

# Management Report Interim FY2006

2006.11.20

CREDIT SAISON CO., LTD.



# AGENDA

## ◆ Management Report Interim FY 2006

### I . Overview of Business

## ◆ Management Strategy

### II . Progress for First Half of FY2006

### III . Key Strategy for Second Half of 2006

**The figures contained in this document, which describe the outlook of business etc, are projected calculations based on conclusions and suppositions according to the information currently available to us. Future actual business results may differ substantially from the projections described here due to the inherent uncertainty of such conclusions and suppositions, as well as variable factors such as future business operations and/or economic conditions.**



# Interim Financial Report for FY 2006



# CONTENTS

## ◆ Financial Report for Interim FY 2006

### I . Overview of Business

#### 1. Highlights

#### 2. Operating Results

#### 3. Main Indices (Non-Consolidated)

#### 4. Revised business results

(allowance for interest repayment losses, etc.)

# 1. Highlights of First Half of FY 2006

◆ Non-consolidated ☆ Consolidated

First and Second Quarter

- ◆ Aired new TV commercials featuring Brazilian soccer star Ronaldinho
- ◆ Started issuing “Kawatoku Card” under alliance with Kawatoku Co., Ltd. (department store)
- ◆ Started issuing “SEIBU Prince Card”
- ◆ Started issuing “KDDI THE CARD SAISON”
- ◆ Agreed on comprehensive alliance with Yamada Denki Co., Ltd. in credit card business
- ◆ Agreed on business alliance with Shizuoka Bank, Ltd. in retail finance business
- ◆ Started guarantees of Resona Bank’s “cannael” consumer loans for working women
- ◆ Strengthened alliance with Takashimaya Group
- ◆ Began issuing “VIORO CARD SAISON”
- ☆ JPN Servicer Co., Ltd. (loan collection agency) obtained Privacy Mark
- ☆ Atrium Co., Ltd. made 3-for-1 stock split

Third Quarter

- ◆ Established joint venture company and formed shareholders’ agreement with Daiwa House Industry Co., Ltd.
- ☆ JPN Servicer Co., Ltd. was listed on Osaka Securities Exchange’s Hercules market at an initial price of ¥431,000
- ◆ Started operation of online shopping mall “Eikyu-Fumetsu.com”

## 2. Business Results

( )=YOY

### Consolidated

### Non-Consolidated

#### Operating revenues

First Half of  
FY 2005

¥127.8 billion (109%)



¥100.0 billion (108%)



First Half of  
FY 2006

¥165.6 billion (129%)

¥131.8 billion (131%)

#### Ordinary income

First Half of  
FY 2005

¥35.0 billion (125%)



¥24.9 billion (109%)



First Half of  
FY 2006

¥43.1 billion (123%)

¥29.3 billion (117%)

#### Net income

First Half of  
FY 2005

¥20.7 billion (130%)



¥14.7 billion (103%)



First Half of  
FY 2006

¥Δ5.8 billion ( - )

¥Δ6.2billion ( - )

# Results by Business Segment

Units: Billion yen %

|   | Operating revenues    |                       |       | Operating income      |                       |        |
|---|-----------------------|-----------------------|-------|-----------------------|-----------------------|--------|
|   | First Half of FY 2005 | First Half of FY 2006 | YOY   | First Half of FY 2005 | First Half of FY 2006 | YOY    |
| <b>Credit &amp; Finance</b>               | 104.7                 | 138.1                 | 31.8% | 27.7                  | 29.6                  | 7.1%   |
| <b>Entertainment</b>                      | 8.8                   | 9.4                   | 6.7%  | 1.2                   | 1.3                   | 12.5%  |
| <b>Real estate</b>                        | 8.4                   | 12.2                  | 45.0% | 3.9                   | 6.8                   | 73.1%  |
| <b>Lease</b>                              | 3.8                   | 3.6                   | △6.2% | 1.5                   | 1.4                   | △8.5%  |
| <b>Others</b>                             | 2.6                   | 3.1                   | 19.6% | 1.3                   | 3.0                   | 134.0% |
| <b>Total</b>                              | 128.3                 | 166.4                 | 29.6% | 35.6                  | 42.2                  | 18.6%  |
| <b>Inter-group companies transactions</b> | (0.6)                 | (0.7)                 | —     | (2.0)                 | (2.4)                 | —      |
| <b>Consolidated</b>                       | 127.8                 | 165.6                 | 29.6% | 33.6                  | 39.8                  | 18.6%  |

# Contribution to Consolidated Results

## Consolidated Trends

(Units: Billion yen; times)

|  | First Half of FY 2005 | First Half of FY 2006 | FY 2006 (target) |
|--|-----------------------|-----------------------|------------------|
| Ordinary income  | 35.0                  | 43.1                  | 79.0             |
| Net income   | 20.7                  | △.58                  | 16.5             |
| Ratio of consolidated to non-consolidated net income (times) | 1.41                  | 1.47                  | 1.40             |
| Shareholders' equity ratio                                   | 20.0%                 | 17.5%                 | —                |

## Ordinary income: Consolidated/Non-consolidated difference

(Units: Billion yen)

|                 | Consolidated | Non-Consolidated | Difference |
|-----------------|--------------|------------------|------------|
| Ordinary income | 43.1         | 29.3             | 13.8       |

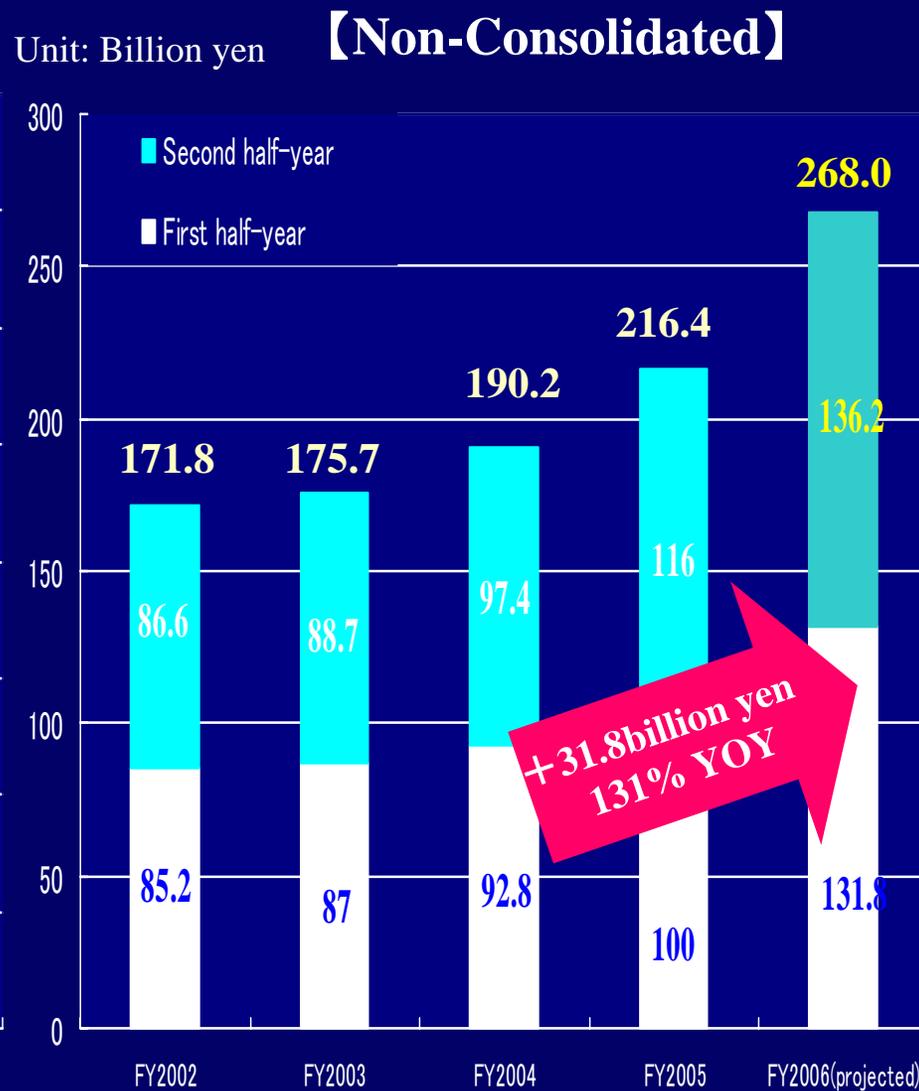
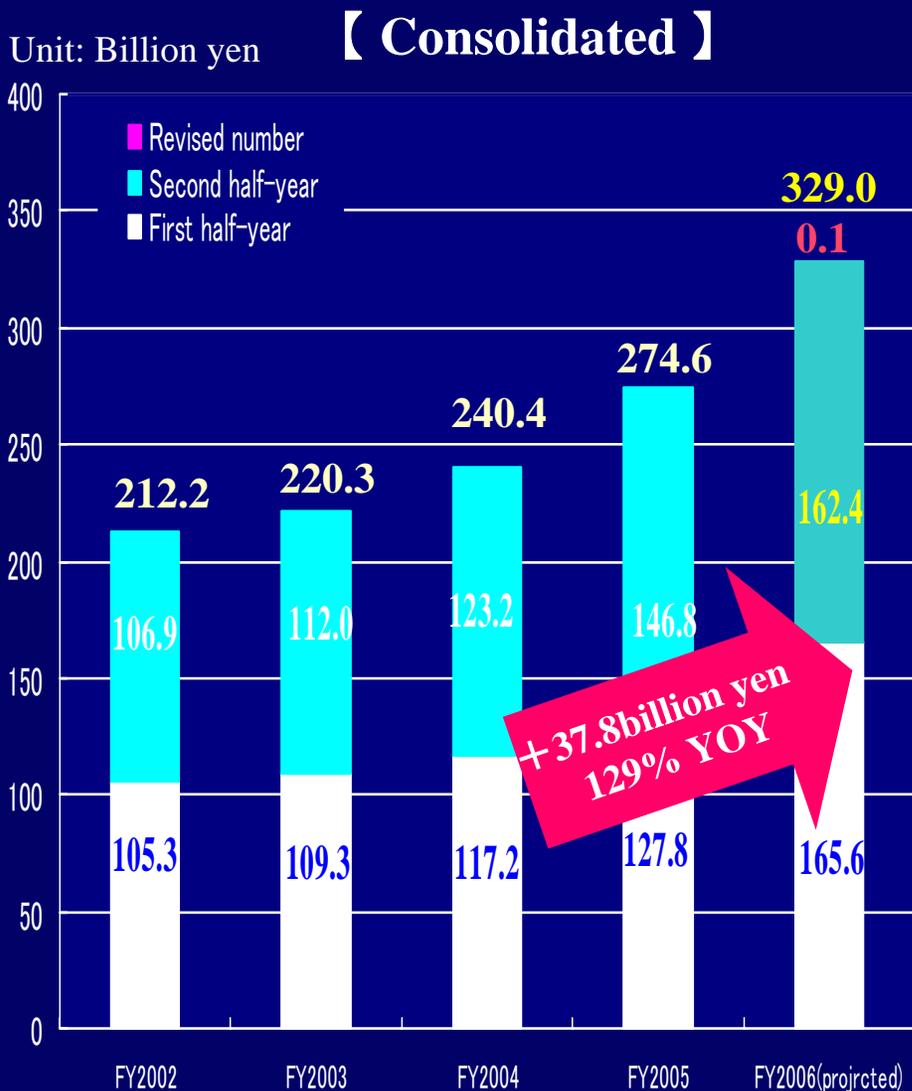
## Contribution to Consolidated Results

| Main consolidated subsidiaries  | Contribution to ordinary income |
|---|---------------------------------|
| <b>Saison Fundex Group</b> <ul style="list-style-type: none"> <li>▪ Saison Fundex (loans)</li> <li>▪ House Planning (real estate)</li> </ul>  | ¥3.1 billion                    |
| <b>Atrium G</b> <ul style="list-style-type: none"> <li>▪ Atrium (real estate)</li> <li>▪ Atrium Servicing (credit collection agency)</li> <li>▪ AIC (liquidation of real estate)</li> </ul> | ¥7.9 billion                    |
| <b>Vivre G</b> <ul style="list-style-type: none"> <li>▪ Vivre (amusement business)</li> <li>▪ NOA Planning (consulting)</li> <li>▪ A &amp; A (amusement business)</li> </ul>                | ¥1.2 billion                    |

| Main equity-method affiliates          | Contribution to ordinary income |
|--|---------------------------------|
| Idemitsu Credit (credit card business) | ¥ 3.2 billion                   |
| Resona Card (credit card business)     | ¥ 2.8 billion                   |
| UC Card (information processing)       | ¥ 1.8 billion                   |

