2013 and thereafter	88,991	741,587
Total	¥526,836	$4,390,300

6. RETIREMENT AND PENSION PLANS

The Company has severance payment plans for employees, directors and corporate auditors, except that the Company ceased the severance payments for the directors and corporate auditors effective May 12, 2004. The Company has a defined benefit pension plan, advance payment plan and defined contribution pension plan covering substantially all employees.

The net liability (asset) for employees' retirement benefits as of February 20, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Projected benefit obligation	**¥ 912**	¥ 900	**$ 7,602**
Fair value of plan assets	**(582)**	(570)	**(4,853)**
Unrecognized actuarial loss	**(289)**	(367)	**(2,410)**
Net liability (asset)	**¥ 41**	¥ (37)	**$ 339**

The components of net periodic benefit costs for the years ended February 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Service cost	**¥ 57**	¥ 62	**$ 480**
Interest cost	**22**	19	**180**
Expected return on plan assets	**(13)**	(11)	**(110)**
Recognized actuarial loss	**50**	45	**417**
Other	**88**	81	**735**
Total	**¥204**	¥196	**$1,702**

Assumptions used for the years ended February 20, 2007 and 2006 are set forth as follows:

	2007	2006
Discount rate	**2.4%**	2.4%
Expected rate of return on plan assets	**2.31%**	1.95%
Recognition period of actuarial gain/loss	**10 years**	10 years

7. 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. 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 of such threshold. 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 February 21, 2006, the Company made a stock split by way of a free share distribution at the rate of 3 shares for each outstanding share, and 104,609,388 shares of the Company's common stock were issued to shareholders of record on February 20, 2006 and treasury stock increased 35,284 shares.

8. OTHER OPERATING EXPENSES

Other operating expenses for the years ended February 20, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Salaries and benefits	**¥18,111**	¥15,978	**$150,926**
Sales promotion expenses	**13,558**	11,469	**112,984**
Provision for loss on refund of interest received	**4,802**		**40,018**
Other	**44,197**	39,160	**368,309**
Total	**¥80,668**	¥66,607	**$672,237**

9. NON-OPERATING EXPENSES, NET

Non-operating expenses for the years ended February 20, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Loss on the deficit of the provision for "Tokimeki Point" accounting for the past fiscal year		¥(1,057)	
Provision for loss on refund of interest received	**¥(2,403)**	(224)	**$(20,021)**
Loss on disposal of software	**(231)**	(527)	**(1,927)**
Loss due to changes in accounting procedures for the foreign subsidiaries		(312)	
Loss due to changes in consolidated subsidiary	**(1,045)**		**(8,709)**
Gain on sales of investment securities	**767**	605	**6,390**
Other	**221**	(61)	**1,849**
Total	**¥(2,691)**	¥(1,576)	**$(22,418)**

In October 2006, "Application of auditing for provision of allowance for loss for reclaimed refund of interest in the accounting of consumer finance companies" of the industry audit practice committee report No. 37 by the Japanese Institute of Certified Public Accountants (JICPA) was issued and this is adopted from the beginning of this fiscal year.

The effect of adoption of this report was to decrease income before income taxes and minority interests by ¥2,403 million ($20,021 thousand) and to reclassify allowance for doubtful accounts to allowance for loss on refund of interest received by ¥1,430 million ($11,917 thousand).

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.4% for the year ended February 20, 2007 and 2006.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities as of February 20, 2007 and 2006, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Deferred tax assets:			
Enterprise tax	**¥ 783**	¥ 682	**$ 6,522**
Allowance for the possible credit losses	**8,807**	3,991	**73,393**
Finance receivables	**2,954**	3,909	**24,617**
Allowance for the point program	**1,079**	768	**8,989**
Allowance for loss on refund interest received	**2,824**	90	**23,532**
Accrued income	**785**	623	**6,545**
Payables and accrued expenses	**271**	165	**2,258**
Property and equipment	**394**	401	**3,286**
Property and equipment charged to income	**25**	8	**208**
Software	**116**	168	**967**
Investment securities	**1**	57	**5**
Long-term prepaid expenses	**124**	177	**1,035**
Other	**172**	113	**1,437**
Less valuation allowance	**(47)**	(47)	**(391)**
Offset with deferred tax liabilities	**(3,548)**	(869)	**(29,567)**
Total deferred tax assets	**¥14,740**	¥10,236	**$122,836**
Deferred tax liabilities:			
Prepaid pension expenses		¥ 15	
Reserve for special depreciation	**¥ 5**	20	**$ 38**
Depreciation in consolidated foreign subsidiaries	**323**	304	**2,694**
Undistributed earnings of consolidated foreign subsidiaries	**221**	162	**1,841**
Unrealized gain on available-for-sale securities	**3,822**	3,658	**31,852**
Offset with deferred tax assets	**(3,548)**	(869)	**(29,567)**
Total deferred tax liabilities	**¥ 823**	¥ 3,290	**$ 6,858**
Net deferred tax assets	**¥13,917**	¥ 6,946	**$115,978**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended February 20, 2007 and 2006 is as follows:

	2007	2006
Normal effective statutory tax rate	**40.4%**	40.4%
Expenses not deductible for income tax purposes	**0.3**	0.3
Deduction for foreign taxes	**(0.3)**	(0.3)
Per capita portion of inhabitants tax	**0.2**	0.2
Lower income tax rates applicable to income in certain foreign countries	**(3.8)**	(3.1)
Influence of elimination in consolidation	**1.7**	1.1
Reduction of taxes for IT investments	**(0.4)**	(1.0)
Other—net	**(0.1)**	0.3
Actual effective tax rate	**38.0%**	37.9%

11. LEASES

The Companies lease certain equipment, office space and other assets.

Total rental expenses for the years ended February 20, 2007 and 2006 were ¥4,483 million ($37,359 thousand) and ¥3,770 million, respectively, including ¥749 million ($6,238 thousand) and ¥702 million of lease payments under finance leases.

Proforma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance lease, depreciation expense and interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended February 20, 2007 and 2006 is as follows:

	Millions of Yen			
	2007			
	Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	**¥173**	**¥ 2,655**	**¥ 268**	**¥ 3,096**
Accumulated depreciation	**(96)**	**(1,634)**	**(193)**	**(1,923)**
Net leased property	**¥ 77**	**¥ 1,021**	**¥ 75**	**¥ 1,173**

	Millions of Yen			
	2006			
	Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	¥132	¥ 2,432	¥ 269	¥ 2,833
Accumulated depreciation	(44)	(1,040)	(134)	(1,218)
Net leased property	¥ 88	¥ 1,392	¥ 135	¥ 1,615

	Thousands of U.S. Dollars			
	2007			
	Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	**$1,441**	**$22,123**	**$ 2,231**	**$ 25,795**
Accumulated depreciation	**(801)**	**(13,614)**	**(1,607)**	**(16,022)**
Net leased property	**$ 640**	**$ 8,509**	**$ 624**	**$ 9,773**

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Due within one year	**¥ 623**	¥ 686	**$5,188**
Due after one year	**565**	953	**4,713**
Total	**¥1,188**	¥1,639	**$9,901**

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Depreciation expense	**¥729**	¥670	**$6,079**
Interest expense	**22**	30	**179**
Total	**¥751**	¥700	**$6,258**

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of income, are computed by the straight-line method and the interest method, respectively.

The minimum rental commitments under noncancelable operating leases as of February 20, 2007 were as follows:

	Millions of Yen
Due within one year	¥1,396
Due after one year	1,685
Total	¥3,081

12. DERIVATIVES

The Group enters into foreign exchange forward contracts and currency swap contracts to hedge foreign exchange risk associated with certain liabilities denominated in foreign currencies. The Group also has purchased interest rate swaps to limit the unfavorable impact from increases in interest rates on floating-rate long-term debt. The interest rate swaps effectively limit the Group's interest expense on specified amounts of floating-rate long-term borrowings to a maximum rate. The Group does not hold or issue derivatives for trading or speculative purposes.

Derivatives are subject to market risk and credit risk. Market risk is the exposure created by potential fluctuations in market conditions, including interest or foreign exchange rates. Since the Group's derivatives are related to qualified hedges of the unfavorable impact from increases in interest rates on floating-rate long-term debt and fluctuations of foreign exchange associated with certain liabilities, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities. Credit risk is the possibility that a loss may result from the counterparty's failure to perform according to the terms and conditions of the contract. Because the counterparties to those derivatives are limited to major international financial institutions, the Company does not anticipate any losses arising from credit risk.

