
©J.LEAGUE PHOTOS/Starting players in the women's representative team playing Australia in the Kirin Challenge Cup (July 11, 2012)

# ANNUAL REPORT 2012

CREDIT SAISON CO., LTD.

Credit Saison is a supporting company of National Teams.


©J.LEAGUE PHOTOS/Starting players in the men's representative team playing Azerbaijan in the Kirin Challenge Cup (May 23, 2012)

**We will fulfill our corporate social responsibility by striving to meet the expectations of all of our customers, shareholders, and business partners. We will compete successfully in the market by promoting our three shared values: practical implementation of the principles of customer satisfaction as a leading-edge service company; mutual respect for our interests and those of our business partners; and developing a corporate culture of creative innovation.**

## CONTENTS



**Forward-looking Statements**
This annual report contains discussions including management plans, projections, strategies and estimates that are not historical facts. Projections of future performance are based on management extrapolations from current data, but actual future performance may differ materially from projections.

# TO OUR STAKEHOLDERS

The credit card market in Japan today requires companies to transform their conventional business models. Changes in the market such as regulatory tightening under the Money-Lending Business Control and Regulation Law and the Installment Sales Law have changed the earnings structure of businesses, while the sector as a whole has seen intensified competition due to the entry of players from other sectors and large-scale reorganization. Meanwhile, the global settlement market has seen continued growth in Asia, which is achieving rapid economic development. Moreover, in the U.S., the predominance of areas and brands has become clear, with American Express now leading MasterCard in credit card settlements. In this environment, Credit Saison will utilize the strategic advantages it has cultivated over many years in a collaborative way. Our goal is to use our advantage of neutrality and independence with respect to particular finance groups or capital sources in an approach we call “Collaborative Management.” In doing so, we will promote the following medium to long-term growth strategies: build the No. 1 system for each credit card function on a consolidated basis; continue our attempt to develop the Internet business into a core operation; continue to develop as a non-bank finance company by strengthening the finance business; and realize business expansion into Asia.

Fiscal 2011 was the 30th anniversary of the launch of Saison Card. Looking ahead at the next 30 years, all employees of the Credit Saison Group will return to the original concept of Credit Saison, “to create customer satisfaction as a leading-edge service company,” and work through innovation to break the dominance of the cash market, which currently represents around 60% of consumer settlements. In this way, we will advance our position to become the leading company in the cashless settlement market.

I hope you will continue and increase your support for our efforts.

September 2012

Hiroshi Rinno, President and CEO

## INNOVATIVE SERVICES PIONEERED BY CREDIT SAISON

**Credit Saison issued its first credit card in 1982. In the 30 years since then, the market environment has seen significant changes in economic conditions, consumption trends, regulations, and other factors. Amid these changes, we have established a unique position in the industry as a leading-edge service company by maintaining a thorough dedication to customers at all times, while producing new and innovative products and services.**

永久不滅.com

SAISON CARD INTERNATIONAL

永久不滅ポイント

2007

2007

2006 Launched

2006 Launched

2004 Concluded a comprehensive

2002 Launched a new points program called

2002 Established a business model providing

1999 Under joint management with SONY established Entertain

1997 Entered into an alliance with American Express

1992 Started issuing Saison Postal Savings Cards

1990 Started first transactions in Japan not requiring signatures on the Seiyu food floors

1988 Entered into an alliance with VISA/MasterCard

1985 Started credit guarantee business

**1982**

1982 Started lease business

1982 Launched establishment of ATMs for cash advances

1982 Issued of "Seibu Card", launch of national development of business bases for issuing cards (Saison counters)

# Aiming to be the No. 1 company in the cashless

1990 Total transaction volume surpasses **¥1 trillion**

1992 Total number of cardmembers surpasses **10 million**

1998 Total transaction volume surpasses **¥2 trillion**

2001 Became the top credit card issuer in Japan

2004 Total transaction volume surpasses

2005 Total transaction volume

2005 Total number of cardme

2006 Total trans

2007

# 2012

2012 Established a representative office in Hanoi, Vietnam

2011 Made possible the use of Eikyufumetsu Points for net shopping

2011 Entered into an alliance with China UnionPay for affiliated store operations in Japan

2011 Established "Judge Committee"

2010 Concluded a comprehensive business partnership agreement with Seven & i financial group

2010 Issued Walmart Card SAISON (American Express brand)

2010 Concluded an agreement with American Express on issue of cards with a new design featuring a drawing of centurion

2010 Undertook management of Akagi Nature Park (Gumma Prefecture) as one of our CSR activities

2009 Launched Credit Saison Flat 35 service (long-term fixed rate housing loans)

2008 Launched rental business in alliance with Yamada Denki

Established Qubitous, the first all-round processing service company in the industry

Established SAISON ASSET MANAGEMENT Co., Ltd. and launched wealth accumulation services

operations of Eikyufumetsu.com, an on-line shopping mall

services of the Thoroughbred Club Saison

alliance with Mizuho Financial Group

Saison Eikyufumetsu Points

capital, personnel, and know-how under a joint venture system (ex. Idemitsu Kosan, Resona Holdings, Takashimaya, Yamada Denki, Shizuoka Bank, Daiwa House Industry, Yamaguchi Financial Group)

ment Plus Co., Ltd., a company developing "e+"

30th

settlement market

¥3 trillion

surpasses ¥4 trillion

mbers surpasses 20 million

action volume surpasses ¥5 trillion

Total transaction volume surpasses ¥6 trillion

# Becoming a non-bank finance company with

**Credit Saison is determined to become No. 1 in the cashless settlement market by persistently promoting "Collaborative Management." This strategy combines, in a collaborative way, our customer base of 35.2 million people built up over these past 30 years, our network of alliances spanning a wealth of industries, and our unique strategic advantages including innovative products and services.**

# multiple income sources

# SIX-YEAR SUMMARY OF SELECT FINANCIAL DATA

As of and for the years ended March 31

| | | | | | | Millions of yen | Thousands of U.S. dollars (Note 5) |
|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2012 |
| CONSOLIDATED | | | | | | | |
| For the year: | | | | | | | |
| Operating revenues (Note 1) | ¥ 244,009 | ¥ 285,713 | ¥ 306,855 | ¥ 327,089 | ¥ 345,586 | ¥ 333,683 | $ 2,968,842 |
| Selling, general and administrative expenses | 192,185 | 235,759 | 246,305 | 268,658 | 265,493 | 242,149 | 2,338,300 |
| Financial costs | 19,958 | 22,577 | 24,377 | 23,882 | 22,901 | 16,332 | 242,834 |
| Operating income | 31,866 | 27,377 | 36,173 | 34,548 | 57,191 | 75,201 | 387,707 |
| Net income (loss) | 9,454 | 12,830 | 18,680 | (55,513) | 26,755 | 14,821 | 115,022 |
| At year-end: | | | | | | | |
| Total equity | ¥ 355,727 | ¥ 347,916 | ¥ 341,405 | ¥ 320,595 | ¥ 418,661 | ¥ 399,828 | $ 4,382,122 |
| Total assets | 2,155,906 | 2,231,247 | 2,374,129 | 2,407,064 | 2,450,637 | 2,299,607 | 26,230,759 |
| Interest-bearing debt (Note 2) | 1,409,802 | 1,657,832 | 1,776,827 | 1,893,017 | 1,854,056 | 1,608,307 | 17,092,103 |
| Per share data (in yen and U.S. dollars): | | | | | | | |
| Net income (loss) per share | ¥ 51.48 | ¥ 69.86 | ¥ 102.48 | ¥ (308.25) | ¥ 148.78 | ¥ 82.79 | $ 0.63 |
| Equity per share | 1,920.65 | 1,879.98 | 1,845.82 | 1,766.95 | 2,147.04 | 2,077.69 | 23.37 |
| Key financial ratios (%): | | | | | | | |
| Return on equity (ROE) | 2.7 | 3.8 | 5.7 | — | 7.1 | 4.0 | |
| Return on assets (ROA) | 0.4 | 0.6 | 0.8 | — | 1.1 | 0.7 | |
| Equity ratio | 16.4 | 15.5 | 14.3 | 13.2 | 15.8 | 16.2 | |
| NON-CONSOLIDATED | | | | | | | |
| For the year: | | | | | | | |
| Operating revenues (Note 1) | ¥ 210,207 | ¥ 239,657 | ¥ 257,924 | ¥ 270,900 | ¥ 277,741 | ¥ 270,275 | $ 2,557,584 |
| Selling, general and administrative expenses | 153,505 | 194,194 | 205,042 | 220,708 | 223,815 | 204,765 | 1,867,691 |
| Financial costs | 18,809 | 19,977 | 22,221 | 21,530 | 20,322 | 14,067 | 228,845 |
| Operating income | 37,893 | 25,484 | 30,661 | 28,661 | 33,603 | 51,442 | 461,044 |
| Net income (loss) | 5,613 | 7,596 | 16,137 | (44,972) | 24,578 | 10,221 | 68,302 |
| At year-end: | | | | | | | |
| Total equity | ¥ 322,502 | ¥ 320,303 | ¥ 319,712 | ¥ 304,230 | ¥ 361,519 | ¥ 349,754 | $ 3,923,865 |
| Total assets | 2,059,435 | 2,097,773 | 2,200,459 | 2,220,791 | 2,066,513 | 1,962,996 | 25,057,008 |
| Interest-bearing debt (Note 2) | 1,364,960 | 1,571,610 | 1,645,206 | 1,748,245 | 1,554,629 | 1,350,134 | 16,607,380 |
| Key financial ratios (%): | | | | | | | |
| Return on equity (ROE) | 1.8 | 2.4 | 5.2 | — | 6.9 | 3.0 | |
| Return on assets (ROA) | 0.3 | 0.4 | 0.7 | — | 1.2 | 0.5 | |
| Equity ratio | 15.7 | 15.3 | 14.5 | 13.7 | 17.5 | 17.8 | |
| NON-CONSOLIDATED | | | | | | | |
| Transaction Volume: | | | | | | | |
| Card shopping | ¥3,402,494 | ¥3,953,411 | ¥3,844,670 | ¥3,891,076 | ¥3,758,545 | ¥3,433,872 | $41,397,911 |
| Cash advances (Note 3) | 266,904 | 371,403 | 604,347 | 765,385 | 836,623 | — | 3,247,407 |
| Specialty loans | 34,597 | 36,514 | 43,768 | 326,170 | 279,970 | 1,058,335 | 420,946 |
| Agency services (Note 4) | 2,112,431 | 1,362,275 | 1,310,419 | 1,347,260 | 1,269,578 | 809,992 | 25,701,802 |
| Leases | 96,852 | 92,709 | 100,893 | 100,272 | 88,273 | 87,488 | 1,178,393 |
| Guarantees | 92,837 | 73,375 | 85,637 | 107,532 | 103,302 | 85,431 | 1,129,544 |
| Others | 20,482 | 22,894 | 23,380 | 22,475 | 22,278 | 16,393 | 249,207 |
| Total transaction volume | ¥6,026,599 | ¥5,912,587 | ¥6,013,118 | ¥6,560,174 | ¥6,358,572 | ¥5,491,515 | $73,325,212 |

Notes: 1. Operating revenues do not include consumption taxes.
2. Interest-bearing debt includes asset-backed securities.
3. Transaction volumes for cash advances for 2007 are included under specialty loans.
4. Agency services show transactions handled on behalf of other companies' cards.
5. Japanese yen amounts have been translated into U.S. dollars at the rate of ¥82.19 = U.S.$1, the approximate exchange rate on March 31, 2012, for the convenience of the reader.

## Results for Fiscal 2011

The credit industry in Japan continued to experience a severe business environment due to the effects of revisions to the Money-Lending Business Control and Regulation Law and other laws and regulations. Amid this environment, Credit Saison aspires to be a non-bank finance company with multiple revenue sources. During fiscal 2011, therefore, we built a settlement platform around our credit card business and strengthened our finance business, including the lease business, credit guarantee business, and Flat 35 long-term, fixed-rate mortgage loan business. In this way, we developed multiple core revenue sources. At the same time, we focused on expanding our fee revenues by utilizing our cardmember base, mainly our Internet members, while improving the quality of receivables and restructuring costs for greater operational efficiency. In this way, we worked to create a foundation in preparation for new growth.

In the Credit Service Segment, the customer base expanded steadily. The Group acquired 2.6 million new credit card applications, bringing the total number of cardmembers to 24.75 million. Moreover, most of the new cardmembers applied for the Saison American Express Card, which has a high usage rate, increasing the number of active cardmembers by 130,000* year on year to 12.99 million.

In the credit card shopping business, transaction volume grew 3.3%* year on year. The spread of smartphones has seen the use of credit cards to pay communications service fees increase. There was also an increase in use at supermarkets, where sales of daily necessities such as food products and power-saving products have expanded, and at shopping centers catering to family needs. The spread of Internet shopping also contributed to the overall transaction volume.

In cash advances, the balance of cash advances declined with the full enactment of the Money-Lending Business Control and Regulation Law, which restricts the total amount of loans per individual.

In the Lease Segment, we strengthened ties with existing customers and stepped up sales efforts to acquire new partner merchants. In the rental business, we worked to expand LED lighting sales channels in response to customers' needs.

In the Finance Segment, we expanded profits from our credit guarantee business, where we team up with financial institutions to guarantee free-loans for customers, and also from Flat 35 long-term, fixed-rate mortgage loans.

As a result, operating revenues declined by 14.6% year on year to ¥244.0 billion.

In terms of costs, the cost of uncollectable receivables decreased 53.7% from the previous fiscal year due to improved risk management. Improvements included rigorous credit risk management, such as strengthening the collection system, and a decrease in the number of new claims handled by lawyers and other proxies. Along with further progress in streamlining operations, ordinary income increased 14.3% year on year to ¥38.5 billion.

Net income declined 26.3% to ¥9.4 billion. The main factor in the decline was an extraordinary loss of ¥59.7 billion recorded for the business reorganization of Atrium Co., Ltd. On the positive side, we booked extraordinary income of ¥13.2 billion mainly for a partial reversal of the allowance for losses from a natural disaster.

* Excluding the impact of the transfer of the affinity card business with Sogo & Seibu Co., Ltd. to Seven CS Card Service Co., Ltd.

### RESULTS BY BUSINESS SEGMENT

(Billions of yen)

| | Operating revenues | | Operating income (loss) | |
|---|---|---|---|---|
| | 2012 | % change | 2012 | % change |
| Credit service | 198.8 | 86.1 | 27.1 | 170.0 |
| Lease | 14.6 | 101.5 | 5.0 | 101.2 |
| Finance | 15.7 | 100.9 | 7.7 | 114.5 |
| Real estate-related | 3.0 | 24.8 | (10.1) | – |
| Entertainment | 12.9 | 93.3 | 2.0 | 118.9 |
| Total | 245.3 | 85.4 | 31.9 | 116.7 |
| Intersegment transactions | (1.3) | – | (0.0) | – |
| Consolidated | 244.0 | 85.4 | 31.8 | 116.4 |

(Year ended March 31)

### KEY INDICATORS (NON-CONSOLIDATED)

Figures in parentheses are year-on-year comparisons.

| | 2012 | % change |
|---|---|---|
| New applications (millions) | 2.60 | 101.2 |
| New cards issued (millions) | 1.96 | 92.5 |
| Total cardmembers (millions) | 24.75<br>(3.59) | 87.3 |
| Active cardmembers (millions) | 12.99<br>(1.71) | 88.4 |
| Transaction volume (¥ billion) | 3,669.3 | 84.8 |
| Card shopping (¥ billion) | 3,402.4 | 86.1 |
| Cash advances (¥ billion) | 266.9 | 71.9 |

(Year ended March 31)

**CREDIT SERVICE SEGMENT**
- Credit Card Shopping Business
- Cash Advance Business
- Processing Agency Business
- Servicing Business

**LEASE SEGMENT**
- Lease Business
- Rental Business

**FINANCE SEGMENT**
- Credit Guarantee Business
- Loans collateralized by real estate properties
- Flat 35 (long-term, fixed-rate mortgage loans)

**REAL ESTATE-RELATED SEGMENT**
- Real Estate Liquidation Business
- Special Servicing Business
- Real Estate Leasing Business

**ENTERTAINMENT SEGMENT**
- Amusement Business

## Building the No. 1 System for Each Credit Card Function on a Consolidated Basis

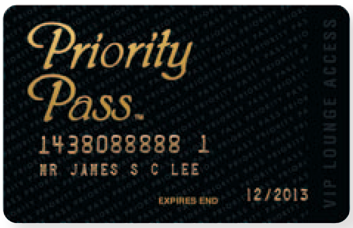
In the credit card business, Credit Saison and its group companies each make full use of their strategic advantages, aiming to lead the industry in terms of ability to acquire cardmembers, increase transaction volume, and grow their market shares.

In acquiring new cardmembers, we are strengthening our capabilities in growth areas such as shopping center affiliations and communications fee settlements. In tandem, we have established a new Internet Branch as part of a full-scale effort to attract new cardmembers in the Internet market, with the objective of acquiring 3 million new cardmembers per year. Among these, we will encourage acquisition of premium cardmembers by expanding service affiliations and cardmember acquisition channels supported by customers of our high-status Saison American Express Card. This will lead in turn to higher profitability in the credit card business.

By fully commercializing our cards as products and enhancing their associated services, we will create a premium for them that will differentiate us from our competition. For instance, the PARCO and Walmart cards will offer 5% discount services at affiliated stores and eligibility for discount sales held by affiliates and alliance partners. Meanwhile, we will also introduce the Eikyufumetsu ("Never Expires") Wallet service, which allows users to pay for Internet shopping using Eikyufumetsu Points that never expire, along with other initiatives to increase the benefits and convenience of credit cards and promote greater use by cardmembers.

We have also been working to break the dominance of the cash market by building a credit card-based platform. In fiscal 2011, we launched NEO Money, a prepaid card for overseas travelers. Looking ahead, we will continue to develop a cashless settlement market by developing more new innovative products, such as a virtual prepaid card for use on the Internet and expanded service for settlements using mobile phones and smartphones.


SAISON PLATINUM AMERICAN EXPRESS CARD | Annual fees 21,000 yen (incl. tax)




Provides entry to over 600 airport lounges in over 300 cities in over 100 countries and regions worldwide

Priority Pass

*No annual fees for SAISON PLATINUM AMERICAN EXPRESS CARD holders; annual fee of 10,500 yen (incl. tax) for SAISON GOLD AMERICAN EXPRESS CARD holders. Usual annual fees: US$399


SAISON GOLD AMERICAN EXPRESS® CARD | Annual fees 10,500 yen (incl. tax)


SAISON BLUE AMERICAN EXPRESS® CARD | Annual fees 3,150 yen (incl. tax)


SAISON PEARL AMERICAN EXPRESS® CARD | Annual fees 1,050 yen (incl. tax)

## Efforts to Develop the Internet Business as a Core Business

We have positioned the Internet business as a strategic pillar because this field promises the highest growth. We will strive to expand profits from this business while streamlining operations.

The number of Internet members reached 6.96 million as of March 31, 2012, a 25.0% year-on-year increase. This increase is attributable to efforts to promote simultaneous registration for Internet membership when customers sign up for a credit card. The number of members registered to view Web-based usage statements that enable them to easily check their usage statements at any time over the Internet grew to 3.49 million as of March 31, 2012, up 49.8% year on year.

Credit Saison operates Eikyufumetsu.com, an online shopping mall where Internet members can receive up to 20 times the number of Eikyufumetsu Points when they use their cards to shop online. Five and a half years after opening, the website now has over 500 tenants and 50,000 participating shops and, in fiscal 2011, transaction volume grew to reach approximately ¥48.0 billion, up 30% from the previous year. We are promoting the ease with which points can be accumulated at Eikyufumetsu.com, while at the same time taking steps to make them easier to use by inaugurating the industry's first service enabling customers to use Eikyufumetsu Points to pay for Internet shopping purchases. Through these efforts we are working to make points more attractive to users. In fiscal 2012, we aim to make points even more convenient, enable users to log in through their browser toolbar, enhance the lineup of products and services available, and increase exposure through TV commercials and other mass media to boost recognition of the website. Through these measures, we are targeting an increase in transaction volume.

We will also upgrade and enhance customer information in an effort to capture revenues from a new advertising and marketing business that utilizes our customer base.

Going forward, we will continue to build systems for generating revenues from various services on the Internet as we strengthen our initiatives in this new business field. At the same time, we will increase efficiency and profitability in this business to achieve dramatic growth as we strive to establish the Internet business as one of our core businesses.


Eikyufumetsu.com website

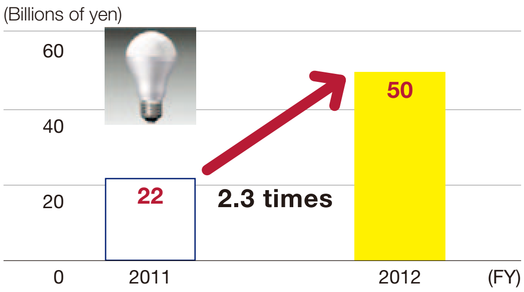
## Further Progress in Development as a Non-bank Finance Company

Credit Saison's medium-term management concept is to become a non-bank finance company with multiple revenue sources. Alongside the mainstay credit card business, we are also growing our finance business, including lease and rental services, credit guarantees, and Flat 35 mortgages, to develop Credit Saison as a non-bank finance company.

### Lease Business

Credit Saison has partnered with around 1,800 retailers offering lease service contracts throughout Japan to develop a rental business providing vendor leases of office equipment, such as photocopiers, and communications equipment, such as telephones, to small and medium-sized enterprises. In this business, we make full use of credit capabilities and swift application review processes based on individual screening know-how. In fiscal 2012, we will deepen our relationships with retail sellers for major equipment makers such as Canon, FujiXerox and Ricoh, targeting transaction volume for the lease and rental business of ¥105.0 billion, an 8% year-on-year increase. In the LED lighting rental and medical equipment fields, where we see rising demand, we will take steps to develop new lease and rental products to meet market needs.

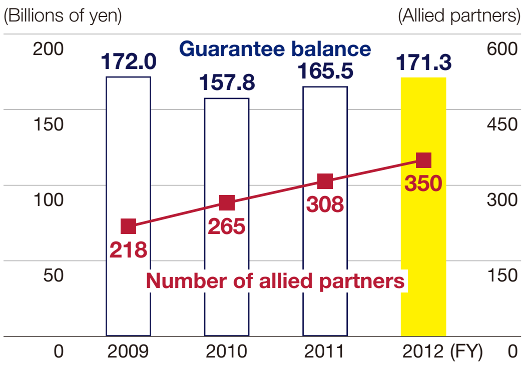
#### RENTAL TRANSACTIONS (e.g. LED Lighting)




### Credit Guarantee Business

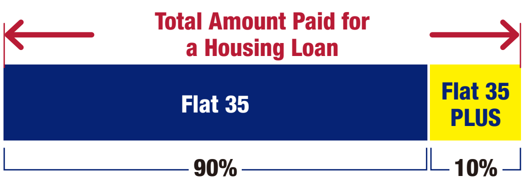
Credit Saison partners with over 300 financial institutions to provide guarantee services for unsecured free-loans to individuals. Using our strengths in individual screening know-how and marketing, we have aggressively promoted non-collateral loan guarantee products that respond to the needs of businesses. These products have been widely used by regional financial institutions and customers. In fiscal 2012, we will increase transaction volume with our partners, as well as add approximately 45 additional partners, aiming to achieve a transaction volume of ¥99.5 billion, up approximately 7% year on year, and a guarantee balance of ¥171.3 billion, up approximately 2% year on year.

