

## Results for the FY2021 Q2: Script and QAs

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# FY2021 Q2 IR Presentation Materials

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**AEON Financial Service Co., Ltd.**

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- The order of today's explanation is as shown below.

The first is the explanation of the second-quarter business results, COVID-19 situation, etc.

The second is the initiatives from the third quarter onwards,

The third is the medium-term management plan and its progress as well as ESG initiatives,

The fourth, which is the earnings forecast and revision of dividend forecast.

We will explain it in the above order.

**The highlights of the consolidated results for Q2**

- Consolidated financial results for the second quarter **increased in revenue and profit.**
- Operating revenues also exceeded the same period last year. From the first quarter, the amount of bad debt allowance continued to be reduced and profit increased significantly.

<b>Operating revenue</b>	YoY	Earnings forecast progress rate
<b>237.9</b> <sub>bn</sub>	<b>103</b> %	45.7~48.5%

High earnings forecast progress rate for operating revenue and net profit, upward revision of full-year earnings forecast.

<b>Operating profit</b>	YoY	Earnings forecast progress rate
<b>33.2</b> <sub>bn</sub>	<b>428</b> %	72.1~80.9%

Operating profit  
41.0~46.0<sub>bn</sub> → **46.0~51.0**<sub>bn</sub>

<b>Profit attributable to owners of parent</b>	YoY difference	Earnings forecast progress rate
<b>18.1</b> <sub>bn</sub>	<b>+16.6</b> <sub>bn</sub>	86.1~95.2%

Profit attributable to owners of parent  
19.0~21.0<sub>bn</sub> → **23.0~26.0**<sub>bn</sub>

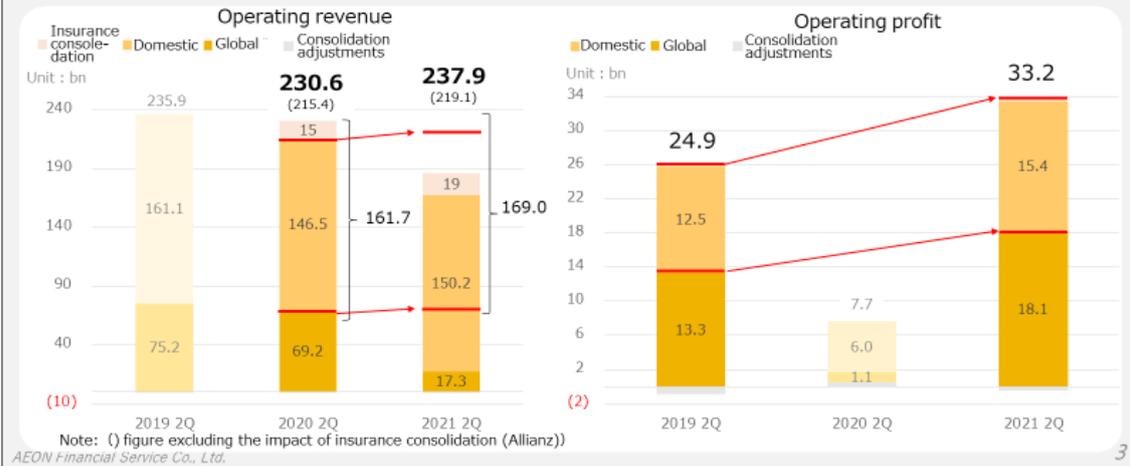
• Interim dividends also increased  
Interim 14<sub>yen</sub> → **19**<sub>yen</sub> (Annual **45**<sub>yen</sub>)

- First, we will explain the cumulative consolidated business results for the second quarter. Operating revenue totaled 237.9 billion yen (up 3% year on year), operating profit came to 33.2 billion yen (up 328% year on year), and profit attributable to owners of parent came to 18.1 billion yen (up 16.6 billion yen year on year).
- While operating revenue increased slightly, both revenue and profits increased as a result of cost reductions including improvements in costs related to doubtful accounts and operational efficiency.
- When compared with the earnings forecasts announced at the beginning of the fiscal year, the progress in operating profit was 72.1% to 80.9% and that in profit attributable to owners of parent was 86.1% to 95.2%. Given the smooth progress, we will revise the full-year earnings forecasts upwards and increase the interim dividends.