The basic policies for the use of derivatives are approved by the Board of Directors and the execution and control of derivatives are controlled by the Finance Department. Each derivative transaction is periodically reported to the management, where evaluation and analysis of derivatives are made.

Foreign currency forward contracts which qualify for hedge accounting are excluded from the disclosure of market value information.

13. LOAN COMMITMENTS

The Group provides cashing and card loan services that supplement its credit card operations. The nonexercised portion of loan commitments in these businesses was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Total loan limits	**¥5,022,052**	¥4,271,060	**$41,850,433**
Loan executions	**433,297**	388,743	**3,610,809**
The nonexercised portion of loan commitments	**¥4,588,755**	¥3,882,317	**$38,239,624**

Most of the contracts for the above loan commitments were for cashing services supplementary to credit card services furnished to the Company's cardmembers, such that not all unexecuted loans will be exercised.

14. NET INCOME PER SHARE

Basic and diluted net income per share ("EPS") for the years ended February 20, 2007 and 2006 were as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted-Average Shares	EPS	
For the year ended February 20, 2007:				
Basic EPS				
Net income	**¥20,592**			
Net income available to common shareholders	**¥20,592**	**156,914**	**¥131.23**	**$1.09**
For the year ended February 20, 2006:				
Basic EPS				
Net income	¥21,262			
Bonuses to directors and corporate auditors	67			
Net income available to common shareholders	¥21,195	156,916	¥135.07	$1.13

Diluted EPS is not disclosed as there is no potential dilution existing.
Number of shares and EPS for the year ended February 20, 2006 are retroactively adjusted for the stock split.

15. RELATED PARTY TRANSACTIONS

Transactions with the parent company and its subsidiaries for the years ended February 20, 2007 and 2006 were as follows:
ÆON Co., Ltd. (the parent company)

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Credit card contracts	**¥7,313**	¥7,048	**$60,945**
Hire purchase contracts	**1**	1	**5**
Other operating revenues	**148**	119	**1,230**
Other operating expenses	**880**	798	**7,337**
Fixed leasehold deposits to lessors	**21**	24	**176**

The balances due to or from the parent company and its subsidiary as of February 20, 2007 and 2006 were as follows:
ÆON Co., Ltd. (the parent company)

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Accounts payable	**¥7,051**	¥5,482	**$58,760**

The above transactions were on an arm's-length basis and in the normal course of business.

16. SEGMENT INFORMATION

The Company separates its operations into two segments comprising the following industries:
The financial services industry consisting of credit card contracts, hire purchase contracts and loan contracts;
The other operating services industry consisting of an insurance agency and other operating services.

Operations in financial services for the year ended February 20, 2007 amounted to more than 90% of consolidated operating revenues, operating income and assets, and accordingly, the segment information in different industries is not disclosed for fiscal 2007.

Information on geographic segments and operating revenues to foreign customers of the Company and its subsidiaries for the years ended February 20, 2007 and 2006 is as follows:

(1) Geographic segments

The geographic segments of the Company and its subsidiaries for the years ended February 20, 2007 and 2006 are summarized as follows:

	Millions of Yen				
	2007				
	Domestic	Overseas	Total	Eliminations/ Corporate	Consolidated
Operating revenues to customers	**¥127,100**	**¥ 46,382**	**¥173,482**		**¥173,482**
Interarea transfer					
Total operating revenues	**127,100**	**46,382**	**173,482**		**173,482**
Operating expenses	**95,445**	**37,081**	**132,526**		**132,526**
Operating income	**¥ 31,655**	**¥ 9,301**	**¥ 40,956**		**¥ 40,956**
Total assets	**¥640,282**	**¥203,746**	**¥844,028**	**¥(9,774)**	**¥834,254**

	Thousands of U.S. Dollars				
	2007				
	Domestic	Overseas	Total	Eliminations/ Corporate	Consolidated
Operating revenues to customers	**$1,059,162**	**$ 386,519**	**$1,445,681**		**$1,445,681**
Interarea transfer					
Total operating revenues	**1,059,162**	**386,519**	**1,445,681**		**1,445,681**
Operating expenses	**795,376**	**309,010**	**1,104,386**		**1,104,386**
Operating income	**$ 263,786**	**$ 77,509**	**$ 341,295**		**$ 341,295**
Total assets	**$5,335,687**	**$1,697,879**	**$7,033,566**	**$(81,448)**	**$6,952,118**

