

Results for the First Half of FY2018

November 14, 2018



First Section of the Tokyo Stock Exchange
Stock Code : 8570

AEON Financial Service Co., Ltd.

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Thank you for coming to our Financial Results Briefing. I am Wakabayashi, and I'm in charge of corporate management. Nice to meet you.

I will talk about our business outline and results, and our efforts for capital efficiency through securitization in the 2nd quarter of fiscal year 2018.

Consolidated business outline

(Unit: billions of yen)	Domestic				Global			
	Credit card ①		Installment sales	Housing loan (※1)	Credit card ②		Installment sales③	Personal loan
	Shopping	Cash advance			Shopping	Cash advance		
Transaction volume	2,582.4	202.5	117.6	222.3	125.0	67.7	50.0	73.2
YoY	+8.0%	+3.4%	-3.7%	7.7%	+14.1%	+17.9%	+17.7%	-14.0%
Finance receivables (※2)	1,007.2	467.5	587.8	1,839.5	97.2	98.1	159.6	207.6
Change from start of FY	+31.1	+11.7	+41.6	+124.6	+0.0	+6.5	+8.6	+7.7

※1 Includes amounts for Flat 35 and studio condominium loan ※2 Figures for domestic finance receivables refer to amounts before securitization

(Unit: no. of people)	No. of cardholders ④		
	Consolidated	Domestic	Global
	Results	41.51mil	28.11mil
Change from start of FY	+0.87mil	+0.36mil	+0.51mil

(Unit: no. of accounts)	AEON Bank accounts		
	Total	Credit card linked with AEON bank acc	Debit card linked with AEON bank acc
	Results	6.29mil	4.66mil
Change from start of FY	+0.24mil	+0.18mil	+0.05mil

(Unit: billions of yen)	Bank deposits balance		
	Total	Ordinary deposits	Time deposits
	Results	3,322.2	2,286.7
Change from start of FY	+268.4	+265.9	-13.4

①Domestic: Credit card

- Shopping trx vol.: Double digit growth of transaction vol. at both AEON group and external merchants attributed to promotional tie-ups to encourage card usage
- Cash advance trx vol.: No. of users 1.30mil (+¥10K), balance per user ¥330K (+¥3000)

②Global: Credit Card

- Shopping trx vol.: Marketing campaigns to promote card usage, along with the growth of card holders, has been effective in boosting card usage
- Cash advance trx vol.: Favorable trend in cash advance usage growth in Thailand attributed to credit enhancement strategy implemented before last year's interest rate cap regulation

③Global: Installment finance

- Greater consumer spending in Malaysia during tax-free period before the implementation of a new consumer tax policy incentivized more purchases among the higher-income earners, resulting in positive growth in cars and higher-end motorbikes loan transactions volume

④Consolidated number of cardholders

- Domestic: Released new card design featuring popular image icon
- Global: New premium cards to target the middle to high income segments were issued

(Thailand: Platinum card in alliance with Thai Airways, Malaysia: AEON Platinum Card)

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First, let us talk about consolidated business outline. In Japan, transaction volume with external merchants grew due to promotional tie-ups with affiliated companies resulting in credit card transaction volume up 8% year on year. As for cash advance, due to the increase in the number of cardholders, transaction volume was up 3.4% year on year, and the financial receivables increased 11.7 billion yen from the start of fiscal year.

For housing loan, we had good feedback from our customers for our special shopping discounts given at AEON group stores as well as special interest rate plans that we offered, which resulted in the transaction volume of 7.7% increase from the previous year. Financial receivables including securitization increased 83.3 billion yen from the start of the fiscal year.

Globally, stable consumption in countries where we do business served as a tail wind, and credit card shopping and cash advances both grew in double digits. In Malaysia, as the country prepared for the shift towards a new consumer tax policy, a tax-free period was generated, where tax rate was actually 0%. We were able to capitalize on that demand for spending. As a results, transaction volume of instalment sales grew positively, especially or cars and higher-end motorbikes.

As for consolidated number of cardholders, we wanted to serve wide range of customers including youth and middle to high income segments. So we were able to acquire members through tie-ups with popular characters and prominent companies, which resulted in expanding our customer base.

Consolidated and segment results

(Unit: Billions of yen)	Domestic total			Global total				Adjustments	Conso. Total
	※	Retail	Solutions	※	China Area	Mekong Area	Malay Area		
Ordinary income	145.8	94.3	87.7	67.3	9.5	35.0	22.7	-36.0	213.4
YoY	+8%	+11%	+5%	+14%	+1%	+17%	+17%	+9%	+10%
Change	+10.8	+9.0	+4.2	+8.5	+0.1	+5.0	+3.3	-3.0	+18.8
Ordinary profit	15.5	6.9	11.0	17.3	3.7	7.3	6.3	-2.3	33.0
YoY	-1%	+134%	-21%	+34%	+27%	+37%	+35%	+57%	+16%
Change	-0.1	+3.9	-3.0	+4.4	+0.7	+1.9	+1.6	-0.8	+4.5
Ordinary profit ratio	10.7%	7.4%	12.6%	25.8%	38.6%	21.0%	27.8%	-	15.5%
YoY	-1.0pt	+3.9pt	-4.3pt	+3.8pt	+7.8pt	+3.1pt	+3.6pt	-	+0.8pt
※ Domestic total and global total represent amounts after elimination of transactions between business segments							Profit attributable to owners of parent		17.9
							YoY		+4%

■ Domestic main factors ※ () YoY 【Domestic】 <ul style="list-style-type: none"> Income growth mainly attributed to credit card income: Interest income +¥3.9bn, Fees and commissions ¥3.5bn Up-front investment costs +¥1.5bn including amortization exp, exp related to meeting customer needs wrt convenience (foreign currency deposits, enhancing ATM usability etc), investment towards operational efficiency (consolidation of HQ functions, introduction of RPA etc) Personnel expenses/Ordinary income: 16.1% (-0.8pt)→reduction in costs as a result of RPA implementation 【Retail】 <ul style="list-style-type: none"> Increase in adver. and promotion exp by +¥1.7bn (where exp other than point costs decreased by ¥0.8bn) due to stronger emphasis placed on point prg 【Solutions】 <ul style="list-style-type: none"> Refinement of criteria for measurement of allowance for installment finance receivables and increase in defaults led to rise in bad debt exp by +¥2.0bn ※Impact on profit by securitization of finance receivables: ¥7.1bn (+82%, +¥3.2bn); Amortization of finance receivables: ¥3.7bn					■ Global main factors ※ () YoY <ul style="list-style-type: none"> Topline and profit growth in local currency and yen for all three areas Thailand: Strong credit card shopping transaction volume and expansion of loan balance Malaysia: Installment finance growth mainly attributed to more purchases of cars and higher-end motorbikes during temporary tax-free period before the switch to a new consumer tax policy 				
						China Area	Mekong Area	Malay Area	
					Personnel expenses/ Ordinary income	13.5% (-1.6pt)	14.7% (-0.1pt)	15.2% (-0.1pt)	
					Bad debt expenses/ Ordinary income	13.6% (-4.6pt)	24.4% (-0.9pt)	22.5% (-4.0pt)	
					※Foreign exchange impact: Ordinary income +¥2.0bn, Ordinary profit +¥0.5bn				

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Next us go to consolidated and segment results on page 3. Take a look at the right hand slide of the chart, which is consolidated total.

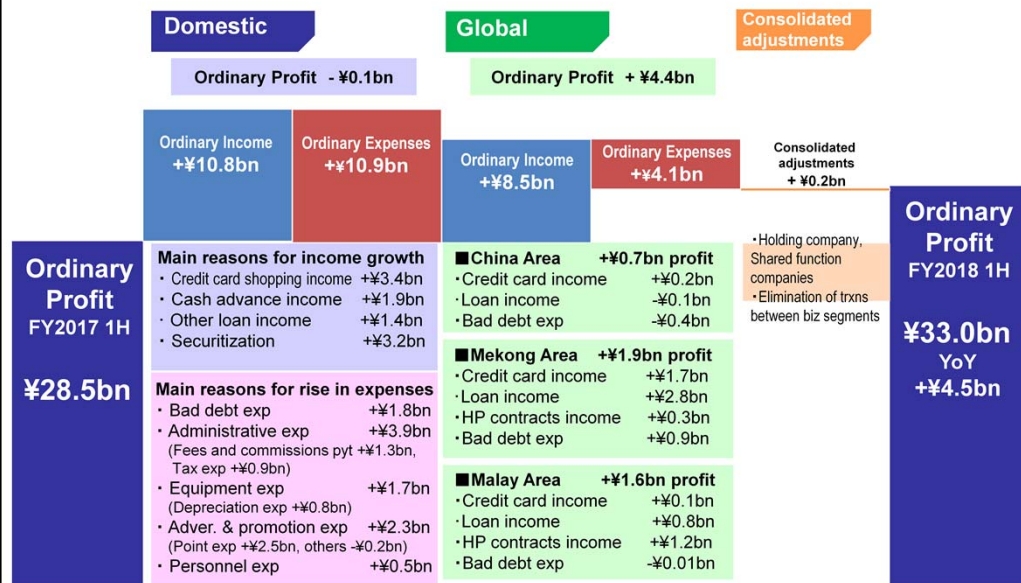
The aggregate of the 2nd quarter shows increase in income for 7 terms in a row. Ordinary income, ordinary profit, and profit attributable to owners of the parent all showed the highest ever results. In the domestic business, interest income and fees and commissions income grew, which were mainly attributed to credit card income. Ordinary income was up 8% year on year.

On one hand, we enhanced point program to increase transaction volume, advertising and promotion expenses increased mainly for points. We also needed to refine the criteria for measurement of allowance for instalment finance receivables. Influenced by general industry trend of tightened credit requirements for bank issued card loans as well as the change of external environment, we experienced rise in bad debt expenses.

In addition, up-front investment costs such as amortization and other expense to streamline the process increased to meet customer needs and to improve operational efficiency. Implementation of RPA and streamlining through consolidation of HQ functions etc allowed our personnel expenses against the ordinary income ratio to improve 0.8 point to 16.1% year on year.

Our KPI index for the year 2018 is set at 16% and we are sure to achieve that in Japan, globally, we were able to increase our topline and profits in local currency and in yen for all three areas, namely China, Mekong and Malay Area. We were able to increase the topline while we reduced cost. So as you can see, both personnel expenses ratio and bad debt expenses ratio against ordinary income in each area improved year on year.

Domestic/Global segment results by graph



※Figures for the above respective areas represent amounts after elimination of transactions between business segments (excl. holding companies and shared function companies.)

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Next, let us look at Domestic and Global segment results by graph on page 4. It shows main reasons for increase and decrease of ordinary income. Please refer to this diagram for details.

Consolidated balance sheet			AEON Financial Service Co., Ltd.
Consolidated results (Unit: Billions of yen)	Results	Change from start of FY	Topics ※(): Change from start of FY
Cash and deposits	674.8	+24.3	• Domestic balance: ¥636.0bn (+¥19.2bn) → attributed by increase in finance receivables
Loan and bills discounted*	2,314.9	+43.3	• Balance incl. securitization : ¥3,526.2bn (+¥199.6bn) in which, Domestic balance: ¥3,224.5bn (+¥185.3bn) in which, Global balance: ¥305.7bn (+¥14.3bn) • Securitized amount (Domestic only): ¥1,211.2bn(+¥156.3bn)
Accounts receivable – installment *	1,402.2	+107.6	• Balance incl. securitization : ¥1,858.9bn (+¥79.7bn) in which, Domestic balance: ¥1,595.0bn (+¥72.7bn) in which, Global balance: ¥256.8bn (+¥8.7bn) • Securitized amount (Domestic only): ¥456.6bn (-¥27.8bn)
Allowance for doubtful accounts	-98.2	-39.4	• Adjustment of beginning B/S balance in accordance with the implementation of IFRS 9 at various overseas subsidiaries led to impact on bad debt reserves by +¥35.0bn
Other Assets	799.1	+104.2	• Securities: ¥289.8bn (+¥79.0bn)
Total assets	5,092.9	+240.1	• Ordinary deposits: ¥2,286.7bn (+¥265.9bn) • Time deposits: ¥1,017.1bn (-¥13.4bn)
Deposits	3,320.2	+270.5	• Domestic balance: ¥409.8bn (+¥12.5bn) → Long-term loans payable: ¥19.8bn (+¥10.3bn) • Global balance: ¥426.5bn (+¥19.6bn) ※ , Domestic and global amounts include figures for holding company and shared function companies
Interest-bearing debt	836.3	+32.2	• Reduction of increase in risk assets due to expansion of business
Allowance for loss on refund of interest received	2.5	-0.5	
Other liabilities	509.9	-48.0	
Total liabilities	4,669.1	+254.0	
Total equity	423.8	-13.9	
Total liabilities and equity	5,092.9	+240.1	
Shareholders' equity ratio (domestic standard)	8.31%	-0.02pt	

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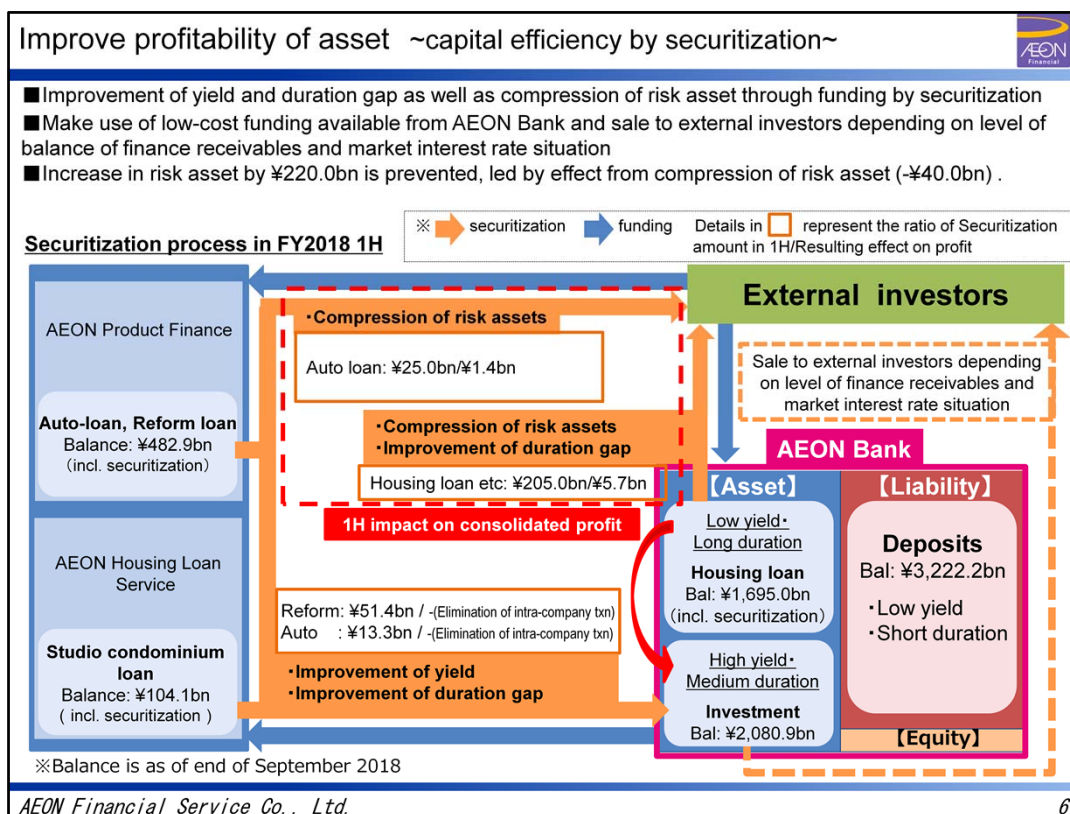
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Next look at consolidated balance sheet. For cash and deposits, we have implemented securitization near the end of the fiscal year and it increased 24.3 billion yen from the start of the fiscal year. As we add up the loan and bills discounted and account receivables for instalment, it increased 150.9 billion yen. The total assets were 5 trillion and 92.9 billion yen, an increase of 240.1 billion yen from the start of the fiscal year.

For liabilities, as we observe the increase of credit card and debit card integrated type bank cards, more customers started to use our service to settle accounts, thus deposits, mainly ordinary deposits, increased 270.5 billion yen, and the total liabilities ended up 4 trillion and 669.1 billion yen, an increase of 254 billion yen from the start of the fiscal year.

For allowance for loss on refund of interest received, we transferred 500 million yen at the 2nd quarter, so that compensated amount reduced 700 million yen compared to the previous year and ended up at 1.1 billion yen.

As a result, the allowance balance at the end of the 2nd quarter was 2.5 billion yen, 500 million yen decrease from the start of the fiscal year. Total equity is 423.8 billion yen. Due to dividend payout at the end of the term etc, it decreased 13.9 billion yen against the beginning of the fiscal year. As a result, the shareholders equity ratio by domestic standard was 8.31% , which was minus 0.02 point against the start of the fiscal year.



Next, let me talk about capital efficiency by securitization, what measures we worked on in the first half. As I already told you, in order to deal with the expanding financial receivables, we have conducted securitization regularly, to improve yield and duration gap between investment and funding, and to reduce risk assets so that our capital is used more efficiently.

AEON Bank securitized 250 billion yen through low yield, long duration receivables such as housing loans and by selling that to external investors, so that we reduce funding and risk assets. Furthermore, with the fund raised, AEON Bank purchased securitized receivables of 13.3 billion yen from AEON Housing Loan Service and by investing them, we were able to improve yield of the receivables we own and also improve duration gap through shortened investment period.

AEON Product Finance and AEON Housing Loan Service were able to raise funds at low interest rate by securitization to AEON Bank.

On the other hand, AEON Bank is able to increase profit through this. However, with this securitization within the group, we are not able to reduce consolidated risk assets. Therefore, we have securitized auto loans with 25 billion yen externally.

In consideration of market interest rate situation along with the increase of the risk assets in total, as well as yield of each product, finance receivables can be sold to eternal entities as well as securitize them within our group companies. As a result, impact on consolidated profits is what you see in the red dots formulating a square in the middle of the page.

The risk assets were to increase 260 billion if it was not securitized. However, its effect was worth 40 billion and we were able to contain it to 220 billion. So we were essentially able to maintain the shareholder equity ratio. That is all from me. Thank you for listening.

Main initiatives for FY2018

- A Complete Digital Shift
- Meeting Customer Needs through a Wider Range of Products and Services
- Speeding Up the Growth of Our Global Business

Let me elaborate on this year's main initiatives for FY2018, for both first half and the second.

As you can see, this year, we promote digital shift and strengthen our efforts to meet our customer needs. We also plan to speed up growth of our global business once again.

Summary of initiatives for the first half of FY2018

■ Introducing better services with the utilization of FinTech

Initiatives to promote paperless operations

- Encouraged customers to switch from paper to e-statements through registration on smartphone app "AEON Wallet"
 - ⇒ Percentage of total billings issued via e-statements (as of Sep) +20% YoY
- Paperless housing loan applications



Initiatives to support "cardless" payments

- Introduction of Smart-ATM in which ATM transactions can be done via smartphone
- Launched field trial of cardless payments using palm biometric authentication technology

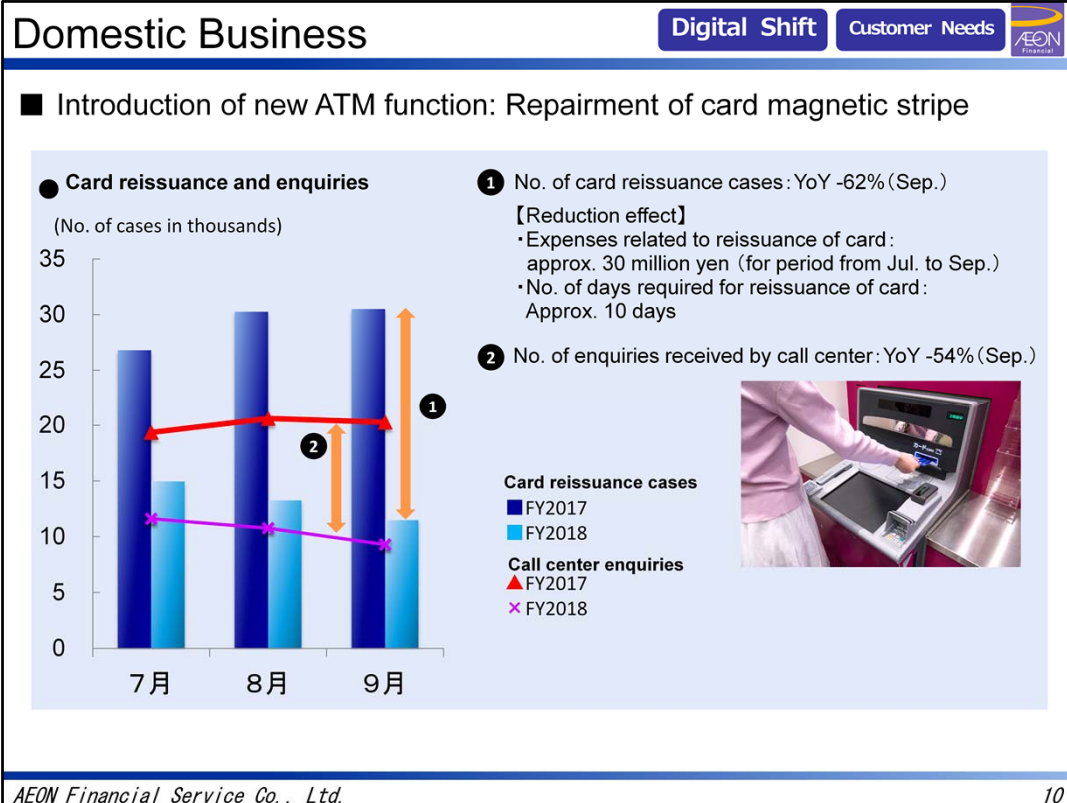


First, let us look at the initiatives for the first half of the year 2018. As for our domestic business, we are working on taking advantage of FinTech. In our efforts to go paperless, we worked on making e-statements available on our smartphone app 'AEON Wallet', as well as distributed coupons through the app. Credit card statements available on the 'AEON Wallet' contributes to the lessening of the burden on our environment.

We are going to work on it from the second half towards the next year, taking it on the long clock. We are going to decrease our CO2 emissions by 50,000 tons in the future. We also have adopted the system for housing loan contract to go paperless from pre-screening to end. Through digitization of the documents and reduction of sending by post, we are working on simplifying our process and shortening the time it takes.

Through making things more convenient, it is my understanding that AEON Bank's housing loan balance has increased dramatically.

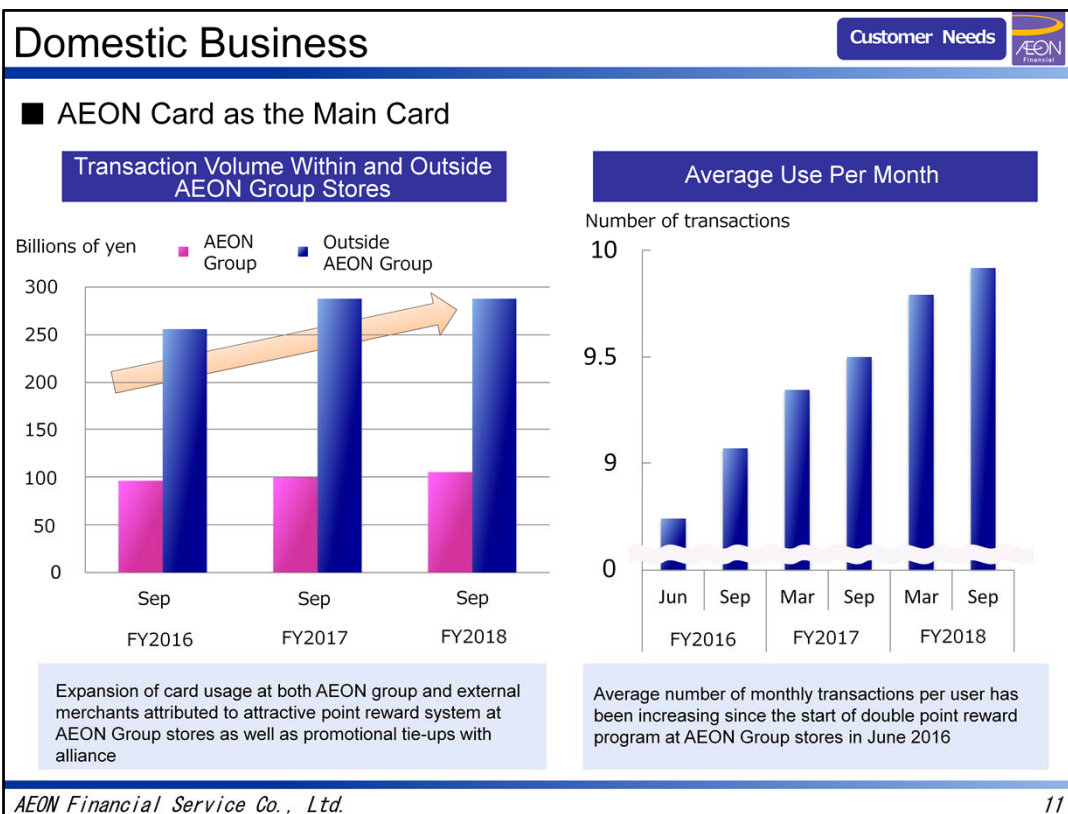
With our efforts to make it cardless, from this September, we started out service called Smart-ATM, with which, you can complete transactions at our ATMs by just scanning the smartphone. Also from last year, in the context of variety of settlement methods of our customers in recent years, we launched the cardless settlement system, which uses palm biometric authentication technology. We have AEON employees to participate in the tests conducted at some Mini Stop stores. Based on the results, we will start to consider implementing that for each AEON group company and for our affiliated merchants.



Next, let me talk about our new ATM function: repair of card magnetic stripe. Let me give you an example. This is a low-key type of innovation. However, it is highly wanted by our customers. From this June, we have been providing a service to repair the magnetic stripe on the surface of AEON cards at 6,197 ATMs all over Japan. In recent years, you have more opportunities to keep your credit cards close to highly magnetic devices like smartphones, causing more and more credit cards to suffer from magnetic stripe malfunctions.

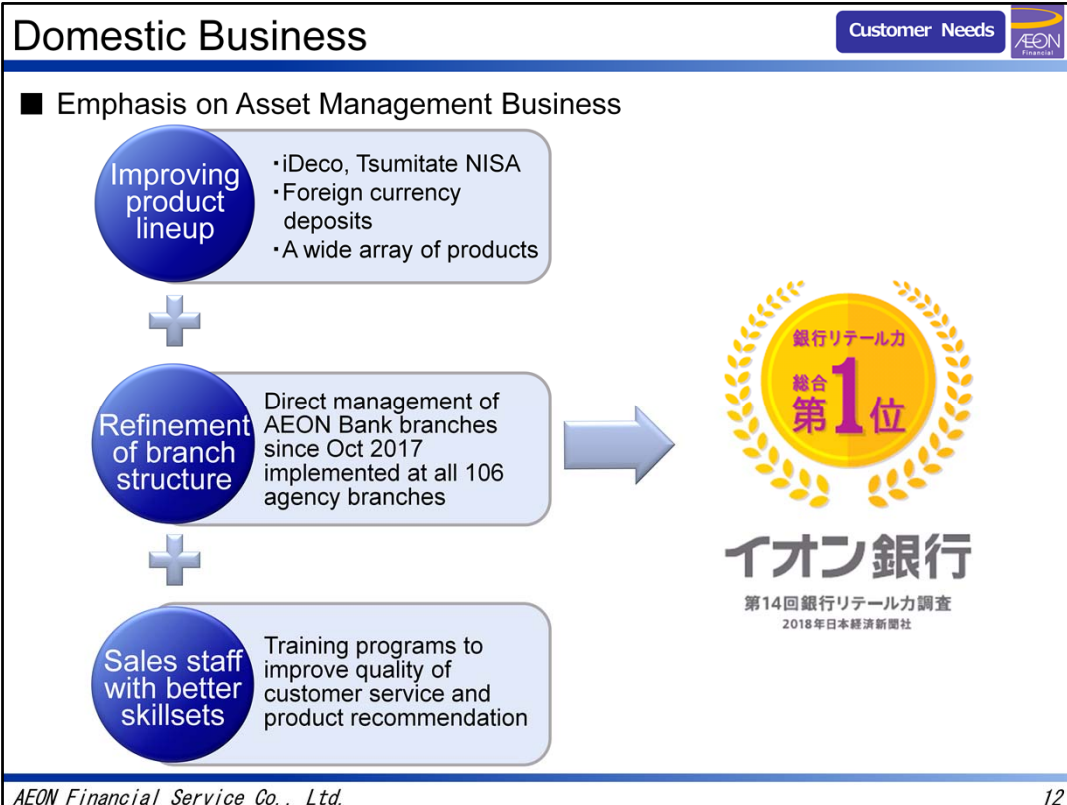
It takes about 10 days to reissue a card. But we always felt that it is inflicting loss and inconvenience to our customers. By introducing this service, as you can see on the graph, you can see the number of card reissuance and card enquiries decreasing. We are also able to reduce cost related to reissuance of cards. As you can see here, we were able to cut 30 million yen worth of reissuance fee from July to September. It does not include the time it takes to take the call, asking for reissuance and personnel cost. They can be reduced as well. As it dramatically enhances convenience for our customers, it also reduces our costs at the same time.

Though it is a very small investment, it has been quite effective.



Next, let me elaborate on the transaction volume increase of AEON Card as a result of making it to be the main card of our customers. The left hand side chart shows the transactions inside and outside the AEON group stores. As you can see, the transaction volume within the group has steadily increased. At the same time, the transaction volume outside the group, which is indicated in the blue bar chart shows that it grew because of promotional tie-ups with our partners.

Next, let me talk about the bar chart on the right. It shows average number of card usage per month. This also shows steady results as we worked on improving operation rate. We started the campaign to double points at AEON group stores from June 2016. AEON Card is becoming a main card more and more and we think that the usage frequency has increased inside and outside the AEON Group.



As you may already know, AEON Bank, established in 2007, finally came in first out of 116 banks in the 14th retail banking service power survey conducted by the Nikkei (Japan economic newspaper). AEON Bank is traced back to AEON retailer, so AEON Bank members feel strongly that they are retail customer-driven. We are fully aware of the importance of being closer to our customers, as we think that is one of the reasons why AEON Bank was highly regarded. We think other reasons of high appreciation of AEON Bank include that AEON Bank has refined the branch structure by directly managing all agency branches, and improved product lineup based on the customer's investment experience. We will continue to do our best for the service that suits our customers' needs

■ Solving Social Issues while Introducing Digitalization in Our Products/Services

● Expansion of Auto Loan Business Utilizing IoT Device in the Philippines

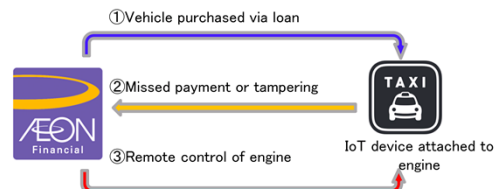
- Expansion of service to cater to four-wheeled taxis and EV taxis

● Start of E-money business including QR Code Payment • Remittance service in Cambodia



Supporting the use of cashless payments to cater to the middle and lower income earners

● Auto Loan Business Scheme



Create employment opportunities for low-income earner



Next, I will talk about our global business. Regarding the auto loan service utilizing IoT in the Philippines launched in July 2017, so far, in addition to tricycles, our service has been expanded to four-wheeled taxis and EV three-wheeled taxis. This expands our business. Furthermore, toward realizing a sustainable society, the service will be helpful for less credible people to buy a vehicle with a loan. And it is contributing to creating driving jobs for local people. Also in Cambodia, we started an e-money business on a local currency basis including QR code payment and remittance service. This leads to supporting the use of cashless payments to cater to the middle and lower income earners. We are proud that AEON Group has been able to provide service suitable for the needs of each country and region, and we will do our utmost to keep such a service as long as there are needs.

■ Topline growth and achieving better credit quality through acquisition of customers from the high-income segment

● Malaysia: AEON Platinum Card

Loan Products with interest rate set based on risk level



● Thailand: AEON ROYAL ORCHID PLUS Card

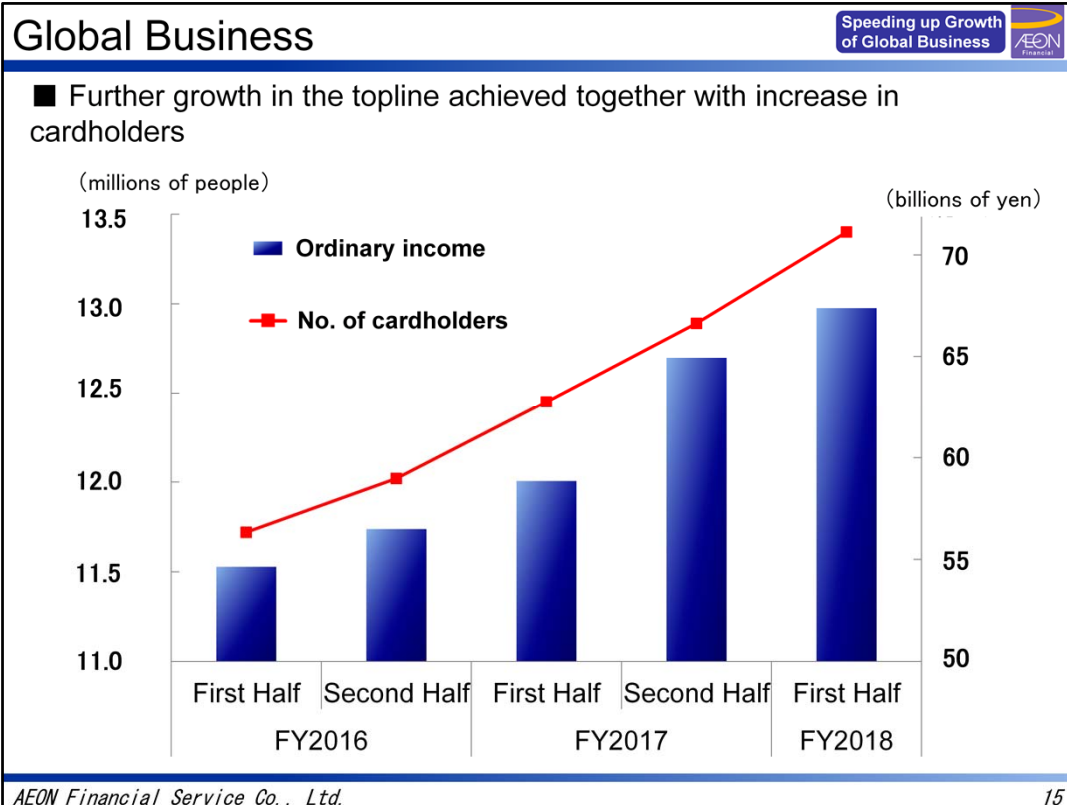
⇒ Targets users with a required monthly income



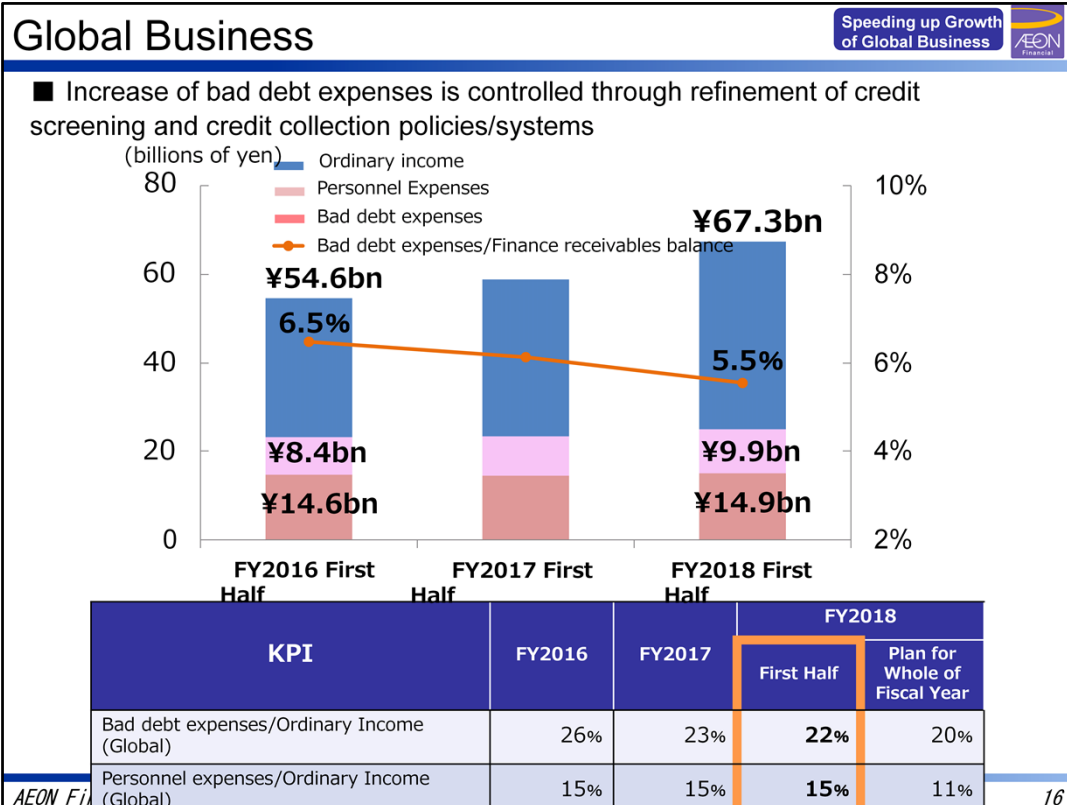
Expansion of Topline

Better credit quality
Reduction of credit cost

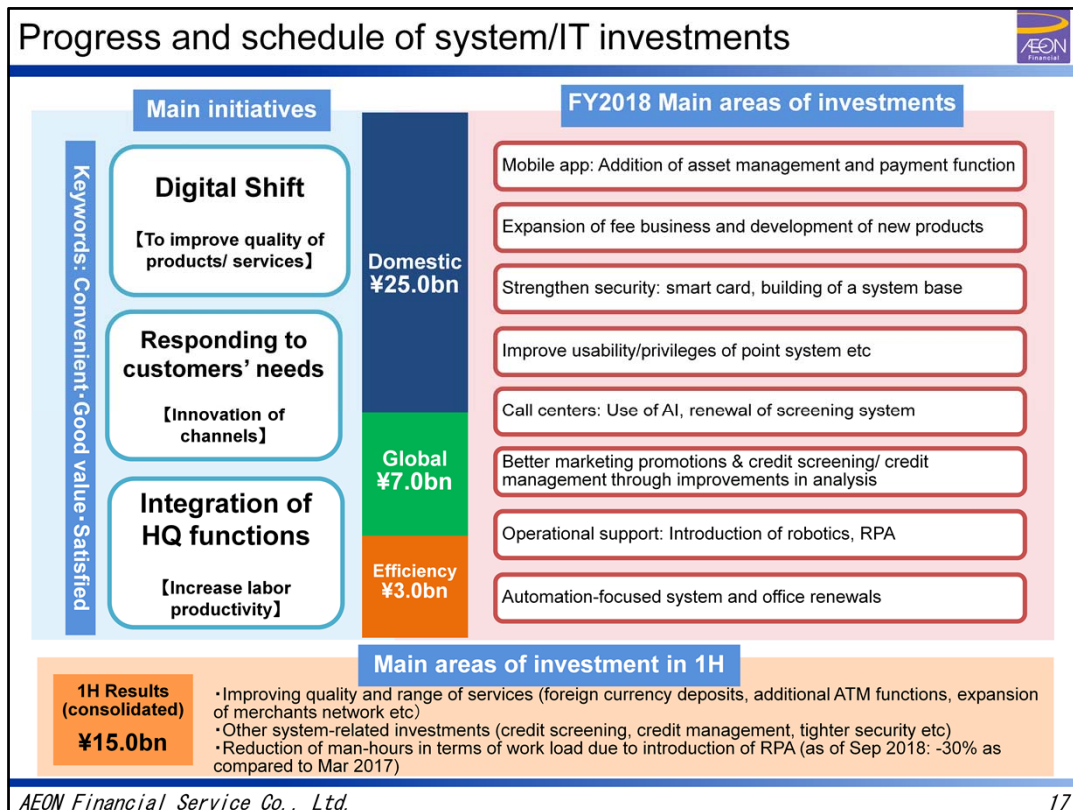
In global business, backed by economic growth of Southeast Asian countries, the income level of people in the region is rising. In this situation, in Malaysia, we will make effort to acquire good customers by issuing AEON Platinum cards for high-income earners, developing loan products with interest rate set based on risk level, and strengthening to deal with Thai Airways, we are issuing AEON Royal Orchid Plus cards. We reduce credit cost by way of topline growth and achieving better credit quality through acquisition of customers from the higher income segment.



Moving on. This slide shows ordinary income and number of cardholders in our global business. As you can see, by issuing co-branded cards with leading local companies and enriching privileges, the number of cardholders has been steadily growing. Besides, boosted by strong public consumption in Southeast Asia, the ordinary income is growing too.



The next slide shows our quarterly KPI figures from the first half of fiscal year 2016. While the topline progresses well, through refinement of credit screening and credit collection policies and systems, as the line graph shows, bad debt expenses against finance receivables balance decreased from 6.5% to 5.5%. Toward achieving our plan, we will continue to work towards increasing the topline and improving cost control.



In the next slide I'm going to explain the progress of system/IT investments, the plan for this fiscal year, and the investment details of the first half. In this fiscal year, in order to grow digital products and services, strengthening credit management, and back-office consolidation and automation, we planned to invest a total of 35 billion yen.

For the first half of this fiscal year, in Japan, we began the foreign currency deposit service, ATM card magnetic stripe repairment service which I already introduced, and introduction of Smart-ATM in which ATM transaction can be done by smartphone. Besides, we launched a merchant network management system and development of database. So we made investment on strengthening service.

And overseas, we developed a credit screening and credit management system and strengthened security. Thus, we invested in infrastructure development, and the amount of consolidated investment was 1.5 billion yen.

Furthermore, since the introduction of RPA to our operations as part of the integration of headquarter functions project, the man-hours in terms of workload or working hours shortened by 30% as compared to March 2017 when the project just started. We talked to you on this about a year ago. And although we think it will be some time before it has any effect, we are making steady progress.

Initiatives from second half of FY2018

Now, I would like to move on to the initiatives from the second half of fiscal year 2018.

Domestic Business

Digital Shift
Customer Needs

■ Expansion of new customer base: Male and the Younger Generation

• AEON Card (SKE48)

Cardholders can select the card design on the smartphone app AEON Wallet featuring their favorite idol
⇒ Promotion of more app downloads from the young

• AEON NEXCO Nishi-nihon Card

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About domestic business, to expand new customer base, we are issuing new co-branded cards. From November 11, we began to accept applications of AEON NEXCO Nishi-nihon cards. By this, from east Japan through west Japan, customers can use the cards at ETC, service areas and parking areas countrywide. And November 12 we started to accept applications of AEON Card (SKE48). To promote more downloads of smartphone app AEON Wallet, a new function was added where cardholders can select the card design on AEON Wallet featuring their favourite idols.

There might be fans of SKE48 here, so we do hope that especially SKE48 fans will become our SKE cardholders. Because this was not publicly announced yet, I refrain from the details, but within this month we are planning to release a new card interface design. By issuing such co-branded cards, we hope to approach and acquire a new customer base. In this fiscal year, the issuance of especially co-branded and new cards was concentrated in the second half, and that is a point in need of review for us. But we can also say that we are pleased to report to you that we have managed to issue the cards within this fiscal year.

■ Towards Cashless, Cardless Payments

Promotion of Contactless Payments

Introduction of contactless payment function to match international standards in view of the upcoming 2020 Tokyo Olympics since Nov 2018

⇒ Cashless payment method to meet the demands of foreign tourists



Contactless payment

Shift Towards Cardless Payments

Addition of payment function via smartphone to the smartphone app AEON Wallet



AEON Wallet app interface

I'd like to explain promotion of cashless payments in the domestic business. We are introducing contactless payment function to match international standards. We believe this will improve service for foreigners coming to Japan as we become closer to the upcoming 2020 Tokyo Olympics.

In response to recent demand for a wider range of payment methods, we will also shift towards cardless payments. In the second half of this fiscal year, in addition to in-app usage inquiry and coupon distribution function, we are also developing functions including QR code payment by smartphone.

■ Improving accessibility via the use of smartphones

[Malaysia]

- Launched smartphone app AEON Wallet (Malaysian version)
- Payments via QR Code introduced

⇒ Integration of AEON Group customers as part of move to construct a unique ecosystem



• Login



• Selection of card



• Payment terminal

[India]

- Instant credit screening made possible with launch of app “AEON FAST”

Screening method: Paper→Online
Screening time: approx. 3 hours→1 min



Next, I will talk about our plan for the second half of the fiscal year and after. Regarding our initiative making use of smartphone digital technologies, in Malaysia, in October this year, we began QR code payment service and accepting cardholder applications of Malaysian version of AEON Wallet smartphone apps with various advantages. With the apps, in all AEON stores in Malaysia namely AEON Malaysia and AEON Big Malaysia, cardholders can pay by QR Code. Starting with these, we are planning to expand our service gradually.

In India, we launched instant credit screening app ‘AEON Fast’, where applications are made paperless and where screening time can be shortened. The credit screening time was reduced from 3 hours to just 1 minute. This has substantially improved operational efficiency, and good customers can be secured in advance. Therefore, enhancement of profitability is expected.

Global Business

Digital Shift

Customer Needs

Speeding up Growth of Global Business

AEON Financial



■ Catering to various customer segments by enhancing the range of products/ services lineup

To serve the higher income segment

[Thailand]


Issuance of AEON J-Premier Platinum JCB Card

⇒ Targets higher income earners who travel to Japan

[Hong Kong]


Issuance of AEON Card Premium planned in Dec 2018



To serve the middle/lower income segment

[Indonesia]

The third country in which auto loan business utilizing IoT is further expanded



■ Countries we currently serve

■ Countries where the above-mentioned auto loan business is introduced

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Next, I will explain catering to various customer segments in global business. In Thailand, from this month we started to issue J-Premier Platinum cards. Cardholders have advantages mainly in AEON stores. The target group consists of higher income earners who travel to Japan and young people. The card face design features luxury.

In Hong Kong, like Thailand, we plan to issue AEON Card Premium targeted at wealthy people.

The auto loan business, launched in July 2017 in the Philippines which I have been talking about, will be launched in Indonesia in the second half of the fiscal year. Through these initiatives, we will work to provide financial services that match a variety of customer groups and needs.

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(Reference) FY2018 Business Plan (Domestic)



	FY 2018 1H		FY 2018	
	Results	Change from start of FY	Plan	YoY
Number of cardholders	28.11mil	+0.36mil	28.80mil	+1.05mil

	Results	YoY	Plan	YoY
Card shopping transaction volume	¥2,582.4bn	+8.0%	¥5,500.0bn	+11.1%

	Results	Change from start of FY	Plan	YoY
Balance of cash advances	¥467.5bn	+¥11.7bn	¥480.0bn	+¥24.1bn
Balance of small consumer loans	¥75.2bn	-¥2.2bn	¥85.0bn	+¥7.6bn
Balance of unsecured loans	¥542.8bn	+¥9.5bn	¥565.0bn	+¥31.7bn

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With regard to the business plan of fiscal year 2018, we will steadily implement the plans for the second half and introduce new products and services into the market. By doing that, we will achieve the annual target.

Forecast of Results for FY2018



	FY2018	
	Forecast	YoY
Ordinary income	¥440.0bn	+7.9%
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%

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Finally, concerning forecast of consolidated results for fiscal year 2018 and dividend forecast, there is no change in the numbers announced at the beginning of the year.

In the second half, domestically, we will continue to strengthen the credit card business. And in the banking business, by promoting asset management services and instalment finance, we will achieve topline growth. Also, through promoting shift towards digitalization including introducing RPA, we will make the total permeation of operational efficiency and improve productivity.

In global business, we will continue to control personnel and credit costs, and by introducing new products, we will accelerate growth. Through steady progress of these efforts, we think we will be able to achieve our forecasts.

Regarding dividend forecast, because we will keep investing for growth, we forecast the amount of full-year dividend to be 68 yen. The payout ratio target is between 30% and 40% as we have been saying, so, our forecast is within the range. That's all, thank you for listening.

Questions and Answers

Daiwa Securities

Q1: Is your current merchant network management system technically capable of adjusting towards the 2% point rebate measure planned by the Government in view of promoting cashless payments along with the upcoming consumption tax hike?

A: There is no issue in terms of our system.

Q2: May I confirm that there will not be any impact on your business if this point rebate policy is applied to small and mid-sized merchants?

A: I would like you to understand that the impact to our business, if any, would be insignificant.

Q3: I understand that a cap might be set on merchant fees by the government, so in this regard, so could you tell me how much of the total share of your merchants are being charged a fee of 3.25% or more?

A: I understand your concern and yes, it cannot be said that there will be no impact if the government's upper limit is set for merchant fee. However, we have done some simulation and our findings showed that the impact will be very minor. Rather, if we are going to be cashless with the introduction of the consumption tax, we believe it will have a positive effect on us as more consumers will be encouraged to use their cards.

Q4: The capital adequacy ratio, which is 8.31% at the end of September, has declined from 8.55% at the end of May. I would like to know the reasons for the decreasing risk asset reduction effect and the outlook for the second half.

A: The main reason is the payment of dividends. At the time of resolution, this effect was about 6.2 billion yen. In addition, the gain on sale of securitization of finance receivables was deducted from the number after the tax effect conversion. The two above are major factors, and we expect that the capital adequacy ratio will not fall significantly in the third quarter. However, the fourth quarter will be affected because of the resolution of the year-end dividend. The ratio might decline in second half of the fiscal year but we are implementing various measures on a regular basis, and we believe that we should be able to maintain a ratio of about 8% for the long term.

Q5: Is it possible to expect that the reduction of risk assets will become more effective in the second half of the fiscal term through getting external rating on securitized finance receivables?

A: This is one method to reduce the level of risk assets and since the quality of our assets is good, we are planning to do so in the second half.

Mizuho Securities

Q1: The quality of the loans is improving, but can we expect to achieve the KPI of 11% with regards to personnel cost as a percentage ordinary income in the next phase through reduction of the number of staff collecting receivables? If you have an image of the pace of reduction in that case, please tell me.

A: Some effects have been seen through the investment in our debt collection systems. In addition, we recognize that the labor cost of the call center and the debt collection department is very large overseas, thus we are taking on investments on RPA to consolidate these functions and thus see effects in cost savings. We are now halfway between the mid-term and we have another year and a half to achieve the labor cost rate of 11%.

Q2: Is there a quantitative estimate of the impact on investment property loans? Is there any change in the future policy?

A: As a matter of fact, there is not much movement because the investment condominium loan done in AHLS is limited to the region and it is working. The market is slightly stagnant as for the apartment loan which is carried out by AEON Bank. Since the size of such apartment loans make up only a small part of AEON Bank's portfolio, the impact is minimal and can be absorbed by other revenues.

Macquarie Capital

Q1: The industry as a whole has seen a slowdown in sales of investment trusts, but has AEON Bank's strengthened sales force been able to overcome industry trends?

A: Last year, all of our bank agency branches were converted to be directly operated by AEON Bank, so we could start selling life insurance and investment trusts at all our stores. In the beginning, sales of investment trusts grew significantly while insurance faced weaker sales, but now we see the opposite situation where investment trusts are not selling as well as insurance products, which are currently significantly exceeding our target. At the same time, there was some hindrance in growth previously because the old

organizational structure did not allow for all branches to sell the same full range of products despite the introduction of a new foreign currency deposits service from this May. Moreover, the sales trend of investment trusts is determined by the trend of the stock price, and these mixes are the most affected. In addition, it takes time to train our sales staff, but when all staff are equipped with the sufficient skillsets, it is possible to reach out to more customers. We are currently in the stage of adjusting towards these new improvements, but we are sure to be able to achieve the desired results in the near term.

Q2: We see that property prices rising recently, so in an environment which makes it more challenging for new property buyers to buy, is there a slowdown in the uptake of housing loans?

A: Mortgages have been steadily gaining, and now the feeling of slowing down is not particularly felt.

Q3: How different are the levels of merchant fees within and outside the group?

A: There is no big difference. Because food products at AEON stores make up a bulk of the transactions we process, you can roughly guess the amount of rate we charge to these merchants. The weight of merchants which we charge a rate of higher than 3% is low.

Merrill Lynch Securities

Q1: (in response to the first question by Daiwa Securities) Are you saying that your system is complete because you use an authorization system that is not used by other companies?

A: I did not say that the system is complete, I only said that it is possible to respond. There are few places that deal directly with small and medium-sized merchants, and most of them are via brand.

Q2: For smartphone payment, what standards are you planning to use. Do you also think of dynamic marketing in conjunction with AEON's POS data?

A: We distribute some coupons through AEON wallet, but we will improve the targeted marketing every day. We believe that evidence of return in the future can only be estimated by whether we see effect right now.

Citigroup Securities

Q1: What kind of progress did you see for the first half of the credit card business cost compared to the full-year budget? I would like to know the efficiency of the point promotion.

A: Transactions in the AEON Group make up less than 30% of the total card shopping transactions, and this ratio is comparatively decreasing with the strong increase in the usage at external affiliated stores. We believe that it is possible to improve convenience for customers while maintaining a certain transaction volume by actively partnering with outside merchants to promote various promotions. As a result, I think that the usage rate of our points rewards system will gradually increase, but I think that it is possible to raise the efficiency by achieving an increase in profit with more sign ups and targeting segments that will help push up transactions to cover the point costs.

Q2: In response to the consumption tax hike, is there a high-accuracy menu list from the government at the moment, and a sense of schedule to be able to respond to that issue from October 2019?

A: The government does not specifically say what to do. We need to cooperate across the card industry and we need to say that we can't do it technically.

SMBC Nikko Securities

Q1: It is thought that there is a pressure on reducing interchange fee, but what kind of impact can you expect if it is really implemented?

A: It is true that there is a general downward pressure, but sales tax is not the only reason. We need to make efforts to increase our value by providing value-added information to merchants as we move towards a cashless society.

Q2: In order to maintain an equity ratio of 8%, will the securitization of loans decrease in the future? In that case, how do you imagine the future income statements?

A: Housing loans are growing steadily. The weight of refinancing contracts is high and there is a strong need. As this increases, the yield on loans will decrease, so we sell about half of it. It will change the portion we securitize depending on the situation in the future, but we would like you to understand that the collected mortgages are sold through a large investor. In our case, not only the mortgage but also the group companies sell various kinds of products, and the balance is steadily growing. There is no need to rely on equity finance unless there is a big investment to deal with the control.