1. Q2 Financial Highlights · Financial Highlights (Segment results)

**Q2 Cumulative Segment Results**

- Operating revenues were affected by corona disasters, but both Domestic and Global businesses
- Operating profit improved bad debt-related expenses due to the effect of elaboration of examinations and strengthening collection from last year. Significant increase in profit compared to Fiscal 2019



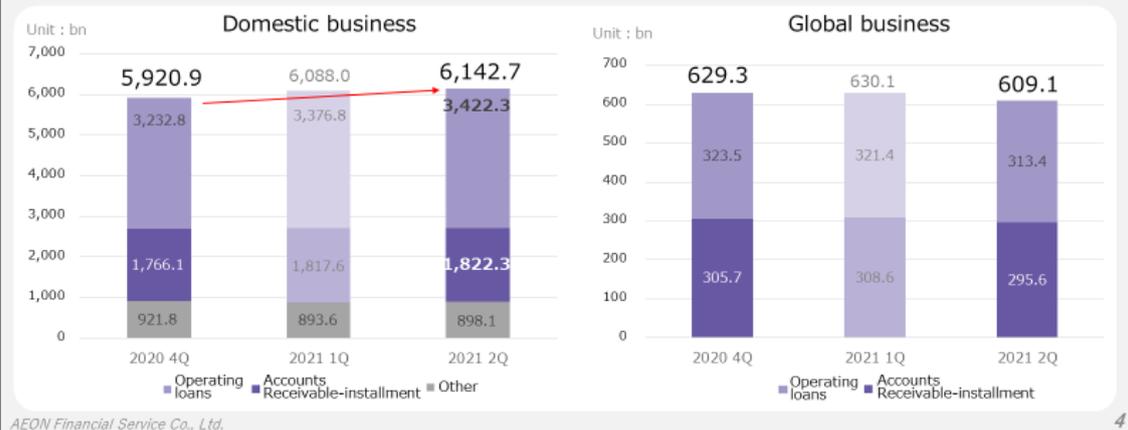
- Next, we will explain business performance by segment.
- Operating revenue continued to be affected by COVID-19 pandemic but still increased in both Domestic and Global Businesses. Operating revenue of the Domestic Business totaled 169.0 billion yen including 18.8 billion yen in revenue of the insurance business (up 7.3 billion yen year on year), and that of the Global Business came to 69.4 billion yen (up 0.2 billion yen year on year).
- The 18.8 billion yen in the pink part on top of the graph on the left shows the impact of AEON Allianz Life Insurance, which was consolidated in the second quarter last year. Even when the impact was excluded, operating revenue of the Domestic Business increased 3.7 billion yen to 150.2 billion yen.
- Operating profit of the Domestic Business came to 15.4 billion yen (up 9.4 billion yen year on year) and that of the Global Business came to 18.1 billion yen (up 17.0 billion yen year on year) as a result of continued efforts to refine screenings and reinforce collection, which improved costs related to doubtful accounts, and operating profits also rose significantly when compared with fiscal year 2019, which was before the spread of COVID-19.

1. Q2 Financial Highlights · Financial Highlights (Operating receivables)

**Q2 Operating Receivables**

\*Balance of receivables before securitization

- The amount outstanding of operating receivables(\*) in domestic businesses increased in both operating loans and installment receivables. Increase in balance accumulation of mortgages and card shopping with strong transaction volumes
- In Global business, both operating loans and installment receivables decreased due to lockdowns from the second quarter.