	Millions of Yen				
	2006				
	Domestic	Overseas	Total	Eliminations/ Corporate	Consolidated
Operating revenues to customers	¥111,294	¥ 33,457	¥144,751		¥144,751
Interarea transfer	2	3	5	¥ (5)	
Total operating revenues	111,296	33,460	144,756	(5)	144,751
Operating expenses	78,235	26,290	104,525	(5)	104,520
Operating income	¥ 33,061	¥ 7,170	¥ 40,231		¥ 40,231
Total assets	¥547,445	¥148,121	¥695,566	¥(6,209)	¥689,357

(2) Operating revenues to foreign customers

Operating revenues to foreign customers for the years ended February 20, 2007 and 2006 amounted to ¥46,382 million ($386,519 thousand) and ¥33,457 million, respectively.

17. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

The following appropriations of retained earnings as of February 20, 2007 were approved at the Company's shareholders' meeting held on May 15, 2007:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥25.00 ($0.21) per share	¥3,923	$32,690

Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
ÆON Credit Service Co., Ltd.:

We have audited the accompanying consolidated balance sheets of ÆON Credit Service Co., Ltd. and subsidiaries as of February 20, 2007 and 2006, 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 ÆON Credit Service Co., Ltd. and subsidiaries as of February 20, 2007 and 2006, 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.

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

May 15, 2007

Major Group Companies

■ General Merchandise Stores (GMS)
ÆON Co., Ltd.
Posful Corporation
AEON Stores (Hong Kong) Co., Ltd.
AEON Co. (M) Bhd.
ÆON KYUSHU CO., LTD.
ÆON SUPERCENTER Co., Ltd.
ÆON Marché Co., Ltd.
MYCAL CORPORATION
MYCALKYUSHU CORPORATION
RYUKYU JUSCO CO., LTD.
AEON (China) Co., Ltd.
Guangdong JUSCO Teem Stores Co., Ltd.
Qingdao AEON Dongtai Co., Ltd.
Shenzhen AEON Friendship Co., Ltd.
Taiwan AEON Stores Co., Ltd.

■ Supermarkets
Inageya Co., Ltd.
KASUMI Co., Ltd.
Maxvalu Chubu Co., Ltd.
Maxvalu Nishinihon Co., Ltd.
Maxvalu Tohoku Co., Ltd.
Maxvalu Tokai Co., Ltd.
Belc Co., Ltd.
Maxvalu Hokkaido Co., Ltd.
Maxvalu Kyushu Co., Ltd.
Maxvalu Nagoya Co., Ltd.
JOY Co., Ltd.
Joyful Tokai Co., Ltd.
Siam JUSCO Co., Ltd.

■ Drugstores
CFS Corporation
TSURUHA HOLDINGS, Inc.
WELCIA KANTO Co., Ltd.
KUSURI NO AOKI Co., Ltd.
Kraft Inc.
Terashima Co., Ltd.
Medical Ikkou Co., Ltd.
Welpark Co., Ltd.
TAKIYA Co., Ltd.

■ Home Centers
SANDAY Co., Ltd.
Homac Corp.

■ Convenience Stores
MINISTOP Co., Ltd.

■ Department Stores
Tachibana Department Store Co., Ltd.
Bon Belta Co., Ltd.

■ Specialty Stores
The Talbots, Inc.
Taka-Q Co., Ltd.
YAMAYA CORP
TSURUYA SHOE STORE Co., Ltd.
Cox Co., Ltd.
BLUE GRASS Co., Ltd.
Abilities JUSCO Co., Ltd.
ÆON FOREST Co., Ltd.
ÆON Bakery System Co., Ltd.
ORIGIN TOSHU Co., Ltd.
Claire's Nippon Co., Ltd.
Talbots Japan Co., Ltd.
NUSTEP Co., Ltd.
PETCITY Co., Ltd.
MYCAL CANTEVOLE Co., Ltd.
MIRAIYA SHOTEN Co., Ltd.
Mega Sports Co., Ltd.
MEGA PETRO Co., Ltd.
LAURA ASHLEY JAPAN CO., LTD.

■ SC Development Operations
Diamond City Co., Ltd.
ÆON Mall Co., Ltd.
LOC DEVELOPMENT CO., LTD.

■ Financial Services
ÆON Credit Service Co., Ltd.
AEON Credit Service (Asia) Co., Ltd.
AEON Thana Sinsap (Thailand) Plc.
ACS Credit Management Co., Ltd.
NCS Kosan Co., Ltd.
AEON Credit Card (Taiwan) Co., Ltd.
AEON Credit Guarantee (China) Co., Ltd.
AEON Credit Service (M) Berhad
AEON Credit Service (Taiwan) Co., Ltd.
AEON Information Service (Shenzhen) Co., Ltd.
ACS Insurance Broker (Thailand) Co., Ltd.
ACS Life Insurance Broker (Thailand) Co., Ltd.
PT. AEON Credit Service Indonesia

■ Services
ÆON DELIGHT Co., Ltd.
ÆON Fantasy Co., Ltd.
ZWEI Co., Ltd.
CERTO Corporation
ÆON CINEMAS Co., Ltd.
ÆON Demonstration Service, Inc.
JUSVEL Co., Ltd.
Quality Control Center Co., Ltd.
Reform Studio Co., Ltd.
Warner Mycal Corporation

■ Food Services
ÆON Eaheart Co., Ltd.

■ Food Processing, Distribution and Other Operations
Aic, Inc.
Cordon Vert CO., LTD.
DELICA SYOKUHIN CO., LTD.
Food Supply JUSCO Co., Ltd.
Tasmania Feedlot Pty. Ltd.

■ e-commerce Business
ÆON VISTY CO., LTD.

Listed companies are shown in bold.

- ÆON 1% Club
- ÆON Environment Foundation
- The Cultural Foundation of Okada

Corporate Data (As of February 20, 2007)

Company Name
ÆON Credit Service Co., Ltd.

Head Office
Kanda Mitoshiro-cho 1, Chiyoda-ku, Tokyo 101-8445, Japan
Tel: +81-3-5281-2030
Fax: +81-3-5281-2020
URL: http://www.aeoncredit.co.jp

Established
June 20, 1981

Capital Stock
¥15,466.5 million

Number of Employees
3,937 (Consolidated); 841 (Non-Consolidated)

Domestic Subsidiaries
NCS Kosan Co., Ltd.
ACS Credit Management Co., Ltd.
ACS Finance Co., Ltd.

Overseas Subsidiaries
AEON Credit Service (Asia) Co.,Ltd.
AEON Thana Sinsap (Thailand) Plc.
ACS Capital Corporation Ltd.
AEON Credit Service (M) Berhad
AEON Credit Service (Taiwan) Co., Ltd.
AEON Credit Card (Taiwan) Co., Ltd.
PT. AEON Credit Service Indoneshia
AEON Credit Guarantee (China)Co.,Ltd.
AEON Information Service (Shenzen) Co.,Ltd.
ACS Insurance Broker (Thailand) Co., Ltd.
ACS Life Insurance Broker (Thailand) Co., Ltd.
Eternal 3 Special Purpose Vehicle Co.,Ltd.
Nihon (Hong Kong) Company Limited
Horizon Master Trust (AEON 2006-1)

Shareholder Information (As of February 20, 2007)

Closing Date
February 20

Stock Exchange Listing
Tokyo Stock Exchange, First Section (Securities Code: 8570)

Transfer Agent
Mizuho Trust & Banking Co., Ltd.

Shares Issued
156,967,008 shares

Shareholders' Meeting
Held in May of each year

Independent Auditors
Deloitte Touche Tohmatsu

Board of Directors and Auditors (As of May 15, 2007)

Board of Directors

President and C.E.O	Yoshiki Mori
Senior Managing Director	Kazuhide Kamitani
Managing Directors	Tatsuya Saito
	Takashi Kiyonaga
	Kazuhiko Kawata
Directors	Masamichi Kamiyama
	Yasuhiko kondo
	Kiyoaki Takano
	Yoshitaka Yamada
	Kouji Hatakeda
	Mitsugu Tamai
	Kiyoyasu Asanuma

Auditors

Corporate Auditor	Hisateru Taniuchi *
Auditors	Hiroyasu Sugihara *
	Nobuo Hitomi *
	Hideki Wakabayashi *

**External*

Planting Seeds of Growth

We are ÆON

ÆON CREDIT SERVICE CO., LTD.

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