# Operating Revenues (Consolidated/Non-Consolidated)

◆ Ended up ¥1.0 billion over original fiscal year plan due to integration with UC CARD and strong performance of real estate business

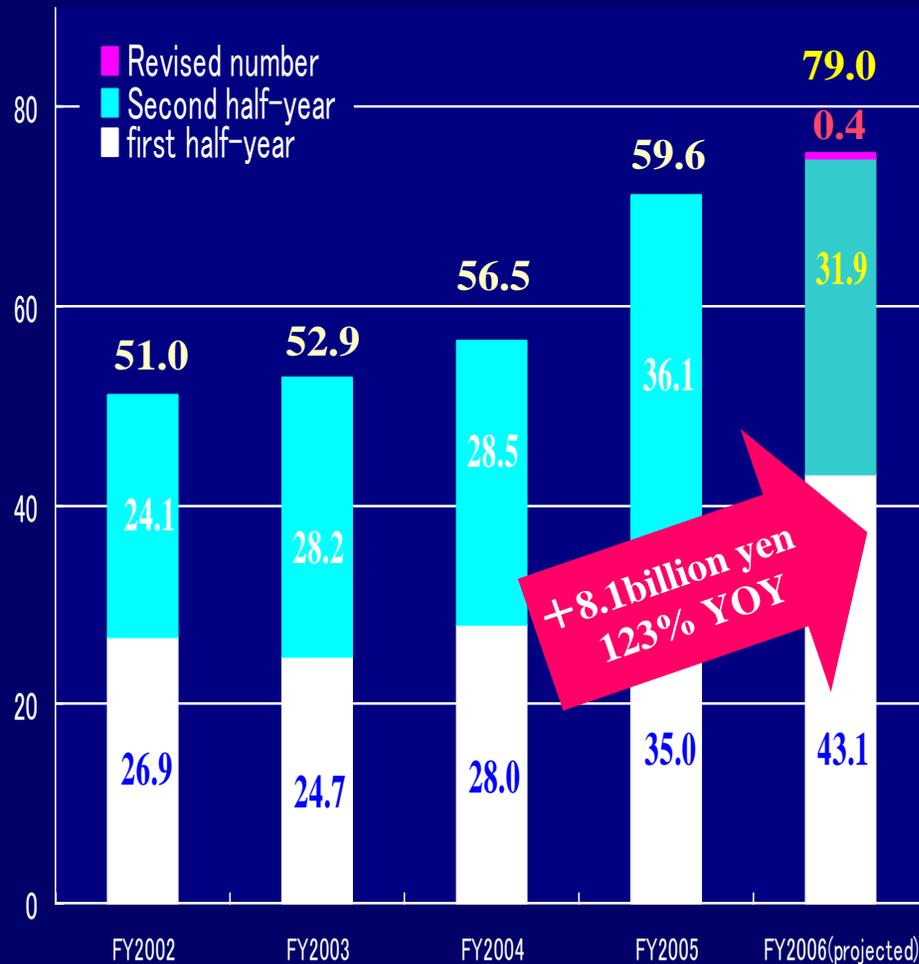


# Ordinary Income (Consolidated/Non-Consolidated)

◆ Revised earnings upward from original projection by ¥4.0 billion (consolidated) and ¥1.0 billion (non-consolidated) due to contributions from solid card business and strong real estate business

Unit: Billion yen 【Consolidated】

Unit: Billion yen 【Non-Consolidated】

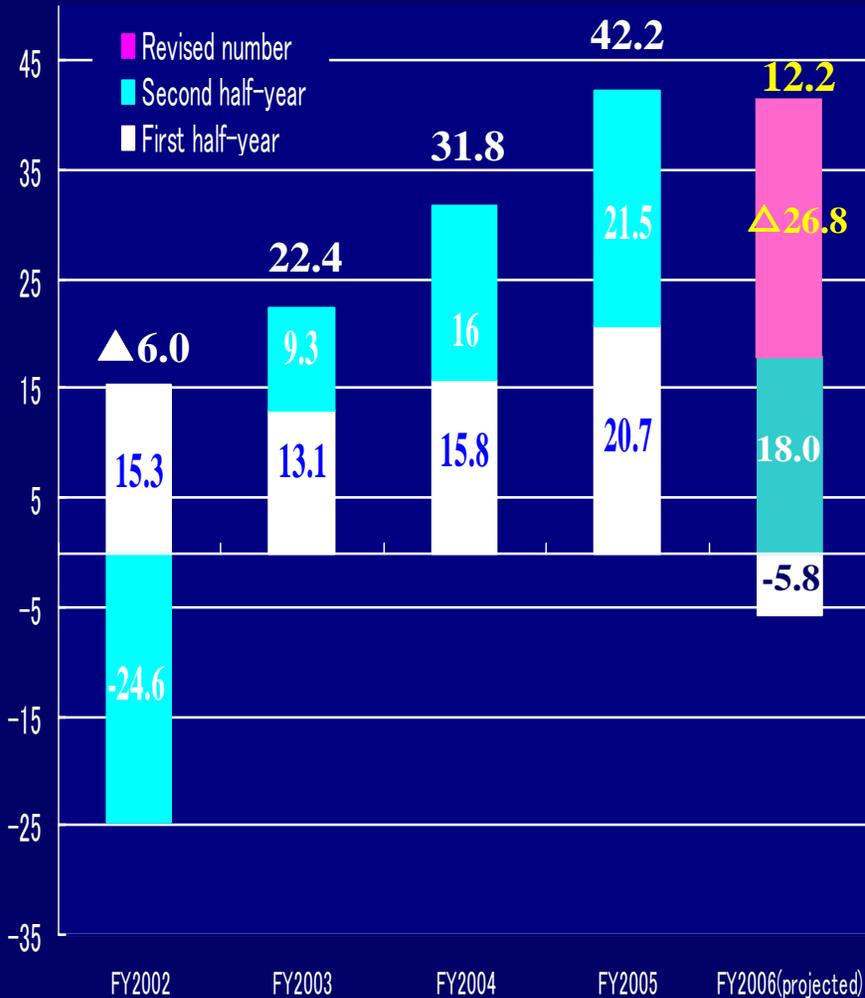


# Net income (Consolidated/Non-Consolidated)

◆ Recorded extraordinary loss on provision for loss on interest repayments and other items