- Next, we look at the situation of total operating receivables.
- In the graph on the left, operating receivables of the Domestic Business totaled 6,142.7 billion yen (up 221.8 billion yen from the beginning of the fiscal year), which is also higher than the level in fiscal year 2019.
- The factors behind the increase are increases in operating receivables of housing loans and purchases using credit cards, which have been strong. Meanwhile, receivables for revolving payment for shopping and cashing have been declining, and we will strengthen initiatives to boost them along with easing of activity restrictions in the third quarter onwards.
- The graph on the right shows operating receivables of the Global Business, which totaled 609.1 billion yen (down 20.2 billion yen from the beginning of the fiscal year) due to the impact of the lockdown, etc. since the second quarter in countries such as Malaysia, and both operating loans and accounts receivable—installment declined.
- Like in Japan, the Global Business will also strengthen initiatives for accumulation in each country from the third quarter onwards.

**FY2021 First Half Initiatives (Domestic Business)**

■ **Increase transaction volume from the 2H of the fiscal year onwards and acquire cardholders that will lead to the accumulation of operating receivables outstanding**

- On July 11, we held an in-store membership promotion in accordance with the advance notice of WAON POINT change from the Tokimeki point. The "points can be used immediately at the cash register" function is popular, and membership acquisition is good.

→ As a result, the number of active members in Domestic was +340k from the beginning of the fiscal year, and +140k compared to the Q1.

■ **Capturing demand for card use due to corona disaster**

- Increase the number of uses due to an increase in shopping at stores near home  
Average monthly usage increased from 10.4 times in 2019 → **10.8** times in 2020  
→ **11.1** times in 2021 (Figures are calculated from March to August)
- Continue to campaign with home delivery and subscribing
- Expansion of cards with contactless payment function to capture contactless needs  
- In addition to VISA, Mastercard and JCB brand will be available from Oct. 2020  
- As of August 31, 2019, the total number of issued was **11.27** million, up from the beginning of the fiscal year to **2.61** million.

→ Card shopping transactions were **105%** yoy and **102%** compared to the previous year  
Progress to the the cards customer use most

Initiatives with Uber Eats



AEON Card Select with contactless payment function



- Next, we will explain the initiatives of the Domestic Business in the first half.

In the first half, we worked on increasing the transaction volumes from the second half onwards and on acquisition of new cardholders for increasing operating receivables.

- On July 7, we began announcing the switch from TOKIMEKI point to WAON POINT in advance and launched a membership promotion campaign at stores.

The “points can be used immediately at the cash register” function has been popular and it contributed to strong acquisition of new card members. As a result, the number of cardholders in Japan increased 340,000 people compared with the beginning of the fiscal year.

- To capture the pandemic-related demand, we continued to work on campaigns with online food delivery services and subscription businesses. As a result, the average monthly usage increased 11.1 times compared with 10.8 times last year.

More cardholders are thought to be using AEON Card as their main card given that its use at external member stores has been growing.

- Moreover, we expanded issuance of cards with contactless settlement function for each brand of VISA, Master, and JCB to capture the needs for non-contact settlement in the COVID-19 pandemic. The total number of cards issued reached 11.27 million (up 2.61 million cards compared with the beginning of the fiscal year).

As a result, the transaction volume of shopping using cards increased 5% compared with the same period a year earlier and was up 2% compared with two years ago.

### FY2021 First Half Initiatives (Global Business)

#### 【Hong Kong】

- 10x points campaign at AEON Stores Hong Kong
- Campaign to revitalize rebound consumption (food and drink, theme parks, etc.)

