

FY2017 Presentation Material with notes and FAQ

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(Moderator)

We have revised the FACTBOOK page 8.


Revised page is attached end of the handout.

Please refer to corrected figures with underlined on the page.

The material on our website will be revised within today.


(Wakabayashi)

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**Final Results for the Fiscal Year 2017**

**May 10, 2018**


 **AEON Financial Service**

**First Section of the Tokyo Stock Exchange  
Stock Code : 8570**

*AEON Financial Service Co., Ltd.* !

Hello. Thank you very much for joining our full-year earnings presentation. I'm Hideki Wakabayashi. I'm in charge of finance.

**Consolidated results and business outline:**  
**Record high results and increase in ordinary income & ordinary profit for six consecutive terms**



[Unit: Billions of yen]	1Q		2Q		3Q		4Q		FY2017	
	Results	YoY	Results	YoY	Results	YoY	Results	YoY	Results	YoY
Ordinary income	94.0	+4%	100.4	+11%	102.1	+9%	111.2	+11%	407.9	+9%
Ordinary expenses	82.0	+7%	83.9	+9%	85.9	+9%	90.2	+11%	342.2	+9%
Ordinary profit	11.9	-13%	16.5	+21%	16.2	+9%	21.0	+9%	65.7	+7%
Profit of securitization receivables	-	-	4.0	+81%	2.5	+10%	9.0	-0%	15.5	-5%
Depreciation of securitization receivables profit*	16	-	1.4	-	1.4	-	2.0	-	6.4	-
Income before taxes	13.2	-3%	16.3	+20%	16.1	+9%	20.8	+19%	66.5	+12%
Income taxes	3.8	+41%	3.8	+2%	5.1	+23%	4.8	+249%	17.6	+47%
Profit attributable to non-controlling interests	2.3	-	2.3	-	3.0	-	2.4	-	10.1	-
Profit attributable to owners of parent	7.0	-22%	10.1	+26%	8.7	-1%	12.7	-4%	38.6	-2%

\*Amount of depreciation for cumulative securitization receivables profit  
 \*Domestic total and global total represent amounts after elimination of transactions between business segments

- Ordinary income: ¥407.9bn (YoY +9%, +¥36.4bn due to exchange rate effect)
  - Domestic: Increase in no. of active users of cash adv. to 1.26mil (+25K from start of FY2017) led to rise in cash adv. bal. to ¥329K per person (+¥14K from start of FY2017)
- Ordinary profit: ¥65.7bn (YoY +7%, +¥1.0bn due to exchange rate effect)
  - Domestic: ① Up-front investments of ¥7.7bn related to restructuring projects related to integration of HQ functions etc led to improvement of Personnel exp./Ordinary income to 16.4% (YoY -0.5pp). ② Favorable growth in card shopping txns led to increase in transaction income +¥10.2bn and point exp. +¥4.0bn. ③ Bad debt exp. +¥2.5bn, Refund of interest claims -¥1.1bn, fall in refund of interest claims (YoY+41.5%). ④ Securitization implemented to compress level of risk assets, to increase capital turnover and improve yield. Impact on ordinary profit of ¥15.5bn (YoY -1.0bn)
  - Global: Improvement in efficiency e.g. reduction of personnel costs etc due to system/IT investments seen in screening and collection management, enabling focus in top-line growth. Main KPIs - Personnel exp./Ordinary income: 14.8% (YoY -0.1pp), Bad debt exp./Ordinary income: 24.1% (YoY -2.2pp), showing favorable progress in investment efforts. Improvement in bad debt exp. (¥29.7bn, YoY +2%, +¥1.2bn due to exchange rate effect) attributed to shift from financing to sale of goods.
- Net income attributable to owners of parent: ¥38.6bn (-2%)
  - Deferred Tax Asset classification change in AEON Bank since FY2016 (reduction of expenses) resulted in tax expense +¥6.6bn
  - Non-controlling shareholders profit +¥2.0bn attributed mainly to strong expansion of profits in global business

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First I'm going to share with you the summary of our full-year consolidated results for the fiscal year 2017. In 2017, both ordinary income and profit hit the record highs for six years in a row. Ordinary income rose 9% from a year earlier to 407.9 billion yen thanks to healthy growth in credit business including card shopping and cash advance.

On the other hand, the ordinary profit from our domestic business came in below the year-earlier level because of an increase in IT equipment investment and restructuring costs, which aimed at enhancing productivity, as well as point expenses, but it is in fact a good profit number on par with last year's result and I will explain why that is later on.

In contrast, our global business benefited from the productivity improvement efforts, which further reduced the payroll expenses and bad debt allowance, and we were able to keep the increase in expenses to a similar rate as our income growth. Ordinary profit came in at 65.7 billion yen, 7% higher from a year earlier, meeting the target.

When it comes tax expenses, these are deductible expenses and they increased one billion yen more than we had expected because the point system was changed to make it easier to earn points through card usage and more customers redeemed their points.

In addition, our global business started to rebound in the fiscal 2017. Not only its result beat the budget but the net income attributed to non-controlling interest also beat our forecast by 400 million yen.

All in all, net income attributable to owners of the parent was 38.6 billion yen, 98% of what it was a year earlier.

Consolidated results of business scale							
		FY2016 4Q		FY2017 1H		FY2017	
		Results	YOY	Results	Change from start of FY	Results	Change from start of FY
①	No. of cardholders	38.94 mil	+1.72 mil	39.84 mil	+0.90 mil	40.64 mil	+1.70 mil
	No. of domestic cardholders	26.92 mil	+1.04 mil	27.39 mil	+0.47 mil	27.75 mil	+0.83 mil
②	No. of active cardholders	16.61 mil	+0.68 mil	16.87 mil	+0.26 mil	17.02 mil	+0.41 mil
③	AEON Bank accounts	5.55 mil	+0.62 mil	5.80 mil	+0.25 mil	6.05 mil	+0.50 mil
	No. of AEON Card SELECT members	4.08 mil	+0.52 mil	4.30 mil	+0.22 mil	4.48 mil	+0.40 mil
④	No. of debit cards	0.06 mil	+0.06 mil	0.10 mil	+0.04 mil	0.14 mil	+0.08 mil
	Finance receivables	¥4,427.2bn	+569.5bn	¥4,806.6bn	+379.4bn	¥5,223.6bn	+796.4bn
<b>① No. of cardholders</b> • Successful cardholder recruitment efforts in Domestic and Global businesses attributed to new Minions Card (JP), Kojima Bic Camera Card (JP) and Big C (TH) co-branded cards led to favorable trend in number of cardholders. • Total no. of domestic cardholders and debit cards: +910K				<b>③ AEON Bank accounts</b> • Increase in number AEON Card SELECT and Debit cardmembers. • Favorable interest rates contributed to increase in ordinary deposits balance to ¥2,022b (+¥677.3b) from start of FY)			
<b>② No. of active cardholders</b> • Double point program at AEON stores led to increase in card usage • Web statements: 5.33 mil users registered (YOY +1.17 mil, active users rate: 57% per month) ⇒ FY2017 postage cost reduced by approx. ¥2.3b (※ comparing to when paper statements are used) • Card skipping to vol. ¥4,955b (YOY +10%)				<b>④ Finance receivables (incl. securitization)</b> • Domestic: ¥4,684b (+¥22.8b) from start of FY * Growth in card skipping (+¥7.8b), housing loans balance (+¥33.7b) and hire-purchase contracts balance (+¥142.9b). • Global: ¥544.5b (+¥73.5b) from start of FY * Accounts receivable installment (+¥34.3b), Loans and bills discounted (+¥39.2b)			

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The next slide is about our business scale on a consolidated basis. We put the numbers on the left side of the table. The number one, the total number of cardholders increased 1.7 million from the start of the fiscal year to 40 million 640 thousand. In Japan, the enrollment was driven by the promotion of our credit card products such as "Minions Card," which is targeted to young people, or Kojima-Bic Camera Card, which is targeted to men mostly. In our global business, Big C Card in Thailand helped increase the enrollment. The number of domestic cardholders also increased 830,000 to 27 million 750 thousand. In addition to that, the number of debit cards issued increased by 80,000 in 2017. So, in total 910,000 new enrollments. Debit cards are for younger people who may have never owned a credit card or for those who don't want to own a credit card.


The number two, the number of active cardholders in Japan grew 410,000 in 2017 to 17 million 20 thousand mainly because the double-point promotion for transactions across AEON Group continues to be effective and we successfully increased the number of cardholders who receive their statement online instead of mail because those cardholders tend to be more active users.

The number three, the number of AEON Bank accounts also increased 500,000 from the start of the fiscal year to 6 million 50 thousand at the end of fiscal 2017. That is not only because of the growth in the numbers of AEON Card Select or of debit cards issued but also because of an increase in the number of mutual fund investment accounts as we beef up our wealth management services. Also, our premium rate program for AEON Card Select holders remains popular and the balance of ordinary deposit topped two trillion yen.

The number four, finance receivables. In Japan, our housing loans and hire-purchase contracts increased. In

our global business as well, accounts receivable installment and loans and bills discounted grew at a solid pace and helped increase the bottom line. All in all, finance receivables including securitization rose 796.4 billion yen from the start of the fiscal year to 5 trillion 223.6 billion yen.

## Results by segment



Unit (Billions of yen)	Domestic total			Global total			Adjustments	Total	
	※ 1	Retail	Solutions	※ 1	China Area	Mekong Area			Malay Area
Ordinary income	279.1	177.3	171.0	123.7	19.4	63.9	40.3	-64.1	407.9
YoY	+7%	+8%	+6%	+11%	+3%	+13%	+14%	+5%	+9%
Change	+19.2	+13.2	+9.8	+12.6	+0.5	+7.1	+4.9	-2.8	+32.8
Ordinary profit	33.5	9.2	27.5	28.3	6.0	12.5	9.8	0.6	65.7
YoY	-6%	-17%	+2%	+22%	+22%	+31%	+12%	+158.7%	+7%
Change	※ 2 -2.1	-1.9	+0.5	+5.0	+1.0	+2.9	+1.0	+0.3	+4.1
Ordinary profit ratio	12.0%	5.2%	16.1%	22.9%	30.9%	19.6%	24.3%	-	16.1%
YoY	-1.7pt	-1.6pt	-0.6pt	+2.0pt	+4.8pt	+2.7pt	-0.4pt	-	-0.3pt

※ 1 Domestic total and global total represent amounts after elimination of transactions between business segments  
 ※ 2 Domestic inter-company eliminations include securitized receivables profit of ¥3.6bn. Please refer to slide 5 for more details.

Domestic main factors ※ ( ) YoY	Global main factors ※ ( ) YoY
<p><b>[Retail]</b></p> <ul style="list-style-type: none"> <li>• Interest income: +¥8.0bn; Cash adv: +¥4.0bn</li> <li>• Other operating income: Profit of securitization receivables of housing loans -¥1.1bn</li> <li>• Fees and commissions: +¥4.9bn; Increase in guarantee fees payable to solutions segment +¥3.0bn due to growth in finance receivables</li> <li>• G&amp;A exp.: Exp. related to reward point program +¥4.8bn</li> <li>• Up-front investments for improving usability of point program etc</li> </ul> <p><b>[Solutions]</b></p> <ul style="list-style-type: none"> <li>• Fees and commissions: card shopping revenue +¥5.8bn, installment sales income +¥1.4bn</li> <li>• Other operating income: Profit of securitization receivables -¥0.2bn where sale to external investors -¥2.9bn, Internal (AEON Bank) -¥2.8bn</li> <li>• Fees and commissions payment +¥4.0bn; consulting fees etc</li> <li>• Amort. exp. +¥1.5bn, Advert. exp. excl. point program exp. -¥0.6bn</li> <li>• Other ordinary exp.: Bad debt exp. +¥1.0bn, Refund of interest claims -¥1.1bn</li> </ul>	<p><b>[China Area: ↑ Income ↑ profit for ACS(%)<sup>*</sup></b></p> <ul style="list-style-type: none"> <li>• ACS(%): Increase in card shopping due to ONE PIECE MasterCard, revamped mobile app and cooperation with AEON Stores Hong Kong (campaigns etc)</li> <li>• Personnel expenses/Ordinary income: 14.6% (-1.2pt)</li> <li>• Bad debt allowance/Ordinary income: 17.8% (-3.6pt)</li> </ul> <p><b>[Mekong Area: ↑ Income ↑ profit for AEDNTS<sup>*</sup></b></p> <ul style="list-style-type: none"> <li>• AEDNTS: Strong receivables growth due to credit usage enhancement strategy for personal loans</li> <li>• Personnel expenses/Ordinary income: 14.3% (+0.5pt)</li> <li>• Bad debt allowance/Ordinary income: 24.8% (-3.9pt)</li> </ul> <p><b>[Malay Area: ↑ Income ↑ profit for ACS(%)<sup>*</sup></b></p> <ul style="list-style-type: none"> <li>• ACS(%): Increase in line purchase contracts for bikes, and favorable trend in credit card transactions</li> <li>• Personnel expenses/Ordinary income: 15.6% (-0.6pt)</li> <li>• Bad debt allowance/Ordinary income: 25.9% (+0.9pt)</li> </ul> <p><sup>*</sup>In yen and in local currency</p>

The result by segment is next. First, in the domestic retail segment we saw solid growth in interest income that was mainly driven by cash advances. But when it comes to ordinary profit from this segment, it dropped 1.9 billion yen from a year earlier after the offset and write-off of a gain on the sale of the securitized loans. The profit of securitization receivables of housing loans declined 1.1 billion yen from a year earlier and we invested on initiatives to enhance the customer's experience of point usage, which weighed down the profit for the year.

In the solutions segment, while card shopping revenue and installment sales income helped boost the ordinary income, expenses also increased such as fees and commissions, which go up in proportion to the size of our business scale. We also spent more on outsourcing and consulting services and invested on IT equipment in order to improve efficiency, so we had more depreciation expenses as well. As a result, the ordinary profit from this segment grew 2% from a year earlier.

The domestic segment in total saw the ordinary profit dip 2.1 billion yen from a year earlier due to the 1.9 billion yen decline in the retail segment profit. And I will share with you more detail on this on page 10.

Moving on to the global business, the cost control measures we put in place were effective in China area, especially in Hong Kong, where we saw a reduction in bad debt allowance and other expenses. Also in China area the second quarter ordinary income beat the previous year's figure and continued to do so during fiscal 2017, boosting the ordinary profit up 22% from a year earlier.

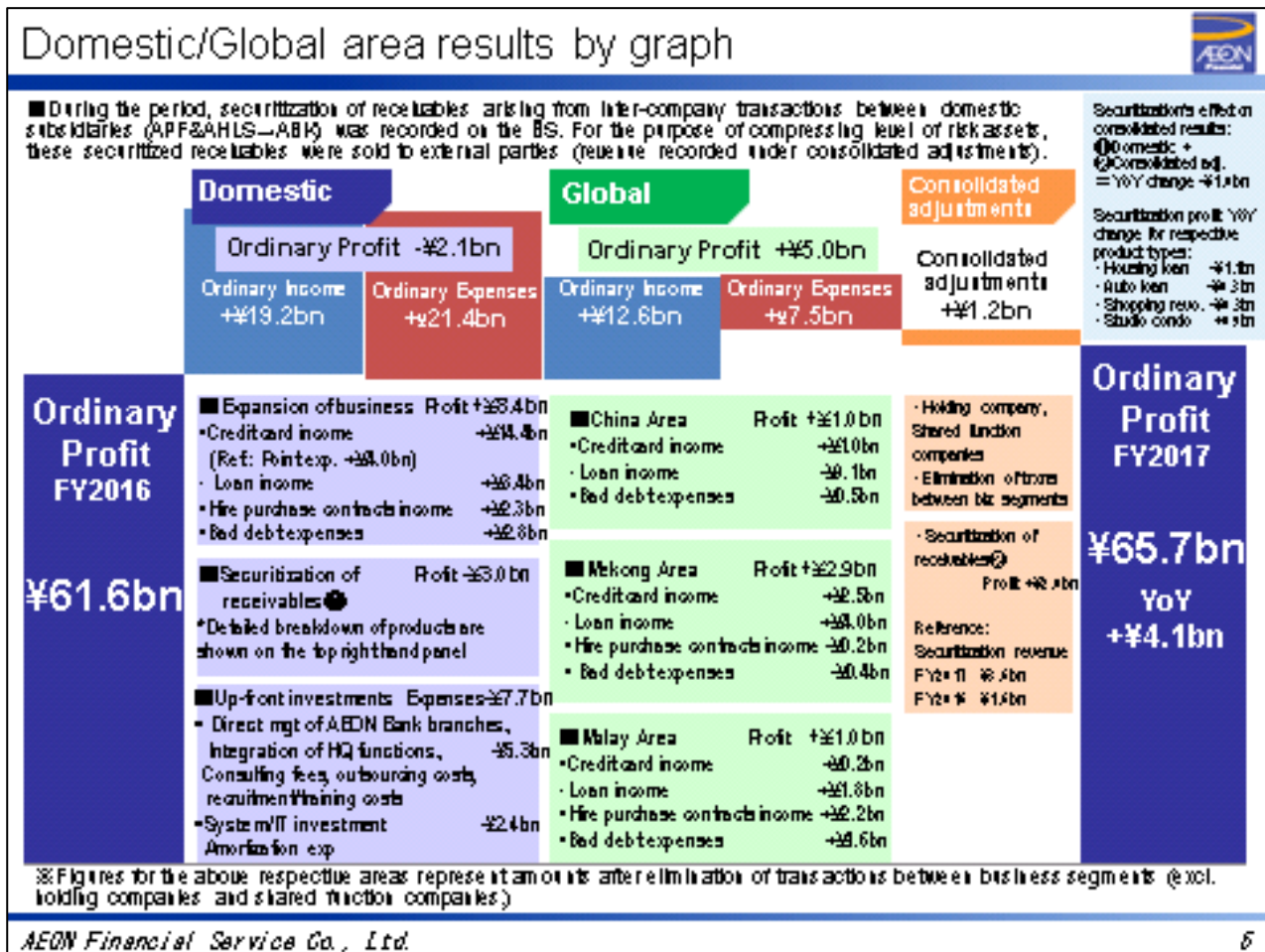
In Mekong area, despite Thai government's tightening of credit regulations, we could deal with it by increasing

the credit line for our trusted customers. As a result, the ordinary income grew 13% from a year earlier. In addition to that, bad debt allowance, which has been a challenge for us, came down below the previous year's level, thanks to our efforts to shifting our business from loans to sale of goods. And because of that, the ordinary profit rose 31% year on year.

In Malay area, healthy growth in card shopping revenue and hire-purchase contracts for motorcycles sent the ordinary income higher by 14% from a year earlier.

As for expenses in our global business, bad debt allowance remains high, but the ordinary profit was up 12% from a year earlier and continues to grow at a solid pace. And for fiscal 2018 we expect to see improvement in Hong Kong, Thailand, and even in Malaysia, where credit period is relatively longer.

In total, the global business, those three public companies saw their revenue and profit beat the previous year's performance both in the Japanese yen as well as in their respective local currencies. And we're confident that our global business finally got back to growth.



The next slide describes our results by area, and here I want to focus on the domestic side. As I said earlier, the ordinary profit from the domestic business was down 2.1 billion yen from a year earlier. And to give you a little bit more detail, the increase in credit card, loans, and hire purchase contracts incomes would have pushed our profit figure up 8.4 billion yen compared with a year before.


In the meantime, securitization of receivables① was down 3 billion yen from the previous year. As you can see in the consolidated adjustments, some of the profit from securitization of receivables② added 2 billion yen to the adjustments compared to the previous year. This reflects a regular securitization by Product Finance, which structures auto, reforms, one-room condominium loans, and Housing Loan Service for AEON Bank. This is cancelled as an internal transaction at this point.

AEON Bank secures margins for a period by investing securitized receivables through low-interest rate deposits and realized profit from sale cancelled through securitization to external investors to make a year-end adjustment for increased risk assets in the finance receivables balance. This is booked in the adjustments. If we add this profit, which is basically profit for the domestic retail business, to retail, then the segment pre-tax profit becomes largely unchanged from the previous year.

The domestic business is paying for costs for such purposes as bringing bank outlets under direct management and consolidation of headquarters functions and making advance investment for enhancing systems and IT upgrades. If we look at profits before these amounts were spent, we believe they show we have gained in financial strength compared to the last fiscal year.

As we explained in the previous page, the global business saw increased profits in each segment and an overall profit growth of 5 billion yen. This made up for advance costs of domestic business.



Consolidated balance sheet			
Consolidated results (Unit: Billions of yen)	FY2017	Change from start of FY	Topics ※ ( ): Change from start of FY
Cash and deposits	650.4	+115.8	<ul style="list-style-type: none"> <li>• Domestic balance: ¥516.7bn (+¥111.6bn)</li> <li>— Increase in funds due to securitization of receivables</li> </ul>
Loan and bills discounted	2,271.6	+406.7	<ul style="list-style-type: none"> <li>• Domestic balance: ¥1,985bn (+¥37.5bn)</li> <li>— Unsecured loan: ¥633.3bn (+¥25.8bn), in which cashing: ¥455.8bn (+¥24.1bn)</li> <li>※ Securitization balance: ¥1,004bn (+¥112.3bn)</li> <li>※ Holding loan (incl. securitization): ¥1,611bn (+¥203.7bn)</li> <li>• Global balance: ¥291.4bn (+¥39.2bn)</li> </ul>
Accounts receivable - installment	1,294.6	+112.4	
Allowance for doubtful accounts	-58.8	-8.4	
Other Assets	694.8	+39.0	
<b>Total assets</b>	<b>4,852.8</b>	<b>+665.5</b>	
Deposits	3,049.7	+507.6	<ul style="list-style-type: none"> <li>• Domestic balance: ¥1,041bn (+¥78.0bn)</li> <li>※ Securitization balance: ¥484.5bn (+¥142.7bn)</li> <li>— Increase in installment sales</li> <li>• Global balance: ¥253.1bn (+¥34.3bn)</li> <li>— Increase in card stopping and installment sales</li> </ul>
Interest-bearing debt	804.1	+45.1	
Allowance for loss on refund of interest received	3.1	-0.6	<ul style="list-style-type: none"> <li>• Ordinary deposits: ¥2,022bn (+¥677.3bn)</li> <li>• Time deposits: ¥1,029bn (+¥67.7bn)</li> </ul>
Other liabilities	573.9	+76.2	
<b>Total liabilities</b>	<b>4,415.0</b>	<b>+628.9</b>	
<b>Total equity</b>	<b>437.7</b>	<b>+36.6</b>	<ul style="list-style-type: none"> <li>• Domestic balance: ¥397.3bn (+¥27.9bn)</li> <li>— Long-term loans payable: ¥29.3bn (+¥6.7bn)</li> <li>Increase due to expansion of installment sales biz</li> <li>• Global balance: ¥405.8bn (+¥17.1bn)</li> </ul>
<b>Total liabilities and equity</b>	<b>4,852.8</b>	<b>+665.5</b>	
Shareholders' equity ratio (domestic standard)	8.33%	-0.26pt	<ul style="list-style-type: none"> <li>• Prevent increase of risk assets</li> </ul>

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Now to the consolidated balance sheet.


Cash and deposits increased 115.8 billion yen from the beginning of the term thanks to an increase in funds for boosting financial receivables in the next fiscal year raised through securitization of existing receivables conducted in the fourth quarter.

The combined total of loan and bills discounted, and accounts receivable in installments increased 519.1 billion yen. The total assets reached 4,852.8 billion yen, increasing 665.5 billion yen over the course of the year.

Total liabilities reached 4,415.0 billion yen, up 628.9 billion yen from the beginning of the term, but if you look at the breakdown, deposits grew 507.6 billion yen from the beginning of the year, which is roughly equivalent to the combined total of increases in loan and bills discounted, and accounts receivable in installments, meaning deposits and investments are balanced.

In terms of refund of interest received, refund-of-interest claims decreased 42% from a year ago and refund of interest claims fell 1.1 billion yen. As a result, the allowance for loss on refund of interest received dropped 600 million yen from the beginning of the term to 3.1 billion yen.

Total equity was 437.7 billion yen, up 36.6 billion yen from the beginning of the term. As a result, shareholders' equity ratio under the domestic standard came to 8.33%, down 0.26 percentage points from the beginning of the term.

Improve profitability of asset ~capital efficiency by securitization~ 

■ Improvement of yield and duration gap as well as compression of risk asset through funding by securitization continues in view of increasing transactions volume and thus finance receivables

	FY2016				FY2017				(Unit: billions of yen)	YoY Change
	Housing loan + Studio bonds	Hire purchase	Card shopping	Total	Housing loan + Studio bonds	Hire purchase	Card shopping	Total		
Transaction volume	375.3	234.6	4,515.7	5,125.6	329.4	253.7	4,955.4	5,538.7	+413.0	
① Receivable c/bal (incl. offbal)	1,511.2	406.8	898.3	2,816.4	1,719.1	549.8	976.1	3,245.1	+428.7	
Amt of funds received	310.2	69.6	※ 20.8	400.7	247.5	167.0	※ 10.7	425.3	+24.5	
Profit from securitization	10.2	3.8	2.7	16.5	6.3	6.8	2.3	15.5	-0.9	
② Receivable c/bal (Offbal amt)	892.5	96.5	245.2	1,234.3	1,054.9	240.4	244.0	1,539.4	+305.0	
Ratio (②=①)	59%	24%	27%	44%	61%	44%	25%	47%	+3pt	
Receivable c/bal (BB)	618.6	310.2	653.1	1,582.0	664.2	309.4	732.0	1,705.7	+123.6	
Effect on compression of risk asset	-170.5	-51.5	-14.7	-236.7	-153.7	-133.8	-14.4	-301.9		

※ Amt of funds received from card shopping represents funds from revolving credit payments

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Next, let me explain about the situation of our effort to improve capital efficiency through securitization of receivables. The slide shows flow and stock situations of our overall receivables and securitized receivables for fiscal 2016 and 2017, as well as the risk asset reduction impact from securitization.

The total handling volume of housing loans significantly increased in fiscal 2016 on the back of the introduction of negative interest rates, but the figure again increased to about 300 billion yen in fiscal 2017.

Housing loans are an important product for us in that they help us establish a long-term relationship with customers, and we aim to expand them going forward.

The balance of receivables before securitization thus increased 428.7 billion yen to 3.2451 trillion yen. As we have said before, we are incorporating securitization of receivables into our business model as a way to address the growing balance of receivables, and are working to improve yields and the duration gap between them and funding, as well as reduce risk assets.

About 47% of the total receivables balance was securitized as at the end of fiscal 2017. We are improving capital efficiency by securitizing risk assets and reducing them through acquisition of credit rating, with a focus on housing loans with low yields and long lending periods.

**Implementation of IFRS9:  
Change in calculation method for allowance for doubtful accounts**

■ IFRS9 to be implemented in key overseas subsidiaries with respect to finance receivables in the consolidated earnings results  
 ■ Shift from 'incurred loss' model to 'expected credit loss' (ECL) impairment model

**Present Incurred loss model**

$$\text{Allowance for doubtful accounts} = \text{BS Balance} \times \text{Uncollected rate} \times \text{Loss given default}$$


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**IFRS 9: ECL model** Purchase info to be analyzed on top of customer attributes to maximize lifetime value

$$\text{Allowance for doubtful accounts} = \text{BS Balance at point of default} \times \text{Probability of default} \times \text{Loss given default}$$

Note: in 12 month period for normal receivables, all periods for delinquent receivables

- Portfolio shift from financing receivables to receivables related to sale of goods to control risk
- Improve screening quality via advance data analysis
- Reduce collection costs by implementation of credit management system
- Reduce delinquent receivables by improving collection process

● Balance of allowance for doubtful accounts as of FY2017 year-end will be adjusted in FY2018 Q1

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Let's move on to our response to introduction of IFRS 9 overseas.

We are going to introduce IFRS 9 in booking receivables at our key overseas subsidiaries in the consolidated accounts for fiscal 2018. Consolidates subsidiaries in Hong Kong, Malaysia and the Philippines are subject to this measure.

At this point, we are yet to decide when to introduce it for Thai subsidiaries, as the local policy has yet to be worked out.

Due to the introduction, the method of calculating allowance for doubtful accounts will be changed to the expected loss basis from the current accrual basis. Probability of default will be calculated for 12 months for normal receivables and for all periods for delinquent receivables. In order to better control the default probability levels, we have worked to improve efficiency and profitability of our portfolio by shifting financing receivables to receivables related to sale of goods.


Going forward, we aim to boost the top line by improving precision of credit screening by adding purchase information in data analysis, in addition to customer attribute data, so that we can capture opportunities in areas where we have missed lending opportunities because of the use of stiff criteria.

To better control loss given default, we aim to improve efficiency of collection of delinquent receivables by improving efficiency of staff involved in collection through the introduction of a management system and consolidation of collection structures, and identifying receivables whose collection is expected to be achieved within specific cost limits.

Note that the published figures in our earnings estimates for fiscal 2018 are figures reflecting the impact of IFRS 9.

We will report the balance of the allowance for doubtful accounts under the initial application of IFRS 9 as at the end of fiscal 2017 in the results for the first quarter of fiscal 2018.

## Progress and schedule of system/IT investments



KPI for system/IT Investments	FY2015 Results	FY2016 Results	FY2017 Plan	FY2017 Results	FY2018 Plan
Consolidated ordinary income (YoY)	+9%	+4%	+4% <small>oupterm</small>	+9%	+10% <small>(Revised)</small> → +8%
Consolidated ordinary income	¥359.6bn	¥375.1bn	¥390.0bn	¥407.9bn	¥440.0bn
Bad debt exp./Ordinary Income (Global)	25%	26%	23%	24%	20%
Personnel exp./Ordinary Income (Domestic)	18%	17%	15%	16%	16%
Personnel exp./Ordinary Income (Global)	15%	15%	13%	15%	11%

Purpose	Results	Main investments in FY2017 (Total amount ¥35.3bn, 88% of plan)	
Improve convenience level of products/services and labor productivity  Improve profitability of assets	Improvement of customer-service quality (Quality of proposals, Speed)	<b>Domestic</b> ¥26.0bn	• Digitalization of physical customer touch-points such as in-store branches and counters etc. • Initiatives for improvement of operation efficiency (going paperless, introduction of RPA) • Infrastructure preparation for actual implementation of new products/services
	Responding to the financial needs of our customers anytime and at any place		<b>Global</b> ¥4.0bn
Efficiency of collections Reduce risk of defaults Refinement of screening	<b>Efficiency</b> ¥5.3bn		• Call-center (voice recognition system, predictive dial) • Improving quality of credit screening and analysis, development of a collections data foundation • Introduction of new scoring model and management accounting system

AEON Financial Service Co., Ltd.
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Moving on to the next slide, the top table shows the investment impact KPIs indicating progress of system, IT and digitalization investments in chronological order.

The consolidated ordinary income for fiscal 2017 exceeded the target by increasing 9%, compared to a 4% increase initially targeted, thanks partly to an increase in the handling volumes of credit card and housing loans in excess of targets, supported by such factors as quicker provision of services due to less use of printed documents.

As a result, we have revised the initial target of 10% increase for fiscal 2018 to an 8% increase.

However, it is an over 10% increase from the initial target and in line with the target.

Bad debt expenses fell to 24% from the 26% in fiscal 2016, showing our efforts are gradually paying off.

Improvement in personnel expenses is in line with the target for domestic operations thanks to factors including the shift of bank outlets to direct operation and consolidation of headquarters functions. However, in global operations, progress is a little tardy partly due to increased efforts by sales, for example for BigC cards in Thailand.

In fiscal 2018, we expect contribution from the impact of investment in domestic call centers, screening and receivables management made in fiscal 2017 will be felt fully.

That concludes my part of presentation. Thank you very much for your attention.

(Kawahara)

P.10

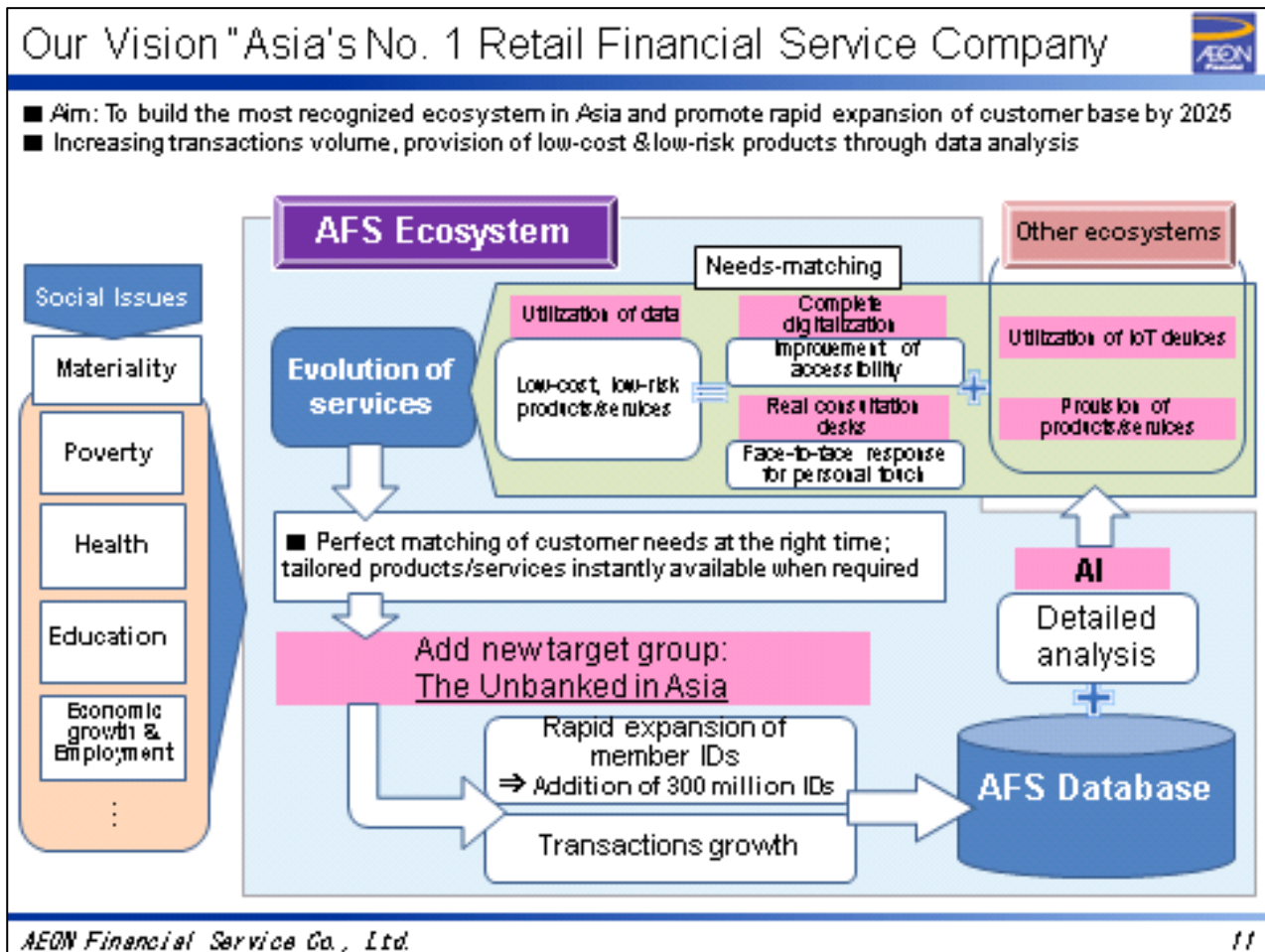


# Future Direction

— Construction of AFS ecosystem —

I am Kawahara of AEON Financial Service.

I will explain about our direction going forward.



We have talked about this before, but we have the vision to become "Asia's No. 1 retail financial service company." How do we plan to express this? We aim to achieve this by building the most recognized ecosystem in Asia, by the end of year 2025. It may sound very abstract, but there is the expression, "Rapid expansion of member IDs," illustrated in this slide. It is the first time we mention a numerical target, which the slide shows as "Addition of 300 million IDs." And I'd like to note that the current figure is 41 million IDs. So we plan to increase this figure to 300 million by the end of 2025.

We aim to achieve this by building the most recognized ecosystem in Asia by the end of year 2025, and this will result in 300 million IDs.

When we look at the business environment around us, and this has been said many times before, but, in Japan, the medium-income bracket is expected to decrease while low income bracket increase amid declining birth rate and aging population.

On the other hand, in developing economies in Asia, low-income bracket is expected to decrease while medium-income bracket increase.

In the financial service industry, entry by businesses from other industries that add new transaction functions to smartphones will accelerate.

We think customer lifestyles will grow more diversified as changes in incomes and services take place. We are also seeing diverging needs between different stages of life.

In the meantime, there are social issues arising amid changes in society, and we believe there are changes


taking place in things required of businesses. And we think business opportunities are in resolving them. In order to respond to changes in needs and social issues, we aim to thoroughly introduce IT in, and improve accessibility of, our services. At the same time, we are introducing IT in our brick-and-mortar outlets. For example, in-store branches of AEON Bank have eliminated use of paper from 95% of operational processes. In terms of our overall group, however, the effort to make our offices paperless is progressing slowly, so we aim to work on this, including automation of processes. As it is impossible to respond to all needs by our resources only, we also aim to collaborate with ecosystems different from ours. As what customers choose matters most, we think it is very important to pursue customer convenience. As Mr. Wakabayashi explained, we want to improve our service further by improving customer service through data analysis and realizing this at low cost. By achieving this in regions across Asia, we believe we will be able to target the "Unbanked in Asia," which is a characteristic of ours. We think we can take on more of business to capture the Unbanked by striving to improve our services, based on our confidence that we have been able to expand so far. I think our strength is in our ability to achieve this.

By improving accessibility, we aim to increase members of our services, collecting transaction data, including information on purchases, borrowings, insurance, and asset management, using accounts of 300 million people, and promote cross-selling using artificial intelligence.

I have talked about 300 million people, but the number can be increased even further and we believe that will open up further opportunities for business.



## Domestic: Reformation of business model



■ Strengthening asset management services: Provision of convenient products/services which are of good value

Customer's needs	% of households in Japan	Net savings**2
Age: 20~40 yrs Preparation for the future	24%	20-40 yrs: -¥6.24mll
Age: 41~60 yrs Preparation for the future, inheritance income	33%	41-49 yrs: ¥180K 50-59 yrs: ¥12.11mll
Age: 61 yrs & above Increase in pensioners	42%	61-69 yrs: ¥20.92mll 70 yrs & above: ¥23.55mll

**Present**

- Inefficient products/ services which are suited to individual needs
- Unsure of where and who to seek consultation with
- Contents are difficult to understand as there are too many professional terms

➔

**Solution**

Our Strengths

- Low cost
- Low risk
- Easy to consult
- Easy to understand

※ 1 National Institute of Population and Social Security Research: Projection of the future number of households in Japan  
 ※ 2 Ministry of Internal Affairs and Communications: Year 2016 Savings and debt balance of two-person and above households by age

■ Further expansion of usage within AEON Group: Enriching services that are closely attuned to the lifestyles of our customer

Operating revenue of AEON Group

Amount of transactions made using AFS' payment services within AEON Group

FY2017: ¥8.4tn

➔

• Credit card purchases : approx. ¥1.3tn  
• WAON : approx. ¥1.7tn

Total approx.  
¥3.0tn

➔

**Cooperation with AEON's retail biz while enriching customer privileges**

**Complete digitalization**

=

**Increase usage of AFS' products/ services at AEON Group stores**

AEON Financial Service Co., Ltd. 12

Moving on to the next slide, now, to realize our ideal, it is necessary to reform our business model in Japan. In Japan, we have grown significantly in asset business, and we aim to strengthen our asset management services, from the viewpoint of improving asset profitability and productivity.

Last October, we consolidated the banking agency services, operated by AEON Credit Service, and brought them all under AEON Bank, creating a structure in which investment products are now available to customers at all in-store branches.

As this structure started only last October, there was not any notable achievement last year, but it started to show some remarkable results from around January. We are now able to win contracts totaling nearly 10 billion yen in January alone, compared to the previous typical levels of 2 billion yen to 3 billion yen a month. This is one of the achievements, in our view.

The table in the slide shows percentages of households by age bracket and the net savings, or savings minus debts, for each.

As you can see, net savings are in the negative territory for the 20 to 40 bracket and slightly positive for the bracket from 41 to 49.

Large costs for housing loans repayment and education of children is blamed for this situation.

Our aim is to develop a new customer segment by supporting these young customers to build assets over many years into the future, providing them housing loans as well as investment products.

To do this, we aim to develop low-cost, low-risk products that meet different needs of customers, making our

branches more accessible and ensuring more easy-to-understand explanation is provided.

In addition, we will work to expand our share in the service for AEON Group, where we win customers and our service are provided.

AEON Group's operating revenue in fiscal 2017 was 8.4 trillion yen.

Of this figure, our card shopping handling volume represents 1.3 trillion yen and the handling volume of processing the WAON electronic money represents 1.7 trillion yen. Combining these, our handling volume totals 3 trillion yen, but we are not satisfied with this figure.

So we aim to further enhance collaboration with AEON by strengthening collaboration with retailing and enhancing purchase incentive programs, as well as our thorough introduction of IT in our services.

Just as existing financial institutions are reforming their business models, we are in fact struggling to reform ours. However, there is one thing that is different about us. It is that we are working with strong determination to always be considerate to customers and provide service under which we can maintain lasting relationship with customers. We have already built an environment in which we can maintain relationship with customers during their asset formation stage, over 30 to 35 years, or nearly the lifetime of borrowers of our housing loans. Our perception is that our customers have given us such an option, and we want to return the favor by striving to provide services that are considerate to our precious customers, over their lifetime.

Now, as we have explained before, the Ministry of Economy, Trade and Industry has announced it has set the goal of raising the percentage of noncash transaction to 40% by the end of 2025. In our view, this goal will be achieved by around 2023, instead of 2025. The trend for noncash transactions are seen across Japan, meaning the business environment is turning in our favor.

**Global: Expansion of customer ID base through prepaid/smartphone payment services**

■ Expansion of IDs in regions where AEON Group stores are present (e.g. Malaysia)

- Expansion of customer base by increasing alliances with various sectors
- Merging customer data within the group and provide a standardized privilege program
- Increasing transactions within the group

■ Expansion of IDs in regions where AEON Group stores are currently not present

**Customers:** Partner companies, Workers from foreign countries, AFS Group

**Smart devices:** Prepaid (Payments + Deposits account), Card, Mobile

**Products/services provided by AFS Group:** HP, Insurance, Loan, Other financial services, Remittance

AEON Financial Service Co., Ltd. 13

Next, in the global business, we aim to increase IDs through prepaid cards and smartphone payments.

Let me explain by taking Malaysia, where AEON operates retail outlets, as an example. In Malaysia, we are outsourced operation of a point card business for about 4 million cards of AEON Malaysia and AEON BiG Malaysia. There are a total of 6 million members, including 2 million existing members of ours.

We aim to gain access to people who may not necessarily be accessible to us for our credit, by accessing them through prepaid card and smartphone payment membership.

In addition, we will collaborate with various service operators, including local airline companies, restaurants, online companies, and operators of public/private transportation systems, to improve convenience for customers for the goal of further expanding membership.

We will also consolidate customer data dispersed in separate databases within the AEON Group and actively take advantage of the consolidated data to promote cross-selling so that we can grow further.

Also, in regions where there are no AEON retailers, we aim to win more customers by incorporating prepaid functions, including QR codes, into cards and smartphone apps.

We think we will be able to lead users of our smartphone apps to make higher purchases and use personal loans, as well as use our remittance service and insurance services, by adding functions like accounts to it.



## Main initiatives in FY2018

- Promotion towards complete digital shift
- Catering a full range of products/services to meet the needs of our customers
- Speeding up the growth of our global business


Let us now move on to initiative in fiscal 2018. In fiscal 2018, we will work on "promotion towards complete digital shift," "catering a full range of products and services to meet the needs of our customers," and "speeding up the growth of our global business."

## Addition of smartphone application functions

■ Promote further recruitment of new cardholders through adding new functions (channels) to smartphone apps

**AEON Wallet**

**Addition of payment functions, e-receipts, timely distribution of coupons etc**



Distribution of coupons

E-statements  
(Viewing of card bills)


**Timely services**  
 Distribution of e-coupons via beacon technology  
 E-receipts (to view details of purchases)

Cardless transactions  
**Payment function**  
 New cardholder recruitment  
**Cardholder recruitment tool**  
(targeted at AEON Group employees)

---

**Household accounts app**

**Have a good grasp of household spending and savings in order to propose asset management services suited to each individual's style**



Asset information

×

Purchase (POS) data

Accumulated data

→

Analyzed by AI

Ability to visualize household accounts  
 Deposits and withdrawal data  
 Savings data

→

Grasp of possible assets for investments

AEON Financial Service Co., Ltd. 16

In this slide, I will explain our plan to enhance functions of our smartphone apps to increase the number of membership IDs.

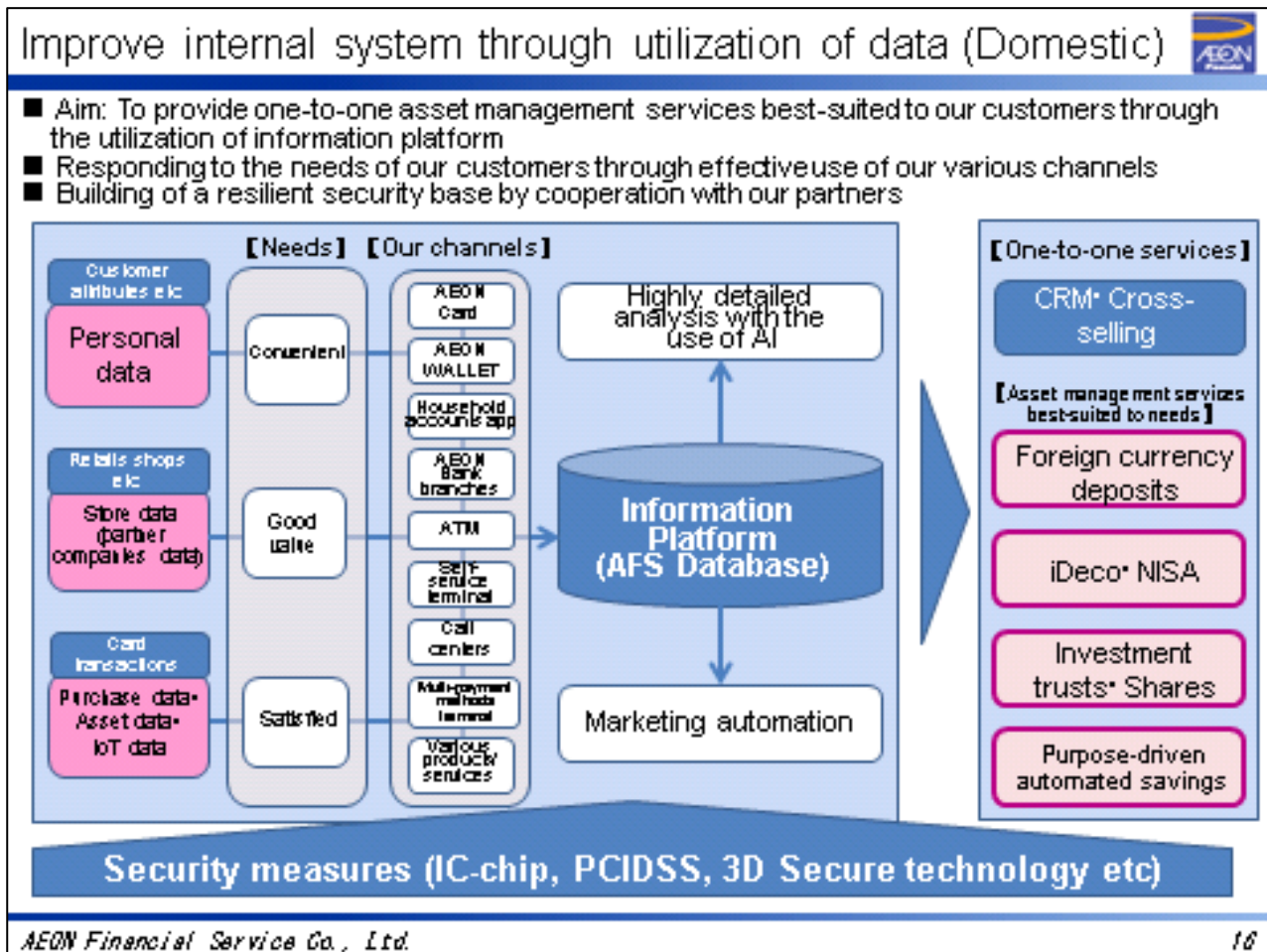
We have apps to realize optimum response in shortest time to needs related to credit cards and those related to asset formation.

The main role of the AEON Wallet app, which is for credit cards, has been to distribute coupons to customers and providing e-statements, which allows users to check their card bills.

This fiscal year, we are enhancing timely services, including the function to automatically send e-coupons when the user approaches shops they use frequently, using the beacon technology, and e-receipts that shows usage history immediately after making a purchase.

We will also introduce a payment function that allows purchases with only a smartphone and a function for AEON Group employees that help them win more members.

We will also introduce a household accounts app through which to provide a service to assist optimum asset formation. Artificial intelligence is used to analyze customer asset information and transaction information at AEON, so that flow and stock elements of household accounts can be shown in an easy-to-understand manner.



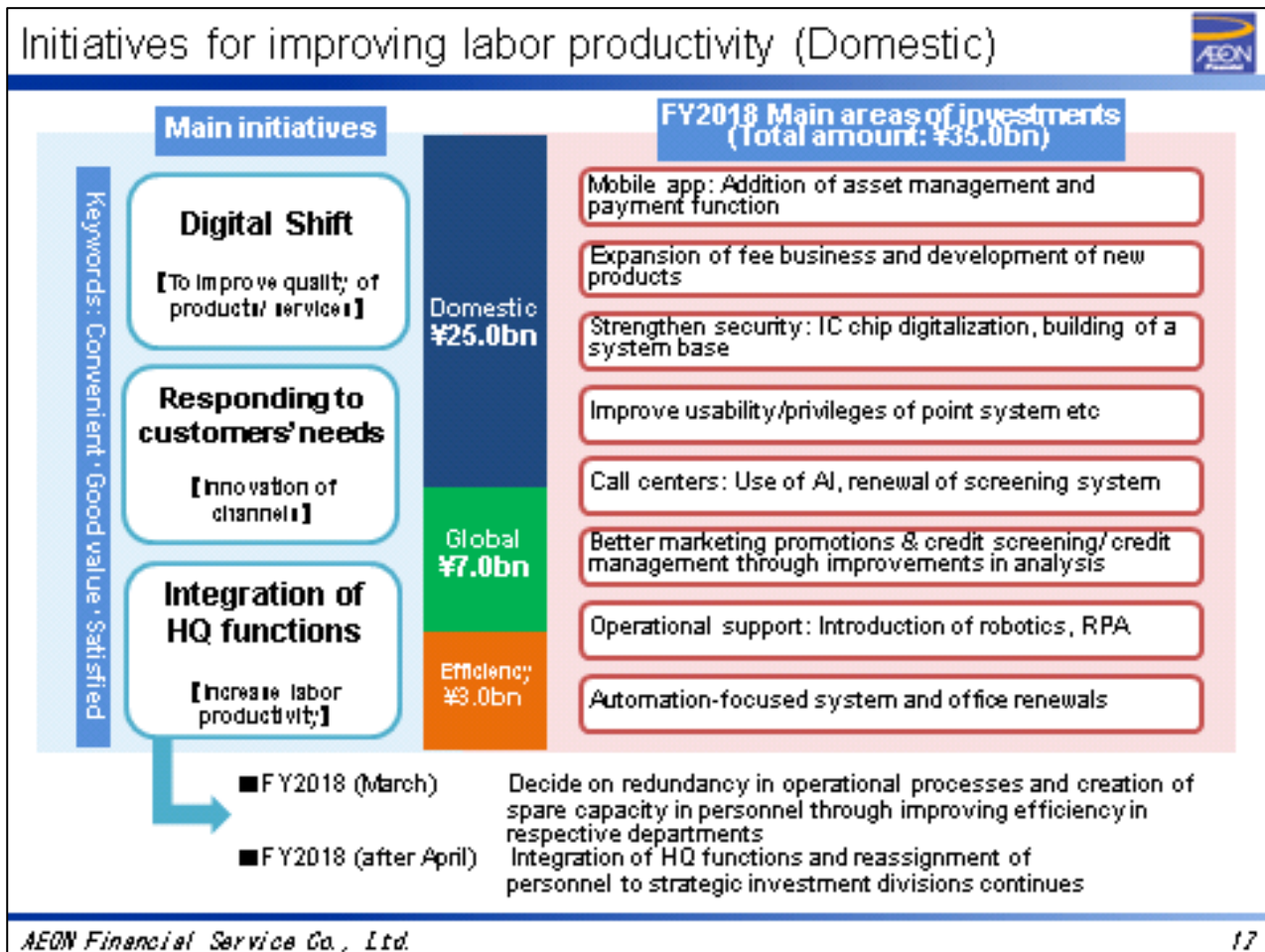
Now for our plan to enhance the infrastructure to allow active use of data.

We hold personal data, including information on customer attributes collected from our customers, customer data of member retail shops, etc. and credit card transaction data.

Information about customer needs is collected into our platform through a wide range of channels including shops, smartphone apps and call centers.

We aim to provide products and services tailored to the needs of each individual customer by strengthening a customer-centered marketing through the use of this information platform.

We will also build a robust security infrastructure by working with our partner companies to introduce IC-chip, PCIDSS, and 3D secure technology.



Next, let me explain our system, or IT, and digitalization investment to support these efforts.

In fiscal 2017, the total investment fell a little short of the initially targeted 40 billion yen, but we plan to address the shortfall in fiscal 2018.

The initial target of 30 billion yen in fiscal 2018 has thus been increased to 35 billion yen. Note that this increase does not boost the 100 billion yen target in the medium-term business plan. It is the about 5 billion yen investment that was not executed in fiscal 2017 but deferred to fiscal 2018. We have been asked if this is a delay, and, yes, it is a slight delay.

In Japan, we plan to make investment in the mobile apps, development of new products to expand the fee-focused business, including the foreign currency deposits that have been introduced recently, and measures to improve security.

In addition, we will improve convenience of the point system, which has grown complex across our group, and enhance gifts and special offers.

We will also strengthen use of artificial intelligence at call centers, which are the contact points with our customers.

In global operations, we will add more functions to mobile apps, just as in Japan, and work to improve precision of our marketing by using SAS.

Furthermore, we aim to enhance the credit screening system, control personnel costs through introduction of new receivables management system and reduce bad debt expenses.

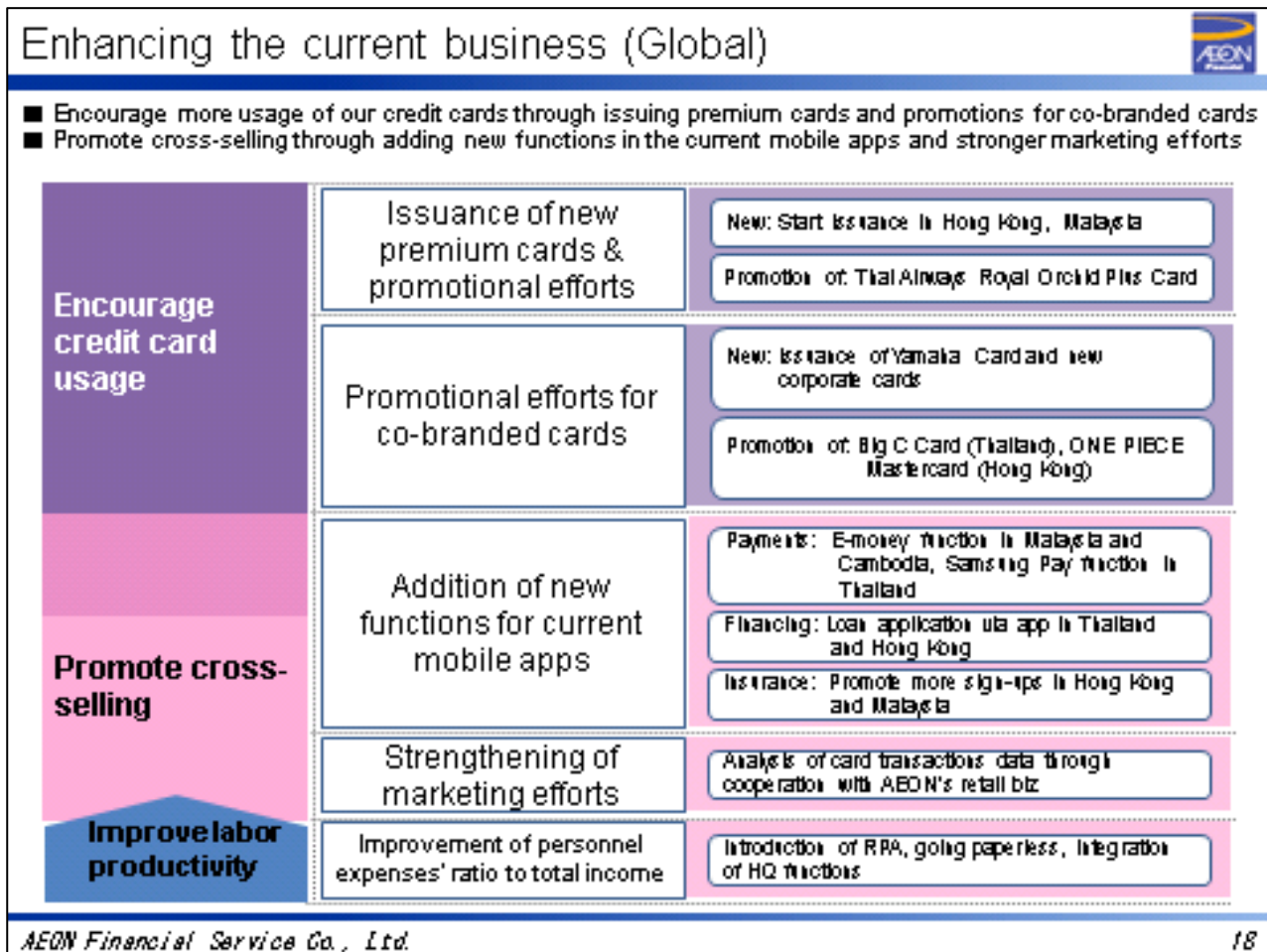
In the first year of the medium-term business plan, we said the impact of the investments will start to be felt around fiscal 2017, and in fact, when we look at the figures for fiscal 2017, we believe we can see the impact emerging from the second half of the year. In fiscal 2018, we aim to make system investments that will have even more impact.

In consolidation of the headquarters functions, we have made necessary preparations by March 2018 to reduce personnel 30% through function consolidation. Reallocation of personnel to strategic divisions will be implemented by the end of this first quarter.

This fiscal year, we aim to further improve operational efficiency by significantly increasing RPA to 50 units by the end of the first quarter from the 19 units until the end of March.

Through this measure, we expect to reduce headquarters staff by an additional 10% by the end of fiscal 2018. The goal is to reduce headquarters staff by about 40% at ACS (AEON Credit Service), ABK (AEON Bank) and AFS (AEON Financial Service) in fiscal 2017 and 2018.





Next, our measures to strengthen existing businesses in the global segment.

In the global business, we have been in the process to shift financing receivables to receivables related to sale of goods since fiscal 2016, as a way to improve asset profitability.

As has been explained in the earlier discussion of by-area business performance, we have been able to keep expanding the top line while reducing bad debt-related expenses, meaning we have entered the phase for fresh growth.

In this fiscal year, we have been working on these items in the three countries where we are listed on exchanges to support that growth.

First, let us look at the issuance of the premium cards, for which demand is growing in the countries.

In Hong Kong and Malaysia, we have been issuing the gold cards to the medium- to high-income brackets, but there has been demand for higher-grade cards than gold from our customers.

So we have introduced premium cards that come with enhanced special offers in Hong Kong and Malaysia, aiming to win customers who use the cards on more expensive purchases and more frequently.

In Thailand, we aim to boost usage of the Thai Airways card, whose single-purchase spending is high.

In terms of cobranded cards, we are introducing cards with Yamaha and corporate cards in Malaysia to develop new customer segments in the country. Going back to Thailand, we are in the process to expand the medium- to high-income bracket customers of the Big C card, and we aim to step up this effort.

In Hong Kong, we aim to win younger customers with the One Piece cards.

We will also work on enhancing services through smartphones, as in Japan.

In terms of the payment service, we plan to introduce prepaid cards in Malaysia. In Cambodia, we introduced an e-money service in April. In Thailand, we launched Samsung Pay on May 1.


We aim to respond to more varied customer needs for such payment services, and strengthen cross-selling to customers who have started using our services through the payment services, by offering loans and selling insurance policies through apps.









We'll strengthen our marketing through effective implementation of these measures, and promote use of the services by analyzing customer behavior at AEON and other retail outlets.

We will strive to improve productivity, just as in Japan.

In Thailand where we have a large operation, we will work to improve labor share by measures including the introduction of RPA.

Expansion of new income source while creating social impact (Global):  
Long-term growth through solving social issues



FY2017	FY2018
<p><b>Creating employment opportunities to boost income of locals</b></p> 	<p><b>Services closely attuned to customers' lifestyles</b></p> <div data-bbox="662 526 790 616">  <p>Cambodia</p> </div> <div data-bbox="813 526 1109 616"> <p>Introducing e-money payment app • Reduce cost of holding cash</p> </div> <div data-bbox="662 649 790 739">  <p>Philippines</p> </div> <div data-bbox="813 649 1109 739"> <p>Alliance with other sectors • Joint promotions to increase customers for our group as well as our partners</p> </div> 
<div data-bbox="247 817 383 907">  <p>Philippines</p> </div> <div data-bbox="494 817 630 907">  <p>Cambodia</p> </div> <div data-bbox="207 940 662 1120"> <p>Auto loan business which utilizes IoT (offering products to unbanked) • Remote control of engine with IoT device • Repayment of loan by drivers is guaranteed by the taxi association → such drivers lose the ability to pay but are screened out by banks</p> </div>	<p><b>Utilization of AEON's platform</b></p> <div data-bbox="726 862 861 952">  <p>Indonesia</p> </div> <div data-bbox="877 862 1372 974"> <p>Partnering with sharing services • Financing for providers of sharing services</p> </div> <div data-bbox="726 996 861 1086">  <p>Malaysia</p> </div> <div data-bbox="877 996 1372 1108"> <p>Issuance of prepaid cards • Merge customers of finance business and retail business and partnering with other sectors to promote card usage of our group as well as partner companies</p> </div>

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Next, the plan to expand the revenue sources in the global operation.

There are a wide range of social issues in different countries where we operate.

And we believe there is business opportunity in resolving such issues. So in the Philippines, we launched in fiscal 2017 loans for tricycle drivers using IoT devices under the keywords of job creation and income boost.

The structure of these loans has already been used for the loans for four-wheeled taxi drivers in Cambodia, and we plan to transfer its use to other countries.

In fiscal 2018, as we said in the previous page, we launched a Cambodian riel-denominated e-money business.

In Cambodia, carrying around the riel in cash has become a major social issue, and we think the issuance of our new e-money will help resolve the issue. It is a product people in National Bank of Cambodia have expressed gratitude for.

In addition, in the services closely attuned to customers' lifestyles, which we are good at, we will strengthen services for the unbanked in Malaysia, where we plan to introduce prepaid cards under collaboration with the local AEON Group operations.

In Malaysia, you need to earn certain levels of income before you can hold credit cards. But prepaid cards enable provision of services without having to comply with such restrictions and thus allow many customers to use them.

In Indonesia, as in the Philippines and Cambodia we discussed earlier, we will introduce financing for

operators of taxi sharing services.

In Indonesia, we already issue credit cards, and there are two large AEON shopping centers. Customers can hail a cab from the parking lots of these shopping centers, which we believe will help improve customer convenience.

In the Philippines, where there is no large AEON shopping center, we will work with local businesses that operate welfare services to expand our customer base.

## Forecast of Results for FY2018



- Evolution of AFS ecosystem with the construction of a strong customer base and business foundation
- Revamp business model in view of improving receivables portfolio and profit structure

	FY2018	
	Forecast	YoY
Ordinary income	¥440.0bn	+7.0%
Ordinary profit	¥72.5bn	+10.3%
Net income attributable to owners of parent (Net income per share)	¥42.0bn (¥194.66)	+8.6%

	Interim		Year End		Full Year		Payout Ratio	
	Plan	YoY	Forecast	YoY	Forecast	YoY	Forecast	YoY
Dividend forecast	¥29	±¥0	¥39	±¥0	¥68	±¥0	34.9%	-3.0%

• Commemorative dividend "¥2" on previous fiscal year is replaced by the dividend

AEON Financial Service Co., Ltd.

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Lastly, I would like to talk about our consolidated earnings estimates for fiscal 2018.

We will strive to expand our customer base and business franchise in this fiscal year, which is the first year of our plan to take AFS' ecosystem to the next level.

We also aim to advance the shift to a higher-productivity business model that expands fee-based business, in addition to asset business. At the same time, we aim to improve asset profitability by reforming the structure of our receivables portfolio.

Through these measures, we aim to achieve ordinary income for fiscal 2018 of 440 billion yen, up 7.9% from a year ago, ordinary profit of 72.5 billion yen, up 10.3% from a year ago, by controlling costs through the thorough introduction of IT, and net income attributable to parent shareholders of 42 billion yen, up 7% from a year ago.

We estimate the profit impact from securitization of receivables will come to around 10 billion yen.

We plan dividends of 29 yen for the end of first half and 39 yen for the end of the year for the total annual payout of 68 yen, unchanged from the previous year, as we plan to continue to make growth investment. Based on this, we assume the payout ratio will come to 34.9%.

This figure will fall within the payout ratio target of between 30% and 40% that we have announced.

We aim to make fiscal 2018 a springboard for our shift to the new business model in fiscal 2019, so we are determined to build on our earnings. So stay tuned

(Fujita)


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**Aeon Credit Service Malaysia BHD**  
**Financial Performance and Key Policy**

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I'm Fujita from AEON Credit Service Malaysia.

Financial Performance, FYE2018							
[RM million, %]	1HY		2HY		Total		
	Actual	-1Y	Actual	-1Y	Actual	-1Y	
Credit card	585.7	109	660.6	116	1,246.3	113	<p>&lt;Sales Growth&gt;</p> <ul style="list-style-type: none"> <li>Credit Card : New card issue by 40,000</li> <li>Motor bike : Shift to higher price segment, growth by 19%</li> </ul> <p>&lt;Sales decline&gt;</p> <ul style="list-style-type: none"> <li>Super Bike : 69% against last year due to slump of superbike market</li> <li>General EP : 56% against last year due to slump of consumer electronics market</li> <li>Car EP : 23% against last year due to exercise to improve asset quality</li> <li>Personal Finance : 97% against last year due to tightening of credit assessment criteria</li> </ul> <p>Credit Card : 107% against LY</p> <p>Hire Purchase : 105% against LY</p> <p>Personal Finance : 123% against LY</p> <p>Operating Expense : 707% of Revenue (+0.2% vs LY)</p> <p>Impairment Loss : 24.8% of revenue (+0.3% vs LY)</p> <p>Personnel Expense : 14.6% of revenue (+0.3% vs LY)</p> <p>Funding Cost : 16.5% of revenue (+0.2% vs LY)</p> <p>Credit Card : RM540 million, 105% vs LY</p> <p>Hire Purchase : RM4,705 million, 103% vs LY</p> <p>Personal Finance : RM 1,915 million, 112% vs LY</p> <p>Issuance of 10 US of RM432 million in FY2017</p> <p>Conversion rate at 82.8% as of Feb2018</p> <p>Equity at RM603 million, +RM293 million vs LY</p>
Hire Purchase	1,018.5	99	920.5	93	1,938.9	96	
Personal Finance	475.2	114	387.1	83	862.3	97	
Sales Total	2,079.4	105	1,968.2	97	4,047.5	101	
Operating Income Total	671.8	115	686.8	108	1,358.6	111	
Operating Expense Total	474.8	111	489.1	109	963.9	110	
Operating Profit	197.7	126	200.7	104	398.3	113	
Net Profit	147.2	125	152.9	104	300.1	113	
EPS (RM) 0.54	40.8	·	42.4	·	83.2	·	

[RM million, %]	Feb2017	Feb2018	vs LY	%
Receivables	6,438.7	7,156.3	111	92.8
Gross Asset	7,278.4	7,705.7	106	100.0
Total Liabilities	6,047.4	5,848.2	97	75.9
Total Equity	1,231.0	1,857.5	151	24.1
Total Equity & Liabilities	7,278.4	7,705.7	106	100.0

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I will report on AEON Credit Service (Malaysia) performance and important implementation items of this fiscal year. I will start with the fiscal year 2017 performance.

In FYE 2017, transaction was RM4,047 million, +1% year on year; operating revenue achieved RM1,136 million, +11% year on year; operating profit was recorded RM398 million, +13% year on year; Profit after Tax was about RM300 million +13% year on year,

Transaction volume of credit cards and motorbike easy payment grew by more than 10% compared to the previous year; however, as receivables quality is still in the progress of improvement with respect to car hire purchase and personal finance, the average transactions growth is +1% year on year.

With respect to operating revenues, we managed to expand revenue mainly from motorcycles easy payment and car easy payment, where operating receivables are currently accumulating. Credit card transactions volume growth is +13% year on year while revenue growth is +7% year on year due to the increase of customers with monthly clearance. For personal loans, mostly from the second half of the fiscal year, better quality of loans is seen with slower expansion of transaction volume. Despite that, due to strong operating receivables increase in the previous fiscal year and the first half of this fiscal year, we have greatly expanded +23% against last year.

Next is about operating expenses.

Operating expenses were recorded as RM 963 million, +10% compared to last year.

Impairment loss provision was recorded RM336 million, +10% compared to last year. For car and motorcycles hire purchase, the same results were seen as compared to last year but on the other hand, increase in personal loans' impairment loss provision has impacted overall performance. Operating revenue's share of impairment loss provision is thus 24.8%, 0.3% improvement compared to the previous year.

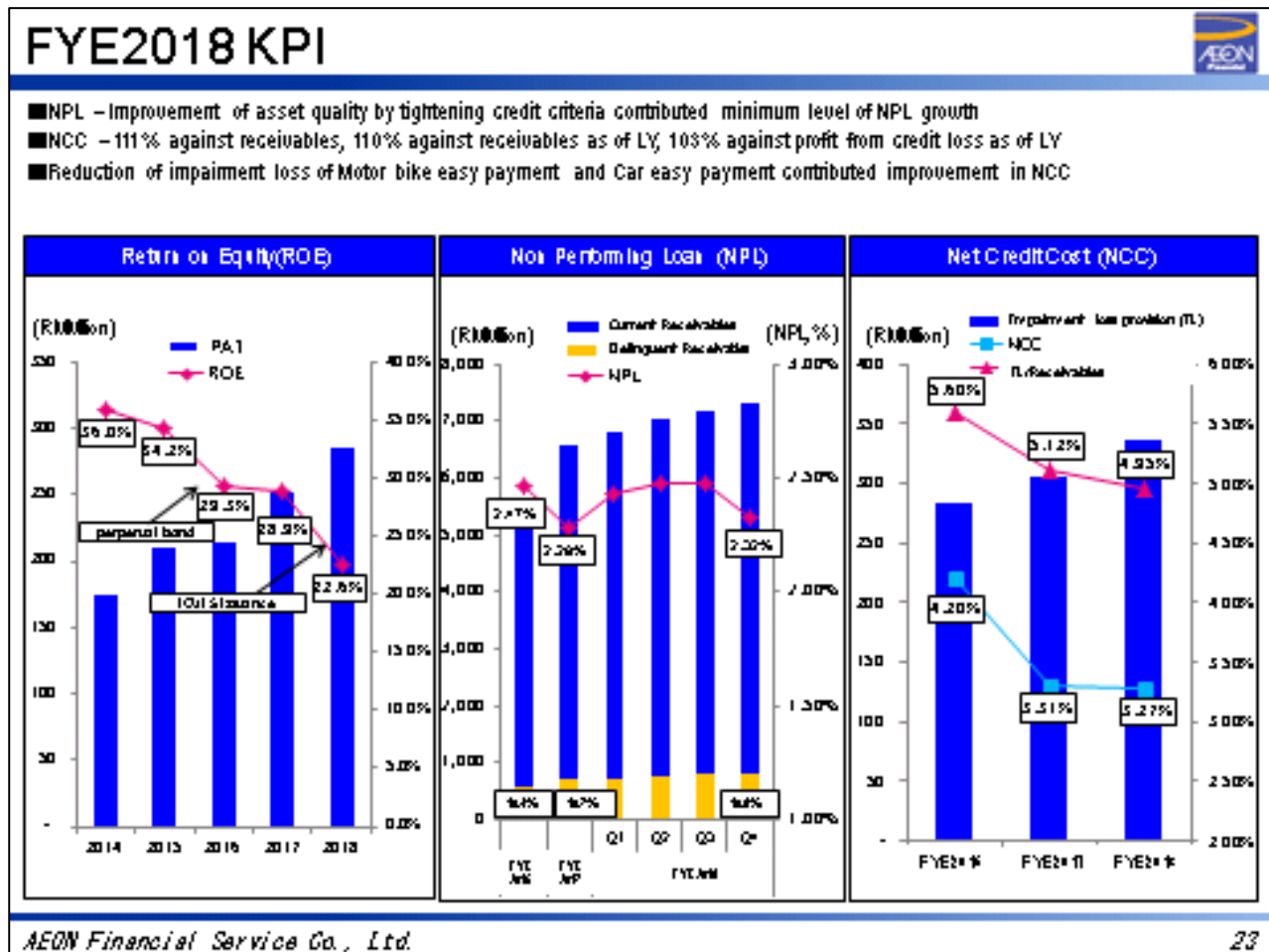
Personnel expenses increased by 9% compared with last year, where revenue ratio was improved to 14.6%, a 0.3% decrease against last year. Although personnel headcount was relatively flat due to branch staff carrying out multitasking at workplace, it still did not lead to much efficiency improvement in operation.

Now, I will move on to the balance sheet.

For operating receivables, the overall growth +11% compared with the previous year,

In Sep 2017, we issued RM432 million mandatory convertible bonds to raise funds for business expansion.





Next is on our Key Performance indicator.

ROE declined from 28.9% to 22.6% against last year due to the increase in capital from the issuance of convertible bonds.

At the end of the fiscal year, NPL ratio was 2.32%, a slight increase compared to the previous year. The temporary rise in NPL ratio with respect to overall receivables is mainly due to a control of new receivables growth (thus small base amount) as a result of stricter credit screening for car hire purchase and personal loan to achieve better credit quality.

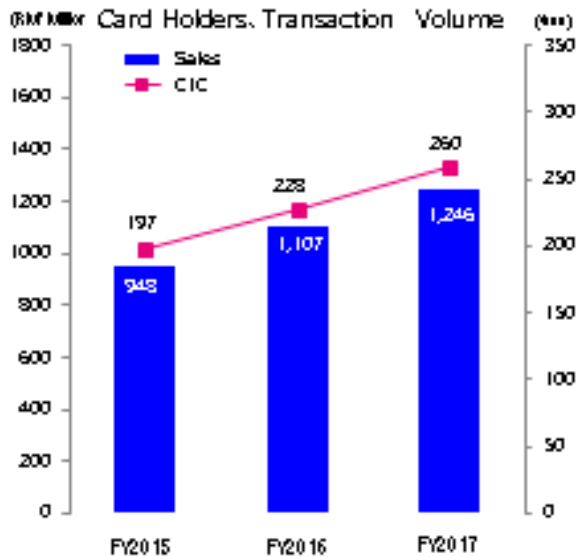
Lastly for net credit cost, net credit cost was at 3.27% at the end of the fiscal year, slightly improving from last year.

# FYE2018 Key Policy – Expansion of Settlement Business



[Credit Card business]

- Credit card members to 260,000 cards by expansion of recruitment channel
- Expansion of privilege merchant, number of acquiring device increased to 2050 units (202% vs LY)



Next I will talk about our key activities in FYE 2017.

The first topic is on the expansion of our settlement business.

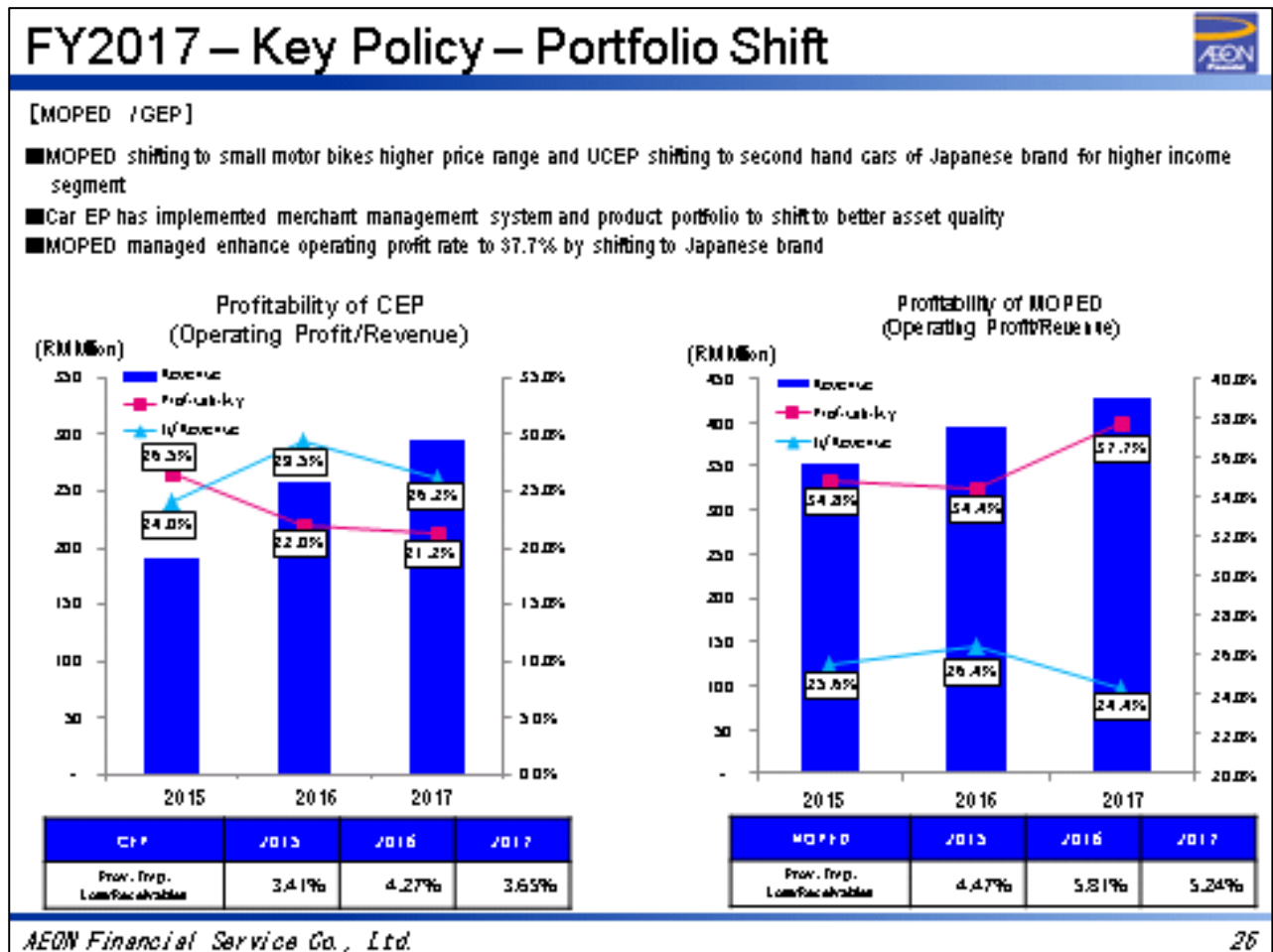
Last fiscal year, we focused on growing credit card members and transaction volume expansion. As a result, the number of members was increased by 260 thousand at the end of FY 2017.

This is mainly attributed to strengthening of card recruitment efforts in the new AEON Mall stores in Johor, Southern part of Malaysia and existing stores in Johor, a key area of AEON's business. In addition, we have expanded the number of applications via web.

In order to improve the convenience of members, we increased privileges at merchant stores and focus on expanding on-us merchant stores. We collaborated with franchise coffee shop chain, leading to the rise in number of installed terminals to 202% compared to the previous year.

At the Branch offices, credit card application has transferred 90% to tablet-based applications, thus reducing data entry work and speeding up the assessment process.

In order to strengthen Credit card recruitment in our branches, we are working to reduce administrative work by promoting cashless operations; card application over-the-counter has led to the strengthening of the sales force and the year-on-year 35% growth.



Next, it is about the profit model optimization of the existing hire purchase business.

For existing hire purchase products, we have expanded products mainly for customers under the low-income category

This has become a high-risk high-return business model.

In fiscal 2017, we worked on optimizing profit models in motorcycles and used car hire purchase such as high ticket size and long repayment tenure.

For motorcycles easy payment, we are focused on expanding the handling of high demand of premium moped to middle and high income customers, in order to expand the customer base from low income group to the middle and high income category.

In the used car hire purchase business, we also expanded middle and high income customers by special interest rates promotion of Japanese car which lower default ratio than local brand car,

Furthermore, we are promoting portfolio management of local brands with a high default rate, special promotion in accordance with respective merchant credit risk, and restructuring of merchants to improve quality of receivables,

Impairment loss provision vs. operating income ratio of both the motorcycles and car hire purchase was improved from last fiscal year.

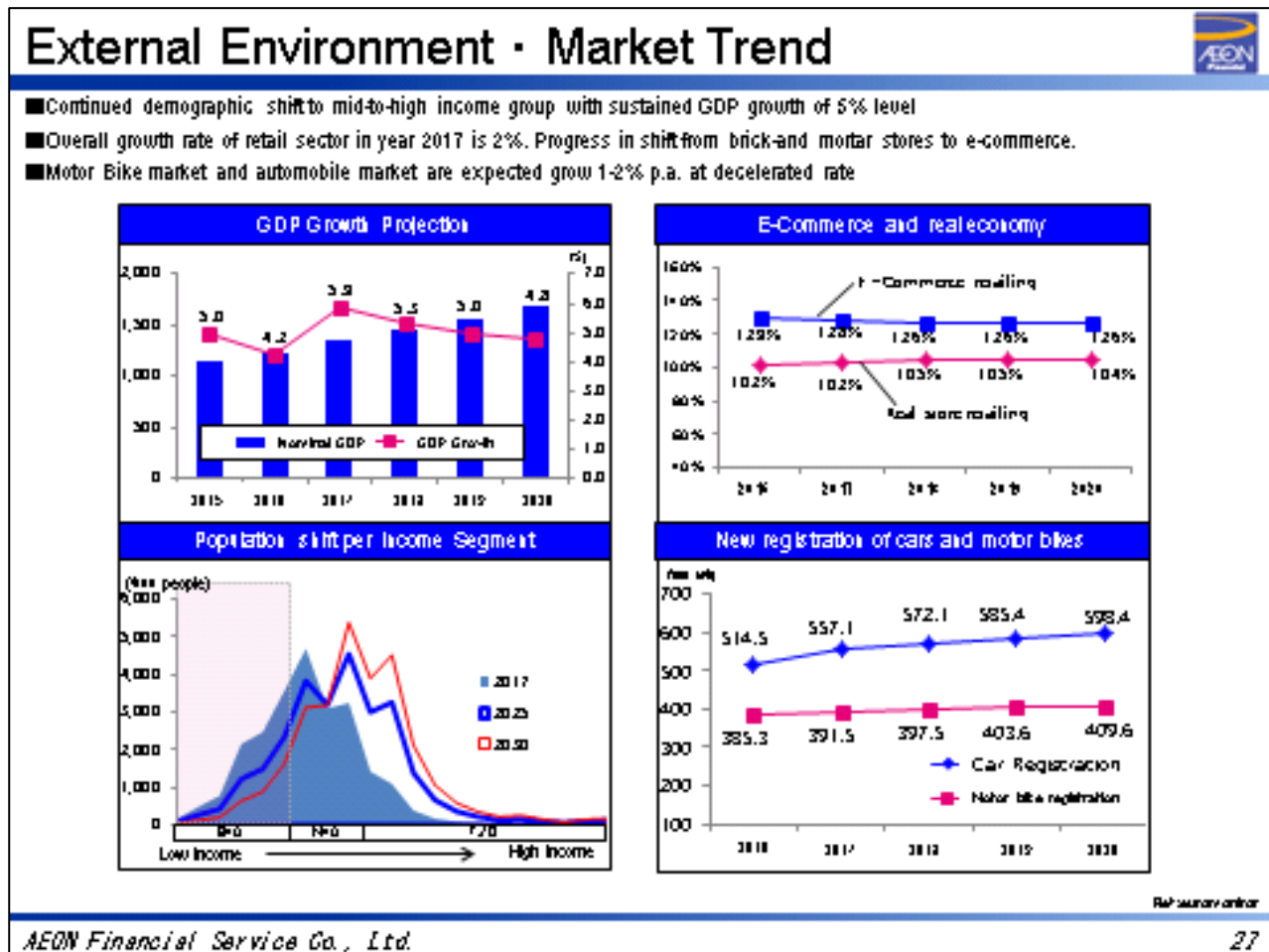
In the motorcycles hire purchase sales business, due to improvements in quality of receivables, credit cost improved by 99% from the previous fiscal year, and the operating margin improved to 37.7%.

We will continue promoting quality improvement of loans and improve margins.

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## FY2018 Key Policy

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Next, I will explain the key policy for FYE2018.

First of all, is the external environment and market trend.

GDP in Malaysia has been on the down trend since 2014 and the economic downtime in China, however in 2017, the real GDP growth rate recovered to 5.9% and this growth rate should continue growing at more than 5.0% in the future.

In line with this growth, personal income will continue to increase and a shift to middle and high income in demographics is expected.


The growth in the e-commerce market is another external environment that we have to observe. Especially in recent years, the growth of retail business in real stores is about 2% -3%, on the other hand, the e-commerce market has been growing approximately 30% yearly. This is also due to the expansion of payment systems such as credit cards, debit cards, and mobile wallets.

Our key merchants from home appliance easy payment industry have started to shift to e-commerce gradually.

Finally, we are forecasting the registered number of motorcycles and cars which are our main products.

Motorization has already advanced in Malaysia, where the growth rate in number of registrations is expected to be sustainable at about 1-2% yearly. As a result, we believe that it will become a challenge for ACS to secure market share if we do not respond to such market changes in a timely manner.

## Challenges and corresponding policies



- Bulk of customers are in income segment of less than RM2000. Task: Acquire more customers from higher income segments
- To increase product lines to expand customer-base. To integrate customer database for effective usage
- Shift of EP business model to middle risk-middle return

Current		Key Policy for FY2018	
Customers	<ul style="list-style-type: none"> <li>• 70% of customers in income segment of less than RM2000</li> <li>• Disintegrated group customer data</li> </ul>	Customers	<ul style="list-style-type: none"> <li>• Penetration to mid income segment by new product development</li> <li>• Expansion of customer base by Emoney and Aeon Wallet</li> <li>• Integration of group customer data and cross customer referral</li> </ul>
Product	<ul style="list-style-type: none"> <li>• Product line-up skewed to EP business</li> <li>• Legacy business model relying on B2B model with physical retail presence</li> <li>• Insufficient penetration to mid to high income segment</li> </ul>	Product	<ul style="list-style-type: none"> <li>• Expansion of product by Emoney and Aeon Wallet</li> <li>• To strengthen products for mid income segment</li> <li>• Conversion of EP to Objective Finance</li> <li>• Shift to B2C model by going mobile</li> <li>• Penetration to EC, Mobile Credit Assessment</li> </ul>
Business model	<ul style="list-style-type: none"> <li>• 80% of revenue is derived from EP and Loan</li> <li>• Business skewed to high risk high return product with low income customers</li> </ul>	Business model	<ul style="list-style-type: none"> <li>• To increase the income such as settlement and insurance to compensate reduction of asset return by adaptation of new credit sales and</li> <li>• Shift to middle risk-middle return products</li> </ul>
Operation	<ul style="list-style-type: none"> <li>• Completion of digitalization of touchpoints</li> <li>• Collection and credit assessment involves high level of human intervention</li> </ul>	Operation	<ul style="list-style-type: none"> <li>• Automation and digitalization of operation – Collection System, automated and instant credit approval, AI, robotics</li> </ul>

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Next it's the current challenging and key action for FYE2018.

First of all, it is about customers. Currently the main customers are mostly low-income group who are expected to decline in the future. Presently, more than 70% customers of hire purchase products are receiving monthly income of RM2000 or less.

In terms of customer base, Malaysia has in place group retailers such as AEON Co. and AEON BiG, and each of them have been managing own customers ID separately. Despite having customer base from different segments, we did not fully utilize the data for intergroup marketing in the past.

With the introduction of our new e-money and e-wallet services, we will promote development of group customer base, ID expansion, and data sharing and utilization between groups.

Next is about product structure.

Although recently we are expanding credit card transactions, our main product is still hire purchase.

For our hire purchase business, the contact point of customers is via merchants. This is a B2B business model where customers visit motorcycles or car merchants and obtain our company information displayed at merchant stores.

Regarding the product composition, product enhancement is done through the introduction of settlement products such as e-money and e-wallet.

We will work on product expansion for middle to high income group by introducing platinum cards and corporate cards, changes in interest rates by customer attributes risk.

Next is on profit structure.

Most of our profit comes from high risk high return products such as car, motorcycle and personal loans.

Our challenge is to convert our current business model which emphasizes more on hire purchase business to a more middle-risk middle-return business model.

Lastly, it is about the operation department.


The digitalization of customer interfaces – i.e. branch digitization, e-application at merchant stores and etc. has mostly completed in FY 2017.

However, in fact, the back office is still strongly dependent on manual work, where significant improvements are still unseen in the production and operation sections.

We also plan to invest in better IT systems as a task for 2018, in order to finalize the systemization and digitalization in our business divisions



# Expansion of customer-base and asset portfolio




- Introduction of E-Money and Aeon Wallet as common group platform
- Expansion of customer base by integration of group customer data and alliance with external parties
- Penetration into higher income and lower risk customer segment utilizing integrated group customer database
- Cross-sell through AEON Wallet


Customer Acquisition by new products

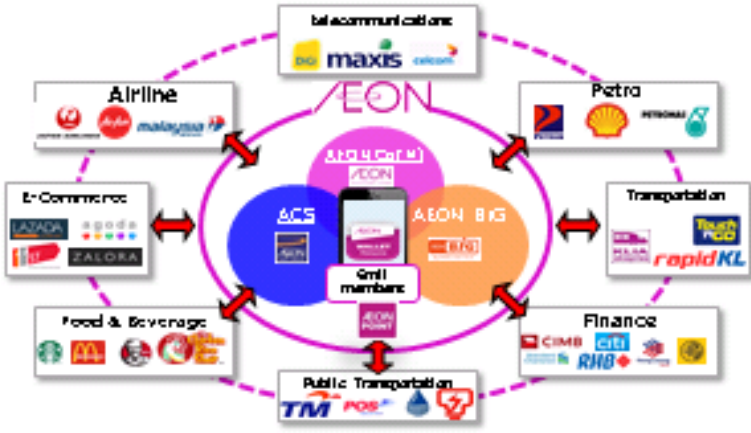
Expansion of settlement network

AEON Money, AEON Member Plus Card



AEON Mainium Card





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The following is about the key policies for this fiscal year.

We will launch e-money and e-wallet from the second quarter of FYE 2018.

Besides introducing this as a new settlement business, we are considering using it as a platform for AEON Group's customer base integration and customer ID expansion.

Currently AEON Malaysia, AEON BiG and ACS Malaysia have total of about 6 million customer base.


In order to utilize this customer base, we will start integration of customer database starting from the launch of our e-money and e-wallet services.

By utilizing the group customer base, we will be able to capture more customers from the middle and high income category.

We will look into alliance with external companies that use mobile as platform as next step.

By having alliance with external companies, we are able to further expand our customer database, which can be used for in-store marketing and cross-selling by multiplying spending/purchasing and credit information.

# Business Model Transformation, IT investment




- Transformation from B2B model with physical merchant presence as touch points to B2C model with mobile touch points
- To enable pre-approval utilizing mobile touch points
- Intensive investment in IT infra to modernize touchpoints for better customer experience

### Transformation of EP business

New Scheme


B2C model through mobile touchpoints



Shift of touchpoints to mobile

Current EP Scheme

B2B2C with merchants as touchpoints



### Investments for Enhanced operation

Collection	- New Collection System - Multiple due date, Draining by Pool
Credit Assessment	- Automated credit assessment (AI) - New scoring system - Mobile/Web pre/tem approval
Others	- Full digitization of application process - Adaptation of RPA for processing - Enhanced customer service

- RM83million is earmarked for IT investment
- Head count of collection to be reduced by maximum
- TAT for credit assessment to be reduced to 15min while upgrading assessment performance and approval ratio

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Next is the transformation of existing business model and investment in IT system.

Regarding the existing business model, the contact point of customers for AEON Credit is via merchant stores, which can be likened to a B2B2C business.

The process is like the following: Customers visit merchant stores and apply, then wait for assessment, and after approval, return to the merchant store to sign the necessary documents.

In the last fiscal year we introduced e-application, simplified applications procedures at stores and shortened the assessment time, however this took quite a long time and customer's touch point improvement could not be done adequately.

This fiscal year we will shift our focus to mobile applications. Customers will first input attribute information in the e-Wallet app in advance in order for pre-screening. After approval is obtained, the company will introduce merchants to customers.


In addition, with the introduction of mobile screening, we are able to strengthen our promotion of purpose loans etc through analysis of hire purchase and screening information in e-commerce sites.

Next is about system investment.





We will proceed with IT system investments to improve operation efficiency and productivity.

We will proceed with investment especially in credit management and assessment system and the total investment amount is expected to be RM83 million. Our purpose of such investment is to improve manpower productivity and reduction of bad debt cost, such as new credit management system, and multiple due dates.

# FY2018 - Key Policy - Sustainability



- Paperless operation by digitalization.
- Nationwide activities for conservation of natural environment
- Engagement in local communities through CSR activities including participation to Digital Johor Project
- Adherence to Malaysian Corporate Governance Code released in 2018

Environment	Society	Governance
<p>Engagement/Inclearing activities</p> 	<p>Participation In Digital Johor</p> 	<p>New Malaysian Corporate Governance Code</p> <p>Additional requirements for listed companies with Market Cap of more than RM20 Billion</p> <ul style="list-style-type: none"> <li>- Composition of Board member</li> <li>- More than majority shall be independent directors</li> <li>- More than 30% of directors shall be female</li> </ul>
<p>Going paperless by digitalization</p> 	<p>Collaboration with NGOs</p> 	<p>Others</p> <p>Enhancement of enterprise value</p> <ul style="list-style-type: none"> <li>- Effective governance by the Board</li> <li>- Active engagement in PR and IR</li> </ul> <p>Diversity in organization</p> <ul style="list-style-type: none"> <li>- Promotion of female management</li> <li>- Employment policy that promotes diversity</li> </ul>

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Next, I will talk about our efforts on sustainability

Regarding the response to the environment,

We will continue to promote paperless operations and digitalization of branches, operation centers, as well as headquarters and continue with our CSR activities such as cleanup activities and environmental conservation activities that we have conducted nationwide in this fiscal year too.

As for participation in the regional committee, this year the Johor government has invited us to join the "Johor 4.0" project as an effort to promote digitalization and a cashless society. We will contribute towards this project in through the development of e-money and e-wallet services.

Lastly it is about the governance system.

A new governance code has been introduced in Malaysia since 2018.

In view of this new corporate governance code, we will carry out the strengthening of our corporate governance structure.

and also continue promoting organization diversity and improvement of the human resource structure.

That's all from ACS Malaysia.

## **Questions and answers**

Mr. Watanabe of Daiwa Securities

Question 1:

About your system (IT) investment: Discuss the progress of improvement in efficiency overseas and how certain you are about achieving targets.

Answer:

In terms of overseas defaults, those in Hong Kong and Thailand can be addressed quickly thanks to short duration of receivables. In Malaysia, high levels are expected to continue as portfolio reforms take about three years, but reforms are progressing steadily. In Japan, reforms of personnel expenses are underway at headquarters functions, call centers and outlets. Reforms are also being introduced overseas in phases. Reforms overseas deemed urgent task as per capita personnel expenses are rising.

No change in targets despite high hurdles in terms of monetary value.

Question 2:

Talk about impact from introducing IFRS 9.

Answer:

For the beginning of the term, we implemented the first-time adoption procedure, and increased reserves after estimating the entire amount. There is a view that this portion will present less burden in fiscal 2018, but we expect it to increase as we will set aside, for additional receivables we will take on, reserves covering 12 month for normal receivables and entire periods for delinquent receivables, . Still, we expect the impact to be neutral considering expected improvement of quality due to restructuring of portfolio, which may also extend durations.

Thus, we aim to improve this indicator by enhancing credit screening and collection and improving efficiency. We do not expect significant impact on capital adequacy ratio. Neither do we expect major impact on individual reserves in loan loss provisions as we adjust their amounts as appropriate.

Mr. Sato of Mizuho Securities

Question 1:

I would like a more detailed review of fiscal 2017 for assessing achievability of fiscal 2018 targets.

The target for securitization of receivables in fiscal 2017, for example, was 10 billion yen, and the actual figure was 15.5 billion yen. Does this mean the target was effectively missed? In KPIs, targets were missed for both personnel expenses and bad debt allowances. Describe the factors behind these and explain the reasoning for assuming the fiscal 2018 targets are within your reach.

Answer:

In terms of profit from securitization, the main factor was the increase in risk assets beyond our expectations, especially a significant increase in housing loans in the fourth quarter. This is taken to mean the shift to direct operation of all outlets is supporting not just asset formation but housing loans. Because of this, securitization amounts have increased. In addition, refund of interest claims increased a little, although the amount is lower

than the previous year. Also, this measure and adjustment risk assets contributed to an increase in profits from securitization.

KPIs are progressing as planned, although there may be delays in efficiency aspects.

Delays are seen overseas, but we will address them in fiscal 2018.

This is not like the increase in the profit from securitization is offset by shortfalls in other areas. On the other hand, increase in volumes and revenues meant that we were making efforts exceeding the levels planned, resulting in more costs.

As for shortfall of KPI targets, we have basically improved efficiency in domestic operations. We plan to introduce measures in our strategy for a period from the first quarter of fiscal 2018. As we have already worked out strategies to achieve reductions in the previous year, all we need is put them into action. The idea is to increase the top line, rather than cutting personnel expenses.

Question 2:

There is the view that high interchange fees may present a hurdle to efforts to achieve cashless transactions. Explain your view on the risk of profits coming under immense pressure due to more diversified transaction methods in the future.

Answer:

With interchange fees falling gradually, the business environment is unfavorable for payment business operators. On the other hand, a key challenge for payment business operators is how to increase added value to member retail shops.

As we have a retail database, we will use our capability to analyze data in it for member retail shops outside of our group. We will counter the negative environment by using this as added value we provide to our member shops (data analytics service as added value). We will squarely face negative aspects but we will still seek to expand business by increasing positive elements.

Mr. Moriyama of Macquarie Capital Securities (Japan)

Question 1:

The three companies listed overseas are growing. I would think net profit attributable to non-controlling-interest shareholders will increase, which will pressure net profit attributable to parent shareholders.

Explain your view on the growth prospect of the three companies listed overseas and their positioning in your strategy, dividend payout and medium-term outlook.

Answer:

The ratio of parent profit may decrease due to the brisk performance of the three companies listed overseas, but the other side of the coin is that as overseas operations grow steadily, our efforts are at the same time expanding in accordance with the ratio. Because of this, we do not feel disadvantaged about it. There will be a view that we should make further effort going forward, but if you look at the advantage in terms of capital costs,

in terms of securing talents, in terms of advantages in procurement, and so on, on the local level, you will see that there is the risk of incurring a negative impact that could offset the effect of raising shareholding ratios. Therefore, we may be able to make fine adjustments, but we would not be able to give a significant impact. Under the circumstances, we see no problem about the three companies listed overseas growing.

(Net portion)

(Situation of consolidated earnings)

In Japan, the economy largely continued a gradual recovery, with corporate earnings and jobs on an improving note, consumer spending recovering gradually and consumer prices remaining flat. In Asia, the economy largely continued a gradual recovery, supported by voracious infrastructure demand and growth in consumer spending supported by low inflation.