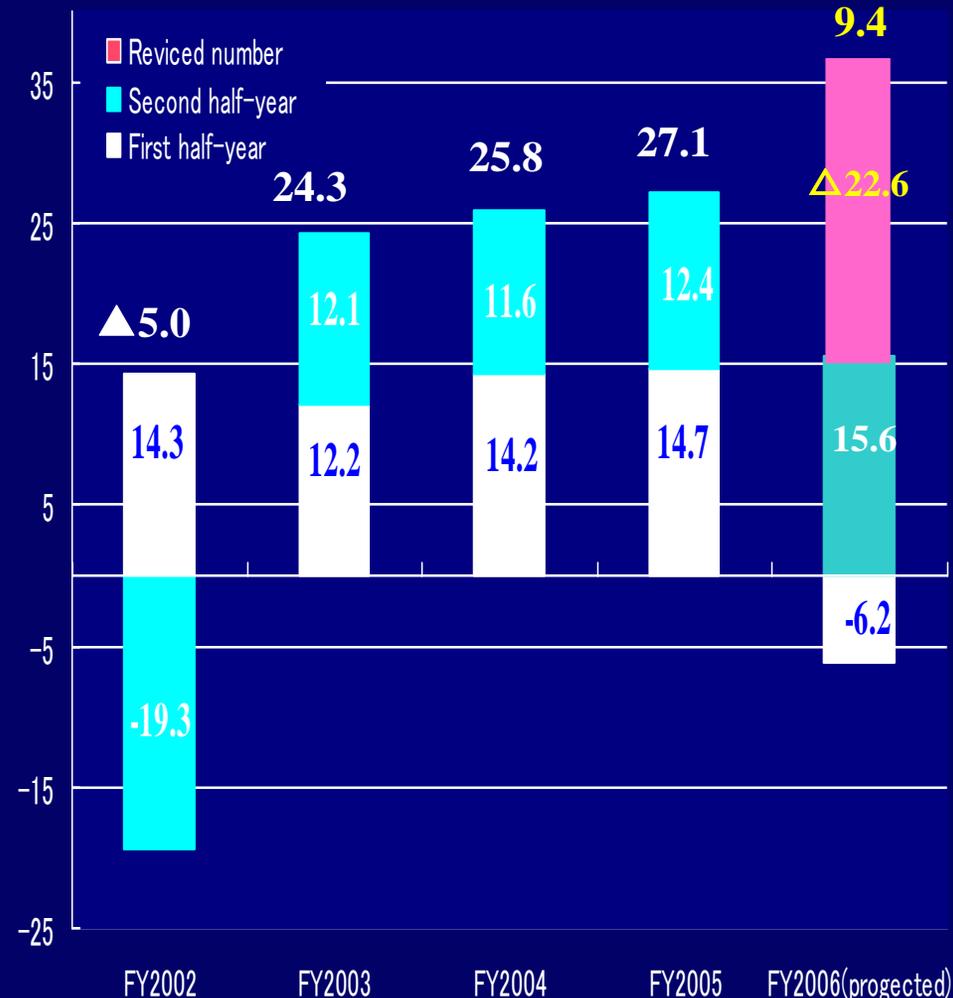
Unit: Billion yen

【 Consolidated 】



Unit: Billion yen

【 Non-Consolidated 】

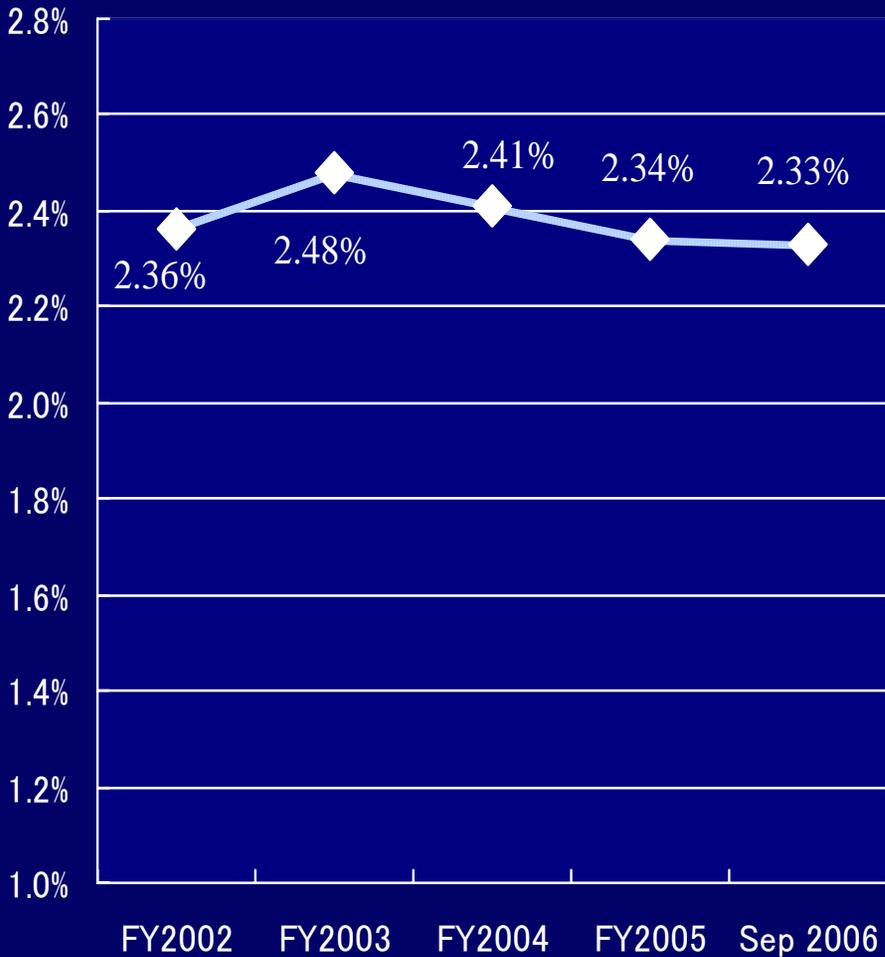


# 3. Credit Risk Trends①

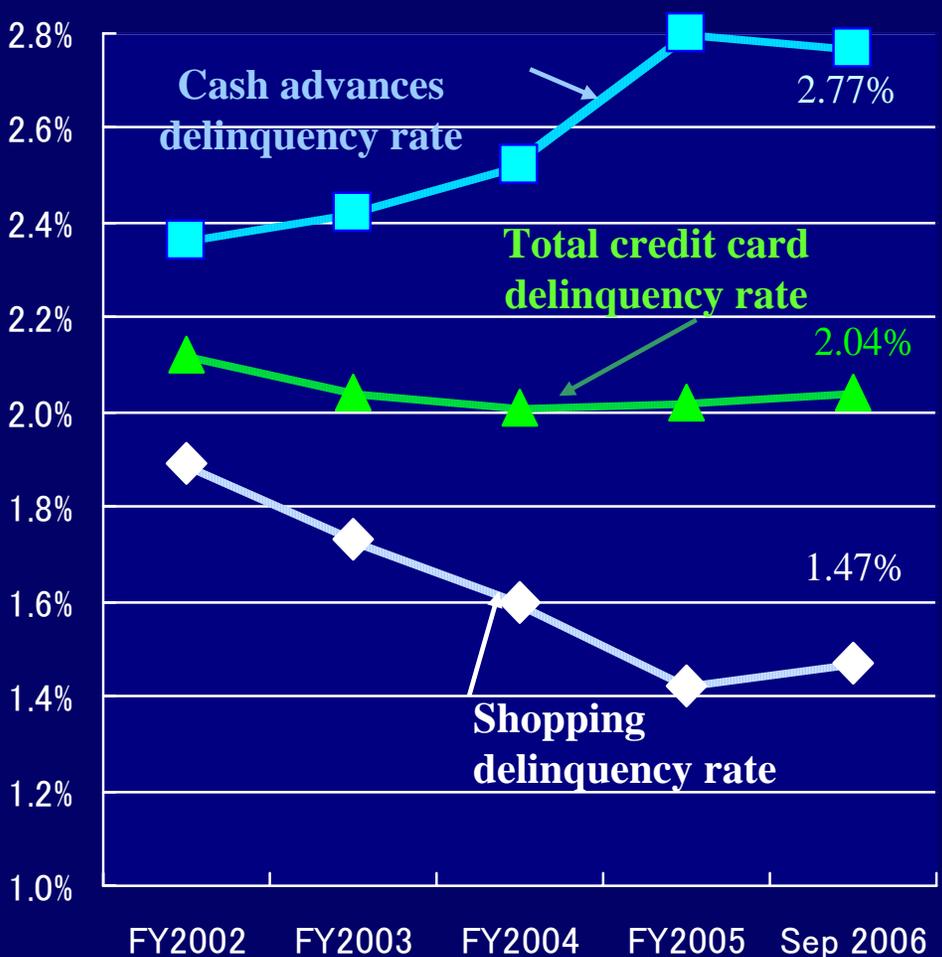
■ Delinquent receivables of over 90 days is stable.

\*Delinquency rate: Percentage of total receivables past due 90 days or more.

【 Consolidated 】



【 Non-Consolidated 】



# Credit Risk Trends ②

## ■ Credit Costs

( ) First half year

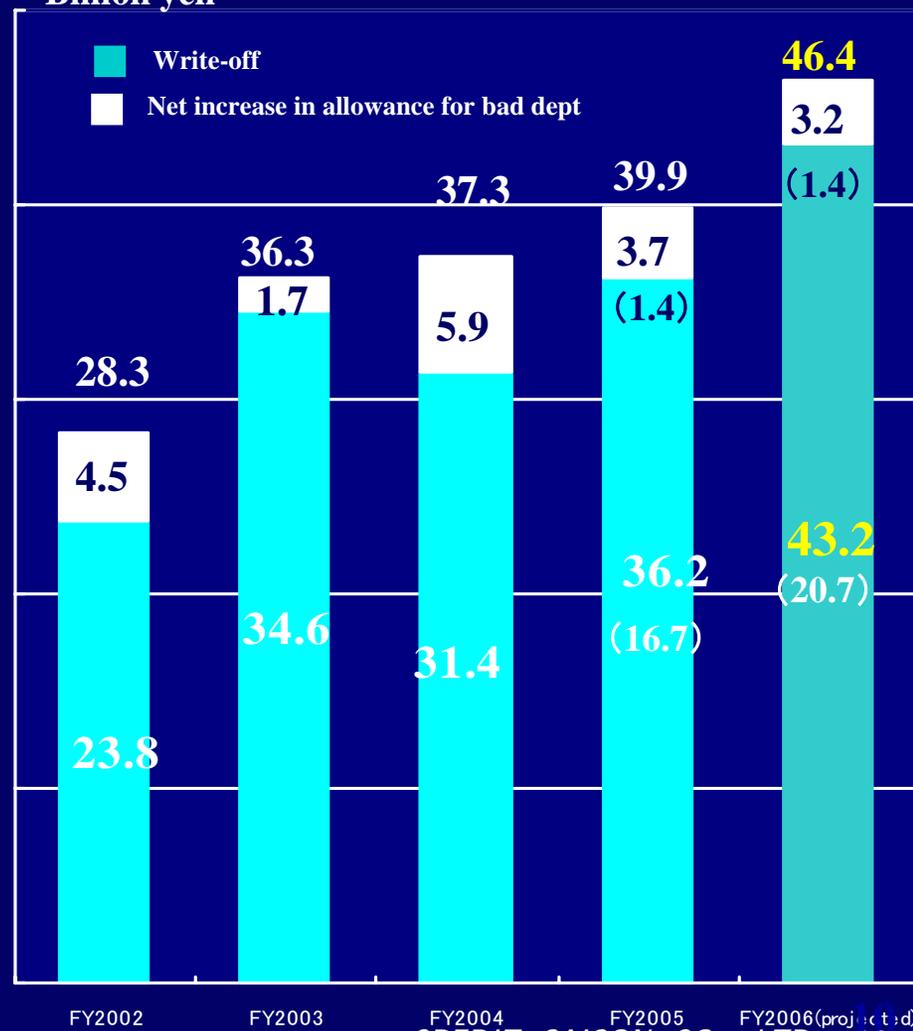
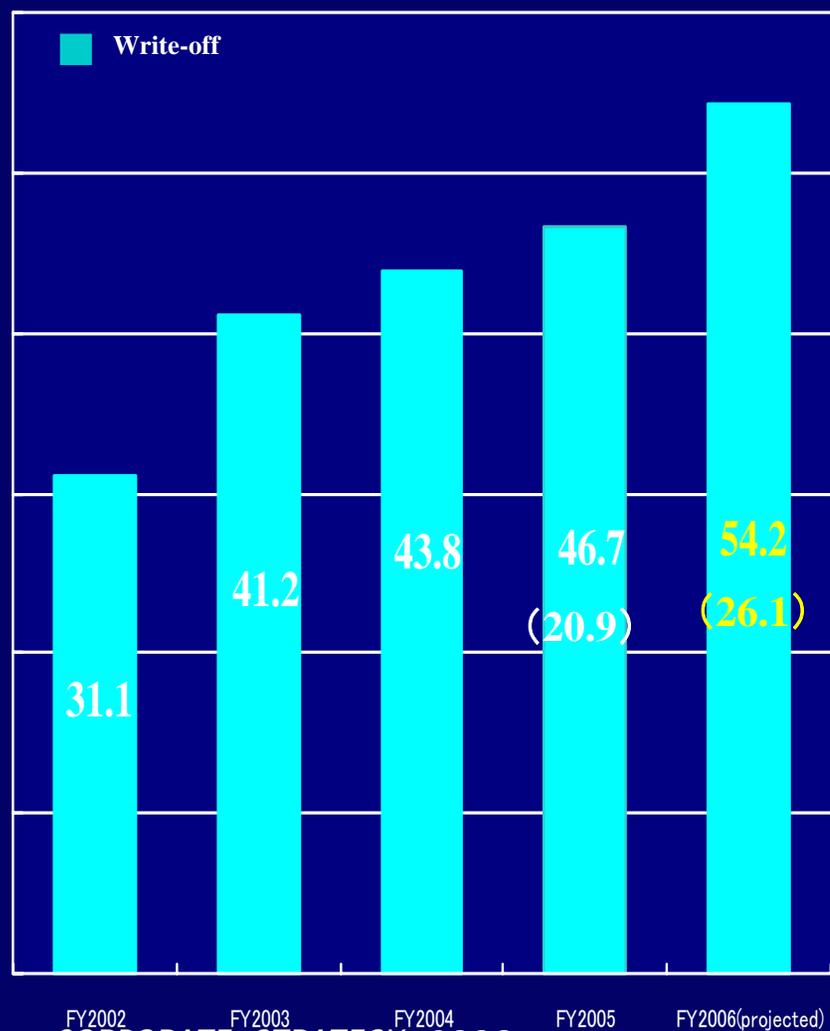
### 【 Consolidated 】

### 【 Non-Consolidated 】

Billion yen

Consolidated figures are aggregate delinquency costs.