#### 【Thailand】

- Increase online transaction volume through promotional planning with business partners, such as e-commerce sites and food delivery
  - In the 1H of Fiscal 2021, we grew at **166%** year-on-year
  - Increased card shopping volume to 17.9%
- Increase the use of excellent members with relatively high income levels and good repayment results for individual loans

#### 【Malaysia】

- Motorcycle loans offer preferential interest rates associated with the launch of new models of manufacturers and incentive campaigns for merchants
- For amortized receivables, we have introduced an outsourced management system. Contributing to automation of data linkage with outsourcers and improvement of efficiency

#### Initiatives at AEON Thana Sinsap

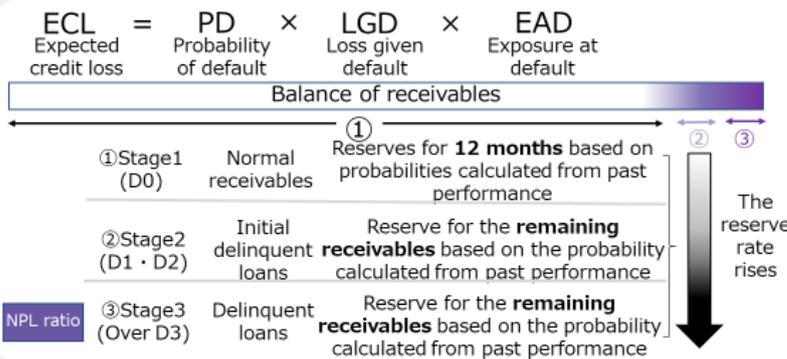


Cashback promotions of up to THB 30,000 depending on the amount used online (August 1 - September 30)

- Next is the explanation of the initiatives by the Global Business.
- In Hong Kong, the business implemented a 10-times point campaign at AEON Stores (Hong Kong) and a campaign to revitalize rebound consumption at restaurants and theme parks.
- In Thailand, online transaction volume grew significantly, up 66% from the same period a year earlier, accounting for 17.9% of transaction volume of shopping using credit cards, as a result of sales promotion projects with partners such as EC websites and food delivery services.  
For personal loans, the business raised the limits for excellent members who have relatively high income levels and good repayment records.
- In Malaysia, the business continued to offer preferential interest rates coinciding with launch of new models and incentive campaigns with member stores in the mainstay motorcycle loans.

### IFRS9 Definition of allowance for bad debts

- In overseas countries, IFRS9's bad debt allowance reserves have been applied, and the increase or decrease in the total amount of receivables affects the amount recorded. In particular, it is necessary to reserve 12 months' provision for normal receivables, and fluctuations in the balance of the year-end.
- For receivables with increased credit risk, the expected amount of credit loss for the entire period is recognized.



#### Increase or decrease in total receivables

- The proportion of normal receivables to the total receivables is about 90% or more, and the impact of this portion is large.
- In a situation where the total amount of receivables does not expand, such as the pandemic, the balance of normal receivables also decreases, so allowances for bad debt tend to decrease.

#### Outstanding receivables & NPL ratio

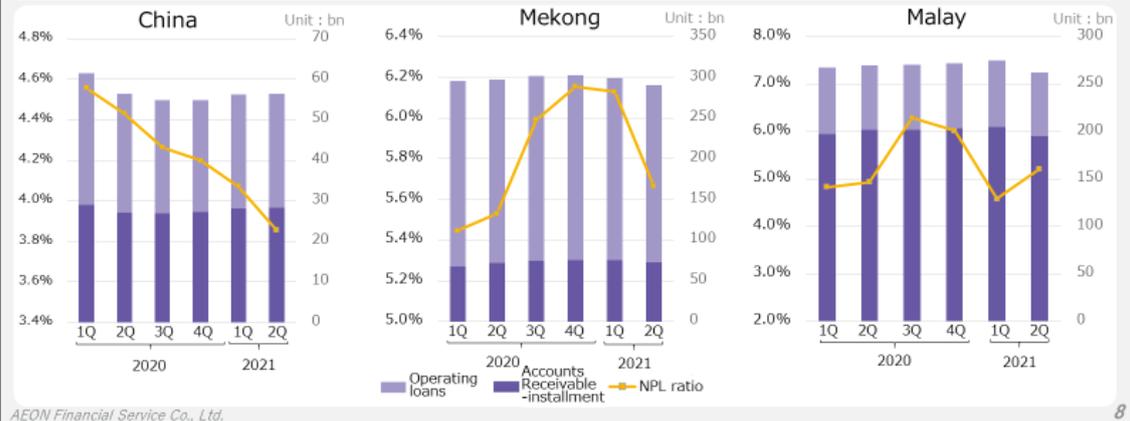
- As the outstanding balance of receivables decreases, the tendency for the NPL ratio to improve is likely to improve the quality of receivables.

- Next is the explanation of the concept of allowance for doubtful accounts under the so-called IFRS9 of the International Financial Reporting Standards, which we introduced in six countries and territories including three listed companies in foreign countries where we have operations.
- Under IFRS9, a company determines the allowance for doubtful accounts by calculating the expected credit losses (ECL) for each of the three loan categories of Stage 1, Stage 2, and Stage 3. ECL is calculated by multiplying the probability of default (PD), loss given default (LGD), and exposure at default (EAD).
- As described, we need to allocate 12 month-worth of allowance for the performing loans in Stage 1, which account for more than 90% of the total amount of outstanding receivables.
- The impact of performing loans on allowance for doubtful accounts is high, and in a situation where the total amount of outstanding receivables does not expand, such as during the COVID-19 pandemic, the allowance for doubtful accounts tends to decline along with the decline in performing loans. Once the pandemic subsides and outstanding receivables once again start to rise, it will be necessary to carry out cost control taking into account this point.
- Meanwhile, if there is any improvement trend in NPL ratio amid declining outstanding receivables, it can be said that the quality of the content of receivables has been improving.

2. Q2 Status of Initiatives, Allowances for Bad Debts, and Operating Expenses · NPL Ratio

**NPL Ratio Trends (Global Business)**

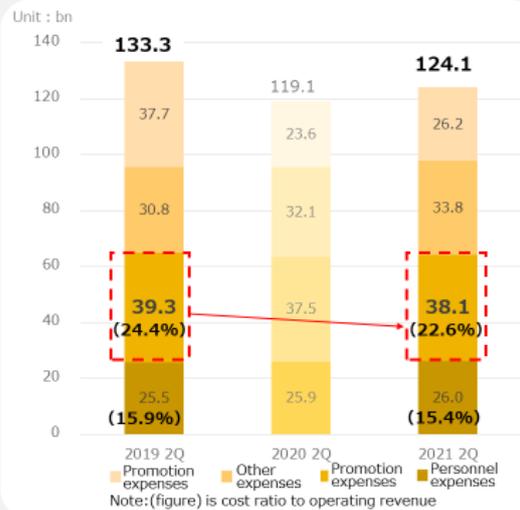
- In China Area, the balance of installment receivables and operating loans increased slightly.
- In Mekong and Malay Area receivables fall
- In each country, by strengthening screenings and debt collection, receivables will be improved.
- Improved NPL ratios in China and Mekong Area
- In Malay Area, recovery deteriorates in some areas due to lockdown, NPL ratio rises compared to 1Q, but remains low



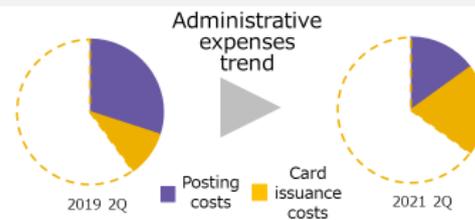
- Here, we will explain the trend of NPL ratio at the Global Business.
- From left, the graphs show the trends in outstanding receivables and NPL ratio in China Area, Mekong Area, and Malay Area.
- In the China Area, outstanding receivables began slightly rising given the negligible impact of the spread of COVID-19, while they declined in the Mekong and Malay Areas.
- The NPL ratios in the China and Mekong Areas have improved as a result of continued efforts to refine screenings and to enhance collection in each country.
- In the Malay Area, the NPL ratio rose from the first quarter given the impact of the lockdown in the second quarter, but we have been able to limit it to the level of the second quarter of last year, when it began worsening.

2. Q2 Status of Initiatives, Allowances for Bad Debts, and Operating Expenses · Operating Expenses

**Q2 Cumulative Operating Expenses (Domestic Business)** ※Excluding financial expenses, bad debt allowance, and insurance expenses



- Operating expenses\*, which are improved by -9.2 billion yen from fiscal 2019
  - Advertising expenses decreased due to the spread of covid-19
  - In terms of administrative expenses, due to the online statements implemented in 2019, the postage was halved
  - In the other hand, due to switching to the cashless cards and promotion of cashless card, card issuance costs increased
- ⇒Reduced posting costs help to ensure the investment costs. It reduce overall cost increases



- Next, we will explain operating expenses of the Domestic Business.

- Operating expenses were 124.1 billion yen in the second quarter cumulative period, an improvement of 9.2 billion yen compared with the pre-pandemic figures in 2019.

- In the left graph, sales promotion expenses on the top declined due to the impact of the spread of COVID-19.

- Administrative expenses, within the red dotted lines, were 38.1 billion yen, an improvement of 1.2 billion yen compared with 2019.

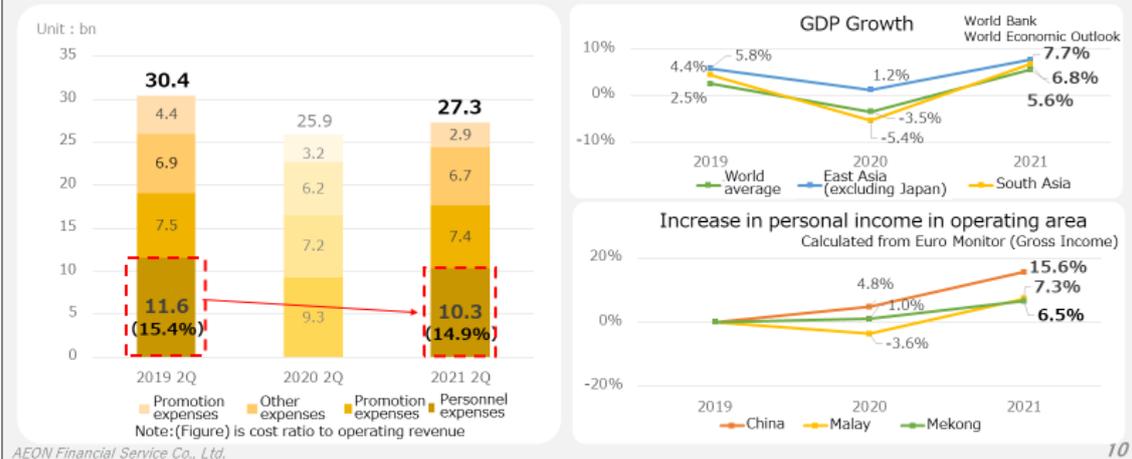
- As shown in the right half, postage expenses halved as a result of shifting all bills to web billing from 2019.

We have been able to keep overall expenses in check by using the proceedings from these cost reductions as the resource for issuing cards for achieving cashless, including switch to contactless cards, which is driving our investment to improve customer convenience.

2. Q2 Status of Initiatives, Allowances for Bad Debts, and Operating Expenses - Operating Expenses

**Q2 Cumulative Operating Expenses (Global Business)** ※Excluding financial expenses, bad debt allowance

- Operating expenses\* improved by -3.1 billion yen compared to fiscal 2019.
- Personnel expense ratio to operating revenue improves
- As salary levels rise with economic growth in each country, digitalization efforts are making efficiency



- Next is the explanation of operating expenses of the Global Business.

Operating expenses in the second quarter were 27.3 billion yen, an improvement of 3.1 billion yen over 2019.

- The top right graph shows the trend in real GDP growth.

The green line shows the trend in the world average, the blue line is that of East Asia excluding Japan, and the red line is South Asia.

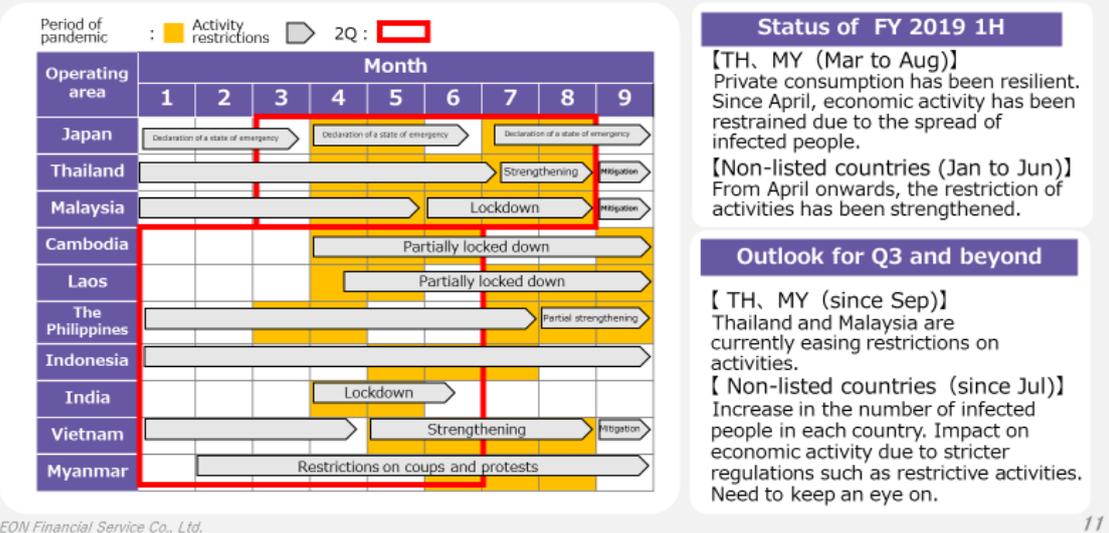
- The graph in the bottom shows the trend in the growth rate of personal income in the areas we operate.

The red line is the China Area, the yellow line denotes the Malay Area, and the green line is the Mekong Area.

- Even though salary levels are growing following economic growth in these countries, we are promoting controlling personnel cost and improving efficiency through digitization.

3. Covid-19 situation through Q2·Operating countries situation

**Spread of infection and restrictions on activity in the operating countries**



- As the final report of the second quarter, we will explain the status of the spread of COVID-19 in the countries where we have operations and the trend in activity restrictions.
  - The yellow boxes in the table show the infection expansion period and the arrows the period in which activities were restricted, while the red boxes indicate the second quarter cumulative period in the respective countries.
  - In Thailand and Malaysia, while personal consumption held firm, but economic activities were restricted from April due to the expansion of infected persons. In the countries where our unlisted subsidiaries are operating, restrictions of activities were strengthened from April.
  - As for the outlook from the third quarter onwards, new measures to ease restrictions were launched from October in Thailand.
- In Malaysia also, the areas coming under the various recovery phases on the four-stage national recovery plan are expanding and restrictions on activities have been easing.
- In the countries where our unlisted subsidiaries are operating, increasing numbers of infected persons and strengthening of controls such as activity restriction are likely to affect their economic activities and we need to continue to pay attention to them.

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

## **Initiatives after Q3**

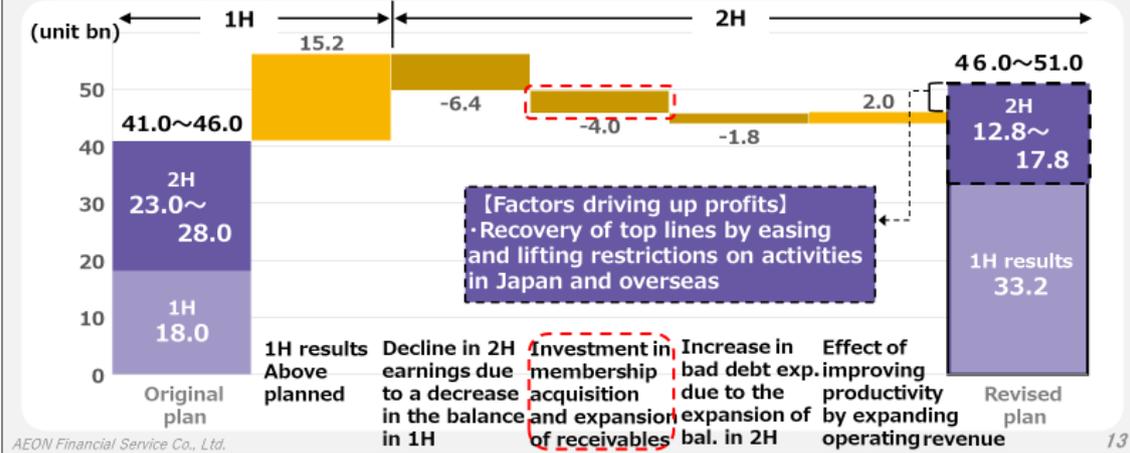
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- Explanation of the Initiatives from the Third Quarter, Progress in Medium-term Management Plan, ESG Initiatives, and Earnings and Dividend Forecasts.

#### 4. Initiatives after Q3·Annual Operating Profit Plan

##### Impact of profit and loss in the second half

- In the 2H of the FY, in order to expand the top line in the FY2021, focused on promoting expenses to acquire members and increase the amount of operating receivables.
- In addition, continue to work to refine screenings and strengthen collection operations through digitization to improve productivity



- We will now explain the second-half and full-year operating profit outlook.

As it was explained at the beginning, the first-half earnings significantly exceeded the plan and we are revising the full-year forecast upwards.

- Meanwhile, in the first half we could not increase operating receivables as personal consumption stagnated, greatly affected by the impact of the activity restrictions due to COVID-19 both in Japan and abroad. We are expecting an impact of 6.4 billion yen on profits in the second half.

- As a countermeasure, we will forcefully drive forward investment in the second half for acquiring more members and increasing receivables also with an eye on expansion of topline from the next fiscal year.

- To this end, we are expecting the provision for performing loans due to the expansion of receivable balance overseas to increase by 1.8 billion yen.

- The factors boosting profits are profit expansion from investment and digital screenings and strengthening of receivable collection that we have been working on since last year, and they are expected to contribute 2.0 billion yen.

- Also, if easing and removal of activity restrictions progresses, the effect of operating measures will be further boosted leading to recovery in topline.

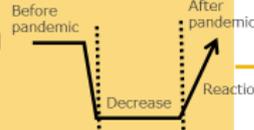
#### 4. Initiatives after Q3-Priority Measures for the 2H

##### Responding to changes in consumer behavior

- Capture changes in consumer behavior due to corona impacts and strengthen approaches to high-demand categories

##### ■ Categories that are expected to consume revenge after pandemic

- Shopping at large commercial facilities
- Eating out with friends, family (with alcohol)
- Travel by plane, bullet train, train, remote travel
- Movie theaters and karaoke shops
- Live music, festivals and sports
- Theme Parks and Amusement Parks



##### Business Categories

- Shopping Mall
- Eating out
- Domestic Travel
- Real Events, Leisure

##### ■ Categories that can be expected to continue to be in need even after pandemic

- Online shopping
- E-book, comic and video distribution services
- Utilities (electricity, gas, water)
- Communication charges (smartphone, Internet)
- Cooking and making sweets (in-house food)
- Food Takeaway



- EC
- Subscription
- Utility bills

※Conducted by AFS: "Consumption Intentions Survey after Pandemic (Jul to Aug 2021)J

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- