Results for the First Quarter of FY2020: Script and questions and answers

Kenji Fujita, President and CEO, AEON Financial Service Co., Ltd.

1. Consolidated results
   and business by area
2. Consolidated results by segments
3. Future direction

1. Effects of the COVID-19 ①

■ The issuance of behavioral regulations by governments affected operating activities.

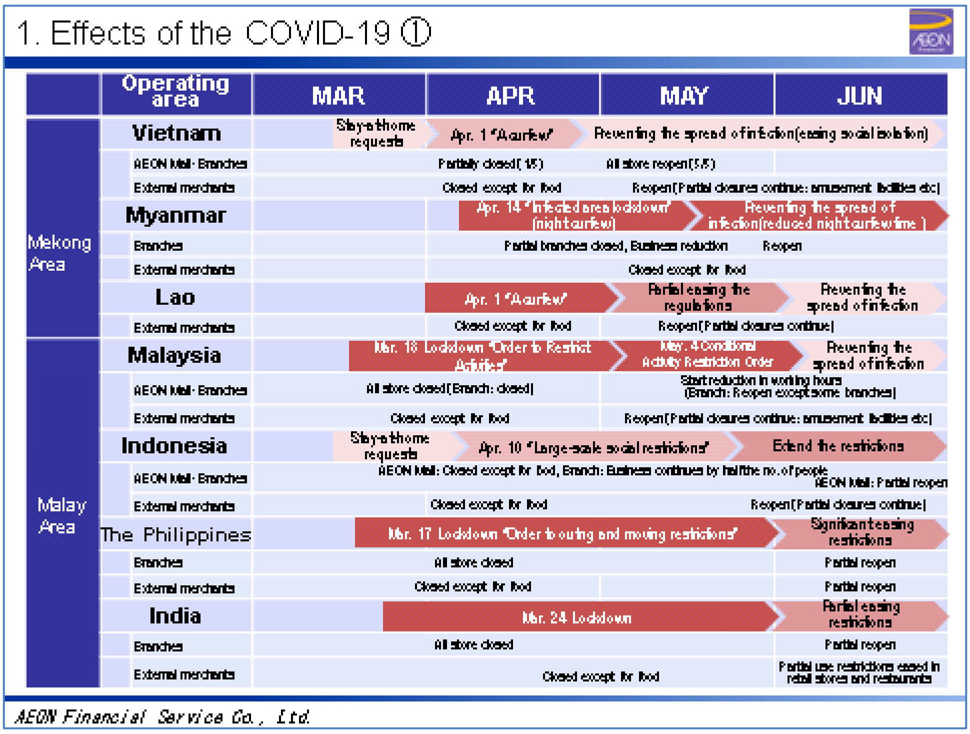
Restrictions: weak / medium / strong

Operating situation (No. of store opened/Total number of stores)
›Branches, AEON group stores and external merchants

	Operating area	MAR	APR	MAY	JUN
Domestic	JAPAN	Stay-at-home requests	Apr. 7 Declared the state of emergency		Preventing the spread of infection
	AEON Mall·Branches		Partially closed · reduction in working hours (No. of AEON Bank branches : [illegible]/141)		All store reopen (141/141)
China Area	CHINA	Lock-down in Wuhan city until Apr. 8	Preventing the spread of infection (easing the lock-down)		Preventing the spread of infection
	AEON Mall	Business as usual			
	External merchants	Partially closed (4[illegible]% reopen)	Partially closed ([illegible]% reopen)	Business as usual	
	Hong Kong	Mar. 29 "Restriction on entertainment facilities and eatery, limiting public gatherings"		Partial easing the regulations	
	AEON Mall·Branches	Business as usual			
	External merchants	Partially closed (amusement facilities e.t.c.)		Partially closed (Karaoke bars, etc. are closed)	
Mekong Area	Thailand	Stay-at-home requests	Mar. 26 Declared the state of emergency (No going out at night)		Extend the declaration
	Branches	Partially closed (31/[illegible])	Partially closed (3[illegible]/[illegible])	Business as usual ([illegible])	
	External merchants		Closed except for food	Partial use restrictions eased in retail stores and restaurants	
	Cambodia	Stay-at-home requests		Preventing the spread of infection	
	AEON Mall·Branches		AEON Mall (2) Reduction in working hours		Business as usual
	External merchants	Partially closed (amusement facilities e.t.c.)			Request to close the store do not prevent the spread of infection

AEON Financial Service Co., Ltd.

- The consolidated and results by area are as follows.
- As COVID-19 spread across the globe in the first quarter, our operation was affected significantly by lockdowns imposed by governments globally, although situations differed from country to country.
- The table shows impact in each of the country in which we operate.
- In Japan, we closed 15 of AEON Malls in Tokyo, Saitama and Kanagawa on a weekend of March 28 and 29. After the government declared a state of emergency on April 7, we suspended 57 in Tokyo and prefectures that fell under the scope. Closure was expanded to 142 malls across the country on April 17. In a period through mid-May, our operational bases located in AEON Malls were also forced to be suspended or operate under reduced hours.



- Overseas, the peak period of virus' spread has run its course in greater China during the first quarter, but large-scale lockdowns were imposed in the countries of the Mekong and Malay areas, prohibiting people from freely going out or limiting their activities. Our local operation was affected as our branches and merchants suspended operation, while our credit screening and collection activity was downsized or suspended.

1. Effects of the COVID-19 ②

【Cases that have been particularly affected by behavioral regulations and financial demands】

Operating area	Regulations	Period	Our response
Thailand	･State of emergency declaration Impose "Night curfew"	･Mar. 26 – Jul. 31 (Partial relaxation from Jun. 1)	･Partial branches closed ･Shift attendance system including working from home (HQ･Centers)
	･Customer Relief Request ･Request for additional Customer Relief	･Mar. 9 – Dec. 31 ･From Jul. 1	･Minimum payment rate change, interest fee reduction ･Grace period for up to 3months ･Interest fee reduction, Subdivision contract of card usage
Myanmar	･"Night curfew" (Infected area lockdown)	･From Apr. 14 (Partial relaxation from May 14)	･Partial branches closed ･Principles in working from home
	･Business regulation instructions	･Apr. 1 – May 15	･Loan provision and debt collection→Stop for a moment ･Offering a repayment relaxation plan
Malaysia	･Movement control order ･Attendance staff reduction instructions	･Mar. 18 – Jun. 9 (Partial relaxation from May 4)	･Closed all branches ･Shift attendance system including working from home (HQ･Centers)
	･Instruction and request for Customer Relief	･From Apr. 1	･Prohibition of visit collection, first reminder ･Grace period for up to 6 months (normal→delinquents) ･Offering a repayment relaxation plan
The Philippines	･Lock down Order to outing and moving restrictions	･Mar. 17 – May 15 (Partial relaxation from Jun. 1)	･All branch closed ･Principles in working from home
	･Customer Relief Request	･Mar. 24 – May 31	･Grace period for up to 30 days (All customer) →Three-month repayment extension from Mar to May
India	･Lock down	･Mar. 24 – May 31 (Partial relaxation from Jun. 1)	･All store closed ･Prohibition of going to work (Japanese expatriate returning to Japan)
	･Customer Relief Request	･Mar. 1 – Aug. 31	･Grace period for up to 3 months

AEON Financial Service Co., Ltd.

- In particular, operations in Thailand, Myanmar, Malaysia, the Philippines and India have been severely affected by lockdowns and requests from local financial authorities.
- In Thailand, a state of emergency was declared from late March to the end of July and citizens were asked to refrain from going out and going out at night was prohibited. At the central bank's request, we lowered interest rates and fees for a specified period and introduced moratoriums on repayment of credit card and other loans to support customers' living.
- In Myanmar, operation of our branches, including credit screening and collection activities, were suspended as areas of severe spread of infection were closed and people were forced to stay home.
- In Malaysia, lockdown was imposed in mid-March, forcing our branches and merchants to suspend operation until it was partially lifted in May.
  Under the central bank policy, in April and May, we introduced moratoriums on repayments and rescheduled installment plans for customers with large purchase amounts and those using personal loans.
- In India and the Philippines, our operations were significantly affected by lockdowns, which imposed restrictions on people's movement, resulting in the suspension of public transportation. Our employees were prohibited from commuting.
- In June, there were moves to relax lockdowns by the governments of these countries, but we expect we will have to respond to customer applications for moratoriums, etc., which we are asked by the respective authorities to offer, starting in the fiscal second quarter and after.

1. Consolidated business outline and results

(Unit: billions of yen)	Domestic				Global			
	Credit card ①		Installment sales	Housing loan ※1 ②	Credit card		Installment sales	Personal loans ③
	Shopping	Cash advance			Shopping	Cash advance		
Transaction volume	1,337.2	94.6	56.5	173.7	56.5	22.8	17.7	22.0
YoY	97%	88%	94%	107%	79%	66%	56%	51%
Finance receivables (※2)	1,028.4	485.9	706.9	2,442.2	92.2	95.0	201.0	236.0
Change from start of FY	△85.2	△8.4	+11.5	+124.2	△8.9	△5.4	△8.3	△12.7

※1 Figures of AEON Bank which includes amount for Flat 35 and studio condominium loan ※2 Figures for domestic refer to amount before securitization

(Unit: no. of people)	No. of cardholders ④		
	Consolidated	Domestic	Global
Results	45.36mil	29.02mil	16.34mil
Change from start of FY	+0.09mil	+0.13mil	-0.04mil

(Unit: no. of accounts)	AEON Bank accounts		
	Total	Credit card linked with AEON bank acc	Debit card linked with AEON bank acc
Results	7.20mil	5.32mil	0.37mil
Change from start of FY	+0.11mil	+0.08mil	+0.02mil

(Unit: billions of yen)	Bank deposits balance			
	Total	Ordinary deposits	Time deposits	Foreign ccy deposits
Results	3,824.8	3,020.8	723.1	77.6
Change from start of FY	+33.0	+29.6	△5.0	+8.2

①Domestic: Credit card ( ) shows change from start of FY
>Shopping txn vol.: Decrease due to decrease in the no. of new members and reduction in consumption demand. The number of active cardholders* 18.49 mil (+0.06 mil). *A member who has used a card at least once a year
>Shopping balance : Ribo and Installment balance (incl. securitization) was ¥623.13 bn (+¥30.9 bn)
>Cash advance balance.: No. of users 1.25mil (-0.02 mil), balance per user ¥340K (+¥16K)

②Global: Installment finance
>In addition to the progress of the project before coronavirus disaster, we strengthen non-face-to-face deal such as loan contracts on the Web and tel. This Q1 includes March:the most loan execution month of the year.

③Global: Installment finance and Personal loans
>Txn vol and balance of receivables decreased, mainly in Thailand and Malaysia due to strict credit line in light of the deterioration of the economic environment and the suspension of business at branches and merchants.

④Consolidated, Domestic and Global number of cardholders
Number of domestic members including debit cardholders and bank account holders increased by 0.15mil to 30.50mil
>Domestic: The number of new members has been sluggish due to the effects of the active self-exclusion of membership recruitment and the postponement of the opening of large-scale commercial facilities where new partner cards are issued. New cardholders is 0.33 mil (75% compared to the same period of the previous FY)
>Global: Decrease in the number of new members due to active self-exclusion of membership recruitment, etc.

AEON Financial Service Co., Ltd.

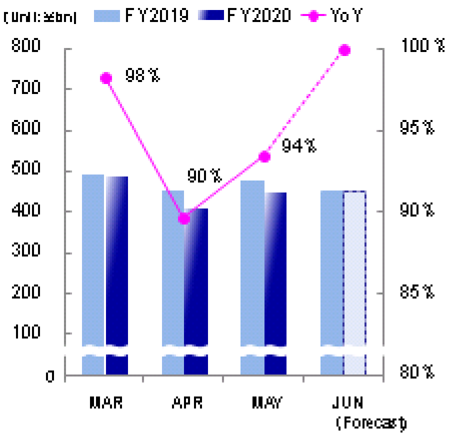
- The consolidated business outline and results by area are as follows.
- As discussed earlier, year-on-year growth in transaction volume and growth in finance receivables from the beginning of the fiscal year dropped across our products, as COVID-19 severely affected consumers and our operation.
- In domestic business, transaction volume of shopping using our cards fell 3% from a year earlier as we restrained soliciting activity for new card members during lockdowns and consumption dropped. Finance receivables increased for revolving-payment and installment credits increased slightly, but the overall balance dropped 85.2 billion yen compared to the level at the beginning of the fiscal year.
- In terms of cash-advance shopping, transaction volume of cash-advance shopping fell 12% from a year earlier and finance receivables dropped 8.4 billion yen from the beginning of the year, as customers refrained from going out.
- On the other hand, transaction volume grew 7% year on year and finance receivables increased 124.2 billion yen from the beginning of the year for housing loans, which takes some time before their execution from application, as existing deals increased.
- In global business, transaction volume and finance receivables decreased, affected by suspension of branches and merchants and stricter credit screening introduced to reflect a deteriorated economic environment, as shown here.
- In terms of effective number of cardholders, the number of new credit card holders totaled 330,000, decreasing 25% from a year earlier in domestic business, due mainly to restrained membership solicitation activity and postponement of opening of a large commercial facility for which we newly issued a tie-up card.

  Cardholders decreased in global business as well, as our overseas subsidiaries restrained solicitation of new members.

1. Changes in domestic consumption trends

■Recovery from the second half of May in response to the easing of the request for leave and self-exclusion of going out

Changes in card shopping transaction by monthly



Transaction YoY change by Industry and Type of Business

	MAR	APR	MAY
Food supermarkets, convenience stores, drugstore	19% ↗	23% ↗	25% ↗
DIY store	15% ↗	8% ↗	23% ↗
Net, mail order	8% ↗	10% ↗	23% ↗
Telecommunications, utility bills, insurance premiums, etc.	6% ↗	8% ↗	5% ↗
Home Appliances and Furniture	2% ↘	1% ↘	30% ↗
General Supermarket	5% ↘	16% ↘	1% ↘
Shopping malls and department stores	26% ↘	75% ↘	58% ↘
Gasoline, the ETC system, car-related	14% ↘	19% ↘	45% ↘
Transportation, Travel, Leisure, Entertainment	74% ↘	95% ↘	87% ↘

AEON Financial Service Co., Ltd.

- Next, transaction volume of cash-advance shopping in domestic business is as follows.
- The chart on left shows transaction volume by month.

  Transaction volume of cash-advance shopping continued to fall over a period from March to April as people increasingly refrained from going out or restrained purchase, but the figure has remained on a recovery track since late May as requests for people to stay home and businesses to suspend operation were eased.

  We expect the figure will recover to a level about 5% above the year-ago level in June, although this is a preliminary figure.
- The chart on right shows year-on-year changes of transaction volume by industry or business type.

  As people refrained from going out and spent more time at home, a type of consumer demand specific to this situation grew. Transaction volume was brisk for areas such as foods, household products and online shopping. In May, transaction volume noticeably increased for the purchase of merchandise such as home appliances and furniture, as people increased purchase of appliances to use in summer and demand grew from people working at home, as they sought to enhance their telecommute environment.
- By contrast, tourism- and leisure-related purchases, including transportation fare payment, gasoline purchases and use of electronic toll collection systems, remained low. Shopping malls and department stores continued to face an adverse situation, affected by suspension of operation and slumping sales of clothing.

2. Consolidated results by segments

(Unit: Billions of yen)	Domestic total ※1	Retail ※2	Solutions ※2	Global total ※1	China Area	Mekong Area	Malay Area	Consol. Total ※3
Operating income	748	440	469	352	43	191	117	1,099
YoY	100%	95%	102%	94%	89%	97%	92%	98%
Change	+1	△21	+8	△21	△5	△5	△10	△19
Operating profit	55	0	54	△66	12	△41	△36	△8
YoY	99%	5%	114%	-	70%	-	-	-
Change	△0	△7	+6	△150	△5	△77	△68	△144
Operating profit ratio	7.4%	0.1%	11.7%	△18.7%	28.3%	△21.6%	△31.2%	△0.8%
YoY	△0.1pt	△1.7pt	+1.2pt	△41.4pt	△7.6pt	+39.7pt	△55.8pt	△12.9pt

Profit attributable to owners of parent	△10
YoY	△82

※1 Total of Domestic and Global figures amounts after elimination of transactions between business segments
※2 Retail is a personal-centric business, Solutions is a business that is central to merchants
※3 Include Holding company, Shared functions and elimination of Consolidated adjustments

■Domestic
・Due to requests for self-restraint and the suspension of business at large commercial facilities including AEON Mall, shopping and cashing revenue decreased. In addition, in order to control the cost associated with the suppression of sales promotion expenses and web itemization, profit decreased due to an increase in loan-related expenses.

【Main factors for income growth】
・E-money +¥ [illegible]bn ・Insurance fee +¥ [illegible]bn
・Credit card shopping △¥ [illegible]bn ・Cash advance shopping △¥0.7bn
・Sale of government bonds and other loans +¥ [illegible]bn

【Main factors for rise in expenses】
・Promotion expenses △¥1.[illegible]bn ・Mailing cost + printing cost △¥1.2bn
・Bad debt allowance +¥1.1bn (cost on interest repayment +¥ [illegible]bn)
・Equipment expenses +¥ [illegible]bn (depreciation and software amortization exp +¥ [illegible]bn)

・Impact on Consol. profit by securitization of finance receivables: ¥1.6bn (25%, △¥0.2bn)

■Global ※Foreign exchange impact: Operating income △¥[illegible]bn, Operating profit △¥[illegible]bn
・Due to restrictions on going out and suspension of operating activities in each area, operating income decreased due to a decrease in volume and balance of operating receivables. In addition, operating income decreased due to an increase in loan-related expenses due to reservations for future loan losses, including grace measures.

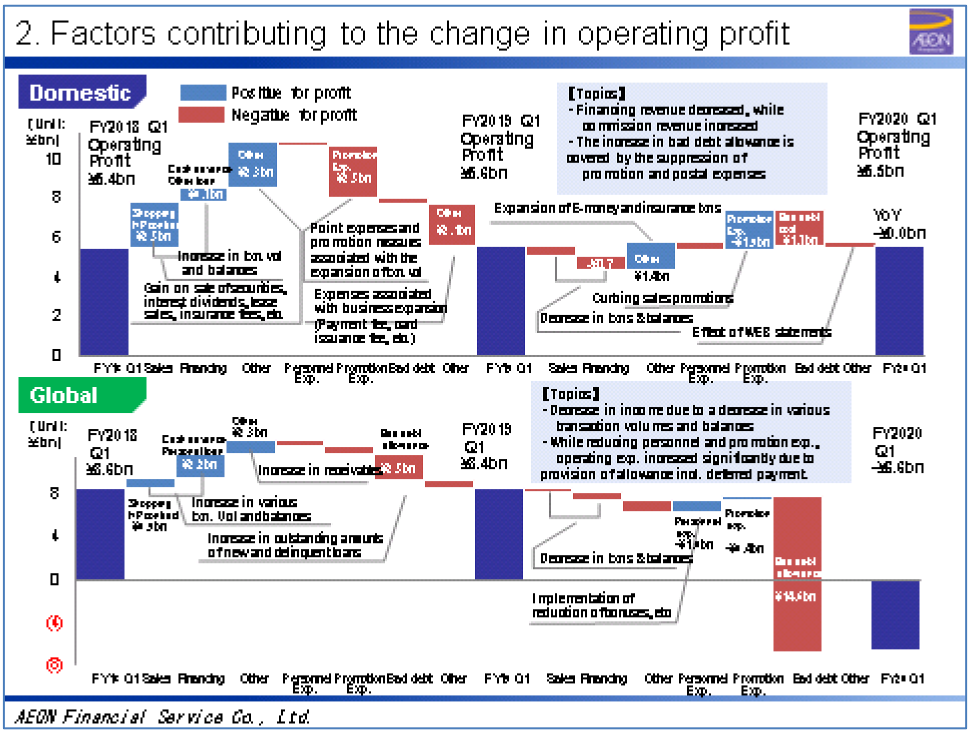
【China Area】
・Credit card shopping income △¥ [illegible]bn ・Cash advance shopping income △¥ [illegible]bn
・Personal loan income △¥ [illegible]bn ・Bad debt allowance +¥ [illegible]bn

【Mekong Area】
・Credit card shopping income △¥ [illegible]bn ・Cash advance shopping income △¥ [illegible]bn
・Personal loan income +¥ [illegible]bn ・HP Contracts income +¥ [illegible]bn
・Bad debt allowance +¥ [illegible]bn

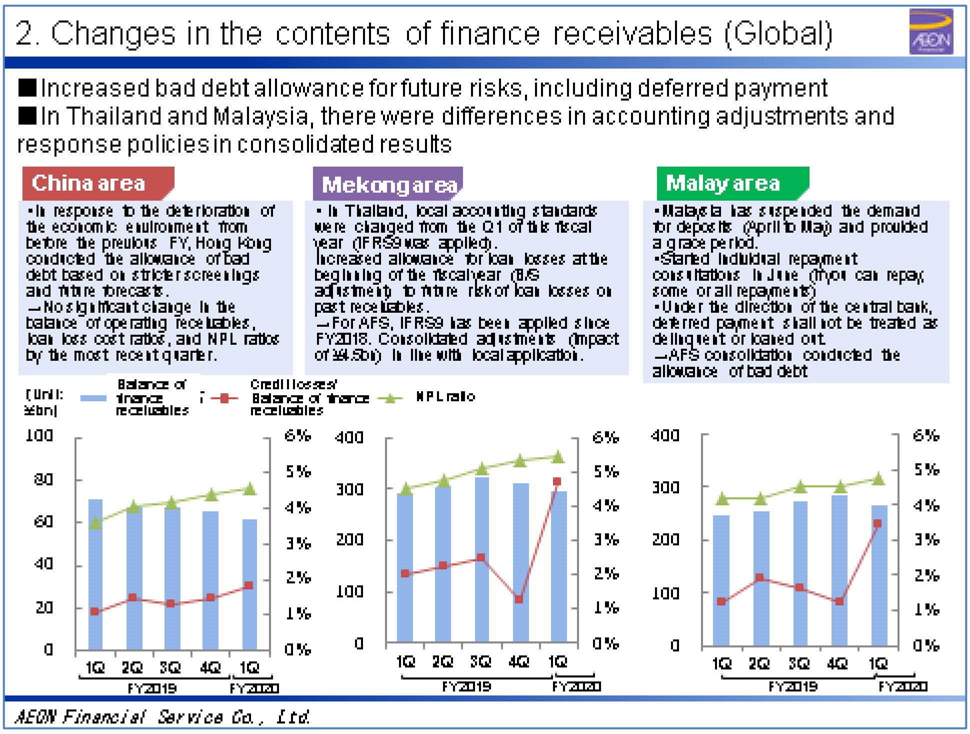
【Malay Area】
・Credit card shopping income △¥ [illegible]bn ・Cash advance shopping income △¥ [illegible]bn
・Personal loan income +¥ [illegible]bn ・HP Contracts income △¥ [illegible]bn
・Bad debt allowance +¥ [illegible]bn

- Next, consolidated and segment earnings results are as follows.
- In domestic business, operating income increased slightly, as revenue from credit-card shopping and cash advances dropped while revenues from fees increased due to increased transaction volume in electronic money, including WAON, and insurance policies.

  Operating profit fell 1% from a year earlier as bad debt expenses increased, even though we introduced cost-cutting measures, including stricter control of sales promotion expenses, as well as reduction in postal and printing fee expenses after a shift to web-based billing starting in the second half of last year.
- In global business, bad-debt expenses increased as top lines slumped in respective areas and due to conservative provisions of allowance against risks expected to grow from deferred repayment. As a result, operating profit decreased 15.0 billion yen from a year earlier.
- We will explain detailed factors contributing to increases in bad-debt expenses in the global business in later pages.



- These graphs compare different profit drivers in the first quarter in FY2020 and the previous fiscal years in domestic and global businesses. It shows changes in revenue and cost moves in both domestic and global businesses.
- In particular, bad-debt expenses significantly increased in the first quarter in FY2020, becoming a key factor for the operating loss in the global business.



- Changes in the balance of operating receivables and the quality of credits by area in the global business are as follows.
- In greater China, we introduced stricter credit screening and moved up booking of provisions of bad-debt allowance based on forecasts in Hong Kong, where the economic environment has continued to deteriorate amid the prolonged U.S.-China trade friction, anti-government protest, and so on. As a result, there was no major change in the trends that have existed since before the COVID-19 pandemic.
- On the other hand, the ratio of bad debt expenses to the balance of operating receivables rose significantly from the previous level in the Mekong and Malay areas.
- In Thailand, a key country in the Mekong area, we increased provisions of allowance for doubtful accounts at the beginning of the period, as we started in the first quarter to apply the IFRS 9 to local operations' accounts. We note that we introduced IFRS 9 to our consolidated accounts in fiscal 2018. In terms of adjustments to the Thai balance sheet, we introduced adjustments in the consolidated profit and loss statement, which resulted in an increase of about 4.5 billion yen in the allowance for doubtful accounts.
- In Malaysia, a key country in the Malay area, we suspended requests for repayment of debts in arrears in April and May. We also introduced moratoriums on installment finance and personal loans in accordance with the central bank's policy. Starting on monthly withdrawal dates in June, we have discussed changing repayment plans with individual customers, offering three options of: lump sum repayment, partial repayment and rescheduled installment plans.
- Note that, under the Malaysian government's policy on accounting, we did not treat credits for which we allowed deferred repayment as debts in arrears or book allowance for them, at our local operations. But we did book allowance in the consolidated accounts, which led to a significant increase in bad-debt expenses.

2. Consolidated balance sheet

Consolidated results (Unit: Billions of yen)	Results	Change from start of FY
Cash and deposits	740.5	△223
Operating Loans	848.6	△119
Loan and bills discounted for banking business	1,833.9	+1,592
Accounts receivable – installment	1,454.3	△88.8
Allowance for doubtful accounts	△128.3	△14.0
Other Assets	1,200.2	+145.9
Total assets	5,949.4	+168.1
Deposits	3,821.0	+30.8
Interest-bearing debt (excl. deposits)	1,068.7	+3.9
Other liabilities	618.9	+151.6
Total liabilities	5,508.8	+186.5
Total equity	440.6	△18.4
Total liabilities and equity	5,949.4	+168.1

Topics ※( ):Change from start of FY

- Domestic balance : ¥696.3bn (△¥19.7bn) Excluding holding company
→ Decrease due to demand for mortgages and other funds

[Operating Loans and Loan and bills discounted for banking business]
- Balance incl. securitization : ¥4,263.1bn (+¥109.2bn)
  In which, Domestic balance : ¥3,888.9bn (+¥128.2bn)
  In which, Global balance : ¥331.0bn (△¥18.2bn)
- Securitized amount (Domestic only): ¥1,580.4bn (△¥37.4bn)

- Balance incl. securitization : ¥2,034.0bn (△¥91.9bn)
  In which, Domestic balance : ¥1,735.4bn (△¥73.7bn)
  In which, Global balance : ¥293.2bn (△¥17.2bn)
- Securitized amount (Domestic only): ¥579.7bn (△¥2.7bn)

Securities for insurance business : ¥110.4bn (+¥110.4bn)

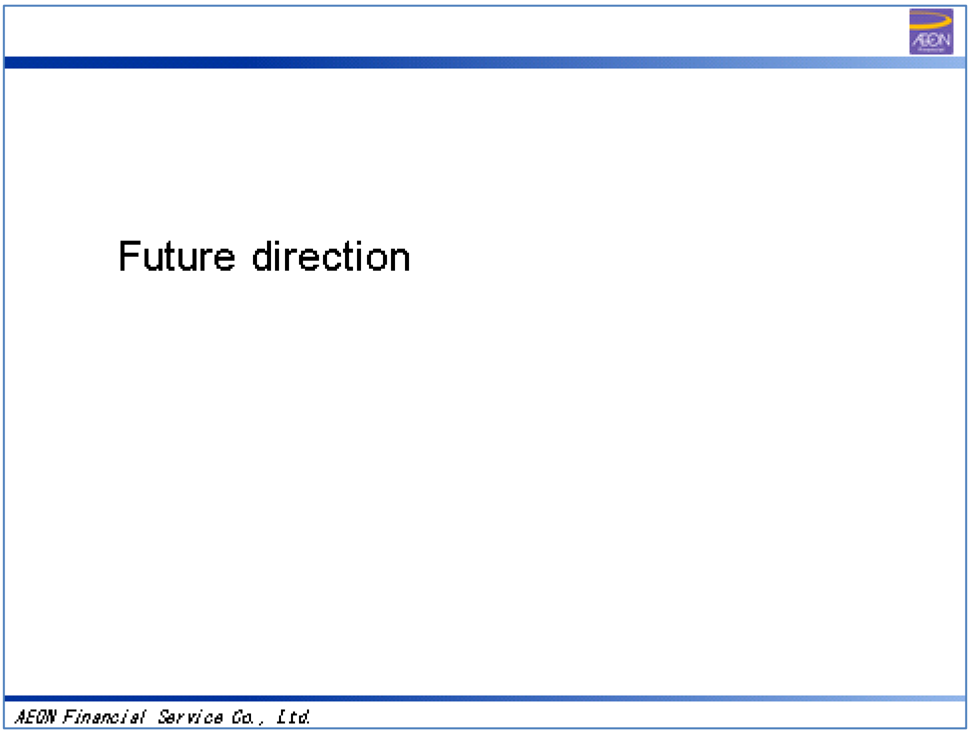
[Deposit on AEON Bank]
- Ordinary deposits : ¥3,020.2bn (+¥29.9bn)
- Time deposits : ¥723.1bn (△¥4.9bn)
- Foreign currency deposits : ¥77.6bn (+¥6.1bn)

- Domestic balance : ¥596.4bn (+¥36.9bn)
  →Short-term borrowings : ¥208.9bn (+¥111.6bn)
- Global balance : ¥472.3bn (△¥32.9bn)

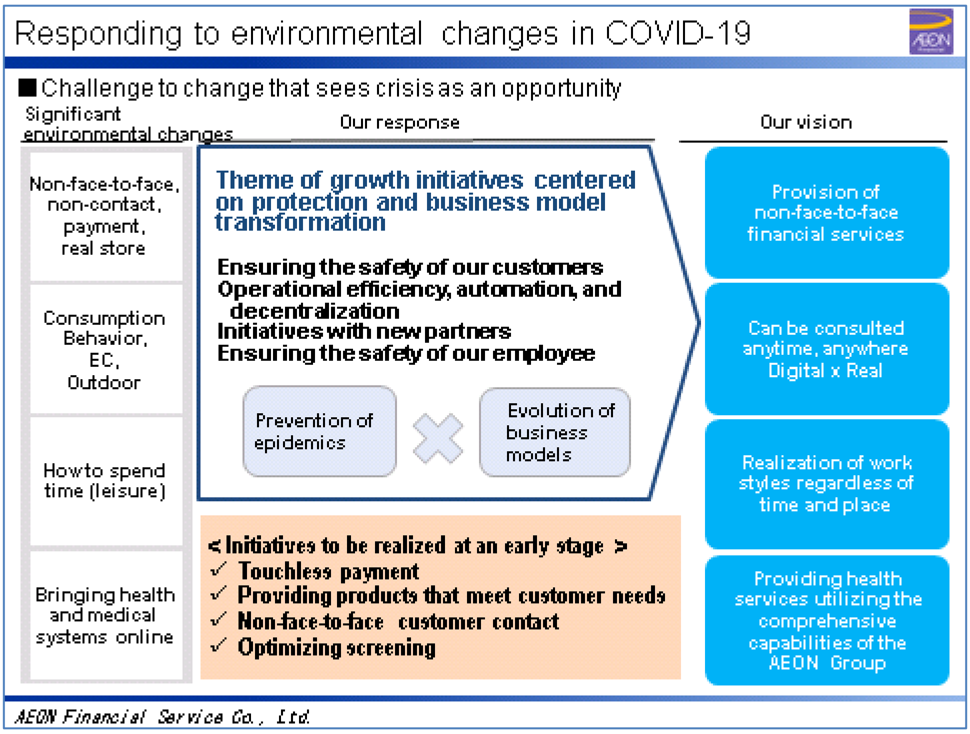
※ Domestic and global amounts include figures for holding company and shared function companies

AEON Financial Service Co., Ltd.

- Next, the consolidated balance sheet is as follows.
- During the first quarter, the balance of lending increased 159.2 billion yen in the banking business as transaction volume of housing loans remained brisk in Japan. On the other hand, accounts receivable-installment decreased 88.8 billion yen, led by credit-card shopping, in both domestic and overseas operations.
  After we made AEON Allianz Life Insurance a consolidated subsidiary, 110.4 billion yen in securities held by the insurance business was added in the fiscal quarter.
- As a result, total assets increased 168.1 billion yen from the beginning of the fiscal year to 5,949.4 billion yen.
- In liabilities, deposit balance in the banking business in Japan increased 30.8 billion yen, driven by ordinary deposits used as transaction funds for cash cards that have credit-card or debit-card functions in Japan and foreign-currency deposits used for investment purposes.
  In addition, policy reserves increased 127.2 billion yen in relation to the just-mentioned insurance subsidiary. Total liabilities thus increased 186.5 billion yen from the beginning of the fiscal year to 5,508.8 billion yen.
- As a result, total equity declined 18.4 billion yen from the beginning of the fiscal year to 440.6 billion yen.

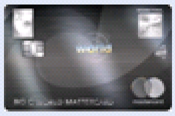


- We will now explain our future direction, using slides 13 to 16.



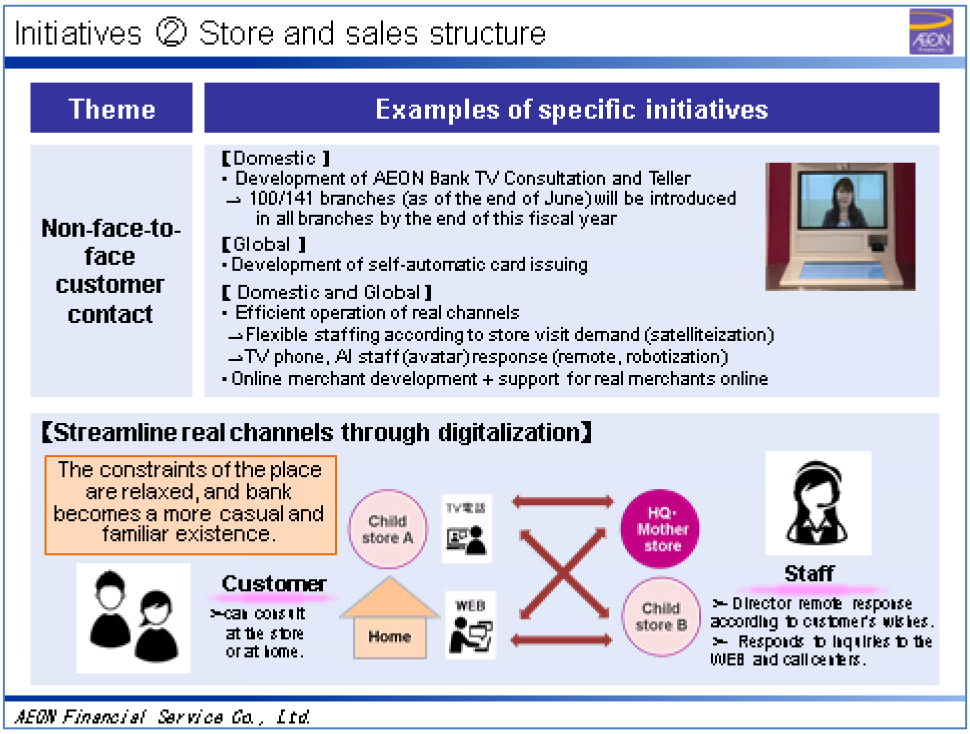
- The COVID-19 pandemic has brought on a crisis situation in our operational environment, and the abrupt change in the environment it caused has highlighted social needs and issues our company faces.
- The four key changes in the environment shown on the extreme left of this page are what we see as preconditions for the new normal to emerge going forward. Based on these, pursuing reforms of our business model while seeking to strike the right balance between the activity to prevent infection and our business activity will be the first step for us to return to a growth track, in our view.
- We have listed what we need to do in the current situation in order of priority in terms of urgency and importance, and formed a task force to work out measures.

Initiatives ① Safety and security of customers

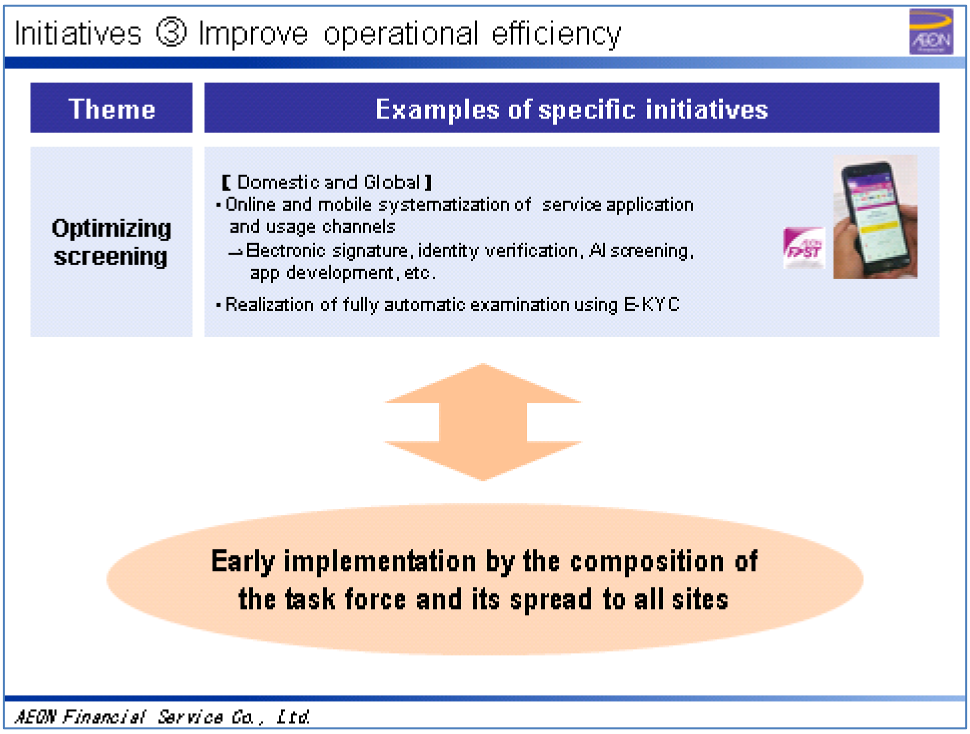
Theme	Examples of specific initiatives
Promotion of touchless payments	【Domestic】 ・AEON Group promotes dissemination ➢ VISA Contactless Incidental Card :6.1 million cards (as of the end of May) →10 million cards by the end of this year ➢Supported cash register at AEON Group store :100,000 units  【Global】 ・New Platinum Card Issued with Big-C Group in Thailand (July) ➢ MasterCard Contactless Incidentals Card ➢10% discount on Big-C Group's e-commerce site →Responding to EC demands that are expected to rapidly expand the market  【Domestic and Global】 ・Developing common IDs of AEON Group companies in Malaysia in various countries
Providing products that meet customer needs	【Domestic】 ・Responding to fund demand due to the influence of COVID-19 ➢Providing "AEON Members Loan (Life support)" that allows up to one year of principal payment grace ・Composition and sales of health-promoting products

AEON Financial Service Co., Ltd.

- This slide shows examples of ongoing or planned efforts in response to the changes in the environment.
- The first theme is the promotion of touchless payment.
  In Japan, for example, we have worked to promote VISA's contactless payment since fiscal 2018 under a coordinated effort of the AEON group as a whole.
  Already, 6.1 million of our credit cards in use have the touchless payment function. Members can use them at about 100,000 checkout machines at AEON Group outlets across the country.
- We aim to raise the number of touchless cards to 10 million within this fiscal year, combining newly and renewed accounts, as well as take measures to encourage their use.
- In the global business also, we expect demand for contactless payment will grow, driven by COVID-19. For example, in Thailand, we introduced in July a new Platinum Card with Big-C Group, a major retail group with whom we issued a tie-up card in the past. In addition to the touchless function, the new card comes with a discount offer available on purchase on the group's online store, meaning it also targets the growing e-commerce market.
- Next efforts on products and services are as follows.
- In Japan, we plan to offer a "Members Loan" service, targeting people in need of funds, affected by COVID-19. Furthermore, we aim to develop and sell products on the theme of health, for which we expect increased demand, and consider starting a new business.



- The next slide shows our efforts to promote "non-face-to-face customer contact."
- In both domestic and global businesses, we are increasingly automating services that have been operated by human employees. For example, we are working to digitalize existing real channels, including expansion of use of self-service machines and introduction of satellite or remote outlets. Through these measures, we aim to make our outlets more accessible and familiar, whose use is not limited in time or physical location.



- Next, we aim to achieve quick and highly precise credit screening by combining technologies, including electronic signature, identity verification systems and AI screening, to automate the entire process flow, from application, credit screening and provision of services to customers. In so doing, we aim to enhance convenience for customers as well as our profitability.
- Lastly, I would like to give you a general idea of our efforts on work style reforms and optimum use of talent.
- First of all, we aim to enable individuals to maximize their skills in wide-ranging areas and stimulate collaboration between divisions through exchange of personnel by diversifying skills of employees at our group companies - specifically, by introducing what we call an "internal side job" system in which an employee can have multiple duties in the company.
- In the center service, where physical closeness of individual workers due to the nature of the service is an issue, we aim to introduce measures to ensure social distance is maintained, as well as expand remote work shifts and introduce work process automation.
- We aim to realize these efforts early by forming a task force and expand them to all our operations.

FY2020 Consolidated forecasts

	FY2020	
	Full term	YoY
Operating income	¥460.0 bn	100.6%
Operating profit	¥10.0 – 20.0 bn	15.4 - 30.7%
Profit attributable to owners of parent (EPS)	¥5.0 – 10.0 bn (¥23.17 – 46.34)	14.6 - 29.3%

	Interim		Year End		Full Year	
	Forecast	YoY	Forecast	YoY	Forecast	YoY
Dividend forecast	¥11	-¥18	¥12	-¥27	¥23	-¥45

AEON Financial Service Co., Ltd.

- Lastly, our consolidated earnings estimates and target dividends for fiscal 2020 are as follows.

  We previously said we refrain from indicating estimated consolidated results for the year ending February 2021 as it was difficult to estimate potential impact of COVID-19 on our operation with reasonable accuracy. However, as there have been signs that economic activities are restarting, including easing of some of the restrictions that were imposed in the countries we operate in, we have estimated consolidated earnings, based on available information at this time.
- Transaction volume underperformed year-ago levels in a period from March to mid-May in the first quarter. However, since mid-May, figures have recovered in phases in Japan and some of the other countries. We thus expect the figures to recover to year-earlier levels by the end of the current fiscal year.
- On the other hand, we expect operating profit to fall below the year-earlier level due to increases in bad-debt expenses and additional provision of allowance in anticipation of an expected increase in bad debts in the second quarter, as a result of moratoriums we introduced overseas under financial authorities policy.

  These are one-off spike in expenses, at least for now, and we expect recovery starting in the third quarter.

- However, as we will process requests for relaxed repayment conditions, such as moratoriums, in the overseas operation, also in the current, second quarter, it is not possible to estimate second-quarter results of the global business incorporating this factor. Therefore, at this time, we do not release earnings estimates for the second quarter and indicate full-year estimates in ranges.
- As regards dividends, we have positioned shareholder returns as an important part of our operation, and appropriately allocated profit.
  However, reflecting the expected weak earnings in the year ending February 2021, we plan an annual payout of 23 yen per share.

- As we announced today (July 8), we have decided to cut compensation for our officers and those of our group companies in Japan and overseas by 5% to 20% for the next six month amid prolonged impact of COVID-19.

- Going forward, we will work to establish a structure to provide safe financial services to customers, using non-customer-facing and noncontact measures, work on thorough digitalization under coordinated efforts across group members, and tackle wide-ranging issues for us to improve operational efficiency and create additional profit opportunities, including business model reforms, work-style reforms using remote work and measures to enhance man-hour productivity.

We will also work to maintain the current workforce and ensure safe work environment as the top priority.

Questions and answers

■ Mr. Sato, analyst at Mizuho Securities

Q: Earnings estimates for the current fiscal year remains highly uncertain. Would you tell us what the upper and lower ends of the estimate ranges are all about and what your scenarios are? For example, am I correct to understand the upper end figures are based on optimistic scenarios, and the bottom end figures are based on risk scenarios? Also, please share your outlook on profit by segment.

A: (by Shigeto Nasu, Managing Executive Officer and Vice General Manager of Business Administration Headquarters)

For the upper limit, we assumed operating profit of 20.0 billion yen and expect a phased recovery starting in the second quarter, assuming that there will not be a second wave of infections. The lower limit is based on a risk scenario, expecting a second wave will come. In terms of overseas operation, we assumed an allowance in anticipation of bad-debt expenses and risks. That has been no significant deterioration in the domestic operation, but we incorporate deterioration, expecting a potential deterioration in the second half.

We have not yet estimated profit figures by segment, but we expect weak results for the second quarter, considering the fact that operations in India, the Philippines and Cambodia, whose results in April to June are included in consolidated earnings, have been affected significantly. We expect domestic operations to gradually recover if the second wave does not come, but there are not a small number of customers who had had difficulty in repaying even before the spread of COVID-19. If their credit situation deteriorates, we think results would deteriorate, regardless of the impact of COVID-19.

Q: What is your view on the capital adequacy? Specifically, criteria in terms of banking are no longer restrictive, but in terms of accounting, the capital adequacy ratio is at 6.3%. If the impact of COVID-19 deteriorates more than expected, would you have to consider topping up capital or other measures?

A: (by Kazuyoshi Suzuki, Senior Executive Officer in charge of Corporate Planning)

Banks are required to have sufficient capital. Currently, the credit portfolio is sufficiently diversified, and there has been no major change in the capital composition after last year's issuance of corporate bonds. We thus do not expect any potentially serious situation regarding capital, unless COVID-19 pandemic should deteriorate to an extreme degree.

■ Mr. Tsujino, analyst at Mitsubishi UFJ Morgan Stanley Securities

Q: Definitions of bad debts in the three overseas regions are not clear, and it's not clear what kind of situations you are booking allowance for. I can understand accounting practices may differ from region to region, but I want further explanation on allowance.

A: (by Shigeto Nasu, Managing Executive Officer and Vice General Manager of Business Administration Headquarters)

Thana Sinsap in Thailand has currently offered moratoriums of 110,000 cases and has finance receivables totaling over 10.0 billion yen. Our local operation applied IFRS9 starting in the current fiscal year, and introduced surplus adjustment of about 4.0 billion yen from at the beginning of the period through balance sheet adjustment. Moratoriums of up to six months have been offered, and allowance of about 3.0 billion yen has been booked, in addition to the initial adjustment.

In Malaysia, the number of billing instances currently totals about 1 million and financial receivables total over 200.0 billion yen, about 80% of which have been given moratoriums. So far, we have offered moratoriums in accordance with guidelines by the authorities in charge, and booked over 2.0 billion yen in allowance on a consolidated basis.

Moratoriums have been offered in tens of thousands of cases in other regions as well. We have booked allowance totaling some 3.0 billion yen for the unlisted portion.

■ Mr. Watanabe, analyst at Daiwa Securities

Q: Please explain the breakdown of the breadth of decrease regarding the operating profit estimate for the current fiscal year.

A: (by Shigeto Nasu, Managing Executive Officer and Vice General Manager of Business Administration Headquarters)

Sales are beginning to recover in commercial complexes that are merchants especially in overseas operations, but the second-quarter figure is expected at 60% compared to the year earlier level. We expect the figure to increase to 80% in the third quarter and a level on a par with last year's in the fourth quarter. We think the figure for domestic business will start to gradually recover in the second quarter, compared to the overseas operations. Based on these assumptions, we expect operating income will decrease about 10% year on year. In terms of expenses, we expect increases in bad debts as a negative factor. Considering the current environment, we expect gains on securitization will also decrease.

Q: Please explain the basis for deciding the dividend payout target of 23 yen for the current fiscal year. Is there a possibility that you may raise the level if profit levels exceed your expectations by the end of the current fiscal year? Or, will you make this payout ratio of 100% the upper limit in the next fiscal year and beyond? Let me know your view on payouts.

A: (by Kazuyoshi Suzuki, Senior Executive Officer in charge of Corporate Planning)

We think we need to take capital seriously from the viewpoint of external creditworthiness, and we wanted to limit decreases in capital. That is the thinking behind the decision to set the payout level. It also reflects risk scenarios. That said, our dividend targets or actual payouts could differ from it, affected by potential changes in capital adequacy and earnings forecasts.

(by Kenji Fujita, President and CEO)

The payout ratio of 100% is an abnormal figure that came up under the current situation. The ratio would be 30% to 40% if the profit level in normal times is applied. When sales opportunities return and profit levels return to normal, payout ratios will return to normal. We are hoping things will develop along the main scenario, rather than the risk scenario. If the main scenario comes true, we will change the dividend target. However, if we fail to adapt to the change in the business environment brought on by COVID-19, we need to rethink our dividend policy. We feel the need to return sufficient dividends to our shareholders, and for that, we are determined to make steady efforts.

■ Mr. Hara, analyst at SMBC Nikko Securities

Q: In the fourth quarter briefing, you mentioned stability of payouts, but now you have shown a lower payout level. Describe the background that led to the failure to maintain stable payouts.

A: (by Kazuyoshi Suzuki, Senior Executive Officer in charge of Corporate Planning)

At the 4Q results briefing where we referred to stability of payouts, we were not able to assess the impact from the spread of new coronavirus infection in a period from March to May. We came up with the latest payout target after assessing the first quarter results and discussing the optimum balance between capital adequacy and shareholder returns.

Q: I'd like to ask about bad debts in your overseas operation. I have the impression that the full-year profit estimate is quite low. Do you expect, for example, allowance will increase outside the bad debt assumptions incorporated in the first quarter or the economic environment will deteriorate in the second quarter and later?

A: (by Shigeto Nasu, Managing Executive Officer and Vice General Manager of Business Administration Headquarters)

As there was little impact of the new coronavirus in the previous fiscal year's earnings results in February for listed companies overseas and in December for unlisted companies overseas, no allowance was estimated for these in the previous fiscal year. As a result, in this fiscal year, normal profit level was achieved in the first month of the first quarter. However, after the impact of the new coronavirus started to be felt in early March, we had to book allowance in the first quarter, as discussed earlier. On the other hand, the full-year profit estimate is quite conservative, for sure, but we are yet to come up with a definitive estimate, although we think there is possibility that profit may improve as the pandemic may run its course or we may be able to collect more-than-expected amount of credit. We plan to continue to conduct counseling for debtors.

Q: Major adjustments were made in the balance sheet in Thailand. What is your view on capital adequacy overseas?

A: (by Kazuyoshi Suzuki, Senior Executive Officer in charge of Corporate Planning)

We always have in mind levels required for listing for the three listed companies. In terms of unlisted subsidiaries, we must basically satisfy local requirements especially in overseas operation, as there are local regulations on aspects such as gearing ratios. If we become unable to satisfy local regulations in the unusual situation of the new coronavirus pandemic, we plan to analyze earnings deeply and take appropriate measures to address given situations.

■ Mr. Niwa, analyst at Citigroup Global Markets Japan

Q: I'd like to ask these questions about transaction volume of credit cards in the Japanese business. (i) You said transaction volume will come back up over a period through the fourth quarter. What is your view on campaigns? (ii) What do you think the makeup of transaction volume for each product will look like in the current fiscal year? (iii) I would like to know the plans after the government's program to award points for cashless methods.

A: (by Kazuyoshi Suzuki, Senior Executive Officer in charge of Corporate Planning)

(i). The main thing is digitalization and shift to online. In our previous policy, we aimed to increase members through ongoing solicitation efforts at AEON outlets. However, the new coronavirus pandemic has given rise to the requirement to avoid physical contact between people. We expect sign-up through online means will become more popular as a result. Therefore, we plan to design the structure and strategy aligned with this outlook.

We aim to work out campaigns to promote digitalization and shift to online means, and carry them out.

(by Kenji Fujita, President and CEO)

(ii). We expect leisure activity will decline overseas but increase in Japan, and aim to capture the opportunity through strategies aligned with government measures.
We expect the coronavirus pandemic will result in decreases in railway and air travel, while auto-related spending, including payment at gas stations and toll payments through ETC will increase. We also expect increased demand for furniture and home appliances, as well as online shopping, will remain high.

(iii). COVID-19 has also prompted consumers to shift away from cash in their purchase at brick-and-mortar stores. We think capturing this opportunity is important for us.

Q: What are your targets for the next fiscal year? For example, would your profit estimates remain the same? Or, do you expect your views on customer usage patterns, card issuance or credit extension may change significantly, resulting in additional costs for implementing structural reforms? I would like to know your views about the environment surrounding your business.

A: (by Kazuyoshi Suzuki, Senior Executive Officer in charge of Corporate Planning)

While we still don't know when the coronavirus pandemic may run its course, we think the pace of recovery in the next fiscal year will grow faster if the impact of digital reforms underway in this fiscal year starts to be felt.

(by Kenji Fujita, President and CEO)

In conclusion, we do not think the environment surrounding our company will not return to its previous state. There may be both positive and negative impacts from COVID-19, and we aim to capture opportunities generated on the positive side. For that, we aim to form a task force to lead us to adapt to the new environment. As the real channels decrease in weight, we need to take steps to address the change. We think it is critically important for us to ride on this wave of change in the current fiscal year.

As for the cost of structural reforms, we aim to continue to make investment for digitalization while closely monitoring how the environment may change.