Billion yen



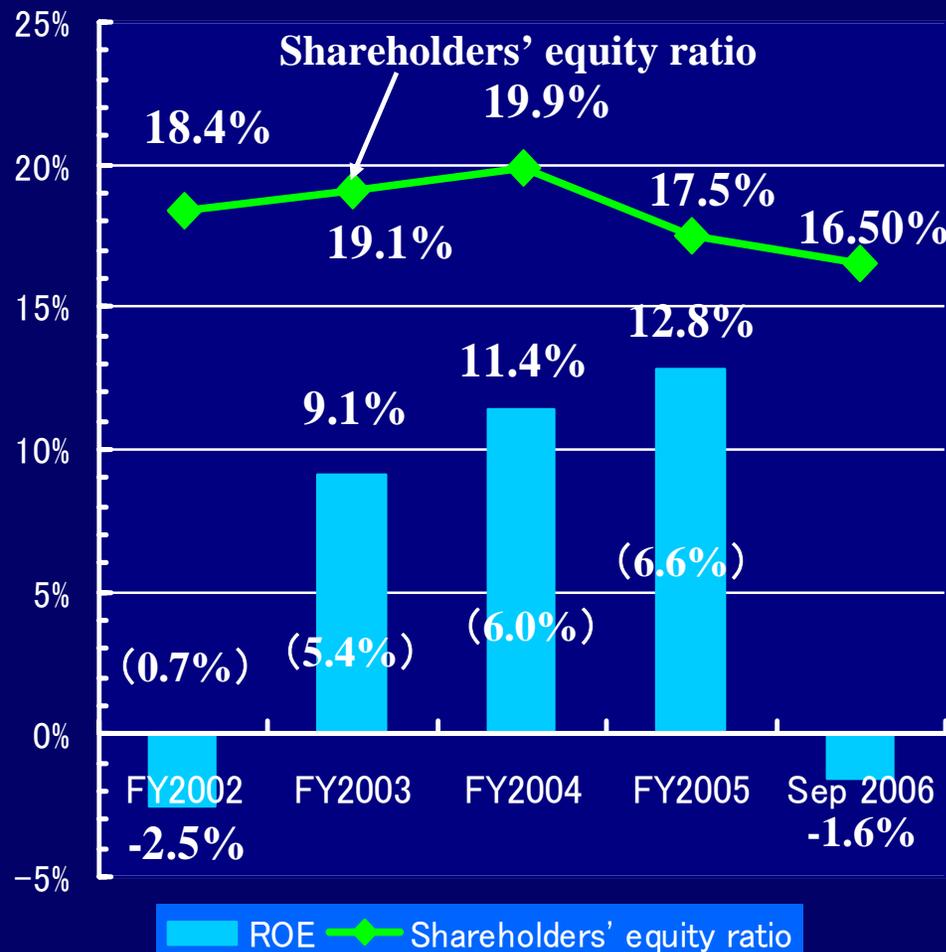
# 4. Financial Indices

## ◆ Trends of Shareholders' equity ratio / ROE

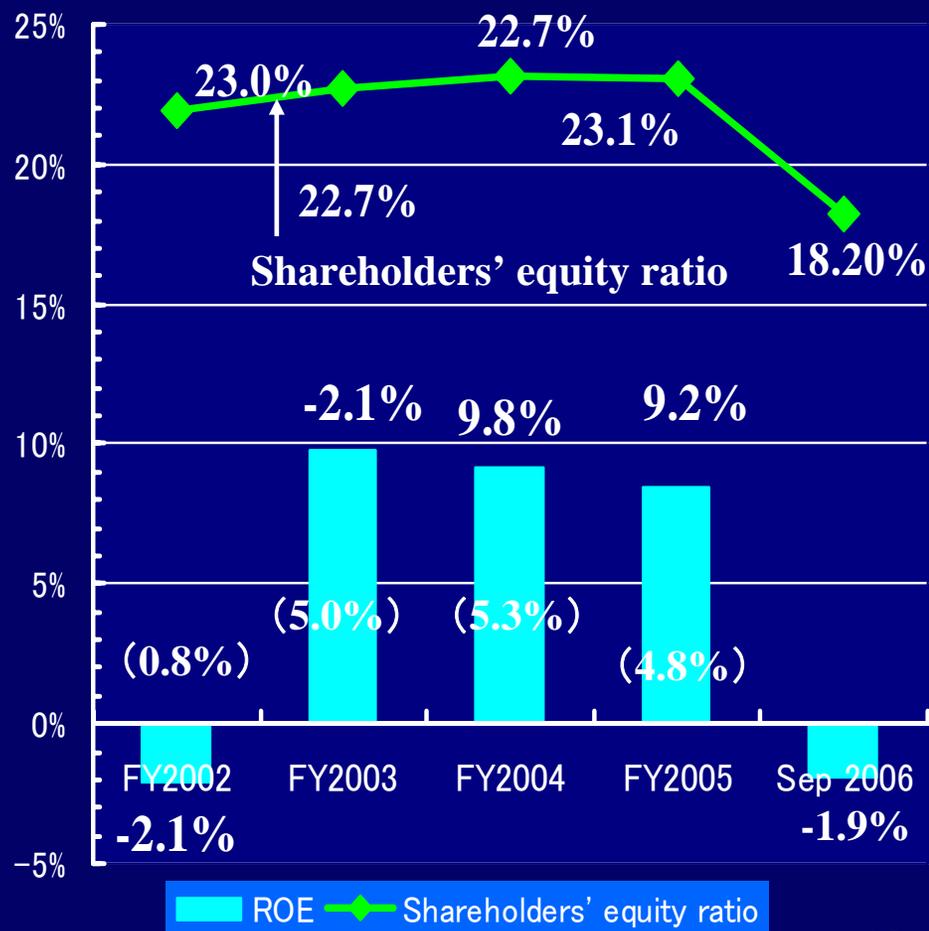
**Ratings**  
**R&I A+ S&P A- Fitch A**

( ) First half year

### 【 Consolidated 】

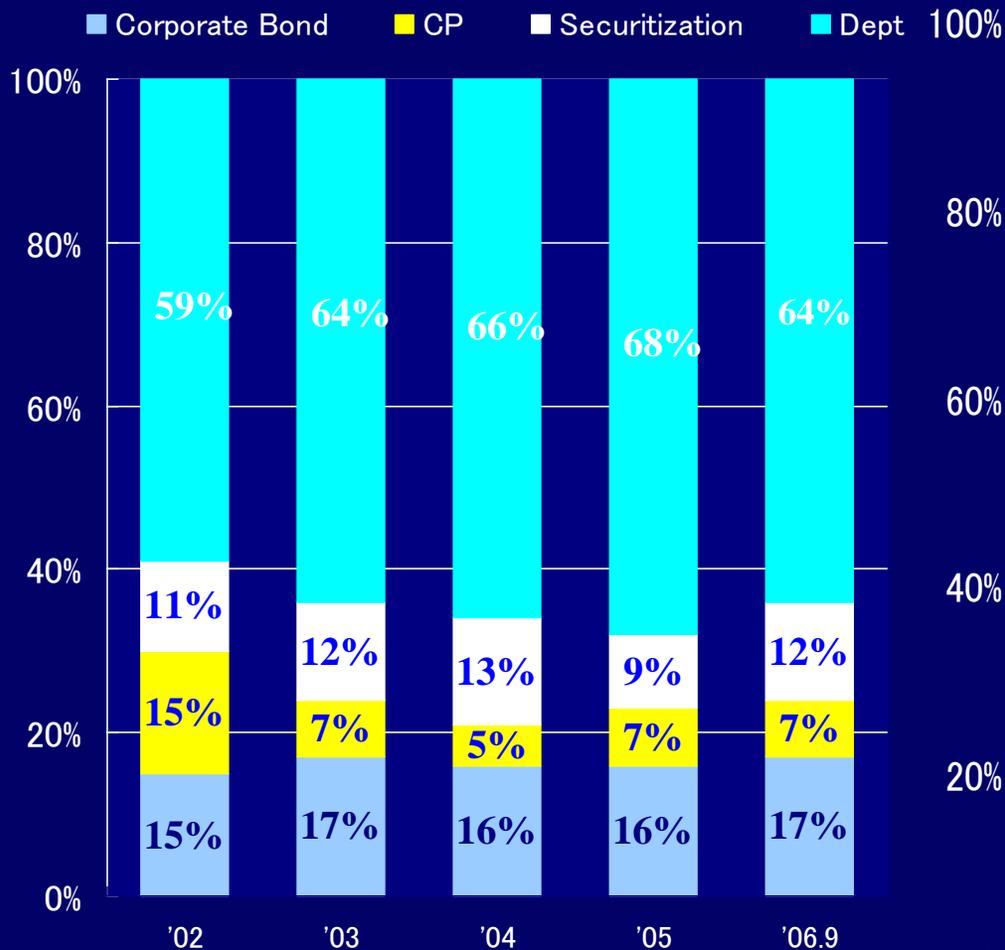


### 【 Non-Consolidated 】

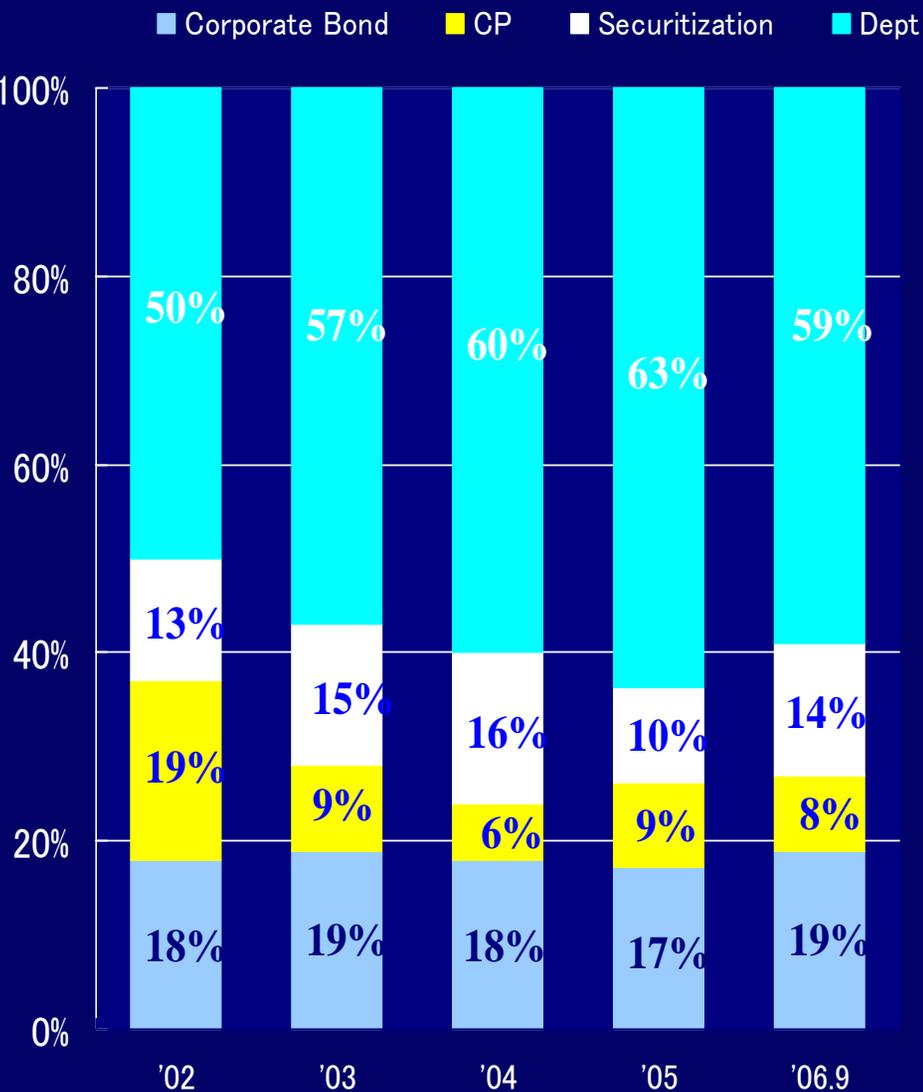


# Funding Structure ①

## 【 Consolidated 】

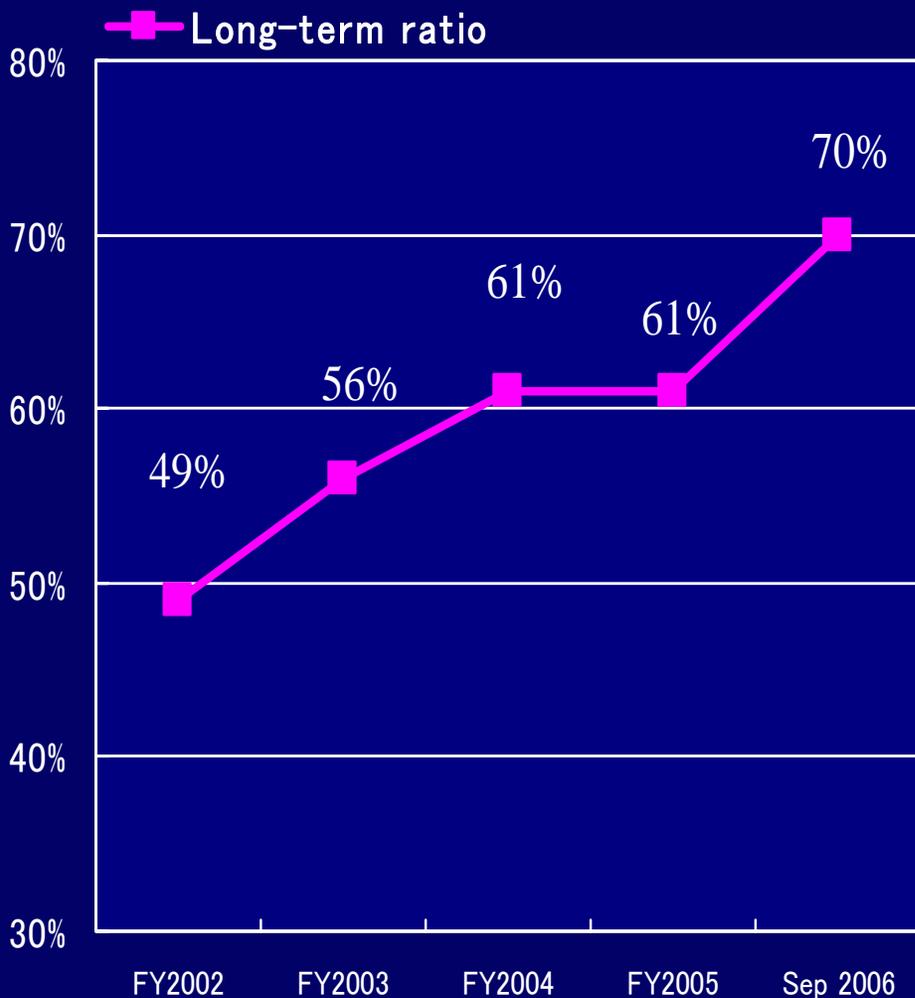


## 【 Non-Consolidated 】

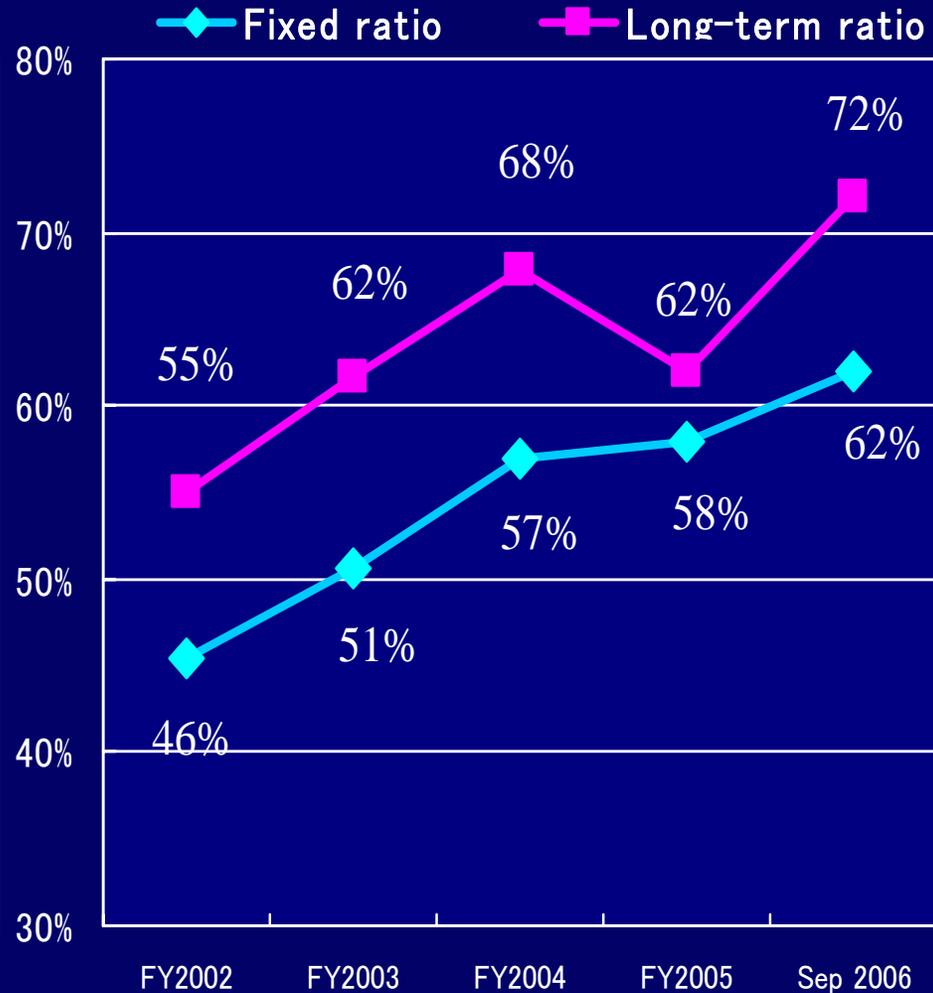


# Funding Structure ②

## 【 Consolidated 】



## 【 Non-Consolidated 】



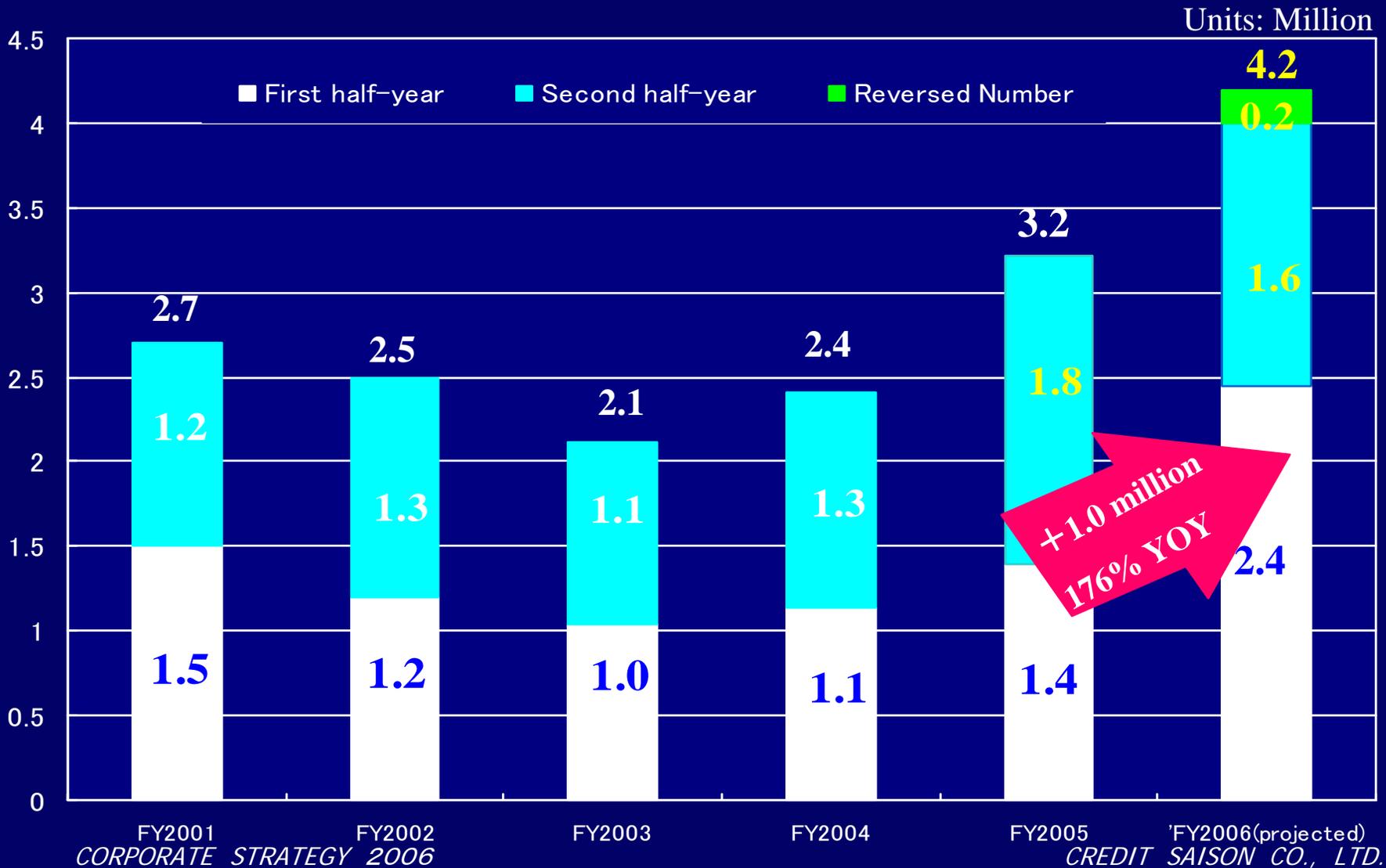
# 5. Main Indices for First Half of FY 2006

( )=YOY

|                       | First Half of FY 2006      |   | FY2006 Target             |
|-----------------------|----------------------------|---|---------------------------|
| ① New applications    | 2.45 million (176%)        |    | 4.20 million(130%)        |
| ② New cards issued    | 2.14 million (183%)        |    | 3.65 million(135%)        |
