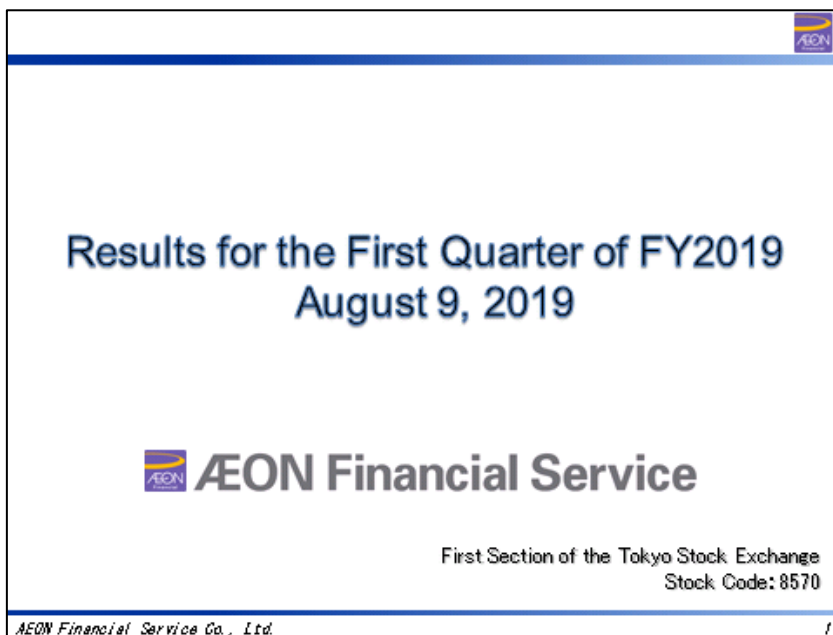


AEON Financial Service Co., Ltd Senior Director Kazuyoshi Suzuki

(Suzuki)

P.1



- Thank you so much for taking the time out of your busy schedule to participate in our results briefing conference call.

My name is Kazuyoshi Suzuki, and I am in charge of corporate planning.

I would appreciate your attention.

1. Consolidated business outline and results
2. Consolidated results by Segments
3. Policy of initiatives after the 2Q
4. FY2019 Consolidated forecasts

- Today, we will proceed along the presentation material.
- I will start off by discussing situations of business and results in the first quarter.
- Then I will discuss our key efforts to start the second quarter and earnings forecast for the current fiscal year. Later on, we will take questions from you.

Consolidated business outline and results								
(Unit: billions of yen)	Domestic				Global			
	Credit card		Installment sales	Housing loan	Credit card		Installment sales	Personal loans
	Shopping	Cash advance			Shopping	Cash advance		
Transaction volume	1,381.6	107.3	59.9	116.5	71.2	34.9	31.5	43.0
YOY	+9.0%	+5.4%	+2.1%	+6.8%	+13.2%	+3.6%	+29.6%	+27.3%
Finance receivables (¥bz)	1,071.8	483.1	625.9	2,092.8	99.9	101.7	177.5	232.8
Change from start of FY	+21.1	+8.9	▲10.8	+69.2	▲1.7	▲1.0	+3.1	+3.1

※ 1 Fig. of AEON Bank which includes amt for HAI35 and studio condominium loan. ※ 2 Fig. for domestic in rec refer to amt before securitization.

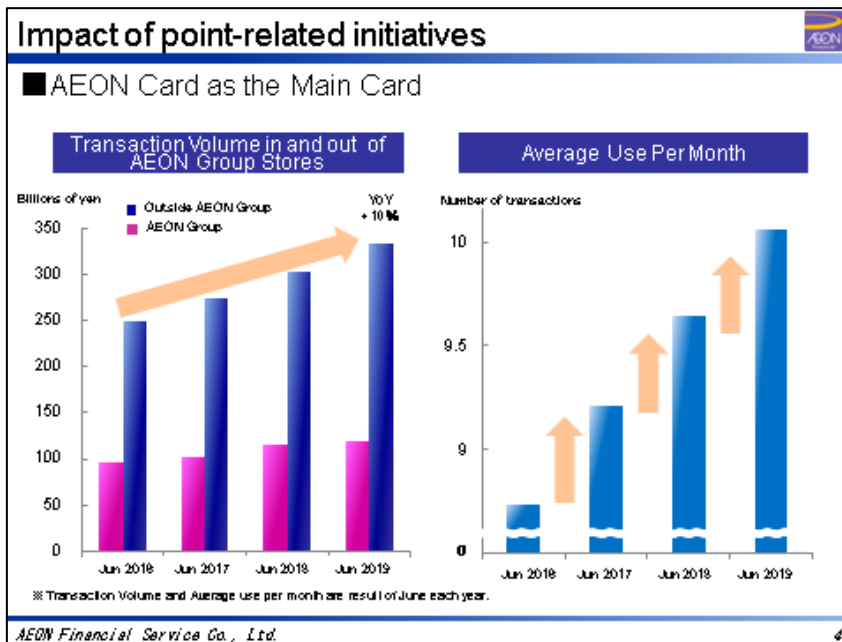
(Unit: no. of people)	No. of cardholders		
	Consolidated	Domestic	Global
Result	43.22mil	28.49mil	14.73mil
Change from start of FY	+0.53mil	+0.09mil	+0.44mil

(Unit: no. of accounts)	AEON Bank accounts		
	Total	Credit card linked with AEON Bank/credit card bank acc.	Debit card linked with AEON Bank/debit card bank acc.
Result	6.69mil	4.95mil	0.27mil
Change from start of FY	+0.13mil	+0.08mil	+0.03mil

(Unit: billions of yen)	Bank deposits balance			
	Total	Ordinary deposits	Time deposits	Foreign cur. deposits
Result	3,560.8	2,718.5	794.0	45.5
Change from start of FY	+77.4	+85.1	▲21.2	+13.8

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- Let me begin by explaining consolidated business results and business situations of each area.
- In domestic business, credit card shopping transaction volume increased 9% from a year ago, driven by an active promotional campaigns, including the double-point special offers within the AEON Group and a 10 times-point campaign during the Golden Week.
- In terms of cash advance, transaction volume grew 5% from a year ago thanks to an increase of the number of users during the Golden Week, while finance receivables increased 8.9 billion yen from the beginning of the quarter.
- In global business, transaction volume and balance of installment finance increased briskly thanks to an increase in automobile and motorcycle transaction volume in Malaysia and growth in installment finance business in other countries, including Thailand and the Philippines.
- Personal-loan transaction volume and balance increased thanks to the unifying of credit lines of lending-oriented products that had required a separate application for each purpose in Thailand, and the continued effect of the interest rate review of loan products for middle and high income earners in Malaysia.
- Consolidated active cardholder increased by 530,000 from the beginning of the fiscal year to 43.22 million. We focused on winning more new credit card holders and leading them to shift to online membership, while continuing efforts to eliminate dormant cardholders in the domestic business. Therefore, the number of domestic cardholder at the beginning of the fiscal year has increased by 90,000.
- In the global business, membership increased, led by members of premium cards targeting the medium- to high-income bracket, which led to expansion in the customer base and transaction volumes.



- Let me now discuss an increase in transaction volume thanks to increased use of the AEON Card as the main card.
- The chart on the left shows historic transaction volume in and outside the AEON Group in June of four years to 2019.
- As the blue bar indicates, transaction volume increased steadily outside the group. Transaction volume grew +10% from a year ago in this past June.
- The bar chart on the right shows the monthly average of number of uses, and, as you can see, the figure has grown steadily.
- We think customers who use the AEON Card as their main card have increased, boosting the number of its uses in and outside the group, since we introduced the double-point campaign at AEON Group outlets in June 2016.

Consolidated results by Segments

(Unit: Billions of yen)	Domestic total			Global total				Consol. Total ※2
	※1	Retail	Solutions	※1	China	Mekong Area	Malay Area	
Ordinary income	74.7	46.1	46.1	37.4	4.8	19.7	12.8	111.9
YoY	+8%	+7%	+7%	+13%	+2%	+15%	+16%	+10%
Change	+5.4	+2.9	+2.8	+4.4	+0.09	+2.5	+1.7	+9.7
Ordinary profit	5.6	0.8	4.8	8.4	1.7	3.5	3.1	13.5
YoY	+3%	+84%	Δ12%	Δ2%	Δ7%	+10%	Δ10%	Δ4%
Change	+0.1	+0.3	Δ0.6	Δ0.1	Δ0.1	+0.3	Δ0.3	Δ0.5
Ordinary profit ratio	7.5%	1.8%	10.4%	22.6%	35.9%	18.1%	24.5%	12.1%
YoY	Δ0.4pt	+0.7pt	Δ2.3pt	Δ3.4pt	Δ3.3pt	Δ0.8pt	Δ7.0pt	Δ1.7pt
※1 Domestic total and global total represent amounts after elimination of transactions between business segments							Profit attributable to owners of parent	7.2
※2 Include Holding company, shared functions and elimination of consolidated adjustments							YoY	Δ3%

Domestic main factors (Unit: YoY % or amount)

[Retail]

- Credit card shopping and cash adv. (+Δ1.4bn)
- Sale of securities (+Δ0.7bn)

[Solutions]

- Credit card shopping (+Δ1.4bn)
- Interest finance (+Δ0.2bn)
- Promotional expenses (+Δ0.7bn)
- Payment fee (+Δ0.5bn)
- Card issuance fee (+Δ0.2bn)

Impact on Consol. profit by securitization of finance receivables: Δ1.5bn (+33%, +Δ0.4bn)

Global main factors (Unit: YoY % or amount)

- Topline and profit growth in Mekong Area
- Increase in revenue, decrease in profit in China and Malay Area
- Malaysia: Total of interest finance and loans and finance receivables growth. On the other hand, bad debt expense increased due to changes in accounting standards in the same period last year.
- Hong Kong: In view of the economic environment, conservatively implemented allowance for doubtful accounts

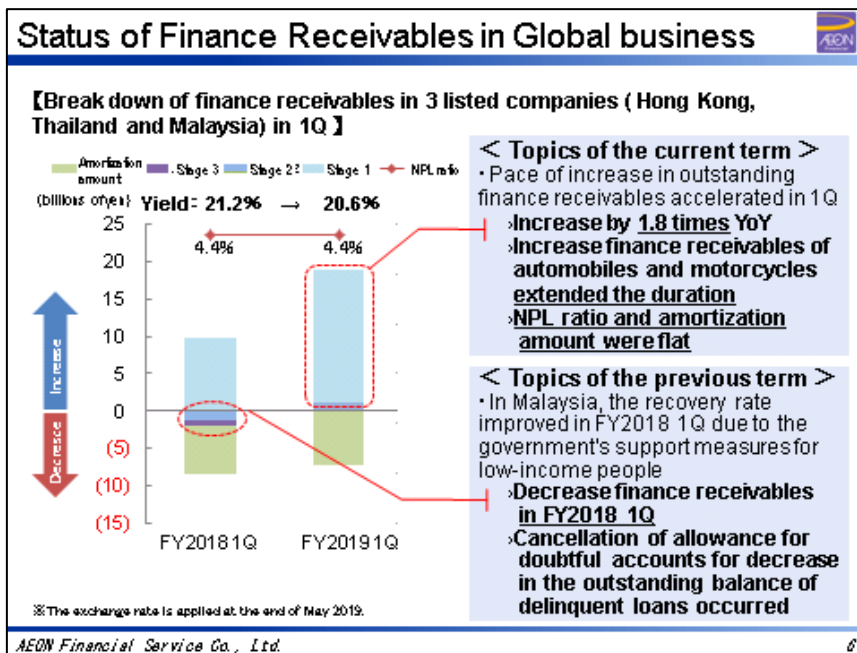
※ Foreign exchange impact: Operating income +10.1%, Operating profit +10.2%

	Domestic	China Area	Mekong Area	Malay Area
Personnel expense / Operating income	15.9% (Δ1.0pt)	13.1% (Δ0.7pt)	14.4% (Δ0.0pt)	14.1% (Δ0.4pt)
Bad debt expense / Operating income	8.3% (Δ0.5pt)	13.8% (+3.0pt)	29.7% (+3.7pt)	23.9% (+3.5pt)

※ Domestic bad debt exp. are figures excl. interest related exp., and adopting former standard for personnel exp.

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- Let's move on to the consolidated and segment results on page 5.
- Please take a look at the consolidated figures on the far-right column. We achieved eight straight quarters of increase in ordinary income, while ordinary profit and profit attributable to owners of parent decreased, but we remain on track to achieve targets for both the second quarter and the full year.
- In domestic business, ordinary income and ordinary profit respectively increased 8% and 3% from a year ago, driven by a solid increase in credit card shopping and cash-advance transaction volume.
- Thanks to efforts to improve productivity and progress in the control of bad debt expenses, ratios of personnel expenses and bad debt expenses against operating income improved from a year ago, which is shown on the bottom right of the page.
- In the global business, incomes increased due to business expansion but profits decreased in China, Mekong, and Malay areas. One of the main factors for this was a significant increase in bad debt expenses after IFRS 9 was applied in the same period year earlier and an increase in the balance of finance receivables.



- Next, let me explain the factors that helped increase bad debt expenses in the global business.

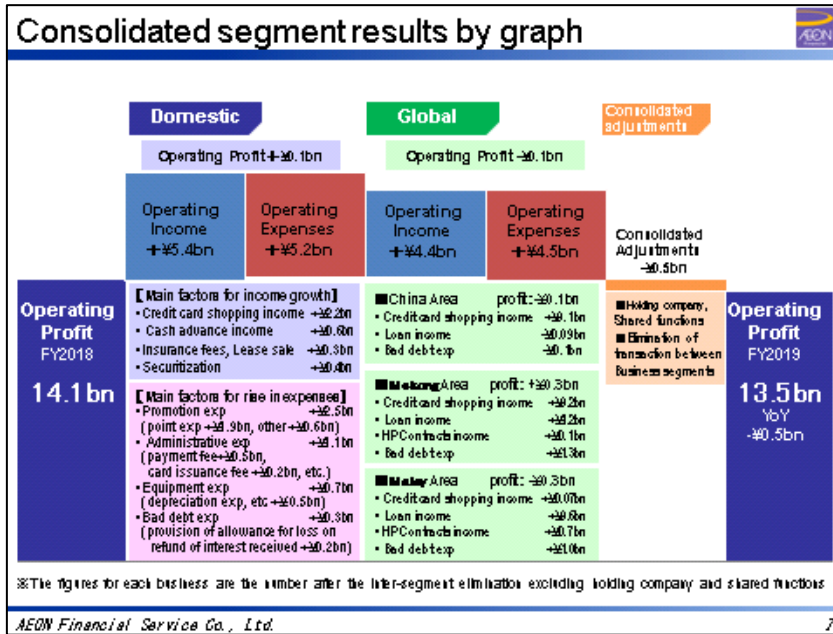
- This chart compares changes in finance receivable balance for the three listed overseas subsidiaries from a year ago in the first quarter of this year.

- In the year-earlier first quarter, in Malaysia, there was some improvement in the collection rate of delinquent finance receivables supported by the government measures to support the low-income bracket.

In relation to this, increase in bad debt expenses was limited thanks in part to the impact of writing off allowance for doubtful accounts related to the delinquent loans.

- On the other hand, the outstanding balance of normal loans increased significantly from a year ago in the first quarter, which resulted in an increase in bad debt expenses.

Due to an increase in low-risk loans with relatively long lending periods, including auto and motorcycle loans, yield dropped somewhat, but NPL ratio and amortization amounts remained flat.



- Let me move on to page 7. We have a diagram showing the performance of individual areas of both domestic and global businesses.
- It shows key factors driving increases and decreases in operating profit.
- As I already discussed the details, I am going to skip the explanation of figures on this page.

Consolidated balance sheet			AEON
Consolidated results (Unit: Billions of yen)	Results	Change from start of FY	Topics ※○:Change from start of FY
Cash and deposits	756.9	+112.4	- Domestic balance : 367.18.3bn (+3611.1bn) ※ Including holding company
Operating Loans	874.2	+23.7	[Operating Loans and Loan and bills discounted for banking business]
Loan and bills discounted for banking business	1,678.7	+93.7	- Balance Incl. securitization : 363,853.6bn (+360.2bn) In which, Domestic balance : 363,624.0bn (+363.1bn) In which, Global balance : 3634.6bn (+362.0bn) - Securitized amount (Domestic only) : 361,300.7bn (+362.1bn)
Accounts receivable - installment	1,492.4	+39.2	- Balance Incl. securitization : 361,581.2bn (+361.2bn) In which, Domestic balance : 361,697.7bn (+360.3bn) In which, Global balance : 36277.4bn (+361.3bn) - Securitized amount (Domestic only) : 36089.4bn (+362.0bn)
Allowance for doubtful accounts	△105.4	△2.6	Securities for banking business : 3638.2bn (+365.1bn)
Other Assets	807.7	△15.9	[Deposit on AEO M Bank] - Ordinary deposits : 362,718.5bn (+365.1bn) - Time deposits : 3694.0bn (+361.2bn) - Foreign currency deposits : 3665.5bn (+363.8bn)
Total assets	5,504.6	+250.5	- Domestic balance : 3694.4bn (+3618+5bn) - Short-term borrowings : 3651.3bn (+3614+2bn) - Global balance : 3660.5bn (+3613.5bn) ※ Domestic and global amounts include figures for holding company and shared function companies
Deposits	3,557.2	+88.0	※ In accordance with the transition to the business company, customer's liabilities for acceptance and guarantees (accepts) and acceptance and guarantees (liabilities) are deleted.
Interest-bearing debt (excl. deposits)	1,054.9	+198.1	
Other liabilities	447.7	△31.6	
Total liabilities	5,059.9	+254.5	
Total equity	444.6	△4.0	
Total liabilities and equity	5,504.6	+250.5	

AEON Financial Service Co., Ltd.

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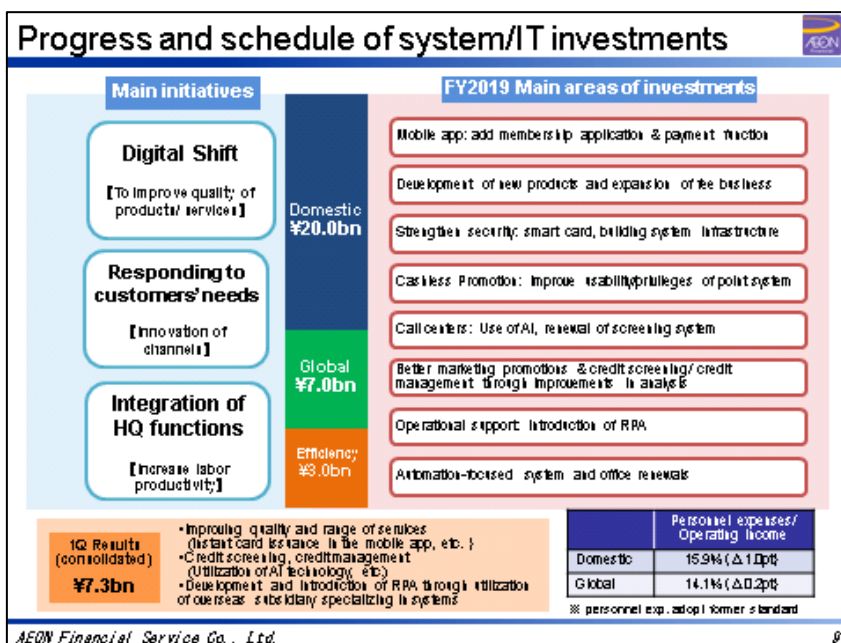
- Let's move on to the consolidated balance sheet.

- Cash and deposits increased 112.4 billion yen from the beginning of the quarter due to borrowing related to consolidation of funding functions into the headquarters(AEON FS) and sale of securities, among other factors.

Operating loans increased 23.7 billion yen, and loan and bills discounted for banking business grew 93.7 billion yen. The total assets came 5,504.6 billion yen, increasing 250.5 billion yen from the beginning of the quarter.

- Total liabilities increased 254.5 billion yen from the beginning of the quarter to 5,059.9 billion yen as deposits increased 88.0 billion yen, led by ordinary deposits, as their use as transaction accounts grew due to an increase in domestic loans and an increase in cash cards combining credit-card or debit-card functions.

- Total Net assets decreased by 4.0 billion yen at the beginning of the fiscal year to 444.6 billion yen , reflecting trends in foreign currency translation adjustment accounts.



- Let me move on to the progress of systems and IT investments, plans for such investments in the current fiscal year, and details of investment in the first quarter.
- In the current fiscal year, we are planning to spend a total of 30.0 billion yen for further digitalizing products and services, enhancing credit screening and management, and consolidating and automating back office functions.
- In the first quarter, we carried out investments for enhancing services in the domestic business. This included adding a card membership application function to the AEON Wallet smartphone app, starting an immediate card issuance service, and enhancing merchant management systems and databases.
- In the global business, we implemented infrastructure related investments, including enhancement to functionality of mobile apps and introduction of credit screening and management systems using artificial intelligence. Consolidated investment totaled 7.3 billion yen in the first quarter..

Policy of initiatives after 2Q

■ Promotion of further cashless through campaigns

- Tokimeki Point 10x Campaign in the group



8/9(日)・16(日) 8日間
 イオンマークのついたカードのクレジット払いご利用で
 ときめきポイントが **10倍**
 200円(税込)ごとに10ポイント
(イオンカード・イオンカードセレクト)

Scheduled to be held multiple times from July to September

- Up to 20% cashback on card usage



新規ご入会者限定
 最大 **20%** キャッシュバック
 入会期間 2018年7月1日(A) - 9月30日(A)
 利用期間
 7/25-31(水) 8/25-31(水) 9/24-30(水)

- About twice as many new cardholders registered in July as the same month last year
- Acquired mainly credit card linked with AEON Bank account which has higher rate of cashback


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- Next, we will take a look at major undertakings planned in the second quarter.
- In the domestic business, we are currently promoting a shift to cashless transactions within and outside the AEON Group by implementing sales promotion campaigns aimed at expanding the customer base and promoting use of the card as the main card.
- Key efforts include a 10 times-point campaign at AEON Group outlets and an up to 20% cash-back campaign targeting new cardholders, both of which were started in July.
- Thanks to these efforts, the number of new cardholders registered in July almost doubled from the year-earlier level. In addition, after we raised the cash-back percentage for members who have set direct debiting on their AEON Bank account, there has been an improvement in the ratio of applicants to AEON Card Select, which doubles as a cash card and thus can lead to cross-use, including products and services other than credit card functions.

Policy of initiatives after 2Q

■ Expand ID acquisition and digital membership customer base by issuing credit cards immediately and issuing new cards in smartphone apps


AEON Card (Toy-Story Design)



【Target customer】
Mass layer of consumption, such as younger generations and family, etc.
※ Benefits: Double the points at aeon group target stores at any time, etc.


© Disney/Pixar

AEON WALLET



• Card acquisition and immediate issuance is possible
• Deliver coupons and campaign information directly

Maruetsu Card



【Target customer】
Customers residing in the Tokyo metropolitan area
※ Benefits: AEON Card Benefits +5% discount on every Sunday credit payment

AEON Financial Service Co., Ltd. !!

- Next, let me talk about newly issued cards.
- In addition to campaigns to promote card membership registration and use, we are expanding digitalization of the process for card membership registration and membership management, including new-card issuance and addition of the application function for the AEON Wallet smartphone app.
- We aim to win a wide range of customer segments, from young people to family users, for AEON Card (Toy Story Design) launched in July. This is the first card to feature Disney characters after the Mickey Mouse design card, which debuted in 2014 and has remained popular.
- In addition, starting in September, we will launch a tie-up card with Maruetsu, which operates about 300 supermarkets mainly in the Tokyo metropolitan area. This card is eligible for AEON Card special offers, including customer-appreciation-day discounts and double points offer available at AEON Group outlets, as well as original special offers on Maruetsu Card. With it, we aim to expand membership in the metropolitan area, where there is room for growth for us.
- Also, we plan to carry out sales promotion measures that are tailored to individual needs and expand cross use by expanding members connected online by running various campaigns, delivering coupons, and encouraging obtaining card membership through AEON Wallet.

FY2019 Consolidated forecasts									
FY2019 Consolidated Forecasts ※1	FY2019 (from Apr 1, 2019 to Feb 29, 2020)								
	Interim (Cumulative)		Full term (11 months)		(Reference ※2) 12 Months Conversion value				
Operating income	¥225.0bn		¥430.0bn		¥470.0bn				
Ordinary profit	¥25.0bn		¥70.0bn		¥73.0bn				
Net income attributable to owners of parent (Net income per share)	¥13.1bn		¥38.0bn (¥176.11)		¥40.0bn (¥185.38)				
Dividend forecast	Interim		Year End		Full Year		Payout Ratio ※1		
	Plan	YoY	Forecast	YoY	Forecast	YoY	Forecast	YoY	
	¥29	± ¥0	¥39	± ¥0	¥68	± ¥0	38.6%	+3.8%	

※1 Forecast and Payout ratio : figures of for the fiscal year ending February 29, 2020 (11 months) after the change in the fiscal year
 ※2 Figures that adjusted the full-year earnings forecast to 12 months (from April 2019 to March 2020)

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- Lastly, our consolidated earnings and dividend forecasts for the year ending February 2020.
- We don't have any change in what was announced at the results announcement for the previous fiscal year.
- As we have already explained, the AEON Group plans to focus on running campaigns to expand card membership and promote cashless payment in the first half. Impact from these efforts is reflected in the first half earnings forecast.
- We aim to not only achieve these targets but also lay the foundation for sustainable income growth by steadily carrying out these efforts.

Thank you very much for your attention.

Questions and answers

■ Mr. Sato, analyst at Mizuho Securities

Q: I would like to ask about campaigns to start in the second quarter. I understand the costs of the Tokimeki Point 10x Campaign of the AEON Group will be booked in the second quarter and costs for the 20% cash-back campaign will be booked in the third quarter. Discuss the budget size for these in rough figures. Also, as these campaigns have been in place for a month now, explain their impact on card-shopping transaction volumes in specific figures.

A: Costs of both campaigns will be accounted for in the second quarter. In July, sales levels did not reach expected levels due partly to the bad weather in July, so costs are at muted levels. Our plan, from the beginning, was to focus efforts in August and September, so we

plan to catch up from here on.

Q: Let me ask about the 20% cash-back campaign. The actual cash-back will take place in October or later. Will the costs of this be booked in the second quarter?

A: As we will be able to have the grasp of sales in the second quarter, we will budget ballpark costs in the second quarter. This is the background to the low disclosed figures in the first half.

Q: Update us on the situation of the penalty levy in Malaysia and discuss outlook, if you have any. I understand if your arguments are dismissed, you will no longer have the chance to appeal the case. Is that correct?

A: We have communicated with local authorities but there has been no notable progress. No risk has grown larger, either.

■ Mr. Watanabe, analyst at Daiwa Securities

Q: You have disclosed the ratio of bad debt expenses overseas for individual regions, but what is the total percentage figure for the entire global business? Also, I understand credit costs have increased in the Mekong area, and I would like to know what the factors are.

A: Ratio of bad debt expenses to income is 25.9% for the entire global business, and the figure is about 4.3 percentage point above the year-earlier level. There has been a change in the way bad debt expenses are presented due to our shift to an operating company from a holding company. In the past, refund of interest is not included in bad debt expenses and instead included in administrative expenses, but this time, it is included in bad debt expenses. Ratios of bad debt expenses that are part of KPIs are disclosed under the previous standards. Bad debt expenses decreased in the previous year in the Malay Area, but there has been no decreasing factor this year. In the Mekong Area, there has been no such decreasing factor, and this year, bad debt expenses have increased as loans built up.

Q: Explain details of profit by securitization totaling 1.9 billion yen? Explain on what products you earn profits? Also, amid interest rate decline, has there been any change in the full-year profit by securitization target of 15.0 billion yen?

A: There was a 1.9 billion yen, up 0.4 billion yen from a year ago, of auto loan securitization. As installment credit has low sensitivity to interest rates, there has been no change in products or yields due to securitization. We are currently running a low-interest rate campaign for housing loans, and interest rates for the product have remained low. Transaction volumes have continued to increase.

■ Mr. Niwa, analyst at Citigroup Global Markets Japan

Q: I would like to ask you about the Hong Kong operation. You explained the company has increased credit costs in the first quarter given the economic situation. What are the grounds for it? Hong Kong's situation remains fragile. Explain the risk factors and opportunities you anticipate going forward.

A: In Hong Kong, we took measures such as letting employees leave office early due to demonstrations. Under the circumstances, we have proceeded slowly in offering and collecting credit in the second quarter, although this has not significantly affected sales.

Q: Let me ask about the pipeline of your new products, especially mobile apps. There have been recent cases of other companies facing challenges in introducing mobile apps, and I am wondering if this may have affected your development or service-launch schedules. Please comment.

A: We plan to take necessary measures and announce mobile apps at the optimum timing. Right now, we have no plans that we can talk about.

■ Mr. Otsuka, analyst at JPMorgan Securities Japan

Q: You have shifted to an operating company in the first quarter. How do you plan to change your capital ratio going forward? As your company was a bank holding company, you were subject to strict capital ratio regulations. Now that the company has turned into an operating company, I wonder if the burden of regulations has become lighter and you may be able to increase leverage.

A: As we are no longer a bank holding company, we are not subject to capital ratio regulations that may slap us with administrative actions, such as "prompt corrective actions." The ratio is recently around 7%, and we think this will be our benchmark. But we aim to steer the company with a closer focus on ROE, rather than capital adequacy ratios. We plan to actively carry out initiatives aimed at earning profits through increased leverage.

Q: You have disclosed a target of raising ROE to 15% or higher by the end of fiscal 2022. Am I correct to understand that you aim to both increase leverage and boost ROE to achieve this target?

A: We are firmly focused on improving ROA. In particular, we aim to increase profit and ROE by increasing highly profitable cash advance uses, boosting overseas loans, and controlling bad debt expenses.

End