#### GUARANTEE BALANCE AND NUMBER OF ALLIED PARTNERS




### Flat 35 Home Mortgage Loan

Our Flat 35 long-term, fixed-rate mortgage loan business expanded strongly during fiscal 2011 thanks to special incentives we offered to credit card users and a sense of trust and security instilled through our credit card business experience. As of March 31, 2012, the number of loans made since the product was launched in March 2009 reached 4,278, a transaction volume of ¥118.8 billion. From April 2012, the system was revised so that Flat 35 loans may be used to finance only 90% of the purchase price of a property, down from 100% previously. We responded by launching "Flat 35 PLUS," a Credit Saison home loan package that provides financing for the remaining 10% of the property value not covered by Flat 35. Through these initiatives we aim to increase the number of loans in fiscal 2012 by 2,000, for a ¥53.0 billion, or 13%, year-on-year increase in transaction volume.



## Business Participation in Asian Markets

Credit Saison is working to create a business scheme in the rapidly developing markets of Asia to lay the foundations for sustainable growth in the medium to long term. From June 2011, we launched a service counter for installment purchases as a contracted service at Yamada Denki's Tianjin Store (China). As a next step, we aim to establish a local corporation and acquire a business permit, enabling us to develop our own loan business. Meanwhile, in Vietnam, we set up a representative office in Hanoi in June 2012, and we plan to acquire an affiliated business license to commercialize retail finance operations with invested affiliate Petro Vietnam Finance. In the future, we intend to develop installment purchase and credit card businesses as well. We are also examining options for utilizing a local subsidiary in Singapore in order to realize the geographical advantages of this location.

Using the expertise we have developed in our operations in Japan and in collaboration with our partners, we will work to increase our brand value by developing our business overseas.

Yamada Denki Tianjin Store

Hanoi City Street

## Return of Profits to Shareholders

To raise shareholder value, Credit Saison places high importance on initiatives to reinforce our corporate structure and to continuously expand our businesses. In order to return profits to our shareholders, we will build the internal cash reserves that we need to execute these plans, while following a policy of paying appropriate, stable, and continuing dividends to shareholders.

## Akagi Nature Park

### Activities for Passing Nature's Bounty on to the Next Generation

赤城自然園
Akagi Nature Park

In 2009, Credit Saison bought and became the operator of Akagi Nature Park, an expansive forest preserve of approximately 120 hectares on the southwest foothills of Mount Akagi in Gunma Prefecture. The park is a reclaimed forest that was once a man-made secondary growth of haphazardly planted cedar seeds. The forest was reclaimed over the course of more than 20 years, taking pains to select flora for restoring the primal beauty of nature. Restoration took place under a policy of establishing a nurturing environment for flowers to grow, rather than planting a garden. Today the park is home to a variety of insects, animals, wild flowers, trees, and rare plants. It is a great place to encounter the beauty of Japan's four seasons firsthand.

The park operated for 156 days and attracted about 27,000 visitors in the second year under Credit Saison's management in fiscal 2011. Through various programs including guided tours of the grounds, nature observation events, and eco-craft activities using the nuts from trees, we offered park visitors the opportunity to appreciate the wonder of nature and the importance of environmental conservation.

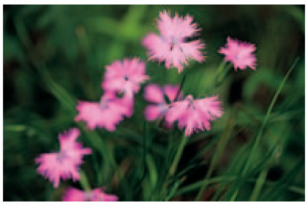
Credit Saison operates Akagi Nature Park in the hope of providing children a chance to visit and enjoy the wonder of nature firsthand; an increasingly rare opportunity in today's modern world. We hope that through preservation of the park, we can contribute in a small way to passing on the abundant natural treasures of Japan to future generations. With the help of other companies who support our efforts, we look to continue our patronage of this activity on a long-term basis.

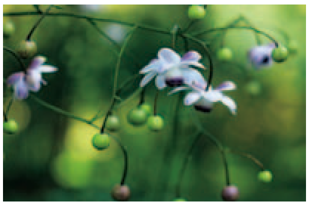
### Akagi Nature Park Profile

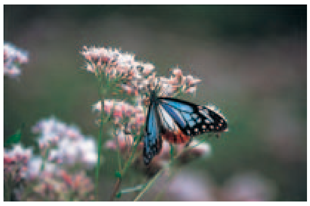
Area: Approximately 120 hectares, of which about 60 hectares is open to the public
Elevation: 600 to 700m

### Plants and Animals Found in Akagi Nature Park

Animals: 1,810 species of insects, 77 species of birds and 15 species of mammals
Plants: 152 species of trees and 510 species of grasses







The following companies support our activities to preserve nature at Akagi Nature Park.
(As of August 31, 2012)

## Donations to the Great East Japan Earthquake Recovery and a Report on the Final Donated Amount

Donations collected through Eikyufumetsu Points ("Saison Permanent Points" in English) or by credit card payment, up until March 31, 2012, were donated to the Japan Red Cross Society and prefectural governments to help people affected by the Great East Japan Earthquake.

Credit Saison would like to thank all the cardmembers who so kindly donated to this cause. We sincerely hope that the areas affected by the disaster will recover as soon as possible.

| Donated Amount | ¥637,500,000 |
|---|---|
| Japanese Red Cross Society | ¥591,792,500 |
| Aomori prefecture | ¥ 3,656,000 |
| Iwate prefecture | ¥ 8,576,000 |
| Miyagi prefecture | ¥ 12,654,000 |
| Fukushima prefecture | ¥ 20,821,500 |

* Total of donations from Eikyufumetsu Points, credit card payments, and Credit Saison

# CORPORATE SOCIAL RESPONSIBILITY (CSR)

**Our vision is to become a leading-edge service company. Under a framework in which we regard our customers, business partners, employees and society at large as our stakeholders, we aim to fulfill our social responsibilities, deemed vital to our management philosophy, by providing returns to our shareholders through activities that satisfy customers, based on mutual respect for our interests and those of our business partners, and instill shared ideals and goals in our employees. We will also build a reputation for reliability by adapting flexibly to a changing business environment, and ensuring regulatory compliance in all business activities.**

## The Credit Saison Approach to CSR

Our concept of CSR is not limited simply to regulatory compliance and the creation of profit. We believe that CSR also means responding to the needs of citizens, communities and society, and developing business methods and activities that meet and surpass these needs. This concept guides our CSR activities, which are based on three perspectives:

### (1) Activities that are essential to our corporate survival and the interests of our customers, employees, shareholders and stakeholders

Our corporate mission is to conduct our business activities in a sound, appropriate and timely manner. Through continual effort, we will improve management transparency and strengthen the systems used to monitor the achievement of management targets.

### (2) Activities that contribute to society and the fulfillment of our responsibilities through our core business activities in the areas of credit cards and financing

In addition to being convenient, credit cards drive economic activity as extremely effective tools for settlements. Our priority is to prevent excessive use leading to heavy indebtedness, while ensuring that credit cards help to enrich the lives of our customers and contribute to economic development. As a finance company, we are entrusted with personal credit information. We carefully manage this information in accordance with the Private Information Protection Law, and use it to prevent excessive indebtedness through the prudent provision of credit and appropriate monitoring after credit is provided.

#### ■ Appropriate management of personal information

We manage personal information in accordance with laws, regulations and other requirements, including guidelines and industry rules. We have established internal corporate rules, and give our employees training in ethics. Our efforts to raise awareness of information management include the use of the “private information manager” qualification established by the Japan Consumer Credit Industry Association. This qualification is now basically compulsory for employees who handle personal information. Security measures have also been strengthened, with the use of leased lines, limited access authorization, encryption, and restricted access to data terminals.

In May 2006, Credit Saison was authorized to use the Privacy Mark, a certification given to businesses with appropriate systems for handling personal information. Since then, we have continued our efforts to maintain and enhance the protection level of personal information.

#### ■ Preventing excessive indebtedness

We recognize the risks of credit cards and strive to prevent excessive borrowing by monitoring borrowers’ credit status after loans have been issued. Assistance for customers includes changes to contract terms and repayment amounts.

### (3) Activities that contribute to society in ways that are unique to Credit Saison

Tens of thousands of people, including our employees and their families, depend on the Credit Saison Group. We recognize our responsibilities as an employer and work constructively to resolve any employment issues.

As a distribution sector credit card company, we aim to use our business activities to provide services exceeding customer expectations in attention to detail and contribution to society.

#### ■ Resolving employment issues

Credit Saison aims to provide amenable working environments for all employees, regardless of age or gender. We have made several workplace improvements in response to changes caused by Japan’s falling birthrate and aging population. These include systems to help enable female employees to continue working after marriage and childbirth, as well as more flexibility for employees caring for older relatives. We also actively employ retirees.

# CORPORATE GOVERNANCE

**The Credit Saison Group is expanding and strengthening its business infrastructure to support its role as a leading-edge service company with the credit card business as its core segment. We recognize that, along with the achievement of business objectives, the reinforcement of corporate governance is vital for obtaining the understanding and support of all our stakeholders—our customers, business partners, employees and society. To increase management transparency and strengthen management supervision functions, the Company is developing internal control systems and strengthening compliance.**

## Corporate Governance System

The Board of Directors consists of 15 directors, including 1 outside director. It decides important management matters and supervises the directors' performance. The Company aims to maintain and improve the efficiency of management by having the outside director attend Board of Directors meetings and other important meetings and offer advice and proposals to ensure that decision making in management is appropriate and correct.

To ensure that business is conducted properly and soundly and to strengthen corporate governance, the Board has developed effective internal control systems and established and maintained a framework to ensure Group-wide compliance with laws, regulations and the Articles of Incorporation. To ensure that directors perform their duties appropriately, the Board operates in accordance with the Board of Directors Regulations. Moreover, each director performs his or her duties in accordance with the Corporate Law, and properly manages the divisions under his or her control in accordance with the Organizational and Segregation of Duties Regulations to ensure that business activities are executed appropriately and efficiently.

Directors serve a one-year term of office. This policy allows us to build a flexible management structure capable of adapting to a changing business environment, while also requiring management to earn the confidence of shareholders every year.

The Company has introduced a statutory auditor system. The Board of Corporate Auditors consists of four statutory auditors, three being independent executives from outside the company who are not likely to have a conflict of interest with general shareholders. The statutory auditors conduct rigorous audits by attending Board of Directors meetings and other important meetings, reading important resolution documents, and examining the conduct of business and the state of the Company's assets.

The Board of Corporate Auditors also audits the effectiveness and functioning of internal control systems and strives to ensure the early detection of problems and improvement of accuracy.

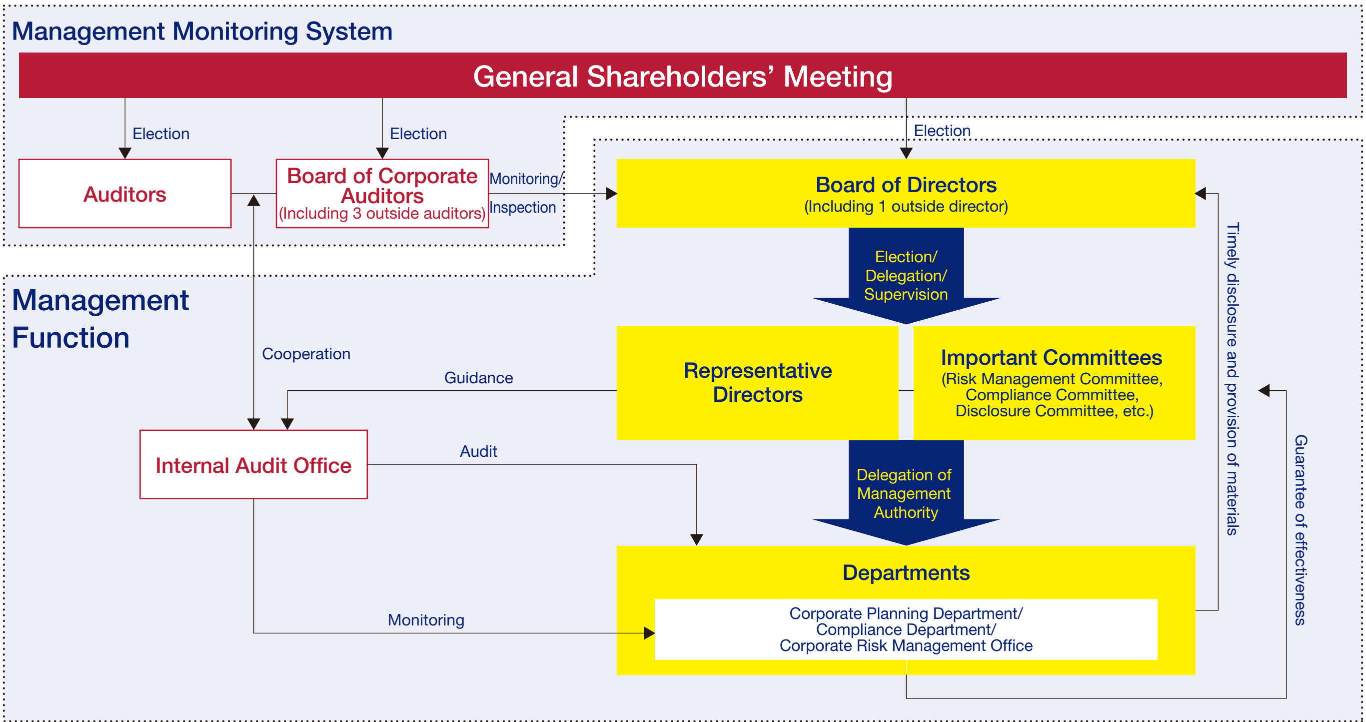
To assist the statutory auditors in their duties, the Company has established the Auditors' Secretariat, which retains independence from the operating divisions (members serve concurrently in the Internal Control Division).

The Company plans and implements compliance measures including education and awareness-raising activities, and engages in risk management. To that end, the Company has established the Compliance Department as a dedicated department to ensure the observance of laws, regulations and corporate ethics; the Corporate Risk Management Office of the Corporate Planning Department as the dedicated risk management department; and the Compliance Committee and Risk Management Committee as dedicated organizations to ensure compliance and risk management.

The Internal Audit Office audits compliance, risk management, internal control systems and corporate governance in the organizational operations and business activities of Credit Saison and its affiliates, and makes evaluations and recommendations based on the results.

We will continue to expand information sharing among Group Companies and strengthen our Group management systems, and study approaches to management that meet the needs of the Credit Saison Group and contribute to the improvement of consolidated value.

## Corporate Governance Structure



## Remuneration for Directors and Statutory Auditors

To clarify their responsibility for business execution and results and increase the independence of statutory auditors, the Company has eliminated the previous retirement bonus system and unified compensation for the performance of duties, including directors' bonuses, and worked to increase awareness of the importance of business performance.

Remuneration, etc., paid to directors and statutory auditors in fiscal 2011 was as follows:

<Details of Remuneration for Directors and Statutory Auditors>

| Position | Total remuneration amount (Millions of yen) | Total amount of remuneration by type (Millions of yen) | | Number of persons |
|---|---|---|---|---|
| | | Basic remuneration | Bonuses | |
| Directors (Excluding outside directors) | 496 | 342 | 153 | 15 |
| Statutory auditors (Excluding outside statutory auditors) | 6 | 6 | – | 1 |
| Outside executives | 42 | 42 | – | 6 |

Notes 1. The total amount of remuneration paid to directors does not include the employee salary amount in the case of employees who serve concurrently as directors.
2. As of March 31, 2012, the Company had 14 directors and 4 statutory auditors.

<Remuneration for Independent Auditors>
Remuneration based on duties performed pursuant to Article 2, Paragraph 1 of the Certified Public Accountants Law: ¥109 million

## Overview of Internal Control Systems

As per the Corporate Law, the Board of Directors has set basic policies for directors to build a system that ensures adequacy and efficiency of the company's business and compliance with laws, regulations and the Articles of Incorporation.

These policies are based on the philosophy to "always realize profitable growth and maximize the satisfaction of customers and other stakeholders by pursuing innovative ideas and strategies."

With regard to internal control over financial reporting, (known as "J-SOX"), our efforts centered around the Corporate Risk Management Office, through which we coordinate the development of internal control systems by the Company and companies included in the consolidation. Independent monitoring is carried out by specialist staff from the Internal Audit Office. On this basis, we are able to report to the authorities that our internal control systems are working effectively.

In building our internal control systems, we aim to build highly efficient and effective systems that will help to maximize the benefits for our stakeholders by maintaining appropriate business processes while increasing business results and strengthening earnings.

## Rigorous Implementation and Enhancement of Compliance

Based on this reinforcement of corporate governance and internal controls, the Compliance Committee and Compliance Department are taking the lead in ensuring compliance with laws and regulations and fairness and morality in business activities.

A Managing Director chairs the Compliance Committee, which reports to the Board of Directors. To discuss compliance-related matters, the Committee convenes several times a year.

To ensure familiarity and observance with Company rules, regulations and ethics, we have published these standards and guidelines in Our Compliance, a pamphlet distributed to regular and contract employees.

The Company is working to prevent misconduct and scandals by publicizing its compliance consultation desk. The consultation desk strives to create a user-friendly environment by maintaining systems inside and outside the Company for accepting inquiries, including dedicated addresses on the Company intranet and the Internet. When a report is received, the Compliance Department cooperates closely with an attorney and aims to quickly resolve the matter, reports to the Compliance Committee, and then takes action to prevent reoccurrence.

In addition, the Compliance Department invites outside lecturers to conduct compliance training for executives and training for senior management including division managers. The Company appoints compliance officers and compliance coordinators in each division, and the divisions take the initiative in conducting compliance training in cooperation with the Compliance Department.

In addition, our compliance officers and compliance coordinators also play a role in controlling the Company's administrative risks.

## Security and Reliability of Information Systems

As the use of IT grows, maintaining the security and stability of information systems is becoming increasingly important to ensure that customers can rely on the Company's credit cards.

Here, we have implemented countermeasures against system disruptions, which may be caused by a wide variety of factors, including natural disasters, accidents or computer viruses, and higher system efficiency was achieved by centralizing clerical work. Credit Saison will continue efforts to keep its systems secure, reliable and efficient.

## Risk Management

To prevent and appropriately respond to risk, the Company has formulated Risk Management Regulations and Regulations Concerning Management of Risk of Loss and, through the Risk Management Committee and the Corporate Risk Management Office of the Corporate Planning Department, works to prevent risks from materializing and minimize the effect on the Company when risks become apparent. To this end, the Company conducts periodic internal education and training for people working with the Risk Management Regulations, Regulations Concerning Management of Risk of Loss and Crisis Management Regulations, and the Board of Directors periodically examines the regulations and issues revisions and improvements. In this way, the Company strives to maintain its risk management systems.

We strive to ensure the stability of our management base in the event of a large-scale disaster or other emergency. To this end, we have prepared countermeasures to ensure the continuity of critical operations and reduce the risk of operational interruption as much as possible. We maintain control over factors within the Credit Saison Group that have the potential to create serious risks by monitoring the operations of Group companies under the Affiliated Company Regulations, which are administered primarily by the Group Strategy Office of the Corporate Planning Department. Our risk management systems are further enhanced through information-sharing with the management organizations of Group companies.

Moreover, in the event that a risk occurs, the Company works to respond swiftly based on the Crisis Management Regulations, mainly administered through the Crisis Management Committee.

## Proactive Disclosure of Information

The Company proactively discloses financial information through management reports, investment conferences, IR meetings and other events, and strives to ensure highly transparent management by posting financial result summaries, IR activities and other information on its website.
URL for corporate and IR information:
http://corporate.saisoncard.co.jp/en

# BOARD OF DIRECTORS AND AUDITORS

(As of June 30, 2012)

**Hiroshi Rinno**
President and CEO
Head of the Audit Office and Credit Card Division

**Teruyuki Maekawa**
Executive Vice President
Head of the Public Relations Office, General Affairs Dept., Human Resources Dept. and System Planning Dept.

**Naoki Takahashi**
Senior Managing Director
Head of the Corporate Planning Dept., Strategic Investment Dept., Credit Division and Internet Business Division
General Manager, Credit Division

**Haruhisa Kaneko**
Managing Director
Head of the Customer Satisfaction Promotion Office and Overseas Business Dept.

**Takayoshi Yamaji**
Managing Director
Head of the Sales Development Division

**Hiroshi Yamamoto**
Managing Director
Head of the Compliance Dept. and Finance Division
General Manager, Finance Division

**Masahiro Yamashita**
Managing Director
General Manager, Credit Card Division and Alliance Development Dept.

**Junji Kakusho**
Director
General Manager, Business Planning Dept. and Internet Business Division

**Kazuhiro Hirase**
Director
T&E/Service Business Dept. and Leasing & Rental Business Dept.

**Sadamu Shimizu**
Director
General Manager, Sales Development Division

**Akihiro Matsuda**
Director
Web Branch and Card Finance Dept.

**Teruhisa Aoyama**
Director
Head of the Treasury & Account Dept.

**Yoshihisa Yamamoto**
Director
System Planning Dept.

**Tatsunari Okamoto**
Director
Retail Business Dept. No. 1, Retail Business Dept. No. 2 and Financial & Corporate Business Dept.

**Yasuhisa Ueno**
Director (External)

**Masaru Sakurai**
Standing Auditor (External)

**Yoshitaka Murakami**
Standing Auditor (External)

**Yoshiro Yamamoto**
Auditor

**Atsushi Toki**
Auditor (External)

## I. THE CREDIT SAISON GROUP

The Credit Saison Group has five business segments: Credit Service Business, Lease Business, Finance Business, Real Estate-related Business and Entertainment Business. The Credit Service Business segment is the Credit Saison Group's most important segment, and generated approximately 80% of total consolidated operating revenues in fiscal 2011.

The Credit Saison Group's operating revenues are generated primarily in the mainstay Credit Service Business. These consist of fees from affiliated stores generated via credit cards and interest and fees from customers generated via revolving credit, cash advances, specialty loans and other transactions.

Operating expenses mainly comprise advertising expenses, point redemption costs, costs of uncollectible receivables, personnel expenses, fees and financial costs.

## II. ANALYSIS OF INCOME STATEMENTS

### 1. Market Environment

In fiscal 2011, the Japanese economy was heavily impacted by the Great East Japan Earthquake. However, there were also signs of a gradual revival in corporate production activity and consumer spending on the back of recovery and restoration efforts. Despite these encouraging signs, the economic outlook remains clouded by concerns of a slowdown in economies overseas given the sovereign debt crisis in Europe and the yen's protracted strength.

The non-bank industry continued to face a severe business environment, with full implementation of the Money-Lending Business Control and Regulation Law weighing down operating revenues from cash advances on credit cards, making it necessary to reform business models.

### 2. Operating Revenues

In fiscal 2011, operating revenues declined by 14.6% year on year to ¥244,009 million. In the mainstay Credit Service Business, the Company worked to increase shopping transaction volume by stepping up efforts to acquire new members for premium cards, such as the Saison American Express® Card, that have a high active ratio, and by increasing the benefits of credit card use for cardholders. For the latter, the Company strengthened its service alliances with prominent companies such as Seven & i Holdings Co., Ltd. and Yahoo Japan Corporation by linking IDs and points, among other measures. The Company also focused on strengthening earnings power by expanding fee-based businesses through improvements to the functionality of Internet services. The Company promoted use of the Internet to achieve timely collection and build up of the shopping-related revolving credit balance, expanded the number of Internet members and launched a service enabling use of Eikyufumetsu Points ("Saison Permanent Points" in English) for making Internet shopping payments. Nevertheless, operating revenues from cash advances decline due to total lending restrictions following the revision to the Money-Lending Business Control and Regulation Law. Furthermore, the transfer of the affinity card issuance business operated with Sogo & Seibu Co., Ltd. to Seven CS Card Service Co., Ltd. resulted in year-on-year declines in the number of new cardmembers acquired, the shopping transaction volume, the shopping-related revolving credit balance, and the card cash advance balance. As a result, the segment saw lower operating revenues year on year.

In the Lease Business, operating revenues rose year on year as a result of efforts to strengthen ties with existing customers and to acquire new partner merchants. In the Finance Business, operating revenues increased, mainly through growth in the balance of credit guarantees in the credit guarantee business. In the Real Estate-related Business, operating revenues decreased as consolidated subsidiary Atrium recorded a loss on reappraisal of its assets. In the Entertainment Business, suspension of operations and reduced operating hours at stores due to the Great East Japan Earthquake contributed to lower operating revenues year on year.

### 3. Operating Expenses and Operating Income

During fiscal 2011, the Credit Saison Group saw operating expenses decline 17.9% year on year to ¥212,143 million. The cost of uncollectible receivables declined as the Group continued to improve the quality of its receivables by strengthening the management of receivables, and the number of receivables handled by third

**BREAKDOWN OF SELLING, GENERAL AND ADMINISTRATIVE (SG&A) EXPENSES**

(Millions of yen)

| | 2012 | 2011 | % change |
|---|---|---|---|
| Cost of uncollectible receivables | **30,672** | 66,217 | (53.7) |
| Included in the above: | | | |
| Allowance for losses on accounts receivable | **20,736** | 44,115 | (53.0) |
| Losses on accounts receivable | **2** | 5 | (53.2) |
| Provision for losses on interest repayment | **6,974** | 18,445 | (62.2) |
| Allowance for losses on guarantees | **2,958** | 3,651 | (19.0) |
| SG&A expenses excluding cost of uncollectible receivables | **161,512** | 169,540 | (4.7) |
| Included in the above: | | | |
| Advertising expenses | **13,580** | 14,557 | (6.7) |
| Provision for point program | **11,719** | 13,729 | (14.6) |
| Personnel expenses | **40,686** | 42,767 | (4.9) |
| Fees paid | **49,197** | 47,564 | 3.4 |
| Total SG&A expenses | **192,184** | 235,758 | (18.5) |

(Years ended March 31)

parties such as attorneys and certified judicial scriveners continued to fall. Moreover, the Company has achieved a leaner cost structure by making efforts to control various costs through improvements to operational efficiency, and by increasing the number of Internet members registering for Web-based usage statements, bringing a decrease in communications costs. Web-based usage statements allow users to check their usage statements online at any time, and the Company has been promoting them as being both environmentally considerate and convenient.

### 4. Non-operating Revenues and Expenses and Net Income

Total non-operating revenues increased 191.0% year on year to ¥20,219 million. The main factors behind the change in non-operating revenues were a gain on sales of investments in subsidiaries and affiliates of ¥7,140 million, following the transfer of 51% of the shares of Seven CS Card Service to Seven Financial Service Co., Ltd., and a gain on reversal of allowance for losses from a natural disaster of ¥5,492 million after reversing part of the provision to cover losses resulting from the Great East Japan Earthquake. Total non-operating expenses increased 388.0% from the previous fiscal year to ¥62,799 million. The main factors in the change in non-operating expenses were a loss on business restructuring of subsidiaries of ¥59,796 million, due to a valuation loss on inventory assets of real estate holdings and a provision of allowance for doubtful accounts following the business restructuring of Atrium, and a loss on revision of retirement benefit plan of ¥1,658 million. As a result of the above, the Credit Saison Group posted net income of ¥9,454 million.

## III. POLICY FOR RETURN TO SHAREHOLDERS

To raise shareholder value, Credit Saison places high importance on initiatives to reinforce our corporate structure and to continuously expand our businesses. Our fundamental policy for shareholder returns calls for steady enlargement of internal reserves to realize the initiatives described above, while delivering appropriate, stable and continuous dividend payments to our shareholders.

### 1. Dividend per Share

Based on its dividend policy, Credit Saison declared annual dividends of ¥30 per share for fiscal 2011.

## IV. REVIEW OF OPERATIONS BY SEGMENT

### 1. Credit Service Business Segment

This segment consists of the credit card shopping business, servicing (loan collection agency) business and other businesses. Segment operating revenues for fiscal 2011 declined by 13.9% year on year to ¥198,875 million, while segment profit increased by 70.0% to ¥27,161 million.

#### 1) Credit Card Shopping Business

In the Credit Service Business Segment, the areas in which people are using credit cards continue to expand each year. There is an ongoing shift in the mainstream from cash to cashless settlement as people increasingly use credit cards for spending related to everyday life, such as settlements of small amounts, public utility bills, hospital and medical clinic bills, as well as for the growing area of online shopping. On the other hand, the credit card sector continues to face a difficult business environment despite two years having passed since the introduction of total lending restrictions following the revision of the Money-Lending Business Control and Regulation Law which caused a contraction in the cash advance market.

In this business climate, Credit Saison worked to reinforce its operating revenue base by expanding cashless settlement services through initiatives to break the dominance of the cash market, mainly through credit cards and efforts to expand the Internet business and fee-based businesses. At the same time, the Group focused on improving operational efficiency, mainly by strengthening measures to deal with credit risks and revising the cost structure based on a cost-benefit analysis.

However, full enforcement of the Money-Lending Business Control and Regulation Law brought restrictions on total lending into effect that greatly reduced cash advance revenues. Moreover, the Company transferred the affinity card issuance business operated with Sogo & Seibu to Seven CS Card Service. As a result of these factors, the number of new cards issued for fiscal 2011 was 1.96 million, and the total number of cardmembers as of March 31, 2012 was down 12.7% from the previous fiscal year-end at 24.75 million.

The card shopping transaction volume was ¥3,402,400 million, down 13.9% year on year, and the shopping-related revolving credit balance was ¥262,100 million, down 12.6%. The number of active card members for the year was 12.99 million, down 11.6% from the previous year, and cash advances on cards was ¥321,900 million, down 28.1%.

**OPERATING REVENUES AND OPERATING INCOME BY SEGMENT**

(Millions of yen)

| | Operating Revenues | | | Operating Income (Loss) | | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | % growth | 2012 | 2011 | % growth |
| Credit Service | **198,875** | 230,873 | (13.9) | **27,161** | 15,973 | 70.0 |
| Lease | **14,670** | 14,451 | 1.5 | **5,099** | 5,038 | 1.2 |
| Finance | **15,715** | 15,580 | 0.9 | **7,781** | 6,796 | 14.5 |
| Real Estate-related | **3,059** | 12,322 | (75.2) | **(10,174)** | (2,182) | – |
| Entertainment | **12,999** | 13,940 | (6.8) | **2,066** | 1,737 | 18.9 |
| Total | **245,318** | 287,166 | (14.6) | **31,933** | 27,362 | 16.7 |
| Eliminations or corporate | **(1,309)** | (1,453) | – | **(67)** | 15 | – |
| Consolidated | **244,009** | 285,713 | (14.6) | **31,866** | 27,377 | 16.4 |

Note: Operating revenues and operating income of each segment include intersegment operating revenues.

(Years ended March 31)

## ■ Key Initiatives in the Credit Card Shopping Business During Fiscal 2011

### Enhancing Cashless Settlement Services Through Credit Cards

One of Credit Saison's priority strategies is to focus on premium cards offering prospects for high utilization and high spending per transaction. Accordingly, we continued to strengthen cardmember enrollment activities for the Saison American Express® Card series, which features a lineup of four high-status premium cards.

One of these enrollment activities involves forming alliances with various kinds of companies involved in business, travel or services. By offering cardmembers service-based perks, Credit Saison and its alliance partners can effectively encourage our respective customers to use each company's services. This business model has helped us to develop more American Express cardmembers from among the customer bases of our alliance partners and promote increased use of the cards.

To enlarge the shopping-related revolving credit balance, we have focused on increasing user convenience for Internet members with a service that makes requests for timely revolving credit payments using the Internet and a service for subsequent online conversion of one-time payments to revolving payments.

In other initiatives, we have been working to expand the areas in which credit cards are used. For example, in August 2011, we started issuing NEO Money, a prepaid card for use outside of Japan by tourists, business travelers, exchange students and others. In the same month, we formed an alliance with China UnionPay, which is an international brand in China that operates an interbank settlement network. Based on this alliance, we teamed up with U.C. Card Co., Ltd. to begin recruiting affiliated stores for the issuance CUP Card, which is expected to see growth in total settlement volume.

By adding new settlement services such as prepaid services to our existing credit card offerings, we will establish a source of revenue from the cashless settlement market going forward.

### Strengthening Internet and Fee-based Businesses

The total number of Internet members reached 6.96 million as of March 31, 2012, a 25.0% year-on-year increase. The number of members registered to view Web-based usage statements, which enable users to easily check their usage statements at any time over the Internet, was 3.49 million, an increase of 49.8% year on year.

Credit Saison operates Eikyufumetsu.com, a shopping points website, making use of its approximate 25 million-member base and its Eikyufumetsu Points ("Saison Permanent Points" in English) program of points that never expire. Approximately five and a half years after launching, the website has over 500 tenants and 50,000 participating shops. Monthly trading on the website has reached approximately ¥4 billion, with the highest single day of trading recorded at about ¥240 million.

Looking ahead, we plan to improve the convenience of our Internet services even more, and expand revenues from this sector by launching a service allowing the use of Eikyufumetsu Points to pay for online shopping purchases. Eikyufumetsu Points were launched by Eikyufumetsu.com together with Seven Net Shopping Co., Ltd. and Groupon Japan, Inc. in November 2011.

We will also upgrade and enhance customer information in an effort to capture revenues from a new advertising and marketing business that utilizes our customer base.

Going forward, we remain determined to reinforce our initiatives in new Internet businesses. We will build systems for generating revenue from a variety of Internet-based services while continuing to use the Internet to reduce costs.

### Credit Risk Management

Credit Saison continues to accumulate healthy receivables by taking steps to recover overdue receivables swiftly and continuing to ensure payment of receivables through counseling. Another approach we have used is to make extra requests for contract payments. We carry out inspections that help to control risks during initial and intermediate credit checks. Through these initiatives we are expanding our stock of good quality receivables.

We will continue to focus on improving the quality of receivables by establishing measures to limit our risk exposure. Specifically, we will strengthen credit management and our servicing system. We will maintain thorough credit control that balances returns and risks.

## ■ New Developments and Future Initiatives

On September 10, 2010, Credit Saison made a comprehensive agreement with SEVEN & I FINANCIAL GROUP CO., LTD. (currently Seven Financial Service Co., Ltd.) and Sogo & Seibu. In accordance with this agreement, Credit Saison spun off its affinity card issuance business operated with Sogo & Seibu as of April 1, 2011 through an absorption-type company split, and transferred the business to Seven CS Card Service.

This move will enable the Group to offer a range of attractive Seven & i Group services to customers in addition to the current affinity card services. Since July 2011, customers who use their preregistered Saison Card or UC Card at Seven Eleven convenience stores or Ito Yokado department stores and supermarkets throughout Japan have been eligible to automatically receive Nanaco Points as well as ordinary Eikyufumetsu Points.

Furthermore, as a result of a merger with Seven Card Service Co., Ltd., the card business will be expanded to cover the entire Seven & i Group. The expansion in business size should enable Credit Saison to formulate medium to long-term growth strategies not only for expanding the earnings of the joint venture, but also for increasing Credit Saison's processing fees, referring customers to the Seven & i Group, and developing new services.

In another initiative, in November 2011, Credit Saison concluded a business alliance with Yahoo Japan Corporation with the goal of increasing convenience for customers of both companies. Both companies have strong foundations in online and physical shops. By developing new services that make full use of each company's strengths, Credit Saison and Yahoo Japan plan to propose significant added value to their customers.

The two companies plan to enable automatic conversion of Eikyufumetsu Points into Yahoo! Points by linking their respective IDs. This will attract membership to Yahoo! Japan Shopping from Eikyufumetsu.com and should lead to larger transaction volumes at Eikyufumetsu.com. It should also enable Credit Saison affiliated merchants to transmit discount and special offer information through Yahoo! Loco, Japan's largest location-based service Website, among other benefits. This development of customer referral services between online shops and their physical counterparts is intended to encourage greater activity among consumers.

### 2) Servicing (Loan Collection Agency) Business

JPN Holdings Co., Ltd. is mainly involved in contract-based servicing of small unsecured loans. While the processing agency business, which is the core of the servicing business, JPN Holdings has been impacted by revised business conditions among business partners, but has seen revenues increase year on year. The main factors behind the increase are enhanced sales activities in the personnel outsourcing and telemarketing businesses, and the additional contribution from the net sales of private-sector childcare center operator KINDER NURSERY Corporation (currently KINDER NURSERY Co., Ltd.), which was consolidated in November 2010.

## 2. Lease Business Segment

According to statistics issued by the Japan Leasing Association, overall lease contract volume for the entire leasing industry in fiscal 2011 was ¥4,599.7 billion, up 1% year on year.

Credit Saison recorded a lease contract volume of ¥96,852 million, up 4.5% year on year. Operating revenues rose 1.5% year on year to ¥14,670 million and segment profit climbed 1.2% to ¥5,099 million. These increases were mainly due to efforts to strengthen ties with existing customers and to increase the number of partner sales agencies.

In the rental business, the wave of replacements of televisions for models compatible with terrestrial digital broadcasts ran its course. We therefore expanded sales channels for energy-saving electrical products as well as for B2B2C and B2B2B rental services in order to meet customers' needs going forward.

## 3. Finance Business Segment

This segment consists of the credit guarantee business and other finance-related business. In the credit guarantee business, the amount of guarantees executed increased due to efforts to strengthen ties with affiliated financial institutions. We also worked to improve the quality of receivables. In other finance-related business, the long-term, fixed-interest-rate mortgage loan, Flat 35, (the receivable of which is acquired and securitized by the Japan Housing Finance Agency) contributed to segment operating revenues.

As a result, segment operating revenues for fiscal 2011 increased 0.9% year on year to ¥15,715 million, and segment profit increased 14.5% to ¥7,781 million.

### 1) Credit Guarantee Business

Credit Saison focused on obtaining high-quality transactions by utilizing its close business relationships with affiliated financial institutions in both sales and management, particularly in the guarantee business for unsecured free loans to individual customers.

In fiscal 2011, we endeavored to increase our transaction volume by entering into a total of 43 new alliances with regional financial institutions, expanding the network to a total of 308 financial institutions, a net increase of 43 institutions from fiscal 2011. The gross guarantee balance before recording an allowance for losses on guarantees increased by 7.2% from the previous fiscal year to ¥168,600 million.

### 2) Other Finance-Related Business

Credit Saison engages in financing collateralized by real estate properties with individuals and corporations. Since March 2009, we have handled Flat 35 mortgage loans. The number of loans executed in fiscal 2011 fell 9.5% year on year to 1,771 loans, with a total balance of ¥49,600 million, down 10.3%. The main factor in this decrease was the impact of a reduction in the size of preferential interest rates offered under a scheme to support purchases of high-quality houses (Flat 35S scheme). However, the special treatment given to cardmembers and the trust and reliability built up through the credit card business have been highly evaluated by the market. We have accumulated 4,278 loans with a total balance of ¥118,800 million in this business since it began.

The total balance of receivables in the other finance-related business as of March 31, 2012, including for the Flat 35 Tsunagi (Bridge) Loans that the Company started handling in July 2010, declined 13.9% year on year to ¥68,700 million.

## 4. Real Estate-related Business Segment

The Real Estate Related Business segment consists of the real estate business, the real estate leasing business and other businesses. In fiscal 2011, consolidated subsidiary Atrium recorded a loss on reappraisal of its assets. As a result, segment operating revenues decreased 75.2% year on year to ¥3,059 million, leading Credit Saison to record a segment loss of ¥10,174 million.

## 5. Entertainment Business Segment

This segment consists of the amusement business and other operations. Amid the lingering impact of tightened regulations on game machines, Credit Saison worked to create sound, safe and enjoyable facilities that have the support of their communities. Operating revenues for the segment declined 6.7% year on year to ¥12,999 million, primarily because of the impact of reduced operating hours and suspension of operations at some stores due to the Great East Japan Earthquake. Nevertheless, as a result of efforts to streamline operations, segment profit increased by 18.9% to ¥2,066 million.

# V. LIQUIDITY AND FINANCIAL POSITION

## 1. Fund Procurement and Liquidity Management

### Fund Procurement

The Credit Saison Group emphasizes stability and low cost in the procurement of funds, and is actively working to diversify fund procurement methods. Key procurement methods include negotiating transactions with banks, related financial institutions, life insurance companies and non-life insurance companies. In addition, the Group procures funds indirectly through syndicated loans and committed lines of credit, and directly by issuing commercial paper and by securitizing receivables. Consolidated interest-bearing debt (including debt incurred through off-balance sheet securitizations in the amount of ¥20,000 million and lease obligations of ¥4,900 million) totaled ¥1,409,800 million as of March 31, 2012. Of this total, loans accounted for 74.2%, bonds for 15.7%, commercial paper for 2.3%, and asset-backed securities for 7.8%.

With regard to indirect fund procurement, in an effort to mitigate refinance risks and reduce costs, Credit Saison is working to strengthen its relations with existing lenders. We also aim to diversify sources of procurement by examining new counterparties, targeting financial institutions with which we can expect long-term stable transactions. In terms of direct fund procurement, in an effort to mitigate liquidity risk and reduce costs, Credit Saison not only utilizes corporate bonds and commercial paper, but is also setting up new fund procurement schemes, including securitization of receivables that will be unaffected by the creditworthiness of Credit Saison.

To support smooth fund procurement from the capital market, Credit Saison has obtained credit ratings for the bonds it issues. We have been given an A+ rating for domestic unsecured corporate bonds, and an a-1 rating for domestic commercial paper by Rating and Investment Information, Inc. (R&I).

### Liquidity Management

Of the total assets held by the Credit Saison Group, installment accounts receivable centered on the Credit Service Business accounted for 64.0%. Their annual average turnover was more than four times, helping Credit Saison maintain a high level of liquidity.

## 2. Cash Flows

### Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥25,611 million, compared to ¥152,063 million in the previous fiscal year.

The main factor was the recording of a loss on business restructuring of subsidiaries of ¥59,796 million. On the other hand, there was an increase in trade receivables of ¥47,104 million.

### Cash Flows from Investing Activities

Net cash provided by investing activities was ¥123,138 million, compared with net cash used in investing activities of ¥35,269 million in the previous fiscal year.

The main factor increasing cash was proceeds of ¥135,794 million from transferring the affinity card issuance business operated with Sogo & Seibu to Seven CS Card Service.

### Cash Flows from Financing Activities

Net cash used in financing activities amounted to ¥161,237 million, compared with ¥117,420 million in the previous fiscal year.

The main use of cash was repayments of long-term debt of ¥157,519 million.

As a result of the above, cash and cash equivalents at the end of year decreased by ¥12,526 million from the previous fiscal year-end to ¥60,001 million.

## 3. Assets, Liabilities and Equity

Total assets at the end of fiscal 2011 had decreased by ¥75,431 million from a year earlier to ¥2,155,906 million. The decline in assets can be primarily attributed to a decline in accounts receivable—installment of ¥111,372 million due to the company spinoff that took effect on April 1, 2011, and other factors.

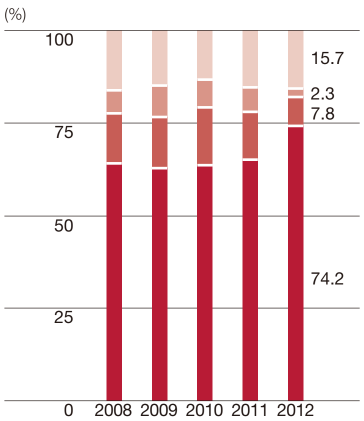
Total current liabilities at the end of fiscal 2011 had increased by ¥27,048 million from a year earlier to ¥824,714 million. Total long-term liabilities had decreased by ¥110,200 million to ¥975,465 million. These changes included a ¥154,630 million reduction in interest-bearing debt due to the redemption of commercial paper and corporate bonds.

Total equity at the end of fiscal 2011 had increased by ¥7,811 million from the previous fiscal year-end to ¥355,727 million. This increase included an increase of ¥3,906 million in retained earnings.

# VI. CREDIT RISKS

Of total receivables (i.e. the balance calculated by adding up the balance of installment accounts receivable and the balance of lease investment assets with the balance of contingent liabilities), receivables overdue by more than 90 days amounted to ¥120,422 million, a decrease of 29.1% year on year. The balance of the allowance for uncollectible receivables (current assets) as of March 31, 2012 was ¥95,172 million, a 19.8% year-on-year decrease. Consequently, the ratio of the allowance to the receivables overdue for more than 90 days increased to 200.5% from 175.8% at the previous fiscal year-end.

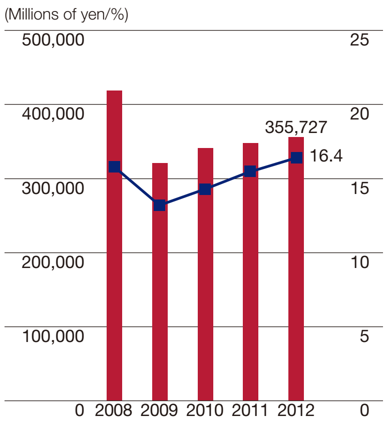
**COMPOSITION OF INTEREST-BEARING DEBT**




Bonds
Asset-backed securities
Commercial paper
Loans

(Years ended March 31)

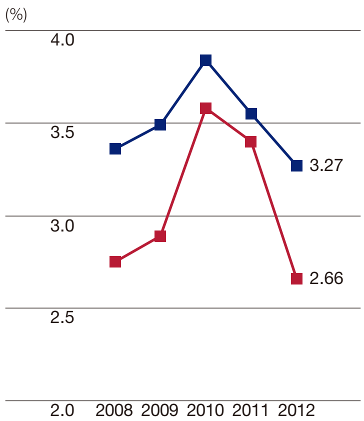
**TOTAL EQUITY AND SHAREHOLDERS' EQUITY RATIO**




Total equity
Shareholders' equity ratio

(Years ended March 31)

**DELINQUENCY RATIO (OVER 90 DAYS) AND WRITE-OFF RATIO (NON-CONSOLIDATED BASIS)**




Delinquency ratio (over 90 days)
Write-off ratio (non-consolidated basis)

(Years ended March 31)

#### COMPARISON OF DELINQUENT RECEIVABLES AND THE ALLOWANCE FOR RECEIVABLES

(Millions of yen)

| | 2012 | 2011 | % change |
|---|---|---|---|
| (1) Receivables | **1,786,198** | 1,981,604 | (9.9) |
| (2) Receivables overdue by more than 90 days | **120,422** | 169,770 | (29.1) |
| (3) Collateralized portion included in (2) | **72,943** | 102,311 | (28.7) |
| (4) Allowance for losses on receivables included in current assets | **95,172** | 118,625 | (19.8) |
| Receivables overdue by more than 90 days as a percentage of receivables [(2) ÷ (1)] | **6.7%** | 8.6% | – |
| Ratio of allowance of losses on receivables to receivables overdue by more than 90 days [(4) ÷ ((2) – (3))] | **200.5%** | 175.8% | – |
| (Reference) Receivables overdue by more than 90 days excluding collateralized portion as a percentage of receivables [((2) – (3)) ÷ (1)] | **2.7%** | 3.4% | – |

(Years ended March 31)

#### CHANGES IN THE ALLOWANCE FOR UNCOLLECTIBLE RECEIVABLES

(Millions of yen)

| | 2012 | 2011 | % change |
|---|---|---|---|
| Allowance for losses on receivables at the beginning of the year | **123,594** | 126,496 | (2.3) |
| Increase | **35,693** | 55,936 | (36.2) |
| Decrease | **61,857** | 58,838 | 5.1 |
| Allowance for losses on receivables at the end of the year | **97,430** | 123,594 | (21.2) |
| (Reference) Losses on receivables | **2** | 5 | (53.2) |

(Years ended March 31)

Note: The increase in the fiscal year ended March 31, 2011 includes a provision of ¥8,156 million to the allowance for uncollectible receivables recorded in response to the Great East Japan Earthquake of March 11, 2011.

## VII. RISK INFORMATION

The following presents an overview of operating, accounting and other issues that exert or could exert a significant influence on investor decisions.

Forward-looking statements are Credit Saison Group estimates as of March 31, 2012.

### 1. Operating Conditions

Results and financial position in the Credit Saison Group's primary Credit Service, Lease, Finance, Real Estate-Related and Entertainment businesses are subject to the influence of domestic economic conditions. Factors contingent upon economic conditions, including worsening of the employment environment, disposable household income or consumer spending, affect or may affect transaction volume and repayment in Group businesses including credit cards, loans, credit guarantees, and real estate mortgage loans, and therefore have the potential to negatively impact Group operating revenues and the cost of uncollectible receivables.

Small and medium-sized companies are the principal customer group of the lease business. Factors contingent upon economic conditions, including contraction in capital expenditures and deteriorating corporate performance accompanying an economic recession, have the potential to negatively impact operating revenues, losses on uncollectible receivables and other results, as well as financial position.

### 2. Changes in Cost of Funds

The Group utilizes interest rate swaps and other means as a hedge against rises in interest rates, in addition to issuing corporate bonds and borrowing from financial institutions to secure stable and fixed funding. Nevertheless, changes in financial conditions and reduction in the Credit Saison Group's credit rating may increase interest rates on funds the Group procures and have the potential to negatively impact operating revenues and other results as well as financial position. Changes in interest rates on loans and other instruments are impacted by a wide array of considerations. These include changes in the terms of customer contracts and interest rates applicable to other companies in the consumer credit business. The Credit Saison Group may be unable to price its products and services to reflect higher interest rates on the capital it procures, which would have the potential to reduce the Group's interest margin.

### 3. Competitive Environment

The financial system has undergone substantial deregulation in recent years, which has resulted in energetic restructuring of the retail financial services industry in Japan. Large mergers in the credit card industry, the entry of competitors from other industries and other events have caused competition to intensify. In this changing market, the results and financial position of the Credit Saison Group may be negatively impacted by the occurrence of events such as reduced profitability due to a decrease in fee rates from member stores or changes in the terms of transactions with business partners.

### 4. Unfavorable Performance Among Primary Alliance Partners

In the credit services business, the Credit Saison Group has agreements including affinity card issuance and member store contracts with numerous companies and organizations. Unfavorable performance among these alliance partners has the potential to negatively impact the Credit Saison Group's performance and financial position. For example, the Credit Saison Group acquires many of its new cardmembers through the outlets of alliance partners in the retailing industry. Reduced ability to attract customers or lower sales among these companies has the potential to negatively impact the Credit Saison Group's operating revenues.

In addition, the Credit Saison Group has capital relationships with some of its alliance partners. Unfavorable performance among such alliance partners has the potential to incur impairment losses on investment securities in the Credit Saison Group's portfolio.

## 5. System Operation Problems

The Credit Saison Group relies heavily on computer systems and communication networks in numerous aspects of its main businesses, including the credit service business. A number of situations could compromise the Credit Saison Group's sales capabilities, damage its credibility and cause other problems that would have the potential to negatively impact the Credit Saison Group's performance and financial position. These situations include Group and counterparty system inoperability resulting from temporary system overload due to factors such as system errors or spikes in access caused by Group or counterparty hardware or software problems; breakdown in communication networks resulting from factors including natural disasters and accidents; and illegal or inappropriate system operation.

## 6. Leakage of Personal Information and Other Issues

The Credit Saison Group maintains a large volume of personal information concerning its cardmembers and others, and implements appropriate controls throughout the group. However, if an incident such as leakage or illegal use of this information were to occur, the Group might be subject to administrative guidance, orders, or fines for violation of business process regulations under the Private Information Protection Law. This would damage the Credit Saison Group's credibility and cause other problems that would have the potential to negatively impact the Credit Saison Group's performance and financial position.

## 7. Regulatory Changes

The Credit Saison Group operates in accordance with current regulations and the risks that result from these regulations. The Group's businesses are subject to the Installment Sales Law, the Money-Lending Business Control and Regulation Law and other laws. Circumstances arising from future amendments to these laws, or changes or tightening of their interpretation, or new legal restrictions, would have the potential to negatively impact on the Credit Saison Group's operations, performance and financial position.

Moreover, a portion of interest that was higher than the interest rate ceiling set by the Interest Rate Restriction Law can be deemed invalid and may be subject to claims for reimbursement. Credit Saison is booking an allowance for losses on interest repayments in preparation for future claims for reimbursements of this type, but future regulatory revisions or regulatory trends that unexpectedly expanded such reimbursement claims would have the potential to negatively impact on the Credit Saison Group's performance and financial position.

The type, content and degree of potential regulatory revisions are difficult to predict, and the Credit Saison Group has no control over their potential impact on its operations.

## 8. Inventories and Impairment Loss of Property and Equipment and Evaluation Losses

A material decline in the fair value of the Credit Saison Group's land and buildings, or a projected decline in operating income in businesses employing such assets that is not deemed to be temporary, will result in impairment losses that have the potential to negatively impact the Credit Saison Group's results and financial position. Moreover, a material decline in the fair value of investment securities and investments and loans to affiliates, or unfavorable performance among investees, has the potential to result in evaluation losses.

## 9. Natural Disasters, Etc.

Major natural disasters such as earthquakes could cause physical damage to shops and facilities owned by the Credit Saison Group, and personal injury to employees. Such events have the potential to negatively impact the Group's performance and financial position.

# VIII. OUTLOOK FOR THE FISCAL YEAR ENDING MARCH 31, 2013

The business environment for the Credit Saison Group in the fiscal year ending March 31, 2013 is defined by a highly uncertain outlook with respect to economic activity, business conditions and other factors. In the credit card sector, the Group continues to face challenging conditions, including changes in the earnings structure of the Group's business due to revisions to the Money-Lending Business Control and Regulation Law and the Installment Sales Law.

In response to these conditions, Credit Saison will take bold action in the following key areas to lay future business foundations that will drive sustainable growth.

- Expand cashless settlement services based on credit cards to compete successfully with the cash payment services market
- Expand fee-based businesses based on the Internet businesses and develop the advertising and marketing businesses utilizing customer bases
- Diversify revenue sources by promoting non-bank services such as the lease and finance businesses
- Improve the quality of loan receivables by enhancing credit control and collection systems and develop lean operations by transforming the cost structure
- Strengthen corporate governance and rebuild the Group business portfolio

Based on the activities described above, Credit Saison forecasts its consolidated results for the period ending March 31, 2013 to be operating revenues of ¥250,000 million, operating income of ¥43,000 million and net income of ¥29,000 million. In its non-consolidated results, Credit Saison forecasts operating revenues of ¥206,000 million, operating income of ¥38,500 million and net income of ¥23,000 million.

# CONSOLIDATED BALANCE SHEETS

Credit Saison Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2012 and 2011

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| **ASSETS** | 2012 | 2011 | 2012 |
| **Current Assets:** | | | |
| Cash and deposits (Note 12) | ¥ 60,085 | ¥ 64,112 | $ 731,499 |
| Receivables and lease investment assets: | | | |
| Accounts receivable—installment (Notes 5, 7, 12 and 27) | 1,379,776 | 1,491,108 | 16,797,853 |
| Lease investment assets (Notes 6, 7, 11 and 12) | 218,390 | 219,895 | 2,658,748 |
| Short-term loans receivable (Note 12) | 6,310 | 10,144 | 76,820 |
| Less: Allowance for doubtful accounts | (95,173) | (118,626) | (1,158,662) |
| | 1,509,303 | 1,602,521 | 18,374,759 |
| Operational investment securities (Notes 12 and 13) | 16,617 | 7,219 | 202,299 |
| Securities (Notes 12 and 13) | — | 5,982 | — |
| Inventories (Note 8) | 195,352 | 243,849 | 2,378,277 |
| Deferred tax assets (Note 15) | 12,468 | 23,558 | 151,787 |
| Prepaid expenses and other current assets (Note 27) | 21,092 | 25,800 | 256,789 |
| Total current assets | 1,814,917 | 1,973,041 | 22,095,410 |
| | | | |
| **Property and Equipment, at Cost:** | | | |
| Lease assets (Note 11) | 8,081 | 7,072 | 98,384 |
| Buildings and improvements | 47,361 | 41,932 | 576,591 |
| Fixtures and equipment | 26,936 | 27,768 | 327,920 |
| Total | 82,378 | 76,772 | 1,002,895 |
| Less: Accumulated depreciation | (45,878) | (42,083) | (558,535) |
| Net property and equipment | 36,500 | 34,689 | 444,360 |
| Land | 26,486 | 24,237 | 322,451 |
| Construction in progress | 151 | 644 | 1,837 |
| Total property and equipment | 63,137 | 59,570 | 768,648 |
| | | | |
| **Investments and Other Assets:** | | | |
| Investment securities (Notes 12 and 13) | 41,373 | 40,241 | 503,685 |
| Investments in unconsolidated subsidiaries and affiliated companies (Note 12) | 42,992 | 29,390 | 523,404 |
| Long-term loans receivable (Note 12) | 10,237 | 15,166 | 124,631 |
| Intangible assets | 98,939 | 76,633 | 1,204,514 |
| Lease deposits | 5,967 | 6,225 | 72,644 |
| Deferred tax assets (Note 15) | 76,174 | 32,454 | 927,373 |
| Others | 4,428 | 3,496 | 53,907 |
| Less: Allowance for doubtful accounts | (2,258) | (4,969) | (27,489) |
| Total investments and other assets | 277,852 | 198,636 | 3,382,669 |
| Total assets | ¥2,155,906 | ¥2,231,247 | $26,246,727 |

The accompanying notes are an integral part of these statements.

| LIABILITIES AND EQUITY | Millions of yen 2012 | 2011 | Thousands of U.S. dollars (Note 2) 2012 |
|---|---|---|---|
| **Current Liabilities:** | | | |
| Notes and accounts payable (Notes 12 and 27) | ¥ 240,950 | ¥ 171,066 | $ 2,933,400 |
| Short-term loans (Notes 10 and 12) | 234,190 | 248,029 | 2,851,108 |
| Current portion of long-term debt (Notes 7, 10 and 12) | 243,428 | 200,036 | 2,963,575 |
| Commercial paper (Notes 10 and 12) | 32,000 | 110,000 | 389,579 |
| Current portion of long-term lease obligations (Notes 10 and 12) | 1,974 | 1,599 | 24,030 |
| Accrued income taxes | 9,465 | 1,536 | 115,233 |
| Unearned income | 5,840 | 6,148 | 71,103 |
| Accrued employees' bonuses | 1,985 | 2,018 | 24,163 |
| Accrued directors' bonuses | 154 | 89 | 1,873 |
| Allowance for losses on interest repayments | 13,247 | 19,612 | 161,271 |
| Allowance for losses on collecting gift tickets | 183 | 192 | 2,224 |
| Accrued expenses and other current liabilities | 41,298 | 37,341 | 502,778 |
| Total current liabilities | 824,714 | 797,666 | 10,040,337 |
| **Long-Term Liabilities:** | | | |
| Long-term debt (Notes 7, 10 and 12) | 875,257 | 980,840 | 10,655,674 |
| Long-term lease obligations (Notes 10 and 12) | 2,953 | 3,929 | 35,953 |
| Accrued pension and severance costs (Note 14) | — | 2,179 | — |
| Accrued retirement benefits to directors and corporate auditors | 92 | 74 | 1,123 |
| Allowance for losses on guarantees | 4,068 | 5,464 | 49,525 |
| Allowance for losses on defect warranties | 16 | 19 | 195 |
| Allowance for losses on point program | 70,661 | 65,880 | 860,252 |
| Allowance for losses on interest repayments | 11,574 | 15,569 | 140,903 |
| Asset retirement obligations | 831 | 835 | 10,116 |
| Negative goodwill | 329 | 706 | 4,009 |
| Others (Note 15) | 9,684 | 10,170 | 117,893 |
| Total long-term liabilities | 975,465 | 1,085,665 | 11,875,643 |
| **Commitments and Contingent Liabilities** (Notes 9 and 21) | | | |
| **Equity** (Note 23)**:** | | | |
| Common stock | 75,929 | 75,929 | 924,390 |
| Capital surplus | 84,838 | 84,838 | 1,032,848 |
| Stock acquisition rights | 0 | 0 | 0 |
| Retained earnings | 189,535 | 185,629 | 2,307,469 |
| Less: Treasury stock, at cost | (6,116) | (6,114) | (74,465) |
| Accumulated other comprehensive income: | | | |
| Net unrealized gains on available-for-sale securities | 10,045 | 6,570 | 122,284 |
| Deferred losses on derivatives under hedge accounting | (1,536) | (1,623) | (18,698) |
| Total | 352,695 | 345,229 | 4,293,828 |
| Minority interests | 3,032 | 2,687 | 36,919 |
| Total equity | 355,727 | 347,916 | 4,330,747 |
| Total liabilities and equity | ¥2,155,906 | ¥2,231,247 | $26,246,727 |

# CONSOLIDATED STATEMENTS OF INCOME

Credit Saison Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| **Operating Revenues** (Note 19)**:** | | | |
| Income from the credit service business | ¥197,494 | ¥229,536 | $2,404,362 |
| Income from the lease business | 14,645 | 14,437 | 178,297 |
| Income from the finance business | 15,446 | 15,261 | 188,040 |
| Income from the real estate related business | 2,967 | 12,118 | 36,115 |
| Income from the entertainment business | 12,990 | 13,928 | 158,150 |
| Financial income | 467 | 433 | 5,685 |
| Total operating revenues | 244,009 | 285,713 | 2,970,649 |
| **Operating Expenses:** | | | |
| Selling, general and administrative expenses | 192,185 | 235,759 | 2,339,724 |
| Financial costs | 19,958 | 22,577 | 242,982 |
| Total operating expenses | 212,143 | 258,336 | 2,582,706 |
| **Operating Income** | 31,866 | 27,377 | 387,943 |
| **Non-Operating Revenues:** | | | |
| Gain on sales of property and equipment and intangible assets | — | 189 | — |
| Gain on sales of investment securities | 174 | — | 2,116 |
| Gain on sales of investments in subsidiaries and affiliates | 7,140 | — | 86,925 |
| Gain on reversal of allowance for losses from a natural disaster (Note 16) | 5,492 | — | 66,863 |
| Dividend income | 969 | 2,190 | 11,800 |
| Equity in earnings of equity method-affiliated companies | 3,796 | 2,010 | 46,210 |
| Other | 2,648 | 2,559 | 32,241 |
| Total non-operating revenues | 20,219 | 6,948 | 246,155 |
| **Non-Operating Expenses:** | | | |
| Loss on devaluation of investment securities | 570 | 551 | 6,934 |
| Impairment losses | 48 | 156 | 578 |
| Loss on business restructuring of subsidiaries (Note 17) | 59,796 | — | 727,971 |
| Loss on adjustment for changes of accounting standard for asset retirement obligations | — | 1,177 | — |
| Losses from a natural disaster (Note 18) | 210 | 9,986 | 2,562 |
| Loss on revision of retirement benefit plan (Note 14) | 1,658 | — | 20,187 |
| Other | 517 | 998 | 6,309 |
| Total non-operating expenses | 62,799 | 12,868 | 764,541 |
| **Non-Operating Expenses, net** | (42,580) | (5,920) | (518,386) |
| **Income (loss) before Income Taxes and Minority Interests** | (10,714) | 21,457 | (130,443) |
| **Income Taxes** (Note 15)**:** | | | |
| Current | 12,967 | 7,988 | 157,858 |
| Deferred | (33,488) | 365 | (407,691) |
| **Net Income before Minority Interests** | 9,807 | 13,104 | 119,390 |
| Minority interest in net income | 353 | 274 | 4,298 |
| **Net Income** | ¥ 9,454 | ¥ 12,830 | $ 115,092 |

| | Yen | | U.S. dollars (Note 2) |
|---|---|---|---|
| **Per Share Data** (Notes 3 (T) and 25) | 2012 | 2011 | 2012 |
| Equity | ¥1,920.65 | ¥1,879.98 | $23.383 |
| Net income, basic | 51.48 | 69.86 | 0.627 |
| Net income, diluted | 50.86 | 69.41 | 0.619 |
| Cash dividends | 30.00 | 30.00 | 0.365 |

The accompanying notes are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Credit Saison Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| **Net Income before Minority Interests** | ¥ 9,807 | ¥13,104 | $119,390 |
| **Other Comprehensive Income (loss)** (Note 22) | | | |
| Unrealized gains (losses) on available-for-sale securities | 2,010 | (1,193) | 24,473 |
| Deferred gains on derivatives under hedge accounting | 72 | 108 | 880 |
| Share of other comprehensive income in affiliated companies | 1,479 | 985 | 18,003 |
| Total other comprehensive income (loss) | 3,561 | (100) | 43,356 |
| **Comprehensive Income** (Note 22) | ¥13,368 | ¥13,004 | $162,746 |
| **Comprehensive income attributable to** (Note 22)**:** | | | |
| Owners of the parent | ¥13,015 | ¥12,730 | $158,451 |
| Minority interests | 353 | 274 | 4,295 |

The accompanying notes are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Credit Saison Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

Millions of yen

| | | | | | | | Accumulated other comprehensive income | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued number of shares of common stock (thousands) | Common stock | Capital surplus | Stock acquisition rights | Retained earnings | Treasury stock | Net unrealized gains on available-for-sale securities | Deferred losses on derivatives under hedge accounting | Total | Minority interests | Total equity |
| **Balance at April 1, 2010** | 185,445 | ¥75,929 | ¥84,861 | ¥0 | ¥179,237 | ¥(6,106) | ¥ 6,812 | ¥(1,762) | ¥338,971 | ¥2,434 | ¥341,405 |
| Change of scope of consolidation | | | | | (774) | | | | (774) | | (774) |
| Cash dividends | | | | | (5,511) | | | | (5,511) | | (5,511) |
| Net income for the year ended March 31, 2011 | | | | | 12,830 | | | | 12,830 | | 12,830 |
| Increase in treasury stock | | | | | | (3) | | | (3) | | (3) |
| Decrease in treasury stock | | | (1) | | | 1 | | | 0 | | 0 |
| Adjustment of retained earnings due to adoption of PITF No.24 | | | | | (153) | | | | (153) | | (153) |
| Acquisition of treasury stock from a consolidated subsidiary | | | (22) | | | (6) | | | (28) | | (28) |
| Net changes in the year | | | | | | | (242) | 139 | (103) | 253 | 150 |
| **Balance at March 31, 2011** | 185,445 | ¥75,929 | ¥84,838 | ¥0 | ¥185,629 | ¥(6,114) | ¥ 6,570 | ¥(1,623) | ¥345,229 | ¥2,687 | ¥347,916 |
| Cash dividends | | | | | **(5,511)** | | | | **(5,511)** | | **(5,511)** |
| Net income for the year ended March 31, 2012 | | | | | **9,454** | | | | **9,454** | | **9,454** |
| Increase in treasury stock | | | | | | **(2)** | | | **(2)** | | **(2)** |
| Decrease in treasury stock | | | **(0)** | | | **0** | | | **0** | | **0** |
| Change of scope of equity method | | | | | **(37)** | | | | **(37)** | | **(37)** |
| Net changes in the year | | | | | | | **3,475** | **87** | **3,562** | **345** | **3,907** |
| **Balance at March 31, 2012** | **185,445** | **¥75,929** | **¥84,838** | **¥0** | **¥189,535** | **¥(6,116)** | **¥10,045** | **¥(1,536)** | **¥352,695** | **¥3,032** | **¥355,727** |

Thousands of U.S. dollars (Note 2)

| | | | | | | | Accumulated other comprehensive income | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued number of shares of common stock (thousands) | Common stock | Capital surplus | Stock acquisition rights | Retained earnings | Treasury stock | Net unrealized gains on available-for-sale securities | Deferred losses on derivatives under hedge accounting | Total | Minority interests | Total Equity |
| **Balance at March 31, 2011** | 185,445 | $924,390 | $1,032,850 | $0 | $2,259,908 | $(74,439) | $ 79,978 | $(19,751) | $4,202,936 | $32,710 | $4,235,646 |
| Cash dividends | | | | | **(67,098)** | | | | **(67,098)** | | **(67,098)** |
| Net income for the year ended March 31, 2012 | | | | | **115,092** | | | | **115,092** | | **115,092** |
| Increase in treasury stock | | | | | | **(28)** | | | **(28)** | | **(28)** |
| Decrease in treasury stock | | | **(2)** | | | **2** | | | **0** | | **0** |
| Change of scope of equity method | | | | | **(433)** | | | | **(433)** | | **(433)** |
| Net changes in the year | | | | | | | **42,306** | **1,053** | **43,359** | **4,209** | **47,568** |
| **Balance at March 31, 2012** | **185,445** | **$924,390** | **$1,032,848** | **$0** | **$2,307,469** | **$(74,465)** | **$122,284** | **$(18,698)** | **$4,293,828** | **$36,919** | **$4,330,747** |

The accompanying notes are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Credit Saison Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| **Cash Flows from Operating Activities:** | | | |
| Income (loss) before income taxes and minority interests | ¥ (10,714) | ¥ 21,457 | $ (130,443) |
| Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities: | | | |
| Income taxes paid | (4,207) | (16,867) | (51,201) |
| Depreciation and amortization | 14,083 | 15,568 | 171,449 |
| Loss on adjustment for changes of accounting standard for asset retirement obligations | — | 1,177 | — |
| Gain on reversal of allowance for losses from a natural disaster | (5,492) | — | (66,863) |
| Losses from a natural disaster | 210 | 9,986 | 2,562 |
| Loss on business restructuring of subsidiaries | 59,796 | — | 727,971 |
| Decrease in allowance for doubtful accounts | (31,377) | (11,059) | (381,992) |
| Decrease in accrued pension and severance costs | (2,179) | (1,073) | (26,533) |
| Increase in allowance for losses on point program | 4,781 | 4,642 | 58,206 |
| Decrease in allowance for losses on interest repayments | (10,360) | (414) | (126,137) |
| Increase (decrease) in allowance for other reserves | 60 | (735) | 726 |
| Interest and dividend income | (1,391) | (2,602) | (16,932) |
| Interest expenses | 18,794 | 21,485 | 228,799 |
| Equity in earnings of equity method-affiliated companies | (3,796) | (2,010) | (46,210) |
| Foreign currency exchange loss | 39 | 38 | 476 |
| (Gain) loss on sales of investment securities | (173) | 139 | (2,104) |
| Gain on sales of investments in subsidiaries and affiliates | (7,140) | — | (86,925) |
| Loss on devaluation of investment securities | 570 | 551 | 6,934 |
| Impairment losses | 48 | 156 | 578 |
| Loss on disposals of property and equipment, and other assets | 795 | 898 | 9,674 |
| Increase in operational investment securities | (9,390) | (6,860) | (114,320) |
| (Increase) decrease in trade receivables | (47,104) | 198,048 | (573,458) |
| (Increase) decrease in lease investment assets | 1,505 | (5,662) | 18,327 |
| Increase in inventories | (941) | (22,213) | (11,456) |
| Decrease in other assets | 3,979 | 1,066 | 48,437 |
| Interest and dividends received | 1,837 | 2,952 | 22,363 |
| Interest paid | (18,993) | (21,804) | (231,231) |
| Increase (decrease) in notes and accounts payable | 69,884 | (35,691) | 850,789 |
| Increase in other liabilities | 1,828 | 940 | 22,268 |
| Other—net | 659 | (50) | 8,044 |
| **Net Cash Provided by Operating Activities** | 25,611 | 152,063 | 311,798 |
| **Cash Flows from Investing Activities:** | | | |
| Payments into time deposits | — | (500) | — |
| Proceeds from withdrawals of time deposits | 500 | — | 6,087 |
| Payments for purchases of investment securities | (22) | (1,063) | (272) |
| Proceeds from sales or redemptions of investment securities (Note 24 (C)) | 2,049 | 1,176 | 24,945 |
| Proceeds from sales of investment in subsidiaries and affiliates | 18,360 | | 223,521 |
| Proceeds from purchases of investments in subsidiaries resulting in change in scope of consolidation | — | 69 | — |
| Proceeds from an absorption-type company split (Note 24 (D)) | 135,794 | — | 1,653,206 |
| Payments for purchases of property and equipment and other assets | (35,030) | (37,272) | (426,470) |
| Proceeds from sales of property and equipment and other assets | 110 | 2,701 | 1,337 |
| Payments for short-term and long-term loans | (165) | (1,318) | (2,009) |
| Proceeds from short-term and long-term loans | 840 | 167 | 10,231 |
| Decrease in other assets | 702 | 771 | 8,542 |
| **Net Cash Provided by (Used in) Investing Activities** | 123,138 | (35,269) | 1,499,118 |
| **Cash Flows from Financing Activities:** | | | |
| Decrease in short-term debt | (13,839) | (48,895) | (168,481) |
| Decrease in commercial paper | (78,000) | (23,000) | (949,598) |
| Proceeds from long-term debt | 138,770 | 106,000 | 1,689,433 |
| Repayments of long-term debt | (157,519) | (109,037) | (1,917,689) |
| Proceeds from issuance of bonds | 9,949 | 44,770 | 121,130 |
| Repayments of bonds | (45,225) | (25,225) | (550,584) |
| Proceeds from securitized account receivables and lease investment assets | 10,000 | — | 121,743 |
| Payments of payables under securitized account receivables and lease investment assets | (18,217) | (54,962) | (221,782) |
| Repayments of lease obligations | (1,636) | (1,529) | (19,909) |
| Proceeds from sales of treasury stock | 0 | 0 | 1 |
| Purchases of treasury stock | (2) | (3) | (28) |
| Cash dividends paid | (5,511) | (5,511) | (67,098) |
| Cash dividends paid to minority shareholders | (7) | (28) | (86) |
| **Net Cash used in Financing Activities** | (161,237) | (117,420) | (1,962,948) |
| **Translation loss on Cash and Cash Equivalents** | (38) | (35) | (467) |
| **Decrease in Cash and Cash Equivalents** | (12,526) | (661) | (152,499) |
| **Cash and Cash Equivalents at the Beginning of Year** | 72,527 | 73,131 | 882,966 |
| **Increase in Cash and Cash Equivalents of Newly Consolidated Subsidiaries** | — | 57 | — |
| **Cash and Cash Equivalents at the End of Year** (Note 24 (A)) | ¥ 60,001 | ¥ 72,527 | $ 730,467 |

The accompanying notes are an integral part of these statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Credit Saison Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

## 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared based on the accounts maintained by Credit Saison Co., Ltd. (the "Company") and its consolidated subsidiaries (together the "Companies") in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2011 consolidated financial statements to conform to the classifications used in 2012.

## 2. U.S. DOLLAR AMOUNTS

Japanese yen amounts have been translated into U.S. dollars at the rate of ¥82.14=US$1, the approximate exchange rate on March 31, 2012, for the convenience of the reader. These translations should not be construed as representations that Japanese yen amounts have been or could be converted into U.S. dollars at that or any other rate.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (A) BASIS OF CONSOLIDATION AND ACCOUNTING FOR INVESTMENTS IN AFFILIATED COMPANIES

As at March 31, 2012, the consolidated financial statements include the accounts of the Company and its eighteen (eighteen for 2011) significant subsidiaries.

All significant intercompany balances and transactions and unrealized profit among the Companies, if any, have been eliminated in consolidation. Unconsolidated subsidiaries would have no material effect on the consolidated financial statements of the Companies and have therefore been excluded from consolidation.

Investments in eight (seven for 2011) significant affiliates are accounted for by the equity method.

(NEW)

Seven CS Card Service Co., Ltd.

(Seven CS Card Service Co., Ltd., which increased in significance was newly included in accounting for investments in affiliated companies effective from the current fiscal year.)

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are stated at cost, due to their immaterial effects on the consolidated financial statements of the Companies.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is amortized over a period of 20 years. However, if the amount is not material, it is charged to income when incurred.

### (B) INVENTORIES

Inventories are stated at the lower of cost, determined principally by the specific identification method, or net selling value. Supplies, however, are stated at cost determined by the latest purchase cost method.

### (C) FINANCIAL INSTRUMENTS

*i. Derivatives*

All derivatives are recognized as either assets or liabilities and measured at fair value. Gains or losses on derivative transactions are recognized in the consolidated statements of income, except for derivatives that are designated as "hedging instruments" (see iii. Hedge accounting).

*ii. Securities*

Securities held by the Companies are classified into four categories:

Trading securities, which are held for the purpose of generating profits on short-term differences in prices, are measured at fair value, with changes in fair value included in profit or loss for the period in which they arise.

Held-to-maturity debt securities, which the Companies intend to hold to maturity with such ability, are reported at amortized cost.

Investments in equity securities issued by unconsolidated subsidiaries and affiliates are accounted for by the equity method. Exceptionally, investments in certain unconsolidated subsidiaries and affiliates are stated at cost.

Securities not included in the above categories are defined as "available-for-sale securities." Available-for-sale securities that have market prices are measured at fair value, and unrealized gains or losses on these securities are reported as accumulated other comprehensive income in equity at a net-of-tax amount, other than the amounts related to gains or losses on embedded derivatives.

Available-for-sale securities that do not have market prices are stated at cost using the moving-average method. Limited liability partnerships for investment business and of other similar partnerships (defined as "securities" by Article 2, Section 2 of the Financial Instruments and Exchange Act) are valued at the net equity equivalents based on the recently available financial statements of the partnership corresponding to the reporting dates of the financial statements defined by the partnership agreements.

In cases where the fair value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliates, or available-for-sale securities have declined significantly and such decline in the value is not deemed temporary, those securities are written down to fair value and the resulting loss is included in profit or loss for the period.

*iii. Hedge accounting*

The derivatives used as hedging instruments by the Companies are interest rate swaps. The related hedged items are bank loans and bonds issued by the Companies.

The Companies use interest rate swaps to manage their exposure to fluctuations in interest rates. The Companies do not enter into derivatives for speculative purposes.

As per the accounting standard for derivative financial instruments, a) all derivatives except those which qualify for hedge accounting, are recognized as either assets or liabilities and measured at fair value and gains or losses on derivative transactions are recognized in the consolidated statements of income, and b) for derivatives used for hedging purposes, if the derivatives qualify for hedge accounting because of a high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

### (D) PROPERTY AND EQUIPMENT

Depreciation of property and equipment is computed principally by the straight-line method over the estimated useful lives of the assets.

Lease assets are depreciated by the straight-line method over their lease term with zero residual value.

### (E) LEASE

In March 2007, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No. 13, “Accounting Standard for Lease Transactions,” which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008. The Companies applied the revised accounting standard effective April 1, 2008.

*(Lessee)*

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain “as if capitalized” information was disclosed in the notes to the lessee’s financial statements. The revised accounting standard requires that all finance lease transactions are capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions with certain “as if capitalized” information disclosed in the notes to the lessee’s financial statements.

*(Lessor)*

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were treated as sales. The revised accounting standard requires that all finance leases that are deemed to transfer ownership of the leased property to the lessee are recognized as lease receivables and that all finance leases that are not deemed to transfer ownership of the leased property to the lessee should be recognized as lease investment assets. In addition, the revised accounting standard permits the value of lease investment assets of leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to take over the appropriate book value (net of accumulated depreciation) of the leased property as of March 31, 2008, and after the adoption of the revised accounting standard, the aggregate amount equivalent to interest is allocated over the lease term based on the straight-line method.

### (F) INTANGIBLE ASSETS

Intangible assets are amortized by the straight-line method over the useful lives.

### (G) LONG-LIVED ASSETS

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

### (H) BOND ISSUE COSTS

Bond issue costs are amortized by the straight-line method over the bond term.

### (I) ALLOWANCE FOR DOUBTFUL ACCOUNTS

Receivables and lease investment assets are classified into four risk categories: bankrupt, doubtful, substandard and normal.

The Companies individually provide a specific reserve for bankrupt and doubtful receivables based on the fair value of any underlying collateral.

The Companies collectively provide a general reserve for substandard and normal receivables applying a ratio determined based on the Companies’ past credit loss experience.

### (J) ACCRUED EMPLOYEES’ BONUSES

Accrued employees’ bonuses are provided at the estimated amounts which are to be paid for services rendered through the year.

### (K) ACCRUED DIRECTORS’ BONUSES

Accrued directors’ bonuses are maintained at the amount accrued at the end of the fiscal year based on estimated future payments and service period.

### (L) ALLOWANCE FOR LOSSES ON COLLECTING GIFT TICKETS

Allowance for losses on collecting gift tickets, etc., issued by the Company takes into account its registration of collected tickets in order to prepare for the possible future use of those tickets that had been recorded as revenue after the passage of the constant period.

### (M) ALLOWANCE FOR LOSSES ON INTEREST REPAYMENTS

Allowance for losses on interest repayments is provided at the estimated amount based on payment experience, required to be refunded upon customers' legal claims.

### (N) ACCRUED RETIREMENT BENEFITS TO DIRECTORS AND CORPORATE AUDITORS

Directors and corporate auditors customarily receive lump-sum payments upon termination of services, subject to shareholders' approval.

Consolidated subsidiaries with such plans accrue retirement benefits at an amount based on the unfunded retirement plan for the directors and corporate auditors.

### (O) ALLOWANCE FOR LOSSES ON GUARANTEES

An allowance for losses on guarantees is provided for potential losses arising from the Companies' guarantee obligations of customers' liabilities (personal loans to individuals from the banks with which the Companies have guarantee service arrangements).

The allowance is provided at an amount determined by applying the ratio of the Companies' loss experience to the balance of guarantees outstanding at year-end.

### (P) ALLOWANCE FOR LOSSES ON DEFECT WARRANTIES

Allowance for losses on defect warranties is provided for the potential repair costs on sold real estate due to the Companies' warranty. The allowance is provided at the amount estimated based on the past experience of repair costs.

### (Q) ALLOWANCE FOR LOSSES ON POINT PROGRAM

To stimulate card usage, the Company provides cardholders with credit card points which can be exchanged for various commodities and services. Allowance for losses on a point program is provided based on estimated usage of card points outstanding at the year-end and exchange experience.

### (R) RECOGNITION OF OPERATING REVENUE

The operations of the Companies are mainly comprised of the following business areas and the recognition of operating revenues differs for each business.

*i. Credit card contracts and personal credit contracts for shopping (The credit service business)*

Fees for collection and administrative services to be received from affiliated stores are recognized when payments are received.

Fees from customers are recognized by the interest method or the sum-of-the-digits method.

*ii. Loan contracts and guarantee contracts (The finance business)*

Fees from customers under loan contracts or guarantee contracts are recognized by the interest method.

*iii. Lease contracts (The lease business)*

The aggregate amount equivalent to interest is allocated to each period.

### (S) INCOME TAXES

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income.

Deferred taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes.

### (T) PER SHARE INFORMATION

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full exercise of the stock options at the beginning of the year (or at the time of issuance).

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

### (U) CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the consolidated statements of cash flows comprise cash on hand, demand deposits in banks and highly liquid, short-term investments with a low risk of fluctuation in value that are scheduled to mature within three months of acquisition.

### (V) ACCOUNTING CHANGES AND ERROR CORRECTIONS

In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied due to a revision of accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated. This accounting standard and the guidance are applicable to accounting changes and corrections of prior-period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

## 4. BUSINESS COMBINATION

At the Board of Directors meeting held on December 22, 2010, the Company resolved to implement an absorption-type company split of the Company's affinity card business (the "card business") to Seven CS Card Service Co., Ltd. ("Seven CS card"), a wholly owned subsidiary of the Company, effective April 1, 2011, based on a comprehensive business partnership contract with Seven Financial Service Co., Ltd. ("Seven financial service") and Sogo & Seibu Co., Ltd. ("Sogo & Seibu") on September 10, 2010.

Furthermore, on April 1, 2011, the Company transferred 51% of shares in Seven CS card to Seven financial service.

*TRANSACTIONS UNDER COMMON CONTROL*

### (A) OUTLINE OF BUSINESS

The Company has issued an affinity card with Sogo & Seibu.

### (B) DATE OF BUSINESS COMBINATION

April 1, 2011

### (C) LEGAL FORM OF BUSINESS COMBINATION

Part of the Company was split for absorption by Seven CS Card as the succeeding company.

### (D) DETAILS OF ALLOTMENTS WITH REGARD TO THE SPLIT

*i. Allotment of stock*

Upon execution of this absorption-type company split, the succeeding company issued one new share of common stock, which was allotted to the Company.

As a result, the Company came to own a total of 1,000 shares in the succeeding company.

Of those shares, 510 shares were transferred to Seven Financial Service effective April 1, 2011, in accordance with a stock transfer contract concluded with Seven Financial Service on September 10, 2010.

*ii. Payment of cash*

The succeeding company made interest payments at a rate of 0.8% per year on the amount that was calculated based on the net assets transferred from the Company in the split and a deduction of ¥22.0 billion (total equity of the succeeding company), prorated for the actual number of days from the day after April 1, 2011 (including such date) until the payment date (counting such date) of the split.

### (E) RIGHTS AND OBLIGATIONS TAKEN OVER BY THE SUCCEEDING COMPANY

The succeeding company took over the assets, liabilities and contractual status of the affinity credit card business from the Company.

Excluded were obligations arising out of unlawful actions or regulatory infringements on or before April 1, 2011 (including the obligation to refund excess interest payments—received on cash advances and other loans).

### (F) DETAILS OF THE ASSETS AND LIABILITIES ACQUIRED BY THE SUCCEEDING COMPANY

| Year ended March 31, 2011 | Millions of yen |
|---|---|
| Current assets | ¥158,288 |
| Non-current assets | 49 |
| Total assets | ¥158,337 |
| Current liabilities | ¥ 742 |
| Long-term liabilities | — |
| Total liabilities | ¥ 742 |

### (G) PURPOSE OF TRANSACTION

The Company decided to this split after considering the many benefits that will result from the new business, including the ability to offer existing holders of Sogo & Seibu affinity cards access to all of the attractive services provided by the Seven financial service.

In addition, the business integration with Seven Card Service Co., Ltd., and Seven CS Card will dramatically expand the scale of the business compared with its present level and allow the Company to develop a strategy for growth over the medium- to long-term future, including increased processing revenues and other income from Seven CS Card.

### (H) OUTLINE OF THE ACCOUNTING TREATMENT IMPLEMENTED

This transaction was accounted for as a transaction under common control in accordance with the "Accounting Standard for Business Combinations" issued by the Business Accounting Council in Japan and "Guidance on Accounting Standard for Business Combinations" and "Accounting Standard for Business Divestitures," issued by the ASBJ.

### (I) OUTLINE OF THE SUCCEEDING COMPANY

(As of March 31, 2011)

| | |
|---|---|
| Name | Seven CS Card Service Co., Ltd. |
| Representative | Toshiharu Yamamoto, Representative Director and President |
| Address | 8-8 Nibancho, Chiyoda-ku, Tokyo |
| Establishment date | September 17, 2010 |
| Main line of business | Credit card issuance and related activities |
| Fiscal year-end | End of February |
| Employee headcount | 464 employees |
| Total assets | ¥382 million |
| Total liabilities | ¥255 million |
| Capital | ¥100 million |
| Total shares issued | 999 shares |
| Composition and equity ratio of major shareholders | Credit Saison Co., Ltd. 100% |

## 5. ACCOUNTS RECEIVABLE-INSTALLMENT

As of March 31, 2012 and 2011, liquidated receivables were as noted below. The following amounts of trust beneficiary rights and other receivables generated from liquidation or operational transactions were included in accounts receivable-installment.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Liquidating receivables: | | | |
| Single-payment card shopping, etc. | **¥20,000** | ¥112,000 | **$243,487** |
| Trust beneficiary rights and other receivables include: | | | |
| Single-payment card shopping, etc. | **2,472** | 12,744 | **30,094** |
| Acquisition from operational transaction | **—** | 2 | **—** |

## 6. LEASE INVESTMENT ASSETS

As of March 31, 2012 and 2011, liquidated lease investment assets were as noted below. The following amounts of trust beneficiary rights were included in lease investment assets.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Liquidating receivables | **¥—** | ¥1,400 | **$—** |
| Trust beneficiary rights | **—** | 6,881 | **—** |

## 7. PLEDGED ASSETS

As of March 31, 2012 and 2011, pledged assets and liabilities related to pledged assets were as follows.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Pledged assets: | | | |
| Accounts receivable-installment | **¥44,750** | ¥47,500 | **$544,802** |
| Lease investment assets | **41,202** | 46,669 | **501,603** |
| Liabilities related to pledged assets: | | | |
| Current portion of long-term debt | **41,079** | 15,851 | **500,110** |
| Long term debt | **44,873** | 78,318 | **546,294** |

## 8. INVENTORIES

Inventories at March 31, 2012 and 2011 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Receivable by purchase | **¥ 10,316** | ¥ 12,738 | **$ 125,584** |
| Real estate for sale | **183,784** | 229,997 | **2,237,452** |
| Other | **1,252** | 1,114 | **15,241** |
| Total | **¥195,352** | ¥243,849 | **$2,378,277** |

## 9. LOAN COMMITMENTS

### (A) LENDER

The Companies provide cashing and card loan services that supplement their credit card operations.

The unexercised loans contingent with the loan commitments in these businesses were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Total loan limits | ¥4,736,245 | ¥5,710,496 | $57,660,636 |
| Loan executions | 320,905 | 443,428 | 3,906,806 |
| | ¥4,415,340 | ¥5,267,068 | $53,753,830 |

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

### (B) BORROWER

The Companies have concluded loan commitment contracts with 5 banks for efficient procurement of working capital.

The portion of the credit line that had not been exercised under these contracts as of March 31, 2012 and 2011 was as follows.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Total loan limits | ¥125,000 | ¥125,000 | $1,521,792 |
| Loan executions | — | — | — |
| | ¥125,000 | ¥125,000 | $1,521,792 |

## 10. SHORT-TERM LOANS AND LONG-TERM DEBT

Short-term loans are represented principally by 30 to 365 day notes to banks with an average interest rate of 0.75% and 0.81% as of March 31, 2012 and 2011, respectively.

Commercial paper is issued by the Companies with an average interest rate of 0.13% and 0.14% as of March 31, 2012 and 2011, respectively.

Long-term debt and lease obligations as of March 31, 2012 and 2011 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Average 1.39% (2012) and 1.47% (2011) unsecured loans from banks, insurance companies and other financial institutions, due in installments through 2022 | ¥ 811,846 | ¥ 830,595 | $ 9,883,686 |
| 0.46% to 2.41% (2012) and 0.47% to 2.41% (2011) bonds, due in installments through 2017 | 220,887 | 256,112 | 2,689,159 |
| Lease obligations*1 | 4,927 | 5,528 | 59,983 |
| Average 1.32% (2012) and 1.39% (2011) payables on under-securitized loans*2 | 85,952 | 94,169 | 1,046,404 |
| Subtotal | 1,123,612 | 1,186,404 | 13,679,232 |
| Less: Current portion | (245,402) | (201,635) | (2,987,605) |
| | ¥ 878,210 | ¥ 984,769 | $10,691,627 |

*1 Because interest is included in lease obligations, presentation of the average interest rate is omitted.
*2 Payables under securitized lease receivables and loans resulting from liquidation.

The aggregate annual maturities of long-term debt subsequent to March 31,2012 are as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2013 | ¥186,980 | $2,276,361 |
| 2014 | 229,753 | 2,797,096 |
| 2015 | 191,843 | 2,335,555 |
| 2016 | 160,448 | 1,953,349 |
| 2017 and thereafter | 109,186 | 1,329,266 |

As is customary in Japan, short-and long-term bank loans are made under general agreements that provide that additional security and guarantees for present and future indebtedness will be given upon request of the bank under certain circumstances and that any collateral so furnished will be applicable to all indebtedness to the bank. To date, the Companies have not received any such requests from their banks.

## 11. LEASE TRANSACTIONS

### (A) FINANCE LEASES THAT DO NOT TRANSFER OWNERSHIP (LESSEE)

*i. Lease assets*

Property and equipment—mainly servers and other equipment

Intangible assets—mainly software used in the credit service business

*ii. Depreciation*

Depreciation equivalent is computed by the straight-line method under the assumption that the lease term equals the useful life and that there is no residual value.

*iii.* As discussed in Note 3 (E), the Companies account for leases which existed at the transition date (March 31, 2008) and do not transfer ownership of the leased property to the lessee as operating lease transactions.

Pro forma information of such leases existing at the transition date, such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, interest expense, and on an "as if capitalized" basis for the years ended March 31, 2012 and 2011 is as follows:

*Pro forma capitalization of leased items*

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Building: | | | |
| Acquisition cost | **¥ 115** | ¥ 157 | **$ 1,399** |
| Accumulated depreciation | **(88)** | (111) | **(1,066)** |
| Net leased property value | **27** | 46 | **333** |
| Other (fixtures and equipment): | | | |
| Acquisition cost | **138** | 487 | **1,686** |
| Accumulated depreciation | **(108)** | (377) | **(1,316)** |
| Net leased property value | **30** | 110 | **370** |
| Total: | | | |
| Acquisition cost | **253** | 644 | **3,085** |
| Accumulated depreciation | **(196)** | (488) | **(2,382)** |
| Net leased property value | **¥ 57** | ¥ 156 | **$ 703** |

*Obligations under finance leases*

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Due within one year | **¥35** | ¥113 | **$420** |
| Due after one year | **32** | 67 | **390** |
| Total | **¥67** | ¥180 | **$810** |

Allowance for impairment losses on leased property of ¥1 million as of March 31, 2011 is not included in the obligations under finance leases.

*Lease payments, depreciation equivalent and interest equivalent*

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Lease payments | **¥116** | ¥217 | **$1,414** |
| Reversal of allowance for impairment losses on leased property | **1** | 1 | **13** |
| Depreciation equivalent | **98** | 189 | **1,198** |
| Interest payable equivalent | **4** | 8 | **46** |

Depreciation equivalent is computed by the straight-line method over their lease term determined by their useful lives, with zero residual value.

Interest equivalent, which represents the aggregate lease payments less the acquisition cost equivalent, is allocated over the lease term based on the interest method.

### (B) FINANCE LEASES THAT DO NOT TRANSFER OWNERSHIP (LESSOR)

*i. Lease investment assets*

Lease investment assets at March 31, 2012 and 2011, consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Gross lease receivables | ¥247,679 | ¥252,134 | $3,015,321 |
| Residual value | — | — | — |
| Unearned interest income | (29,289) | (32,239) | (356,573) |
| Lease investment assets | ¥218,390 | ¥219,895 | $2,658,748 |

*ii. Collection schedule for the amount of lease payments related to lease investment assets after March 31, 2012 and 2011*

| | Millions of yen | | | | Thousands of U.S. dollars | |
|---|---|---|---|---|---|---|
| | 2012 | | 2011 | | 2012 | |
| | Lease investment assets | Gross lease receivables | Lease investment assets | Gross lease receivables | Lease investment assets | Gross lease receivables |
| Due within one year | ¥ 57,093 | ¥ 68,837 | ¥ 56,081 | ¥ 68,574 | $ 695,060 | $ 838,041 |
| Due within two years and after one year | 52,520 | 60,792 | 52,434 | 61,652 | 639,395 | 740,108 |
| Due within three years and after two years | 44,873 | 49,977 | 45,419 | 51,339 | 546,302 | 608,431 |
| Due within four years and after three years | 33,805 | 36,482 | 34,668 | 37,718 | 411,555 | 444,143 |
| Due within five years and after four years | 20,081 | 21,214 | 21,095 | 22,287 | 244,469 | 258,264 |
| Due after five years | 10,018 | 10,376 | 10,198 | 10,563 | 121,967 | 126,334 |
| Total | ¥218,390 | ¥247,678 | ¥219,895 | ¥252,133 | $2,658,748 | $3,015,321 |

*iii.* The Companies account for the value of lease investment assets which existed at the transition date (March 31, 2008) and do not transfer ownership of the leased property to the lessee to take over the appropriate book value (net of accumulated depreciation) of the leased property as of March 31, 2008, and after the adoption of the revised accounting standard, the aggregate amount equivalent to interest is allocated over the lease term based on the straight-line method.

As a result, Income (loss) before income taxes and minority interests as of March 31, 2012 and 2011 increased (decreased) more than it would have if the revised accounting standard had been retroactively adopted starting from the lease transaction commencement dates as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Income (loss) before income taxes and minority interests | ¥2,218 | ¥2,687 | $27,008 |

### (C) OPERATING LEASES

*i. Lessee*

The minimum rental commitments under noncancellable operating leases at March 31, 2012 and 2011 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Due within one year | ¥390 | ¥1,591 | $4,741 |
| Due after one year | 21 | 399 | 259 |
| Total | ¥411 | ¥1,990 | $5,000 |

*ii. Lessor*

The minimum rental commitments under noncancellable operating leases at March 31, 2011 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Due within one year | ¥194 | ¥ 87 | $2,365 |
| Due after one year | 249 | 41 | 3,032 |
| Total | ¥443 | ¥128 | $5,397 |

## 12. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### THE CONDITIONS OF FINANCIAL INSTRUMENTS

### (A) POLICY FOR FINANCIAL INSTRUMENTS

The Companies engage in the credit service business; lease business; finance business including guarantees and loans businesses; real estate related business; and entertainment business. To conduct such businesses, the Companies, by observing the market circumstances and adjusting the balance of long-term and short-term debt, seek financing through indirect financing such as bank loans and through direct financing such as issuance of corporate bonds, commercial paper and securitized receivables. Through such activities, the Companies hold financial assets and financial liabilities that are mostly accompanied by interest rate risks and the Company conducts asset and liability management (ALM) to prevent disadvantageous effects from such interest rate risks. As part of ALM, the Company also conducts derivative transactions that leverage interest rate swaps, etc.

### (B) NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The financial assets held by the Companies are mainly accounts receivable—installments from credit card members. The Companies are exposed to credit risk such as the potential deterioration of the member's repayment situation. As of the end of the current fiscal year, accounts receivable—installment included a large component of receivables related to credit service business and credit cards members' repayments according to the contract depend on changes of business circumstances including the economic environment surrounding the said business (employment environment in the fallout of the economic recession, household disposable income, personal consumption).

Also, (operational) investment securities are mainly stocks, bonds, investment trusts and partnership investments. Such securities are held for the purpose of either trading or business promotion. Each of these securities is exposed to the issuer's credit risks, interest rate fluctuation risks and market price fluctuation risks.

The Companies are exposed to liquidity risks relating to interest-bearing debt such as loans, corporate bonds and commercial paper whereby they may be unable to execute payments of such liabilities on the payment dates in cases, for example, where the Companies are unable to use the market under certain environments such as a greater than expected fluctuations in financial conditions or a downgrading of the Companies' credit rating. Furthermore, the Companies also borrow funds by variable interest loans and although they are exposed to interest fluctuation risks those risks are partly mitigated by conducting interest swap transactions.

Among the derivative transactions conducted by the Companies are interest swap transactions conducted as part of ALM. Using these interest swap transactions as the hedge instruments, the Company applies hedge accounting to interest fluctuation risk related to borrowings that are the hedged item. The hedge is assessed based on the cumulative total of cash flow fluctuations and determined to actually have been highly effective throughout the financial reporting periods for which the hedge is designated.

In addition, the interest rate swaps which qualify for hedge accounting of long-term loans and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expence or income.

### (C) RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS

*(i) Credit risk management*

The Companies manage their credit risk in accordance with the Companies' credit risk management rules by ensuring the ongoing soundness of receivables and maintaining a system for credit risk management including credit limits, management of creditworthiness information, and internal ratings. The Company holds regular Board of Directors' meetings in order to discuss and report matters relating to credit risk management. (Operational) investment securities are managed by periodically ascertaining creditworthiness information and fair values at the ALM committee meetings.

Also, with regard to long-term loans receivable, the relevant departments periodically monitor the credit risk of the obligors. With regard to counterparty risk of derivative transactions, in order to avoid credit risk arising from defaults on contractual obligations, the Company chooses Japanese and overseas banks and securities firms with high creditworthiness as the counterparty to contracts.

*(ii) Market risk management*

*Management of fluctuation risk of interest rates*

The Companies manage interest rate fluctuation risks by applying ALM. The rules related to ALM state the details of risk management methods, procedures and so forth. Based on policies determined at the ALM committee meetings, the Board of Directors ascertains the status of implementation and discusses matters concerning future responses at the meetings. As part of its regular routine, the Treasury & Account Department maintains an overall grasp of the interest rates and terms of financial assets and liabilities and conducts monitoring such as by performing an interest rate gap analysis. When conducting interest rate swap derivative transactions for the purpose of hedging interest rate variable risk, the Companies apply ALM to this also.

*Management of fair value fluctuation risk*

With regard to financial investment products including (operational) investment securities, pursuant to ALM policy, in addition to examining each investment project before investment and establishing limit amounts for the investment, continuous monitoring is also conducted for the purpose of mitigating the price fluctuation risk. Moreover, with regard to stock held for the purpose of business promotion, including business and capital tie-ups, the market environment and the financial condition of the transaction counterparty are also monitored through relevant departments.

This information is periodically reported through the relevant departments to the ALM committee meetings and other meetings.

*Derivatives*

The Treasury & Account Department executes derivative transactions in accordance with internal management regulations set by the Board of Directors, keeping within the scope of the overall transaction framework and hedge ratio approved beforehand by the Board of Directors. The status of the derivative transactions is reported to the Board of Directors on a quarterly basis.

The derivative transactions of consolidated subsidiaries are conducted in accordance with the internal management regulations that have been set by the respective company. During the term of the transactions, the subsidiary reports to the Company on a quarterly basis the status of hedges between the derivative transactions and corresponding assets or liabilities, the counterparty to contracts, the transaction amounts, the period remaining in the terms, and the transaction fair values.

*Quantitative information regarding market risk*

The main financial instruments of the Companies exposed to interest rate risk as the main risk are accounts receivable—installment, short-term loans, long-term debt, corporate bonds, securitized receivables, and interest rate swap transactions.

The Companies estimate the impact of a reasonable fluctuation in interest rates on profit and loss a year or so from the end of an accounting period for the purpose of quantitative analysis in managing their variable risk on interest rates. In estimating this impact, the financial assets and financial liabilities subject to the analysis are grouped into subsets of fixed-interest assets and liabilities and variable-interest assets and liabilities. The Companies then calculate the net estimated impact of interest rate fluctuation on variable-interest assets and variable-interest liabilities as the interest rate gap.

As of March 31, 2012 and 2011, the Companies calculated that their income (loss) before income taxes and minority interests would decrease (increase) ¥33 million (US$404 thousand) in 2012 and ¥44 million in 2011 if the benchmark interest rate rose 1 basis point (0.01 percentage point), and increase (decrease) ¥33 million (US$404 thousand) in 2012 and ¥44 million in 2011 if this interest rate fell 1 basis point. The impact was calculated holding risk variables other than interest rate constant and in the absence of correlations between the other risk variables and the interest rate. Fluctuations in interest rates greater than those reasonably estimated may result in an impact larger than the aforementioned calculations.

*(iii) Liquidity risk management*

The Companies manage their liquidity risk by applying ALM. In addition to ensuring fund management is conducted with appropriate timeliness, they ensure a multiplicity of fund procurement methods, secure commitment lines from multiple financial institutions and maintain a balance of long-term and short-term procurement that is adjusted to reflect the current market environment.

### (D) SUPPLEMENTARY EXPLANATION RELATING TO FAIR VALUE OF FINANCIAL INSTRUMENTS AND OTHERS

The fair value of financial instruments is either an amount based on market prices or, in the case of no market value, the value calculated based on rational grounds. In the case of the latter, established assumptions and conditions are adopted. Accordingly, if different assumptions and preconditions are adopted, the calculated amount may also be different. Moreover, with regard to contractual value or notional principal amount that relate to derivative transactions in Note 20, the amount itself does not reflect market risk related to the derivative transaction.

*Fair value of financial instruments and others*

The following presents the amount presented in the consolidated balance sheet for the years ended March 31, 2012 and 2011, the fair value, and the difference between the carrying amount and fair value. Immaterial amounts in the consolidated balance sheets have been omitted from disclosure.

*ASSETS*

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | 2012 | | | | |
| | Carrying amount | Allowance for doubtful accounts | Total | Fair value | Difference |
| Cash and deposits | ¥ 60,085 | ¥ — | ¥ 60,085 | ¥ 60,085 | ¥ — |
| Accounts receivable—installment | 1,379,776 | (82,426) | 1,297,350 | 1,343,783 | 46,433 |
| Lease investment assets | 218,390 | (11,638) | 206,752 | 220,087 | 13,335 |
| Short-term loans receivable | 6,310 | (282) | 6,028 | 6,028 | — |
| Operational investment securities | 9,997 | — | 9,997 | 9,997 | — |
| Securities | — | — | — | — | — |
| Investment securities | 32,625 | — | 32,625 | 32,625 | — |
| Investments in unconsolidated subsidiaries and affiliated companies | 5,908 | — | 5,908 | 9,052 | 3,144 |
| Long-term loans receivable | 10,237 | (2) | 10,235 | 10,235 | — |

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | 2011 | | | | |
| | Carrying amount | Allowance for doubtful accounts | Total | Fair value | Difference |
| Cash and deposits | ¥ 64,112 | ¥ — | ¥ 64,112 | ¥ 64,112 | ¥ — |
| Accounts receivable—installment | 1,491,108 | (103,807) | 1,387,301 | 1,452,058 | 64,757 |
| Lease investment assets | 219,895 | (13,527) | 206,368 | 219,894 | 13,526 |
| Short-term loans receivable | 10,144 | (483) | 9,661 | 9,661 | — |
| Operational investment securities | 865 | — | 865 | 865 | — |
| Securities | 982 | — | 982 | 982 | — |
| Investment securities | 30,104 | — | 30,104 | 30,104 | — |
| Investments in unconsolidated subsidiaries and affiliated companies | 5,722 | — | 5,722 | 9,333 | 3,611 |
| Long-term loans receivable | 15,166 | (4,426) | 10,740 | 10,740 | — |

| | Thousands of U.S. dollars | | | | |
|---|---|---|---|---|---|
| | 2012 | | | | |
| | Carrying amount | Allowance for doubtful accounts | Total | Fair value | Difference |
| Cash and deposits | $ 731,499 | $ — | $ 731,499 | $ 731,499 | $ — |
| Accounts receivable—installment | 16,797,853 | (1,003,492) | 15,794,361 | 16,359,661 | 565,300 |
| Lease investment assets | 2,658,748 | (141,685) | 2,517,063 | 2,679,413 | 162,350 |
| Short-term loans receivable | 76,820 | (3,428) | 73,392 | 73,392 | — |
| Operational investment securities | 121,710 | — | 121,710 | 121,710 | — |
| Securities | — | — | — | — | — |
| Investment securities | 397,184 | — | 397,184 | 397,184 | — |
| Investments in unconsolidated subsidiaries and affiliated companies | 71,932 | — | 71,932 | 110,208 | 38,276 |
| Long-term loans receivable | 124,631 | (25) | 124,606 | 124,606 | — |

### (A) CASH AND DEPOSITS

For deposits with no maturity, as fair value approximates the carrying value, the carrying value is deemed to be the fair value.

### (B) ACCOUNTS RECEIVABLE—INSTALLMENT

Accounts receivable-installment items with variable interest rates have interest rates that reflect the market interest rate in the short term and because the fair value approximates the carrying value provided that the creditworthiness of the obligor does not significantly change after a loan is executed, the carrying value is deemed to be the fair value. The fair value of accounts receivable—installment with fixed interest rates are determined by discounting the cash flow related to the financial assets reflecting credit risk at the risk-free rate. With respect to doubtful claims, because the amount obtained by deducting the current estimated irrecoverable balance from the amount stated on the balance sheet as of the end of the current year is assumed to approximate the fair value, this amount is deemed to be the fair value.

Because the fair value of a part of accounts receivable—installment is assumed to approximate the carrying value for reasons such as the estimated repayment period and the interest rate conditions, the carrying value is deemed to be the fair value.

Note that the fair value calculations stated above do not reflect future interest repayments.

### (C) LEASE INVESTMENT ASSETS

The fair value of lease investment assets is determined by discounting the cash flows reflecting credit risk at the risk-free rate.

### (D) OPERATIONAL INVESTMENT SECURITIES, SECURITIES, INVESTMENT SECURITIES AND INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND AFFILIATED COMPANIES

The fair value of listed stock depends on the listed price on the stock exchange and the fair value of debentures depends on the price disclosed by the listed price on the stock exchange or the price made available by the transacting financial institutions or, in the case of no market value, the value calculated based on rational grounds. The fair value of investment trusts is based on a reference price that has been publicly released. Concerning the investments in investment limited partnerships or similar associations, the fair value of the association's assets shall be the fair value appraisal in cases where a fair value appraisal of the association's assets is possible and the corresponding equity share of the aforesaid fair value shall be deemed to be the fair value of the investment in the association.

Financial instruments with no market price such as unlisted stocks whose fair values cannot be reliably determined are indicated in the table below and are not included in the fair value disclosure.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | Carrying amount | Carrying amount | Carrying amount |
| Unlisted stocks | ¥ 9,257 | ¥10,485 | $112,699 |
| Investments in unconsolidated subsidiaries and affiliated companies | 37,084 | 23,668 | 451,472 |
| Unlisted debentures | — | 2,800 | — |
| Other | 6,111 | 8,206 | 74,391 |

For notes concerning available-for-sale securities for each holding purpose, refer to Note 13, "AVAILABLE-FOR-SALE SECURITIES."

### (E) SHORT-TERM LOANS RECEIVABLE

Because short-term loans receivable will be settled within the short term, the fair value approximates the carrying value and the carrying value is deemed to be the fair value.

### (F) LONG-TERM LOANS RECEIVABLE

Long-term loans receivable items with variable interest rates have interest rates that reflect the market interest rate in the short-term and because the fair value approximates the carrying value provided that the creditworthiness of the obligor does not significantly change after a loan is executed, the carrying value is deemed to the be the fair value. With respect to doubtful claims, because the amount obtained by deducting the current estimated irrecoverable balance from the amount stated on the balance sheet as of the end of the current year is assumed to approximate the fair value, this amount is deemed to the fair value.

*LIABILITIES*

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | | 2012 | | |
| | Carrying amount | Fair value | Difference | Carrying amount | Fair value | Difference | Carrying amount | Fair value | Difference |
| Notes and accounts payable | ¥240,950 | ¥240,950 | ¥ — | ¥171,066 | ¥171,066 | ¥ — | $2,933,400 | $2,933,400 | $ — |
| Short-term loans | 234,190 | 234,190 | — | 248,029 | 248,029 | — | 2,851,108 | 2,851,108 | — |
| Commercial paper | 32,000 | 32,000 | — | 110,000 | 110,000 | — | 389,579 | 389,579 | — |
| Long-term debt: | | | | | | | | | |
| Long-term loans payable | 811,846 | 820,509 | (8,663) | 830,595 | 837,532 | (6,937) | 9,883,686 | 9,989,155 | (105,469) |
| Bonds | 220,887 | 225,165 | (4,278) | 256,112 | 259,713 | (3,601) | 2,689,159 | 2,741,236 | (52,077) |
| Long-term loans payable on under securitized loans | 85,952 | 86,296 | (344) | 94,169 | 94,800 | (631) | 1,046,404 | 1,050,594 | (4,190) |
| Lease obligations | 4,927 | 4,927 | — | 5,528 | 5,528 | — | 59,983 | 59,983 | — |
| Guarantee contracts | — | 9,277 | 9,277 | — | 6,508 | 6,508 | — | 112,941 | 112,941 |

### (A) NOTES AND ACCOUNTS PAYABLE, SHORT-TERM LOANS, AND COMMERCIAL PAPER

Because these items will be settled within the short term, the fair value approximates the carrying value and the carrying value is deemed to be the fair value.

### (B) LONG-TERM LOANS PAYABLE

Because the rate of long-term loans payable at a variable interest rate reflects the market interest rate, long-term loans payable at a variable interest rate are valued considering only the fluctuation of credit spreads. The fair value of long-term loans payable with fixed interest rates is determined by discounting the cash flows related to the debt at rates assumed for the same borrowing.

### (C) BONDS

For corporate bonds issued by the Company as public-offering bonds, the fair value is decided by the market price (over-the-counter selling and buying reference statistics for public and corporate bonds decided by the Japan Securities Dealers Association). Private placement bonds issued by the Company are underwritten by the Company's major banks based on negotiated transactions and the fair value of such items is calculated using the same method as for (B) long-term loans payable.

### (D) LONG-TERM LOANS PAYABLE ON UNDER SECURITIZED LOANS

Because the rate of long-term loans payable on under securitized loans with a variable interest rate is not affected by changes in the Companies' creditworthiness, the items are valued at changes in the market interest rate. The fair value of long-term loans payable on under securitized loans with a fixed interest rate is determined by discounting the cash flows related to the debt at the rate assumed for the same borrowing.

### (E) LEASE OBLIGATIONS

As the fair value of lease obligations approximates the carrying values, the carrying value is deemed to be the fair value.

### (F) GUARANTEE CONTRACTS

The fair value of guarantee contracts is determined by discounting the cash flows related to the contracts reflecting credit risk at the risk-free rate.

As of March 31, 2012 and 2011, the guarantee contract amounts of contingent liabilities are ¥168,662 million (US$2,053,348 thousand) in 2012 and ¥157,791 million in 2011 and the amounts that are recorded as the allowance for losses on guarantees in the consolidated balance sheets are ¥4,068 million (US$49,525 thousand) in 2012 and ¥5,464 million in 2011.

Note: Maturity analysis for financial assets and securities with contractual maturities subsequent to March 31, 2012 is as follows:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | | | |
| Year ending March 31 | Due in one year or less | Due after one year through two years | Due after two years through three years | Due after three years through four years | Due after four years through five years | Due after five years |
| Cash and deposits | ¥ 60,085 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Accounts receivable—installment | 955,722 | 182,617 | 48,391 | 17,879 | 6,991 | 19,888 |
| Lease investment assets | 55,680 | 51,451 | 44,139 | 33,385 | 19,925 | 9,983 |
| Short-term loans receivable | 6,310 | — | — | — | — | — |
| Investment securities | | | | | | |
| Available-for-sale securities with contractual maturities | 596 | 867 | 4,232 | 600 | 2,911 | 888 |
| Long-term loans receivable | 19 | 36 | 18 | 18 | 18 | 129 |

| Year ending March 31 | Thousands of U.S. dollars 2012 Due in one year or less | Due after one year through two years | Due after two years through three years | Due after three years through four years | Due after four years through five years | Due after five years |
|---|---|---|---|---|---|---|
| Cash and deposits | $ 731,499 | $ — | $ — | $ — | $ — | $ — |
| Accounts receivable—installment | 11,635,284 | 2,223,240 | 589,131 | 217,670 | 85,105 | 242,121 |
| Lease investment assets | 677,870 | 626,383 | 537,364 | 406,444 | 242,580 | 121,535 |
| Short-term loans receivable | 76,820 | — | — | — | — | — |
| Investment securities | | | | | | |
| Available-for-sale securities with contractual maturities | 7,255 | 10,557 | 51,527 | 7,305 | 35,439 | 10,813 |
| Long-term loans receivable | 230 | 433 | 219 | 219 | 219 | 1,570 |

¥162,114 million (US$1,973,615 thousand) in 2012, and ¥204,549 million in 2011 of estimated uncollectible amounts are not included.

Please see Note 10 for annual maturities of long term debt.

## 13. AVAILABLE-FOR-SALE SECURITIES

**(A)** As of March 31, 2012 and 2011, acquisition costs and carrying amounts on the consolidated balance sheets of available-for-sale securities that have market value are summarized below:

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | | 2012 | | |
| | Acquisition cost | Carrying amount | Difference | Acquisition cost | Carrying amount | Difference | Acquisition cost | Carrying amount | Difference |
| Balance sheet amount exceeding acquisition cost: | | | | | | | | | |
| Equity shares | ¥18,602 | ¥28,316 | ¥9,714 | ¥18,526 | ¥26,311 | ¥ 7,785 | $226,473 | $344,724 | $118,251 |
| Bonds | | | | | | | | | |
| Corporate | 1,000 | 1,014 | 14 | — | — | — | 12,173 | 12,341 | 168 |
| Other | 511 | 543 | 32 | 958 | 993 | 35 | 6,217 | 6,614 | 397 |
| Subtotal | 20,113 | 29,873 | 9,760 | 19,484 | 27,304 | 7,820 | 244,863 | 363,679 | 118,816 |
| Balance sheet amount not exceeding acquisition cost: | | | | | | | | | |
| Equity shares | 4,793 | 4,066 | (727) | 4,893 | 3,554 | (1,339) | 58,353 | 49,507 | (8,846) |
| Bonds | | | | | | | | | |
| Corporate | 6,758 | 6,758 | (0) | 147 | 104 | (43) | 82,272 | 82,271 | (1) |
| Other | 900 | 791 | (109) | 900 | 865 | (35) | 10,957 | 9,627 | (1,330) |
| Other | 1,164 | 1,134 | (30) | 154 | 124 | (30) | 14,172 | 13,810 | (362) |
| Subtotal | 13,615 | 12,749 | (866) | 6,094 | 4,647 | (1,447) | 165,754 | 155,215 | (10,539) |
| Total | ¥33,728 | ¥42,622 | ¥8,894 | ¥25,578 | ¥31,951 | ¥ 6,373 | $410,617 | $518,894 | $108,277 |

**(B)** Proceeds from sales of available-for-sale securities for the years ended March 31, 2012 and 2011 were ¥971 million (US$11,824 thousand) and ¥1,672 million, respectively.

Gross realized gains and losses on these sales, computed on the moving-average cost basis, were ¥174 million (US$2,116 thousand) and ¥1 million (US$12 thousand), respectively, for the year ended March 31, 2012 and ¥2 million and ¥100 million, respectively, for the year ended March 31, 2011.

**(C)** As of March 31, 2012, the carrying values of debt securities by contractual maturities for securities classified as available-for-sale securities were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | 2012 | 2012 |
| Due in one year or less | ¥ 596 | $ 7,255 |
| Due in one to five years | 8,610 | 104,828 |
| Due in five to ten years | — | — |
| Due after ten years | 888 | 10,813 |
| Total | ¥10,094 | $122,896 |

## 14. RETIREMENT BENEFIT PLANS

The Company and some of its consolidated subsidiaries changed from cash balance plans and defined contribution plans or prepaid retirement benefit payment plans at the employee's option to defined contribution plans or prepaid retirement benefit payment plans at the employee's option during at the current fiscal year.

The effect of this change was to increase loss before income taxes and minority interests by ¥1,658 million ($20,187 thousand) and was recorded as a loss on revision of retirement benefit plan in the statement of income for the year ended March 31, 2012.

### (A) ACCRUED PENSION AND SEVERANCE COSTS

Accrued pension and severance costs as of March 31, 2012 and 2011 are calculated below:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Projected benefit obligation | ¥— | ¥(10,260) | $— |
| Fair value of plan assets | — | 7,035 | — |
| Funded status | — | (3,225) | — |
| Unrecognized actuarial differences | — | 3,013 | — |
| Unrecognized prior service costs | — | (1,967) | — |
| Accrued pension and severance costs | ¥— | ¥ (2,179) | $— |

Adjustment for change of retirement benefit plan as of March 31, 2012 was as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | 2012 | 2012 |
| Decrease in projected benefit obligation | ¥(10,757) | $(130,963) |
| Decrease in fair value of plan assets | 7,061 | 85,960 |
| Unrecognized actuarial differences | 3,287 | 40,012 |
| Unrecognized prior service costs | (1,663) | (20,240) |
| Decrease in accrued pension and severance costs | ¥ (2,072) | $ (25,231) |

The amount of assets moved to the defined contribution pension plan was ¥5,791 million (US$70,496 thousand). This move was conducted on April 27, 2012.

### (B) RETIREMENT BENEFIT EXPENSES

Retirement benefit expenses for the year ended March 31, 2012 and 2011 are stated below:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Service costs | ¥ 256 | ¥ 490 | $ 3,112 |
| Interest costs | 104 | 212 | 1,269 |
| Expected return on plan assets | (19) | (268) | (225) |
| Actuarial differences recognized as expenses | 390 | 838 | 4,752 |
| Prior service costs recognized as expenses | (304) | (613) | (3,706) |
| Other* | 524 | 319 | 6,370 |
| Retirement benefit expenses | 951 | 978 | 11,572 |
| Loss on revision of retirement benefit plan | 1,658 | — | 20,187 |
| Total | ¥2,609 | ¥ 978 | $31,759 |

* Other represents payments to the defined contribution pension fund and other items.

The principal assumptions used in determining retirement benefit obligations and other components for the Companies' plans are stated below:

| | 2012 | 2011 |
|---|---|---|
| Discount rate | — | 2.0% |
| Expected rate of return on plan assets | — | 4.0% |
| Period of recognition of prior service costs | — | 9–11 years evenly |
| Period of recognition of actuarial differences | — | 9–11 years evenly |

## 15. DEFERRED TAX ASSETS AND LIABILITIES

The Company and consolidated subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for the years ended March 31, 2012 and 2011.

### (A) EFFECTIVE TAX RATE

A reconciliation between the normal effective statutory tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2012 is as follows.

| | 2012 |
|---|---|
| Statutory tax rate | 40.70% |
| Reconciliation: | |
| Expenses not deductible for tax purposes | (1.23) |
| Non-taxable dividend income | 0.71 |
| Inhabitants taxes per capita | (1.74) |
| Amortization of negative goodwill | 1.43 |
| Equity in net earnings of affiliated companies | 14.42 |
| Increase of valuation allowance | (277.62) |
| Decrease in deferred tax assets due to tax rate changes | (94.05) |
| Tax effect on investments in subsidiaries to be liquidated | 510.44 |
| Other | (1.53) |
| Effective tax rate | 191.53% |

A reconciliation for the year ended March 31, 2011 is not provided because the deference between the effective income tax rate of the Companies and the statutory tax rate is less than 5%.

### (B) DEFERRED TAX ASSETS

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2012 and 2011 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Deferred tax assets: | | | |
| Inventories | ¥ 35,081 | ¥ 16,807 | $ 427,092 |
| Accumulated impairment losses | 2,360 | 2,077 | 28,736 |
| Accumulated depreciation expense | 1,191 | 1,476 | 14,500 |
| Asset retirement obligations | 579 | 601 | 7,047 |
| Investment securities | 5,833 | 3,416 | 71,013 |
| Allowance for doubtful accounts | 20,429 | 28,504 | 248,712 |
| Allowance for losses on interest repayments | 9,478 | 14,319 | 115,390 |
| Accrued expenses | 380 | 313 | 4,622 |
| Accrued enterprise taxes | 752 | 157 | 9,151 |
| Accrued pension and severance costs | — | 1,069 | — |
| Allowance for losses on point program | 26,011 | 26,813 | 316,669 |
| Allowance for losses on guarantees | 1,528 | 2,223 | 18,597 |
| Other allowance | 906 | 965 | 11,036 |
| Long-term unearned revenue | 426 | 228 | 5,184 |
| Tax effect on investments in subsidiaries to be liquidated | 47,892 | — | 583,057 |
| Tax loss carryforwards | 24,951 | 19,473 | 303,767 |
| Unrealized losses on available-for-sale securities | 43 | 43 | 524 |
| Deferred losses on derivatives under hedge accounting | 855 | 1,104 | 10,413 |
| Other | 3,797 | 4,172 | 46,214 |
| Subtotal | 182,492 | 123,760 | 2,221,724 |
| Less valuation allowance | (86,708) | (61,325) | (1,055,608) |
| Total deferred tax assets | 95,784 | 62,435 | 1,166,116 |
| Deferred tax liabilities: | | | |
| Capital gains deferred for tax purposes | (185) | (212) | (2,257) |
| Unrealized gains on available-for-sale securities | (3,283) | (2,682) | (39,968) |
| Deferred gains on derivatives under hedge accounting | (5) | — | (59) |
| Adjustment account of retirement debt | (347) | (162) | (4,228) |
| Adjustment account of debt | (56) | (407) | (676) |
| Other | (3,267) | (2,962) | (39,777) |
| Total deferred tax liabilities | (7,143) | (6,425) | (86,965) |
| Net deferred tax assets | ¥ 88,641 | ¥ 56,010 | $ 1,079,151 |

Net deferred tax assets are presented on the consolidated balance sheets as of March 31, 2012 and 2011 as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Current assets | ¥12,468 | ¥23,558 | $151,787 |
| Investment and other assets | 76,174 | 32,454 | 927,373 |
| Current liabilities—other | — | — | — |
| Long-term liabilities—other | 1 | 2 | 9 |

### (C) NEW TAX REFORM LAWS

On December 2, 2011, new tax reform laws were enacted in Japan which changed the normal effective statutory tax rate from approximately 40.70% to 38.01% effective for the fiscal years beginning on or after April 1, 2012 through March 31, 2015, and to 35.64% afterwards. The effect of this change was to decrease deferred taxes in the consolidated balance sheet as of March 31, 2012 by ¥9,854 million (US$119,962 thousand) and to increase income taxes—deferred in the consolidated statement of income for the year then ended by ¥10,194 million ($124,105 thousand).

## 16. GAIN ON REVERSAL OF ALLOWANCE FOR LOSSES FROM A NATURAL DISASTER

For the year ended March 31, 2012, gain on reversal of allowance for losses from a natural disaster consisted of the following:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | 2012 | 2012 |
| Gain on reversal of allowance for doubtful accounts | ¥4,075 | $49,612 |
| Gain on reversal of allowance for losses on guarantees | 1,417 | 17,251 |
| Total | ¥5,492 | $66,863 |

## 17. LOSS ON BUSINESS RESTRUCTURING OF SUBSIDIARIES

During the board meeting held on February 29, 2012, for the purpose of business restructuring of the Companies' real estate related business, the Company made a decision to conduct a corporate reorganization (corporate split, etc.) (hereinafter referred to as the "Business Restructuring") of consolidated subsidiary, Atrium Co., Ltd. (hereinafter referred to as "Atrium").

In the Business Restructuring, the Company substantially revised the real estate development policy enforced regarding real estate (mainly consisting of development projects) owned by Atrium in relation to its business, and after drawing a much clearer line between the projects among the businesses of Atrium to be continued, and those to withdraw from, sub-classified the property portfolio by corporate split.

In connection with this business restructuring, a loss on business restructuring was recorded for the fiscal year ended March 31, 2012. The following is a breakdown of the loss on business restructuring:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | 2012 | 2012 |
| Loss on valuation of inventories | ¥45,202 | $550,301 |
| Provision for allowance for doubtful accounts | 11,968 | 145,706 |
| Other | 2,626 | 31,964 |
| Total | ¥59,796 | $727,971 |

## 18. LOSSES FROM A NATURAL DISASTER

For the years ended March 31, 2012 and 2011, losses from a natural disaster recorded as a result of the Great East Japan Earthquake in March 2011 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Provision for allowance for doubtful accounts | ¥ — | ¥8,156 | $ — |
| Provision for allowance for losses on guarantees | — | 1,417 | — |
| Restoration costs | — | 401 | — |
| Other | 210 | 12 | 2,562 |
| Total | ¥210 | ¥9,986 | $2,562 |

## 19. OPERATING REVENUES

Operating revenues for the years ended March 31, 2012 and 2011 were comprised of the following revenues and expenses:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Income from the credit service business | ¥197,494 | ¥229,536 | $2,404,362 |
| Income from the lease business | 14,645 | 14,437 | 178,297 |
| Income from the finance business | 15,446 | 15,261 | 188,040 |
| Real estate related business: | | | |
| Sales | 49,814 | 44,469 | 606,453 |
| Costs of sales* | 46,847 | 32,351 | 570,338 |
| Income from the real estate related business | 2,967 | 12,118 | 36,115 |
| Entertainment business: | | | |
| Sales | 76,604 | 79,674 | 932,600 |
| Cost of sales | 63,614 | 65,746 | 774,450 |
| Income from the entertainment business | 12,990 | 13,928 | 158,150 |
| Financial income | 467 | 433 | 5,685 |
| Total operating revenues | ¥244,009 | ¥285,713 | $2,970,649 |

*Cost of sales included write-downs of inventories amounting to ¥10,702 million (US$130,286 thousand) as of March 31, 2012 and ¥1,832 million as of March 31, 2011.

## 20. DERIVATIVES

**(A)** Non-hedged derivative transactions as of March 31, 2012 and 2011 are summarized below:

*(i) Interest rate transactions*

| | | | | | | Millions of yen |
|---|---|---|---|---|---|---|
| | **2012** | | | 2011 | | |
| | Contractual value or notional principal amount | | Unrealized profit (loss) | Contractual value or notional principal amount | | Unrealized profit (loss) |
| | Total | Over 1 year | | Total | Over 1 year | |
| Over-the-counter interest rate swaps: | | | | | | |
| Floating-rate receipt/fixed-rate payment | **¥13,500** | **¥11,500** | **¥149** | ¥25,500 | ¥13,500 | ¥(241) |
| Total | **¥13,500** | **¥11,500** | **¥149** | ¥25,500 | ¥13,500 | ¥(241) |

| | | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | | |
| | Contractual value or notional principal amount | | Unrealized profit (loss) |
| | Total | Over 1 year | |
| Over-the-counter interest rate swaps: | | | |
| Floating-rate receipt/fixed-rate payment | **$164,354** | **$140,005** | **$1,813** |
| Total | **$164,354** | **$140,005** | **$1,813** |

Note: Fair value is measured at prices and other information presented by financial institutions with which the Companies have concluded derivative agreements.

*(ii) Other*

| | | | | | | Millions of yen |
|---|---|---|---|---|---|---|
| | **2012** | | | 2011 | | |
| | Contractual value or notional principal amount | | Unrealized profit (loss) | Contractual value or notional principal amount | | Unrealized profit (loss) |
| | Total | Over 1 year | | Total | Over 1 year | |
| Over-the-counter credit derivatives: | | | | | | |
| Selling of protection | **¥3,000** | **—** | **¥47** | ¥3,000 | ¥3,000 | ¥(31) |
| Total | **¥3,000** | **—** | **¥47** | ¥3,000 | ¥3,000 | ¥(31) |

| | | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | | |
| | Contractual value or notional principal amount | | Unrealized profit (loss) |
| | Total | Over 1 year | |
| Over-the-counter credit derivatives: | | | |
| Selling of protection | **$36,523** | **—** | **$577** |
| Total | **$36,523** | **—** | **$577** |

Note: Fair value is measured at prices and through other information presented by financial institutions with which the Companies have concluded derivatives agreements.

**(B)** Hedged derivative transactions as of March 31, 2012 and 2011 are summarized below:

| | | | | | | | Millions of yen |
|---|---|---|---|---|---|---|---|
| | | **2012** | | | 2011 | | |
| | Mainly hedged objects | Contractual value or notional principal amount | | Fair value | Contractual value or notional principal amount | | Fair value |
| | | Total | Over 1 year | | Total | Over 1 year | |
| Interest rate swaps recognized in general rule: | | | | | | | |
| Floating-rate receipt/ fixed-rate payment | Long-term debt | **¥176,826** | **¥150,826** | **¥(2,428)** | ¥136,716 | ¥122,026 | ¥ (2,712) |
| Interest rate swaps recognized in specific rule: | | | | | | | |
| Floating-rate receipt/ fixed-rate payment | Long-term debt | **308,841** | **215,400** | **(7,442)** | 365,881 | 312,041 | (9,120) |
| Fixed-rate receipt/ floating-rate payment | Long-term debt | **15,000** | **15,000** | **45** | 10,000 | 10,000 | 36 |
| Total | | **¥500,667** | **¥381,226** | **¥(9,825)** | ¥512,597 | ¥444,067 | ¥(11,796) |

| | Mainly hedged objects | Thousands of U.S. dollars 2012 Contractual value or notional principal amount Total | Over 1 year | Fair value |
|---|---|---|---|---|
| Interest rate swaps recognized in general rule: | | | | |
| Floating-rate receipt / fixed-rate payment | Long-term debt | $2,152,739 | $1,836,206 | $ (29,560) |
| Interest rate swaps recognized in specific rule: | | | | |
| Floating-rate receipt/ fixed-rate payment | Long-term debt | 3,759,935 | 2,622,353 | (90,601) |
| Fixed-rate receipt/ floating-rate payment | Long-term debt | 182,615 | 182,615 | 553 |
| Total | | $6,095,289 | $4,641,174 | $(119,608) |

Note: Fair value is measured at prices and other information presented by financial institutions with which the Companies have concluded derivative agreements.

## 21. COMMITMENTS AND CONTINGENT LIABILITIES

As of March 31, 2012, the Companies were contingently liable as credit guarantors for customers borrowing from our alliance banks amounting to ¥164,594 million (US$2,003,824 thousand).

## 22. COMPREHENSIVE INCOME

The components of other comprehensive income for the year ended March 31, 2012 were as follows:

| | Millions of yen 2012 | Thousands of U.S. dollars 2012 |
|---|---|---|
| Unrealized gains on available-for-sale securities | | |
| Gains arising during the year | ¥2,588 | $31,500 |
| Reclassification adjustments to profit or loss | 25 | 309 |
| Amount before income tax effect | 2,613 | 31,809 |
| Income tax effect | (603) | (7,336) |
| Total unrealized gains on available-for-sale securities | 2,010 | 24,473 |
| Deferred losses on derivatives under hedge accounting | | |
| Losses arising during the year | (724) | (8,804) |
| Reclassification adjustments to profit or loss | 1,049 | 12,767 |
| Amount before income tax effect | 325 | 3,963 |
| Income tax effect | (253) | (3,083) |
| Total deferred losses on derivatives under hedge accounting | 72 | 880 |
| Share of other comprehensive income in affiliated companies | | |
| Gains arising during the year | 1,464 | 17,818 |
| Reclassification adjustments to profit or loss | 15 | 185 |
| Total share of other comprehensive income in affiliated companies | 1,479 | 18,003 |
| Total other comprehensive income | ¥3,561 | $43,356 |

The corresponding information for the year ended March 31, 2011 was not required under the accounting standard for presentation of comprehensive income as an exemption for the first year of adopting that standard.

## 23. EQUITY

### (A) EQUITY

Japanese companies are subject to the Companies Act of Japan (the “Companies Act”).

The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

*i. Dividends*

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders’ meeting. For companies that meet certain criteria, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

However, the Company cannot do so because it does not meet all the above criteria.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate.

The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock.

The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

*ii. Increases/decreases and transfer of common stock, reserve and surplus*

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

*iii. Treasury stock and treasury stock acquisition rights*

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors.

The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

### (B) COMMON STOCK

The Company has 300,000,000 authorized shares of which 185,444,772 shares as of March 31, 2012 and 185,444,772 shares as of March 31, 2011 were issued.

*Type and number of shares issued and treasury stock*

| | Thousands of shares | |
|---|---|---|
| | Issued shares (Common stock) | Treasury stock (Common stock) |
| Balance at April 1, 2010 | 185,445 | 1,802 |
| Number of shares increase | — | 8*1 |
| Number of shares decrease | — | 0*2 |
| Balance at March 31, 2011 | 185,445 | 1,810 |
| Number of shares increase | **—** | **2*3** |
| Number of shares decrease | **—** | **0*4** |
| Balance at March 31, 2012 | **185,445** | **1,812** |

Notes: 1. Increase in treasury stock
Acquisition from consolidated subsidiary: 6 thousand shares
Acquisition of any number of shares less than a full trading unit: 2 thousand shares
2. Detail of decrease
Sales of any number of shares less than a full trading unit: Less than a thousand shares
3. Increase in treasury stock
Acquisition of any number of shares less than a full trading unit: 2 thousand shares
4. Detail of decrease
Sales of any number of shares less than a full trading unit: Less than a thousand shares

### (C) DIVIDEND

*i. Dividend payment*

| | | Total amount | | Dividend per share | | | |
|---|---|---|---|---|---|---|---|
| Resolution | Type of share | Millions of yen | Thousands of U.S. dollars | Yen | U.S. dollars | Record date | Effective date |
| General Meeting of Shareholders on June 21, 2011 | Common stock | ¥5,511 | $67,098 | ¥30.00 | $0.365 | March 31, 2011 | June 22, 2011 |

*ii. For dividend payments with an effective date in the year ended March 31, 2013, the record date occurred in the year ended March 31, 2012*

| | | | Total amount | | Dividend per share | | | |
|---|---|---|---|---|---|---|---|---|
| Resolution | Type of share | Source of payment | Millions of yen | Thousands of U.S. dollars | Yen | U.S. dollars | Record date | Effective date |
| General Meeting of Shareholders on June 27, 2012, approved | Common stock | Retained earnings | ¥5,511 | $67,098 | ¥30.00 | $0.365 | March 31, 2012 | June 28, 2012 |

## 24. CASH FLOWS INFORMATION

**(A)** The balance of cash and cash equivalents as of March 31, 2012 and 2011 is reconciled with the respective consolidated balance sheet items as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Consolidated balance sheet: | | | |
| Cash and deposits | **¥60,085** | ¥64,112 | **$731,499** |
| Securities | **—** | 5,000 | **—** |
| Short-term loans | **—** | 3,999 | **—** |
| Time deposits with a maturity of over 3 months as of the date of acquisition | **—** | (500) | **—** |
| Segregated trustee deposits | **(84)** | (84) | **(1,032)** |
| Cash and cash equivalents at the end of year | **¥60,001** | ¥72,527 | **$730,467** |

**(B)** Non-cash investing and financing activities as of March 31, 2012 and 2011 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Assets and liabilities from finance leases recorded in the current fiscal year | ¥1,008 | ¥3,243 | $12,266 |

### (C) DESCRIPTION OF PROCEEDS FROM SALES OR REDEMPTIONS OF INVESTMENT SECURITIES

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Proceeds from sales of investment securities | ¥ 971 | ¥ 104 | $11,824 |
| Proceeds from redemptions of investment securities | 1,028 | 1,042 | 12,512 |
| Proceeds from distribution of limited liability partnerships and other similar partnerships or return of capital | 50 | 30 | 609 |
| Total proceeds from sales or redemptions of investment securities | ¥2,049 | ¥1,176 | $24,945 |

### (D) BREAKDOWN OF MAJOR ASSETS AND LIABILITIES THAT DECREASED OWING TO AN ABSORPTION-TYPE COMPANY SPLIT

The following is a breakdown of the assets and liabilities the Company succeeded to Seven CS Card Service Co., Ltd, by an absorption-type company split and proceeds.

Please refer to Note 4 for additional information on the absorption-type company split.

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | 2012 | 2012 |
| Current assets | ¥ 158,288 | $ 1,927,050 |
| Non-current assets | 49 | 596 |
| Current liabilities | (742) | (9,037) |
| Difference | 157,595 | 1,918,609 |
| Value of the shares transferred | (21,801) | (265,403) |
| Proceeds from an absorption-type company split | ¥135,794 | $1,653,206 |

## 25. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the year ended March 31, 2012 and 2011 is as follows:

| | Millions of yen | Thousands of shares | Yen | U.S. dollars |
|---|---|---|---|---|
| For the year ended March 31, 2012: | Net income | Weighted average shares | EPS | |
| Basic EPS | | | | |
| Net income available to common shareholders | ¥9,454 | 183,634 | ¥51.48 | $0.627 |
| Effect of dilutive securities | | | | |
| Securities issued by a consolidated subsidiary | (114) | | | |
| Diluted EPS | | | | |
| Net income for computation | 9,340 | 183,634 | 50.86 | 0.619 |

| | Millions of yen | Thousands of shares | Yen | U.S. dollars |
|---|---|---|---|---|
| For the year ended March 31, 2011: | Net income | Weighted average shares | EPS | |
| Basic EPS | | | | |
| Net income available to common shareholders | ¥12,830 | 183,636 | ¥69.86 | $0.850 |
| Effect of dilutive securities | | | | |
| Securities issued by a consolidated subsidiary | (84) | | | |
| Diluted EPS | | | | |
| Net income for computation | 12,746 | 183,636 | 69.41 | 0.845 |

## 26. SEGMENT INFORMATION

For the years ended March 31, 2012 and 2011

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

## (A) DESCRIPTION OF REPORTABLE SEGMENTS

The Companies' reportable segments are those for which separate financial information is available and regular evaluation by the Board of Directors meeting is performed in order to decide how resources are allocated among the Companies.

The Companies conduct business activities directly with customers based on the services by market and target customer.

Accordingly, Credit Service Business, Lease Business, Finance Business, Real Estate Related Business and Entertainment Business comprise the Companies' reporting segments.

The Credit Service Business segment consists of the Companies' core credit card business and various peripheral businesses closely linked with the credit card business.

The Lease Business segment consists mainly of the leasing of office equipment and other assets.

The Finance Business segment consists of the credit guarantee business and other finance-related businesses.

The Real Estated Related Business segment consists of the real estate business, real estate lease business and other businesses.

The Entertainment Business segment consists of amusement businesses, mainly indoor recreation facilities.

## (B) METHODS OF MEASUREMENT OF THE AMOUNTS OF OPERATING REVENUES, PROFIT (LOSS), ASSETS, LIABILITIES AND OTHER ITEMS FOR EACH REPORTABLE SEGMENT

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

**(C)** Information about operating revenues, profit (loss), assets and other items is as follows:

Millions of yen

| Year ended March 31, 2012 Reportable segment | Operating revenues | | | Segment profit (loss) | Segment assets | Depreciation | Financial cost | Credit cost | Investment in equity method-affiliated companies | Increase in property, plant and equipment and intangible assets |
|---|---|---|---|---|---|---|---|---|---|---|
| | Outside customers | Inter segment | Total | | | | | | | |
| Credit service | ¥197,931 | ¥ 944 | ¥198,875 | ¥ 27,161 | ¥1,464,670 | ¥10,494 | ¥11,290 | ¥22,948 | ¥40,372 | ¥31,138 |
| Lease | 14,646 | 24 | 14,670 | 5,099 | 247,157 | 236 | 3,063 | 3,578 | — | 176 |
| Finance | 15,469 | 246 | 15,715 | 7,781 | 106,415 | 216 | 1,172 | 3,325 | — | 74 |
| Real Estate related | 2,973 | 86 | 3,059 | (10,174) | 330,637 | 833 | 4,645 | 751 | — | 8,378 |
| Entertainment | 12,990 | 9 | 12,999 | 2,066 | 16,058 | 2,552 | 34 | — | — | 2,545 |
| Total | 244,009 | 1,309 | 245,318 | 31,933 | 2,164,937 | 14,331 | 20,204 | 30,602 | 40,372 | 42,311 |
| Reconciliations | — | (1,309) | (1,309) | (67) | (9,031) | (3) | (246) | 70 | — | — |
| Consolidated | ¥244,009 | ¥ — | ¥244,009 | ¥ 31,866 | ¥2,155,906 | ¥14,328 | ¥19,958 | ¥30,672 | ¥40,372 | ¥42,311 |

Millions of yen

| Year ended March 31, 2011 Reportable segment | Operating revenues | | | Segment profit (loss) | Segment assets | Depreciation | Financial cost | Credit cost | Investment in equity method-affiliated companies | Increase in property, plant and equipment and intangible assets |
|---|---|---|---|---|---|---|---|---|---|---|
| | Outside customers | Inter segment | Total | | | | | | | |
| Credit service | ¥229,925 | ¥ 948 | ¥230,873 | ¥15,973 | ¥1,493,232 | ¥11,575 | ¥13,953 | ¥56,577 | ¥24,785 | ¥31,261 |
| Lease | 14,437 | 14 | 14,451 | 5,038 | 241,474 | 226 | 2,957 | 3,569 | — | 300 |
| Finance | 15,305 | 275 | 15,580 | 6,796 | 121,795 | 255 | 1,220 | 4,108 | — | 133 |
| Real Estate related | 12,118 | 204 | 12,322 | (2,182) | 365,522 | 787 | 4,679 | 1,976 | — | 2,797 |
| Entertainment | 13,928 | 12 | 13,940 | 1,737 | 20,097 | 2,978 | 44 | — | — | 3,576 |
| Total | 285,713 | 1,453 | 287,166 | 27,362 | 2,242,120 | 15,821 | 22,853 | 66,230 | 24,785 | 38,067 |
| Reconciliations | — | (1,453) | (1,453) | 15 | (10,873) | (4) | (276) | (12) | — | — |
| Consolidated | ¥285,713 | ¥ — | ¥285,713 | ¥27,377 | ¥2,231,247 | ¥15,817 | ¥22,577 | ¥66,218 | ¥24,785 | ¥38,067 |

Thousands of U.S. dollars

| Year ended March 31, 2012 Reportable segment | Operating revenues | | | Segment profit (loss) | Segment assets | Depreciation | Financial cost | Credit cost | Investment in equity method-affiliated companies | Increase in property, plant and equipment and intangible assets |
|---|---|---|---|---|---|---|---|---|---|---|
| | Outside customers | Inter segment | Total | | | | | | | |
| Credit service | $2,409,676 | $ 11,491 | $2,421,167 | $ 330,671 | $17,831,390 | $127,763 | $137,446 | $279,378 | $491,506 | $379,079 |
| Lease | 178,300 | 292 | 178,592 | 62,083 | 3,008,977 | 2,871 | 37,290 | 43,554 | — | 2,142 |
| Finance | 188,331 | 2,990 | 191,321 | 94,731 | 1,295,531 | 2,634 | 14,270 | 40,486 | — | 897 |
| Real Estate related | 36,192 | 1,050 | 37,242 | (123,857) | 4,025,291 | 10,146 | 56,554 | 9,141 | — | 101,996 |
| Entertainment | 158,150 | 109 | 158,259 | 25,135 | 195,489 | 31,060 | 412 | — | — | 30,990 |
| Total | 2,970,649 | 15,932 | 2,986,581 | 388,763 | 26,356,678 | 174,474 | 245,972 | 372,559 | 491,506 | 515,104 |
| Reconciliations | — | (15,932) | (15,932) | (820) | (109,951) | (44) | (2,990) | 855 | — | — |
| Consolidated | $2,970,649 | $ — | $2,970,649 | $ 387,943 | $26,246,727 | $174,430 | $242,982 | $373,414 | $491,506 | $515,104 |

*RELATED INFORMATION*

## (A) INFORMATION ABOUT PRODUCTS AND SERVICES

Years ended March 31, 2012 and 2011 were as follows:

The Company omitted this disclosure because the information is similar to the information disclosed under the segment information.

### (B) INFORMATION ABOUT GEOGRAPHIC REGION

*(i) Operating Revenues*

Years ended March 31, 2012 and 2011 were as follows:

The Company omitted this disclosure because operating revenues to external customers within Japan account for more than 90% of operating revenues reported in the consolidated statements of income.

*(ii) Tangible Property and Equipment*

The Company omitted this disclosure because property and equipment within Japan account for more than 90% of the property and equipment reported in the consolidated balance sheets.

### (C) INFORMATION ABOUT MAJOR CUSTOMERS

Years ended March 31, 2012 and 2011 were as follows:

The Company omitted this disclosure because no operating revenues to any specific external customer account for 10% or more of operating revenues reported in the consolidated statements of income.

*INFORMATION REGARDING IMPAIRMENT LOSSES ON PROPERTY AND EQUIPMENT*

Years ended March 31, 2012 and 2011 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| | Loss on impairment | Loss on impairment | Loss on impairment |
| Credit service | ¥ 8 | ¥ — | $ 97 |
| Lease | — | — | — |
| Finance | — | — | — |
| Real Estate related | 31 | 88 | 373 |
| Entertainment | 9 | 68 | 108 |
| Total | 48 | 156 | 578 |
| Reconciliations | — | — | — |
| Consolidated | ¥48 | ¥156 | $578 |

*INFORMATION REGARDING AMORTIZATION OF GOODWILL AND UNAMORTIZED BALANCE OF GOODWILL*

Years ended March 31, 2012 and 2011 were as follows:

There was no significant amortization of goodwill or unamortized balance of goodwill.

*INFORMATION REGARDING GAINS ARISING FROM NEGATIVE GOODWILL*

Years ended March 31, 2012 and 2011 were as follows:

There were no significant gains from negative goodwill.

## 27. RELATED PARTY DISCLOSURES

Transactions and balances of the Company with its affiliated companies for the years ended March 31 2012 and 2011 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| UC Card Co., Ltd. | 2012 | 2011 | 2012 |
| Transactions: | | | |
| Volume of new contracts | ¥1,080,393 | ¥1,102,062 | $13,153,070 |
| Balances: | | | |
| Accounts payable | 66,894 | 58,599 | 814,394 |
| Prepaid expenses and other assets (other receivable) | 6,467 | 6,750 | 78,729 |

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| Seven CS Card Service Co., Ltd. | 2012 | 2011 | 2012 |
| Transactions: | | | |
| Volume of new contracts | ¥701,400 | ¥— | $8,539,074 |
| Balances: | | | |
| Accounts receivable—installment | 43,058 | — | 524,205 |

Transaction terms and decision-making policy for the transaction terms:

1. Transaction amounts exclude consumption tax, among others.
2. Commissions in the recovery of accounts receivable—installment and from member store liquidations are determined based on market prices and other factors.

## 28. SUBSEQUENT EVENT

There is no applicable information.

Deloitte.

Deloitte Touche Tohmatsu LLC
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4-13-23, Shibaura
Minato-ku, Tokyo 108-8530
Japan

Tel:+81 (3) 3457 7321
Fax:+81 (3) 3457 1694
www.deloitte.com/jp

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Credit Saison Co., Ltd.:

We have audited the accompanying consolidated balance sheet of Credit Saison Co., Ltd. and consolidated subsidiaries as of March 31, 2012, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in conformity with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Credit Saison Co., Ltd. and consolidated subsidiaries as of March 31, 2012, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### Convenience Translation

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

Deloitte Touche Tohmatsu LLC

June 27, 2012

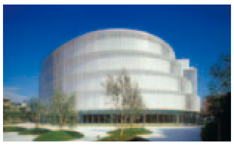
Member of
**Deloitte Touche Tohmatsu Limited**

# CORPORATE HISTORY

| | | |
|---|---|---|
| 1951 | May | Established as a retailer specializing in installment sales |
| 1968 | Jun. | Listed on the First Section of the Tokyo Stock Exchange |
| 1976 | Mar. | The Seibu Department Stores, Ltd. and the Company establish a shareholding relationship, develop a consumer credit system for the Saison Group |
| 1980 | Aug. | The Company's name is changed from Midoriya Department Stores to Seibu Credit Co., Ltd. |
| 1982 | Aug. | Credit Saison begins to build a nationwide network of Saison Counters to process Seibu Card issues, and to install automated cash dispensers. |
| 1983 | Mar. | Seibu Card name changed to SAISON CARD |
| 1988 | Jul. | Developed an international credit card with no membership fees through a tie-up with Visa and MasterCard |
| 1989 | Oct. | Company name changed to Credit Saison Co., Ltd. |
| 1991 | Jan. | Affinity card business started |
| 1992 | Apr. | Credit Saison begins to issue Saison Postal Savings Cards, the first cards in Japan to support signature-less transactions (in Seiyu food outlets). |
| 1995 | Jun. | SAISON JCB CARD issued in cooperation with JCB Co., Ltd. |
| 1997 | Oct. | SAISON American Express® Card issued through an affiliation with AMERICAN EXPRESS®  |
| 1999 | Sep. | Two combined credit/cash cards issued with regional banks, Shonai SAISON cards and Suruga SAISON card |
| 2000 | Aug. | Net Answer, a web site for cardmembers, started |
| 2001 | Mar. | Nominated for inclusion in the Nikkei Stock Average (Nikkei 225) |
| | Nov. | Supporting company contract for the Japan national soccer team concluded |
| 2002 | Feb. | Shares of Saison Life Insurance Co., Ltd. transferred to GE Edison Life Insurance Co., Ltd. (currently Gibraltar Life Insurance Co., Ltd.). New membership point service SAISON Dream started (currently Eikyufumetsu Points, or SAISON Permanent Points in English). Started "Saison Eikyufumetsu Points" ("Saison Permanent Points" in English) 永久不滅ポイント |
| 2003 | Jan. | Begins using SAISON CARD EXPRESS for speedy online card issuance |
| | Aug. | Agreement reached on a comprehensive alliance with the card division of Idemitsu Kosan Co., Ltd. (Idemitsu Card mydoplus issued in April 2004) |
| | Sep. | Super Value Plus, an insurance product exclusively for cardmembers, issued through a business alliance between Credit Saison, Saison Automobile and Fire Insurance Co., Ltd. and Sompo Japan Insurance Inc. |
| 2004 | Feb. | Decision made to form a strategic equity and business tie-up with Resona Holdings, Inc. (Resona Card+S (Resona Card SAISON) is issued in October 2004.) |
| | Apr. | Basic agreement reached with Takashimaya Company, Limited on a strategic alliance in the credit card business. (TAKASHIMAYA SAISON Card issued in September 2004) |
| | Aug. | Basic agreement on forming a strategic alliance in the credit card business concluded with the Mizuho Financial Group, Inc., Mizuho Bank, Ltd. and UC CARD Co., Ltd. |

**2005**

**Apr.** New credit center Ubiquitous starts operation



Mizuho Mileage Club Card SAISON issued

**Oct.** SAISON Platinum American Express Card issued

**Dec.** Credit Saison acquires additional shares of Resona Card Co., Ltd.; makes this company an equity-method affiliate

**2006**

**Jan.** Credit Saison merges with UC Card Co., Ltd.
(card issuance business)

**Mar.** New loan product, SAISON Card Loan, issued

**Jun.** Comprehensive alliance formed with Yamada Denki Co., Ltd. in the credit card business (Yamada LABI Card launched in July of the same year)

**Jul.** Agreements to form a business alliance with The Shizuoka Bank, Ltd.
(Shizugin Saison Card Co., Ltd. established in October 2006 and ALL-S Card issued in April 2007)

**Oct.** Eikyufumetsu.com online shopping mall opened

永久不滅.com

JPN COLLECTION SERVICE CO., LTD. listed on the Hercules Section of the Osaka Securities Exchange

**Nov.** Shareholder agreement signed with Daiwa House Industry Co., Ltd. and joint venture established (Heart One Card issued in May 2007)

**2007**

**Mar.** Saison Asset Management Co., Ltd. launches own investment trusts

Agreement for comprehensive alliance with Yamaguchi Financial Group, Inc. (YM Saison Card issued in October 2007)

**Jun./Jul.** Maximum interest rate for cash advances reduced to 18%

**Oct.** Establishment of Qubitous Co., Ltd., the industry's first comprehensive processing service specialist
(Qubitous made a consolidated subsidiary in April 2008.)

Integration of SAISON and UC point services (application of SAISON Permanent Points to the UC Card point system)

**2008**

**Jun.** Launch of the rental business (commencement of home appliance rental in an alliance with Yamada Denki)

**Sep.** Absorption by merger of LAWSON CS Card, Inc.

**Oct.** Launch of the new credit operation center "Kansai Ubiquitous"

**2009**

**Apr.** Began to accept applications for Mitsui Shopping Park Card Saison

**Oct.** Affiliation with Kyushu Railway Company, issue of a common card for the whole of JR Kyushu Group "JQ CARD Saison"

**2010**

**Mar.** Basic agreement reached on comprehensive business alliance with SEVEN & i FINANCIAL GROUP CO., LTD.
(2011 Feb. Sogo & Seibu Card business is split off into a new joint venture)

**Apr.** Started operation of Akagi Nature Park

**Jun.** Strengthened alliance with AMERICAN EXPRESS®

**Sep.** Formed partnership with Walmart Japan Holdings G.K., and began to accept applications for Walmart Card SAISON

**2011**

**Jul.** Issued the NEO Money international prepaid card targeting Japanese residents traveling outside Japan

**Aug.** Tie-up with China UnionPay for affiliated store operations in Japan

**Nov.** Made possible to use eikyufumetsu points for net shopping

**2012**

**Apr.** Started handling "Flat 35 Plus" mortgage loan packages

**Jun.** Established a representative office in Hanoi, Vietnam

# CARD TIE-UPS/SOCIAL CONTRIBUTION ACTIVITIES/DONATIONS USING EIKYUFUMETSU POINTS

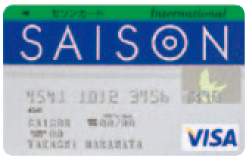
## Card Tie-Ups


SAISON Platinum American Express® Card


SAISON Gold American Express® Card


SAISON Blue American Express® Card


SAISON Pearl American Express® Card


SAISON CARD International


Seiyu G.K.
Walmart Japan Holdings G.K.

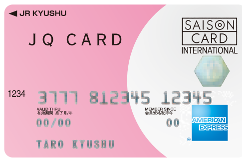

PARCO CO., LTD.


Ryohin Keikaku Co., Ltd.


Yamada Denki Co., Ltd.
All Nippon Airways Co., Ltd.


Mitsui Fudosan Co., Ltd.
LaLaport Management Co., Ltd.


Mitsui Fudosan Co., Ltd.


Kyushu Railway Company


Takashimaya Company, Limited


Takashimaya Company, Limited


SEIBU HOLDINGS INC.


United Air Lines, Inc.


KDDI CORPORATION


SOFTBANK MOBILE Corp.


Jupiter Telecommunications Co., Ltd.


LAWSON, INC.
Japan Airlines Co., Ltd.


Mizuho Bank, Ltd.


Yamaguchi Financial Group, Inc.


Japan Football Association


Tokyo Metro Co., Ltd.

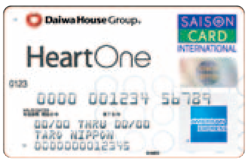

UC Card

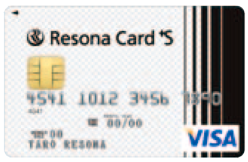

THE PRINTEMPS GINZA CO., LTD.


Sogo & Seibu Co., Ltd.


Sogo & Seibu Co., Ltd.


IDEMITSU CREDIT CO., LTD.


Daiwa House Financial Co., Ltd.


Resona Card Co., Ltd.


Shizugin Saison Card Co., Ltd.

## Social Contribution Activities

### Support for Sport and Culture

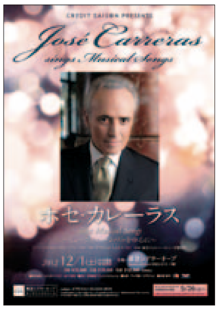
Credit Saison is also passionately involved in social contribution through its support of sports and cultural activities.

In sports, we have been a supporting company and corporate sponsor of the various Japanese national football teams, including the Nadeshiko Japan Women's National Team, who made history by winning the 2011 Women's World Cup in July, and the Samurai Blue Men's National Team.

In cultural activities, we are a corporate sponsor of the musical career of José Carreras, an opera singer and one of The Three Tenors famous throughout the world, as well as a corporate endorser of and donor to the José Carreras Leukemia Foundation.


©J.LEAGUE PHOTOS
Starting players in the women's representative team playing Australia in the Kirin Challenge Cup (July 11, 2012)


©J.LEAGUE PHOTOS
Starting players in the men's representative team playing Azerbaijan in the Kirin Challenge Cup (May 23, 2012)




### Supporting Social Contribution Activities Through Card Usage

Our customers can participate in social contribution activities with their cards. For example, points earned through cards use can be used to make donations to charities, including the World Terakoya Movement of the National Federation of UNESCO Associations in Japan, guide dog training by the Japan Guide Dog Association, and activities to support protection and education of children by the Japan Committee for UNICEF.

## Donations Using Eikyufumetsu Points

### Japan Soccer Representatives Support Fund

100 Points

Donation to the Japan Football Association

### Support for Rearing Guide Dogs

200 Points

Donation to the Japan Guide Dog Association

### Support for Protecting the Earth

200 Points

Donate to the Japan Fund for Global Environment

### Environmental Protection at the Akagi Nature Park

100 Points

Nature preservation activities

### Support for School Meals for Children in Developing Countries

200 Points

Donation to the Japan Association for the World Food Programme, the public support contact point for the United Nations World Food Program

### Protection of Coral

200 Points

Donate to Project AWARE

### Donation to UNICEF to support children around the world

200 Points

Donation to the Japan Committee for UNICEF

### Support for Global Education for Children

200 Points

Donation to the World Terakoya Movement of the National Federation of UNESCO Associations in Japan

### Protection of Endangered Species

200 Points

Donate to NPO Organization of ecology-cafe

# MAJOR GROUP COMPANIES

(As of March 31, 2012)

## ATRIUM Co., Ltd. and group

### ■ Real estate liquidation and servicing business

Atrium will specialize in its original two core businesses: short-term, high-turnover real estate liquidation for small- and medium-sized properties, and the special servicing business. It will also further refine and enhance the knowledge and skills that it has developed through its involvement in the real estate business.

Atrium produces value by regenerating real estate assets. We aim to build customer confidence and support by focusing on customer satisfaction and implementing effective compliance and corporate governance.

## Concerto Inc.

### ■ Amusement business

Concerto aims to create optimal amusement spaces for the enjoyment of its customers and has established 25 “Concert Hall” pachinko parlors in eastern Japan. As an organization with strong regional links, it contributes to local communities while combining spacious facilities with fine-tuned services.

### ■ Real estate rental business

Concerto lets 10 commercial buildings, especially its “The Prime” properties in Shibuya and other central Tokyo locations. It is working to develop new properties and expand its leasing business under a concept that calls for utilization and development of properties that enhance local communities.

### ■ Membership club management

The concept for Concerto’s uraku AOYAMA membership club is to provide “the ultimate in hospitality.” With facilities that include a fitness gym, restaurant, guest rooms and banquet halls, this luxurious complex provides superb service and the ideal environment in which to enjoy the benefits of club membership.

## SAISON FUNDEX CORPORATION

### ■ Personal/Business/Mortgage loans, guarantee business

Under SAISON’s Loan Hyakusen brand, Saison Fundex offers card loan products, such as the Cash Reserve Loan and VIP loans (for both individuals and businesses), as well as the contract-type loan products Lifestyle Support Loans and Real Estate Mortgage Loans. Development in the credit guarantee business through business cooperation with various financial institutions will cover loans collateralized by real estate properties. The company also provides project loans to companies that operate real estate businesses. In this business, it focuses on providing reliable products that meet wide ranging funding requirements. Going forward, the company intends to further improve the quality of its services to better meet these requirements.

## JPN Holdings Group

JPN Holdings Co., Ltd. is a pure holding company for three business companies: JPN COLLECTION SERVICE CO., LTD., which is involved in the servicer business, humanplus Corporation, which provides temporary staffing and telemarketing services, and KINDER NURSERY Co., Ltd., which operates a childcare service.

### ■ Servicer business:

A powerful infrastructure in the form of a large-scale call center enables JPN Holdings to respond to a wide range of needs relating to small, unsecured receivables held by financial institutions, non-banks, and local governments. Services cover everything from management and recovery to purchase of receivables. JPN also offers research operations, back-up services, and others.

### ■ Temporary staffing business:

Through its temporary staffing services, JPN Holdings helps to improve the operational efficiency and performance of client operations and collection divisions, especially financial institutions and non-banks. Using this same expertise, it also offers best-fit solutions for local government tax guidance services and for other public services.

### ■ Telemarketing business:

JPN Holdings uses the expertise from receivables management operations and its strong human resource base from the temporary staffing business to offer various telemarketing, processing agency and outsourcing businesses through the operation of the company’s call centers.

### ■ Childcare business:

JPN Holdings offers comprehensive school education services with three departments: “Child” (nursery school), “Academy” (kindergarten) and “Junior” (afterschool program). The goal is to provide childcare services that meet a diverse spectrum of needs by combining the academic and physical education of kindergarten- age and older children with daycare services that look after children in a safe, secure environment for extended hours.

## Qubitous Co., Ltd.

### ■ Processing business

Qubitous provides processing services in the areas of credit card application screening, monitoring, call center operation, and other processing operations, with a focus on credit services. The company engages in contracted processing for more than 80 client companies, primarily for Saison brand and UC brand credit cards.

The company will seek active expansion of its contracted processing business with the aim of being the No. 1 comprehensive processing company in both quality and quantity by providing high-quality services and attaining cost leadership.

## Saison Information Systems Co., Ltd.

### ■ Information processing services

Saison Information Systems engages in systems construction and operation grounded in a wealth of business process expertise developed in fields such as finance and distribution. The company also actively engages in payroll outsourcing and communications middleware based on HULFT technology. It aims to be a company that enjoys the complete trust of customers by providing a one-stop service for everything from systems construction to outsourcing and package products.

## Entertainment Plus Inc.

### ■ Entertainment Business

Entertainment Plus Inc. operates an online ticketing service called “e+” for music concerts, theater, movies and other entertainment. The company was the first in Japan to move its operation to the Internet and with approximately 7 million registered members it leads the industry in online sales through its storeless ticketing service. Other operations include artist discovery and financing and production of entertainment.

# CORPORATE INFORMATION

(As of March 31, 2012)

## CREDIT SAISON CO., LTD.

| | |
|---|---|
| **Head Office:** | 52F Sunshine 60 Bldg., 1-1, Higashi-Ikebukuro 3-chome,<br>Toshima-ku, Tokyo 170-6073, Japan<br>Telephone: 81-3-3988-2111<br>www.saisoncard.co.jp |
| **Incorporated:** | May 1, 1951 |
| **Paid-in Capital:** | ¥75,929 million |
| **Number of Employees:** | Consolidated: 3,598<br>Non-consolidated: 1,865 |
| **Closing of Accounts:** | March 31 |
| **Stock Listing:** | Tokyo Stock Exchange, First Section |
| **Ticker No.:** | 8253 |
| **Independent Auditor:** | Deloitte Touche Tohmatsu LLC |
| **Transfer Agent:** | The Mitsui Sumitomo Trust & Banking Co., Ltd.<br>Stock Transfer Agency Department |
| **Common Stock Authorized:** | 300,000 thousand shares |
| **Common Stock Outstanding:** | 185,444 thousand shares |

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カンタン・お得なポイントサイト

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CREDIT SAISON CO.,LTD.

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