| ③ Total card members  | 24.1 million(+1.3 million) |    | 24.8 million(+2.0million) |
| ④ Active card members | 12.1 million(+0.4 million) |    | 12.5 million(+0.8million) |
| ⑤ Transaction volume  | 2,916 billion (151%)       |   | 4,430 billion(140%)       |
| Card shopping         | 1,649 billion (148%)       |  | 3,560 billion(140%)       |
| Cash advances         | 442 billion (162%)         |  | 870 billion(140%)         |

# ① New applications

2.45 million new applications in first half as a result of integration with UC CARD and expansion of alliances; revised fiscal year target upward by 200,000 cards



## ② New cards issued

Revised target for new cards issued upward by 250,000 due to growth of MMC Card and other affinity cards



# ③ Total card members & ④ Active card members

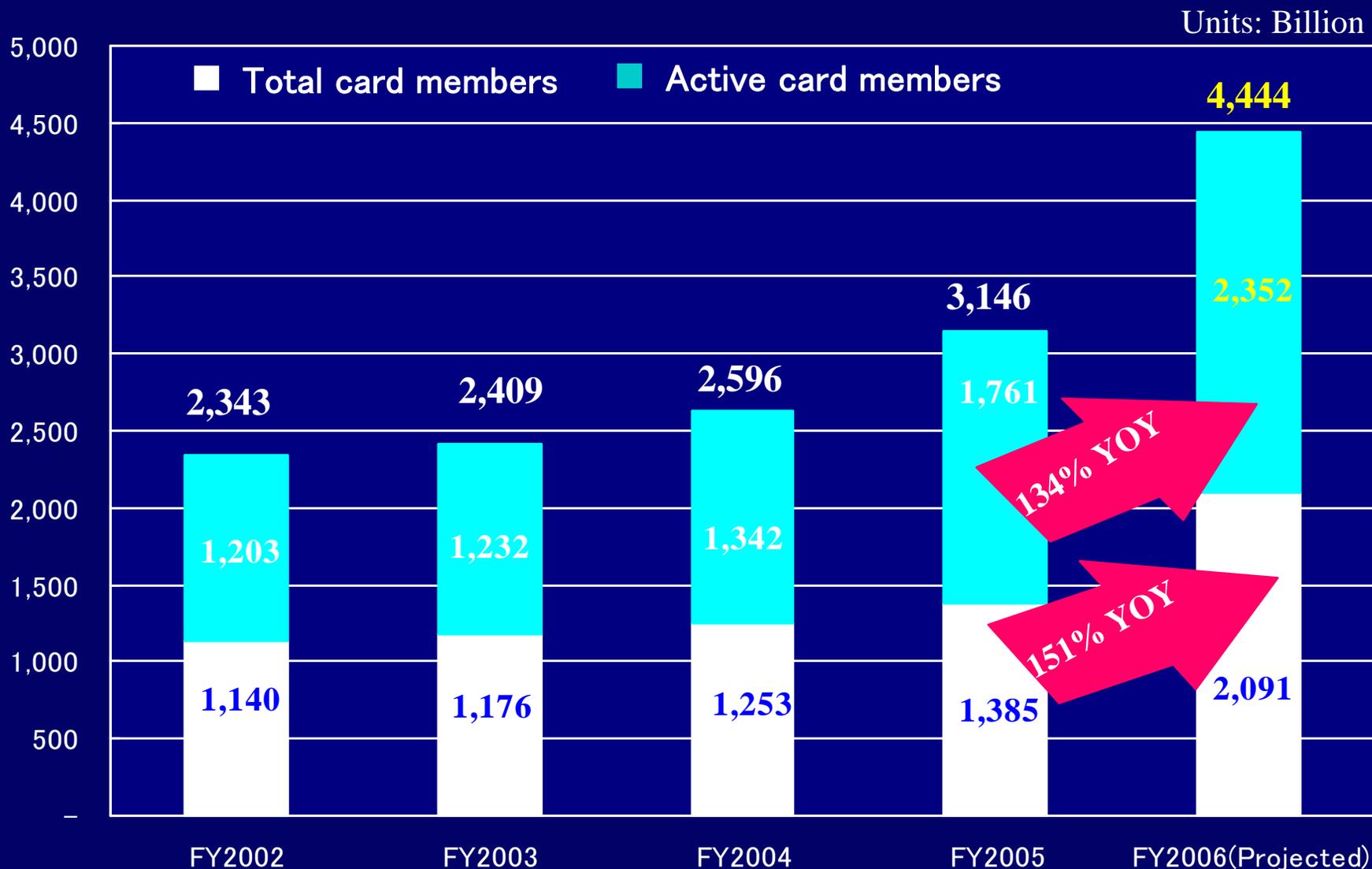
Broke the 2.4 million mark in total cardholders as card applications steadily increased

Units: Million



# ⑤ Transaction volume

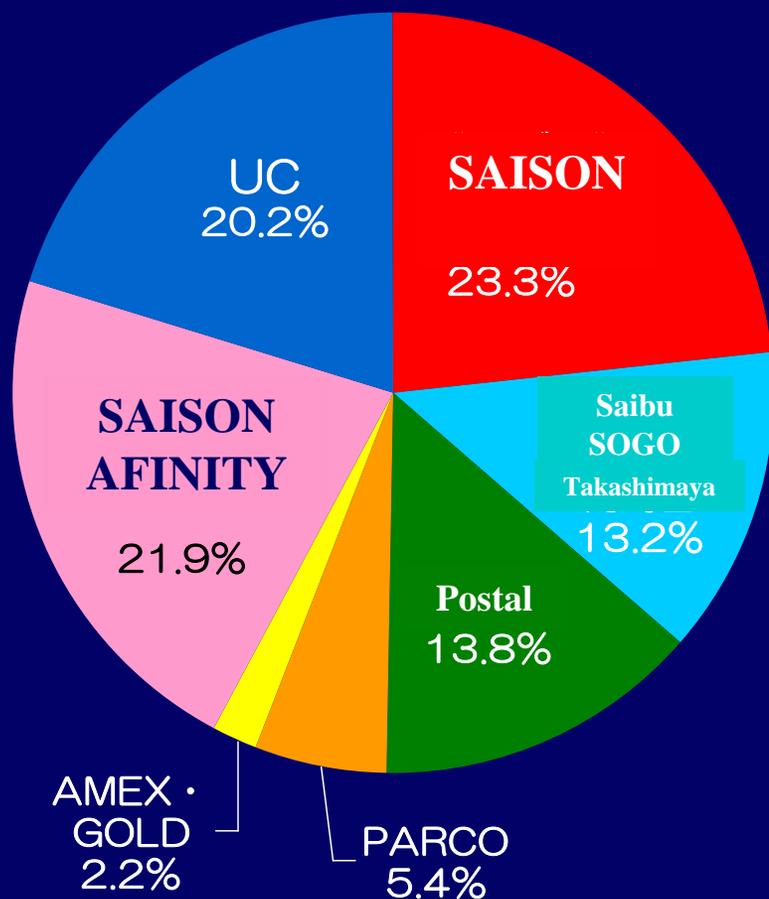
Steady increase due to integration of UC CARD and expansion of recurring payments such as public utilities



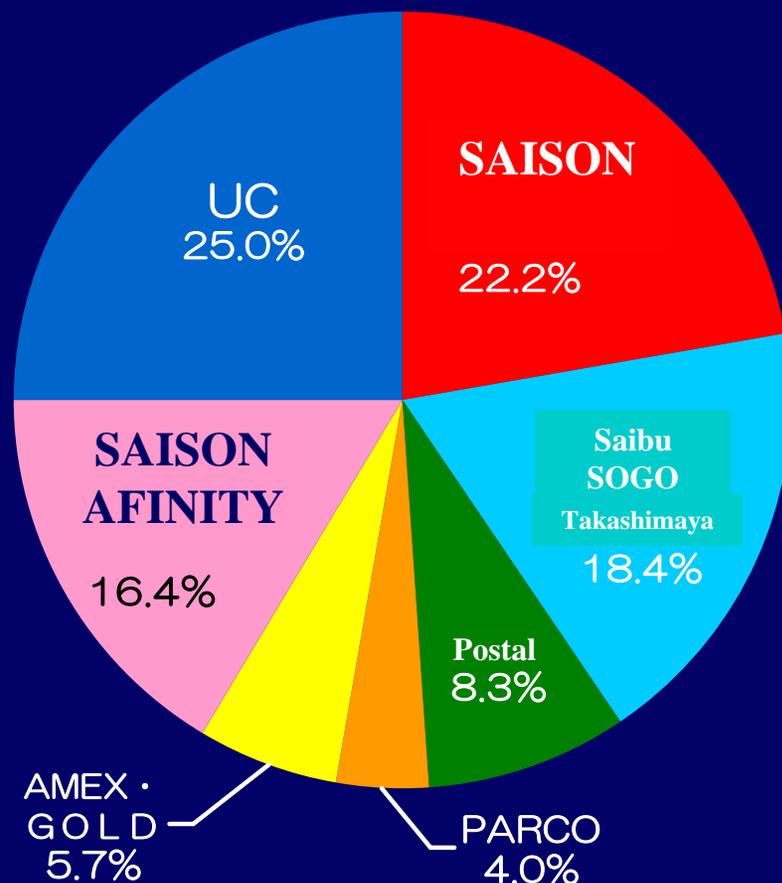
# For reference : Share of Cards

UC brand expanded share with MMC Card and Yamada;  
department store card transaction volume increased

【会員数シェア】



【ショッピング取扱高シェア】



# ⑥ Credit loan outstanding

Revolving balances for credit-card shopping and cash advances steadily expanded



## 4. Revision of Results

### ■ Major Revised Items

#### 【Allowance for Interest Repayment Losses】

**Reason:**

The Company changed its estimation method in accordance with the “Accounting Treatment for Calculation of Reserves Relating to Losses at Consumer Finance Companies Resulting from Interest Repayment Claims” announced by JICPA on October 13, 2006.

**Extraordinary loss: ¥40.9 billion (Consolidated)  
¥35.6 billion (Non-consolidated)**

#### 【Depreciation of Leased Assets】

**Reason:**

The Company recorded a loss to provide for future losses on disposal of leased assets due to cancellation of the lease contracts, considering the increased significance of the lease business.

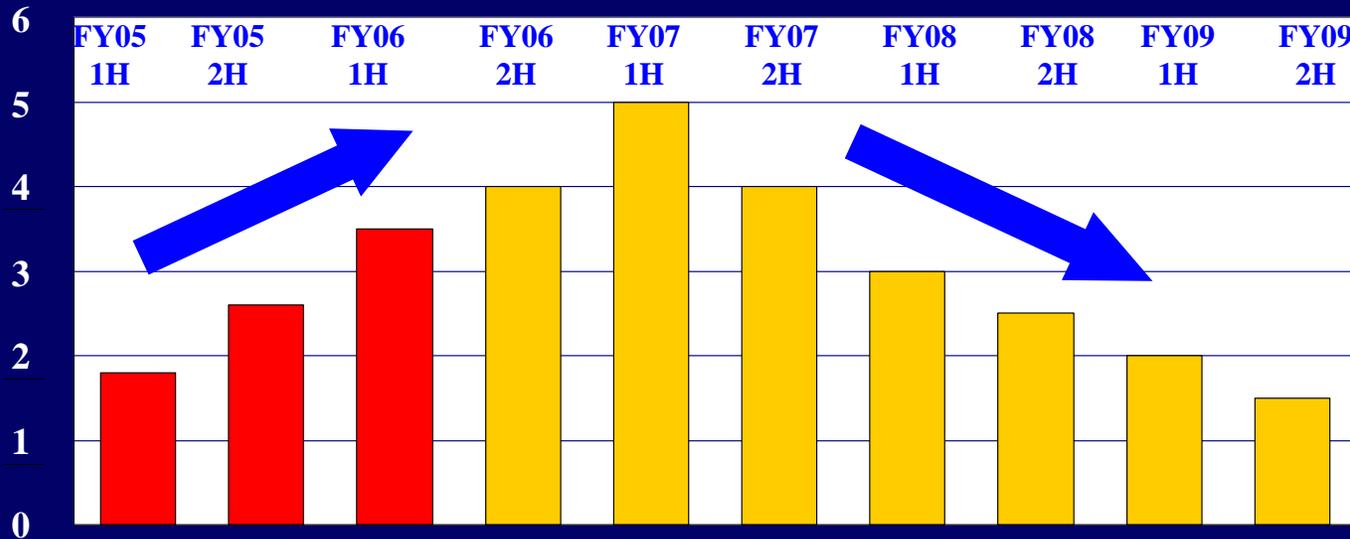
**Extraordinary loss: ¥5.4 billion (Consolidated /Non-consolidated)**

# Calculation of Allowance for Interest Repayment Losses ①

【Decide reasonable estimation periods according to average usage period】

Make conservative loss estimates within a reasonable scope to ensure sufficient allowance

Billion yen **Projected Trend of Overpayment Refund Claims (Consolidated)**



**Amount of overpayment refunds (Cash Out) Approx. ¥2.0 billion/year**

×

**Approx. 5 years**  
(Average usage period of debt related to overpayment refund claims)

=

**Amount of overpayment refunds Approx. ¥10.0 billion per 5 years**

**Debt waivers**  
**Approx. ¥6.0 billion/year**

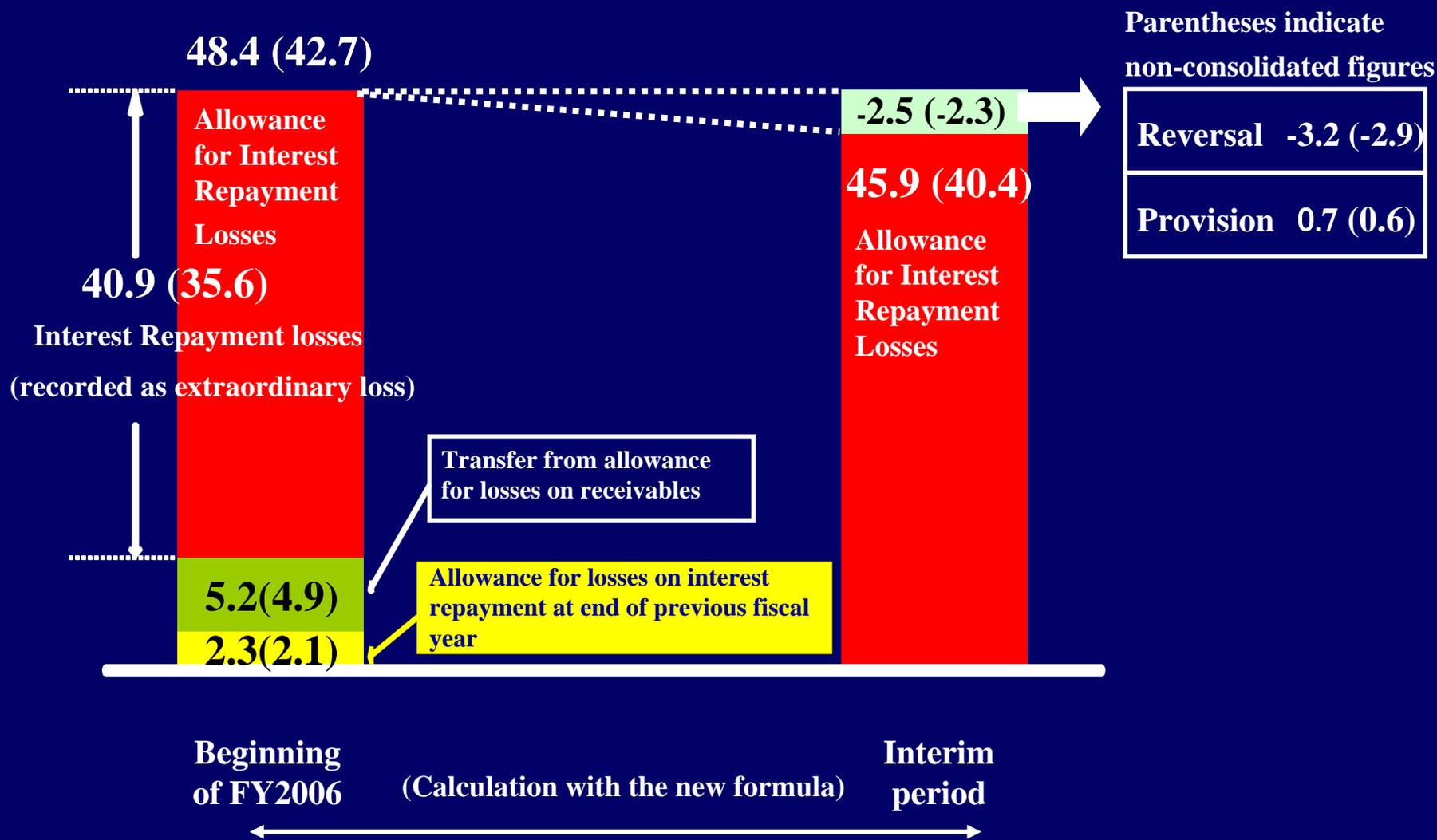
×

**Debt waivers**  
**Approx. ¥30.0 billion per 5 years**

**5-year total approx. ¥40.0 billion**

# Calculation of Allowance for Interest Repayment Losses ②

## ■ Allowance for Interest Repayment Losses (Billion yen)





# Management Strategy for FY 2006

## - Progress of 1H and Point of 2H -



# CONTENTS

## ◆ Management Strategy

For reference:

Changes in U.S. and JAPAN card industry

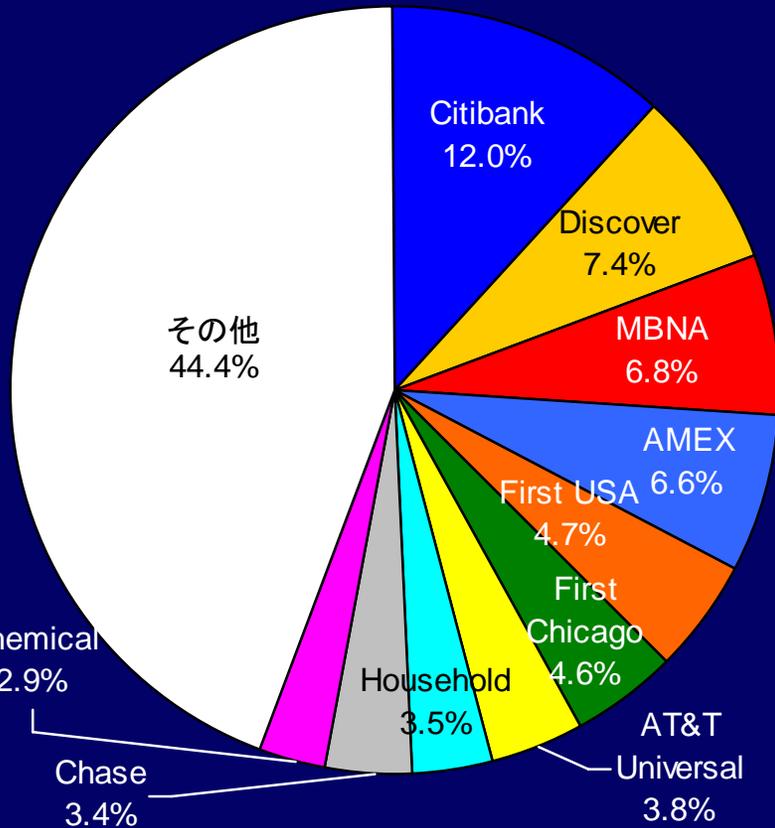
## Ⅱ . Progress of Management Strategy for FY 2006

1. Implementation of branding strategy
2. Effects of the Integration with UC cards
3. Promotion of strategic alliances

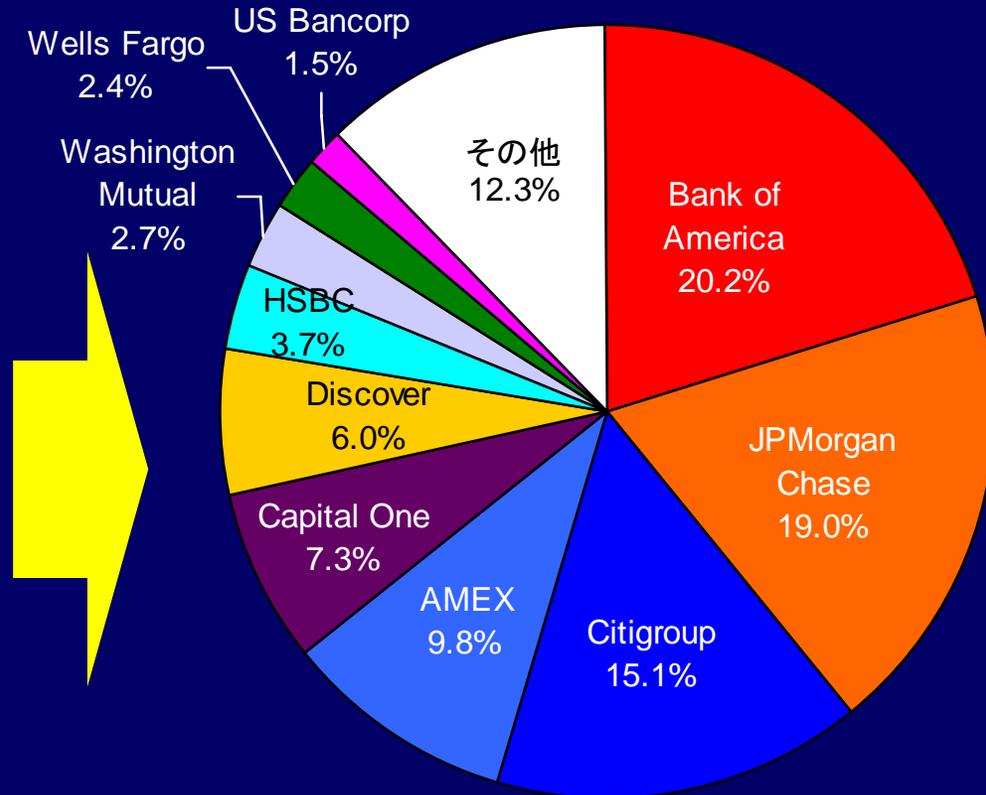
# For reference: Changes in U.S. card industry

## ■ Trends in share of debt balance by issuer for general-use cards

【FY1995】



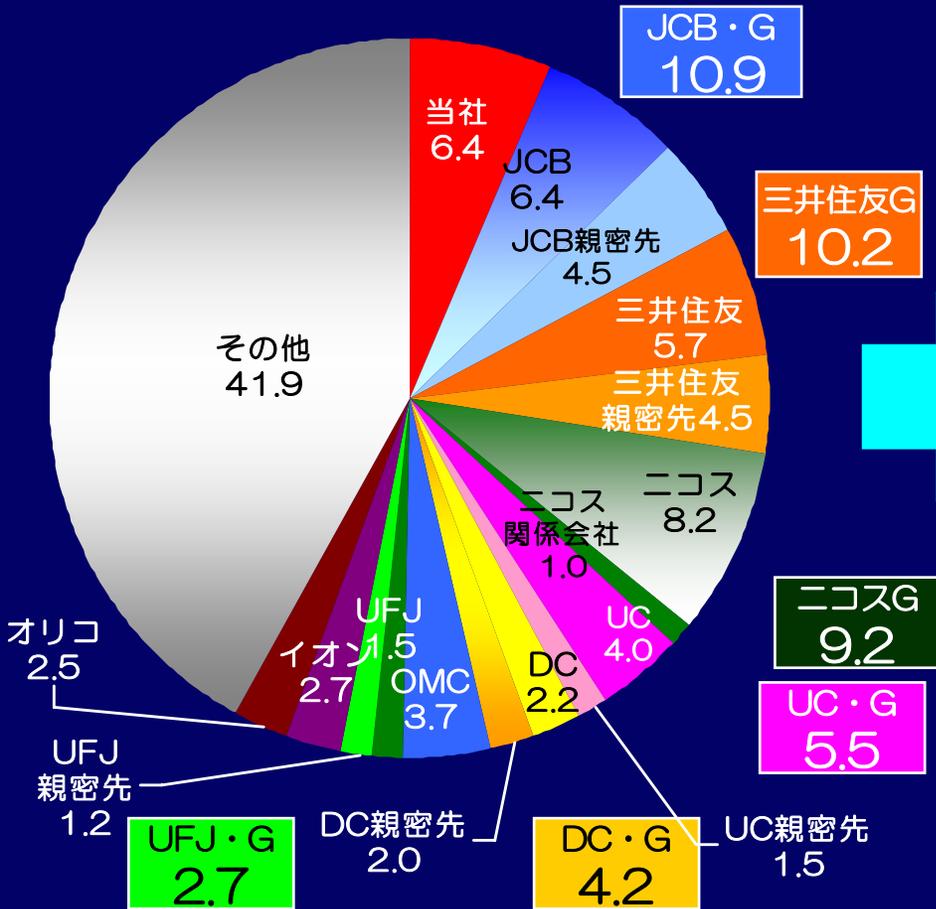
【FY2005】



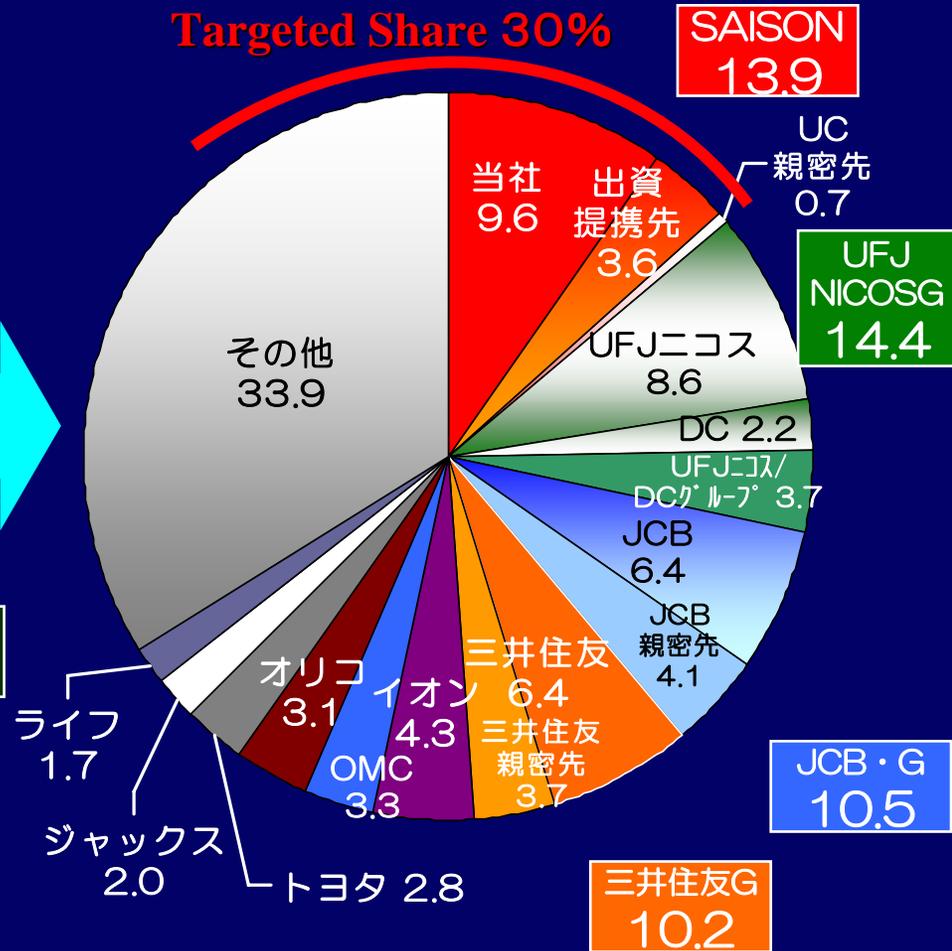
※ 出典: NILSON REPORT

# For reference: Changes in JAPAN card industry

【FY2000】



【FY2005 estimated】



※Capital alliance partners: Combined totals of LAWSON CS Card, Inc., Idemitsu Credit Co., Ltd., Resona Card Co., Ltd., and Takashimaya Credit Co., Ltd.

※Close partners: Companies, etc., using the brand (The "Group" includes all affiliated companies, capital alliance partners and close partners)

※Calculated using the Company's own estimates (total value of card shopping and cash advances)

# 2-3. Reorganization of the Credit Card Industry

**Mizuho FG**



Orico  
Orient Corporation



Aeon Credit

**Credit Saison Affiliations**







**Resona H**



RESONA  
Resona Card

**Sumitomo Mitsui FG**










**Mitsubishi UFJ FG**










**Other Cards**













**NTT DoCoMo**



**Sony**




**JR Group**





JR East / West / Kyusyu




# 1. Implementation of branding strategy

Expand recognition of SAISON brand

89.2%  
FY 2007

87.5%  
FY 2005

85.7%  
FY 2002



Use No.1 athletes to build image as the No.1 credit-card company

Boost recognition through unpredictability and continuity

“Many Techniques, One Card”

※Recognition rate = according to commercial databank evaluation score

## 2. Benefits of Integration with UC CARD

### ■ Promotion of Integration of Organizations & Services

- ◇ Completed integration of credit organizations  
~ Integration of screening, credit, and debt management divisions (September)
- ◇ Accelerated service integration  
~ Integration of marketing divisions / Restructuring of product divisions



### ■ Progress of Mizuho Mileage Card

- ◇ First half of FY2006  Credit card members constitutes 65% of the 2.5 million Mizuho Mileage cardholders
- ◇ Target for FY2007  3.0 million cards issued  
Transaction volume ¥250 billion

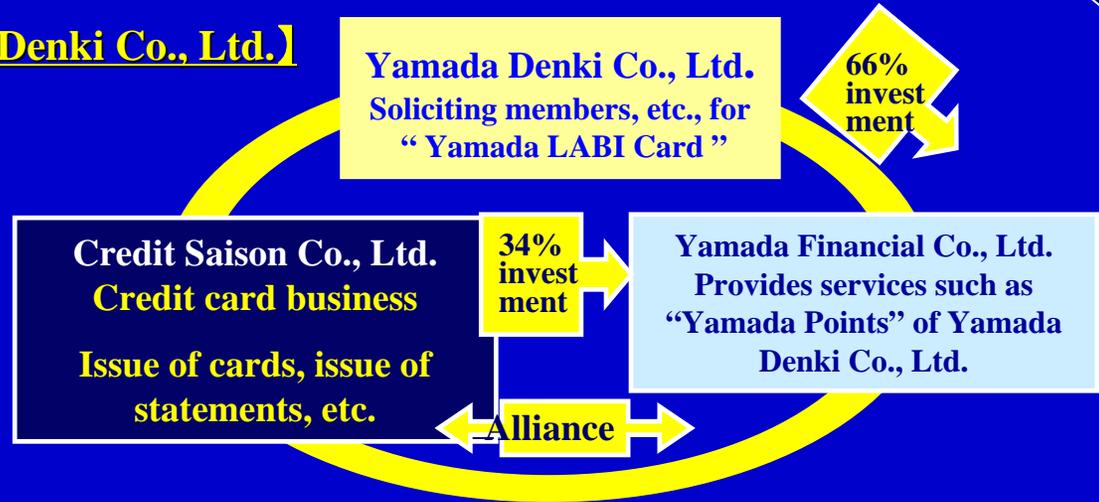


# Use of the UC Brand

## 【Progress of alliance with Yamada Denki Co., Ltd.】



<Yamada LABI Card>



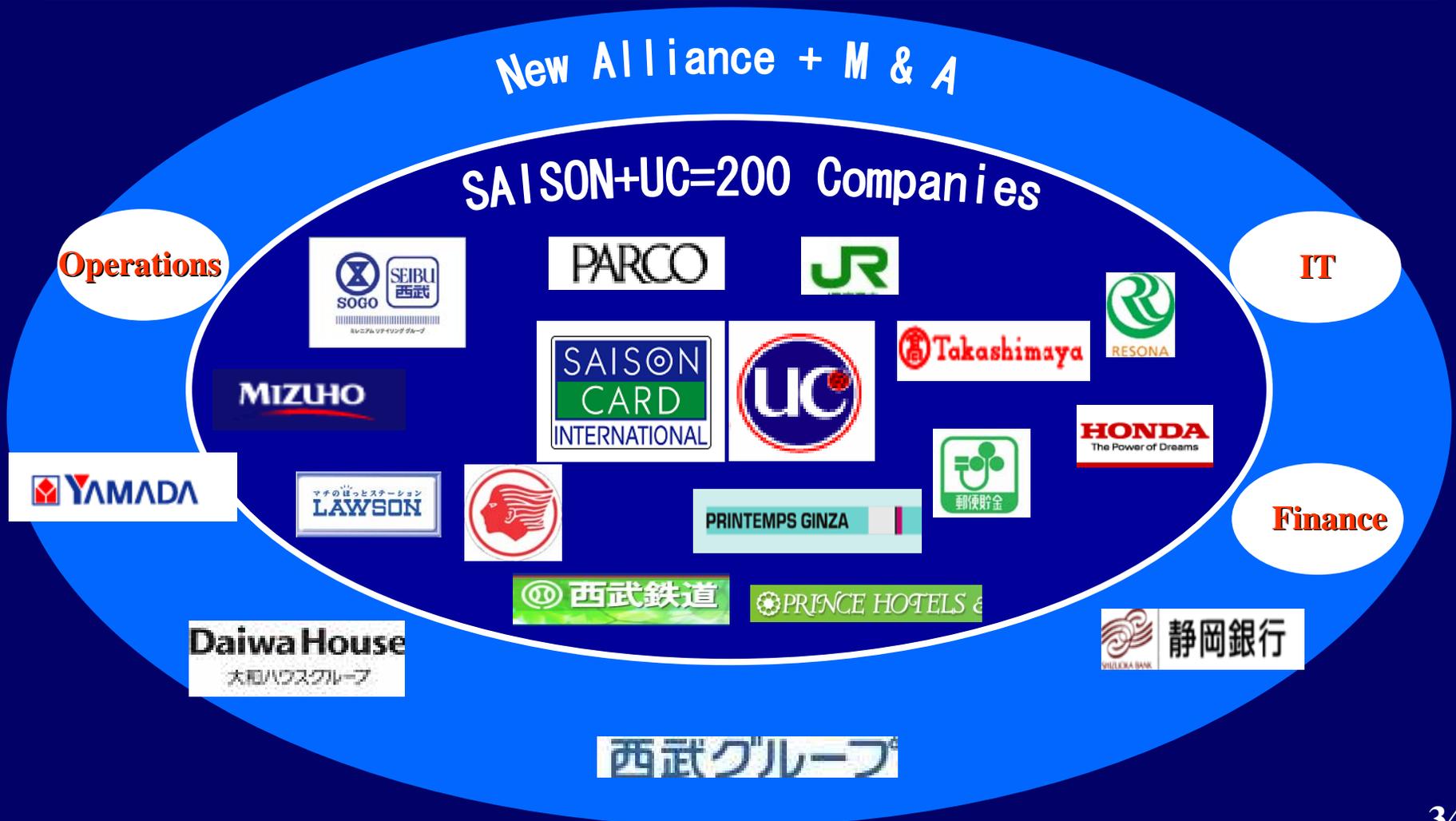
## 【Utilization of UC Corporate Card members Market】



Promote mutually beneficial approaches to attract customers between the 35,000 UC corporate card members and the 120 corporate affinity-card members.

# 3. Promotion of strategic alliances

Strengthen existing businesses to respond to diversifying customer needs, while reinforcing our card operation through mergers, acquisitions and alliances, taking advantage of Credit Saison's strengths, including UC brand



# Contribution of capital alliance card companies

– Progress of strategic alliance strategy

**Group objective: Raise number of new cards issued annually to the 5 million level!**

**LAWSON  
CS Card**

Convenience  
Store Network  
7,600

Share: 30%

**Idemitsu  
Credit**

Gas Station  
Network  
6,000

Share: 50%

**Resona  
Card**

Branch  
Network  
620

Share: 22.4%

**Takashimaya  
Credit**

Department  
Store Network  
19

Share: 33.4%

**YAMADA  
Financial**

量販店  
320店舗

Share: 34%

**shizugin  
saisoncard**

Branch  
Network  
180

Share: 50%

**Daiwahouse  
Financial**

グループ運営施設  
130拠点

Share: 40%

**Growth in consolidated ordinary income**

## ◆ Management Strategies

### III. Key Strategies in the Second Half

1. Card Loan Initiatives
2. Return to Focus on Card Shopping
3. Respond to Restructuring Associated with Industry Reorganization
4. Secure Revenue from New Businesses
5. Pursue Economics of Scale
6. Strengthen New Group Formation and Total Group Synergy

# 1. Card Loan Initiatives

## ■ Start aggressive approaches to cardholders



“SAISON Loan Card”

### Phase 1

(’06/3-10)

Product promotion  
with mass  
advertising



Boost recognition as a  
new product

人生、いろいろあります。  
やるときは、やる。  
やれないときは、やれない。

とりあえず、  
無理をしないことが  
大切です。



《セゾン》カードローン  
が誕生しました。

### Phase 2

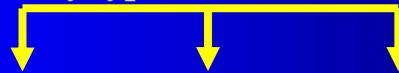
(’06/11~ )

▪ Set new interest rates

8 - 18%

▪ Effectively segment our  
24 million existing  
cardholders

Develop individualized  
approaches through analysis  
by type



DM

OB

WEB

Balance  
target in 5  
years:

¥200 billion

## 2. Return to Focus on Card Shopping

### ■ Implementation of Promotion Alliances

- Alliance schemes that can contribute to retail sales ⇒ Raise mutual transaction volume (Sales= Card Transaction volume)
- Limitation of cash advance-dependent alliances ⇒ Shift to focus on shopping services (long-term revenue contribution)
- Regional alliances with area marketing focus ⇒ Regional collaboration (regional banks, distributors, industry)

### ■ Expansion of Scope of Use

- Public utilities payments . . . Participate in industry panel to prepare for credit card payment of public utilities (taxes, pensions, insurance premiums, etc.)
- Recurring payments . . . 5 million transactions per month, yearly volume ¥300 billion (current-year results)
- Small payments . . . Mizuho Mileage Card with “iD” credit card payment function



### 3. Respond to Restructuring Associated with Industry Reorganization

#### ■ Expansion of agency services business ~ Create a new business model

##### Expansion through Alliances

###### ▪ Existing Alliance Partners

LAWSON CS Card, Inc.

Idemitsu Credit Co., Ltd.

Resona Card Co., Ltd.

Takashimaya Credit Co., Ltd.

###### ▪ New Alliance Partners

Yamada Financial Co., Ltd.

Shizugin Saison Card

Daiwa House Financial

“Reading  
the  
currents”

##### Growing Opportunities from Industry Reorganization

###### ▪ Greater competition due to industry reorganization

⇒ Pursue cost efficiency



###### ▪ Shift from other existing alliance partners

⇒ Brand power, marketing power



###### ▪ Versatility

⇒ Lineup of all international brands:  
VISA, MasterCard, JCB, AMEX



## 4. Secure Profits from New Businesses

### ■ Startup of Online Shopping Mall “Eikyu Fumetsu.com”

SAISON Permanent Points (“Eikyufumetsu Point”) for Net Answer members

永久不減ポイント

Up to 19 times bonus points



- Expand Net Answer membership to 2 million by March 2007
- Card transaction volume at “Eikyu Fumetsu.com” mall of 200 billion yen in 3 years

## 5. Pursue Economics of Scale

### ■ Development of Next-Generation System ~ by 2010

- Reduction of operation costs
- Accommodating expansion of agency services business
- Establishing hegemony in processing industry as medium-term concept



### ■ Take flexible stance toward new M&A

- Application of flexible ideas to assess business value
- Destroying conventional self-contained model
- Taking overwhelming cost leadership



# 6. Strengthen New Group Formation and Total Group Synergy

## ◆ FY2006 1H Results of Capital Alliance Partners (some estimated)

(10,000 cards • 10,000 people • Billion yen)

|   | Applications   | Total cardholders | Card transaction volume | Operating revenues | Operating income |
|---|--|-------------------|-------------------------|--------------------|------------------|
| <b>Credit Saison Co., Ltd.</b>                          | <b>245</b>   | <b>2,416</b>      | <b>20,916</b>           | —                  | —                |
| LAWSON CS Card, Inc.<br>30.0% (Established 2/02)        | 38   | 249               | 338                     | 3.9                | -0.06            |
| Idemitsu Credit Co., Ltd.<br>50.0% (Investment 10/03)   | 18   | 224               | 2,671                   | 8.9                | 1.6              |
| Resona Card Co., Ltd.<br>22.4% (Investment 8/04)        | 16   | 237               | 2,082                   | 13.5               | 1.0              |
| Takashimaya Credit Co., Ltd.<br>33.4% (Investment 8/04) | 6  | 160               | 2,096                   | 6.0                | 1.2              |
| Yamada Financial Co., Ltd.<br>34.0% (Established 6/06)  | 13   | 11                | 5                       | 0.1                | 0.05             |
| Shizugin Saison Card<br>50.0% (Established 10/06)       | <b>Next 3 years: Aim for profitability in FY2009</b> |                   |                         |                    |                  |
| Daiwa House Financial<br>40.0% (Established 11/06)      |  |                   |                         |                    |                  |
| <b>Total</b>  | <b>336</b>   | <b>3,297</b>      | <b>28,108</b>           | <b>32.4</b>        | <b>3.8</b>       |

\*Card transaction volume is the total of credit-card-related shopping services and cash advances.

\*Card applications, total cardholders and card transaction volume include figures for Yamada Financial Co., Ltd. (the issuer of the Yamada LABI Card is Credit Saison)

\*Totals for operating revenues and operating income are calculated based on simple addition of capital alliance companies.

\*Basic agreement on raising the investment ratio to the above mentioned level.

# Strengthen Total Group Synergy

Maximize business opportunities by recruiting and making use of cardholders, the management resources of alliance partners and human resources

( )=YoY Comparison

| Operating revenues                                 | FY2005   | FY2006 (est.)        |
|--|--|----------------------|
| <b>Lease</b>                                       | ¥7.2 billion (105%)  | ¥8.0 billion (111%)  |
| <b>Credit Guarantee</b>                            | ¥ 3.9 billion (121%)   | ¥4.7 billion (120%)  |
| <b>Loans</b>                                       | ¥12.3 billion (166%)   | ¥14.0 billion (113%) |
| <b>Real Estate<br/>(Atrium G)</b>                  | ¥20.8 billion (165%)<br><small>*Atrium Co., Ltd. (JQ8993) was listed on the JASDAQ Securities Exchange on March 28, 2006</small>                               | ¥23.9 billion (114%) |
| <b>Amusement<br/>(Vivre G)</b>                     | ¥21.0 billion (103%)   | ¥20.2 billion (-3%)  |
| <b>Credit collection<br/>Agency (JPN Servicer)</b> | ¥4.7 billion (127%)<br><small>*JPN Collection Service Co., Ltd. (HQ8774) was listed on Osaka Securities Exchange's Hercules market on October 24, 2006</small> | ¥5.3 billion (112%)  |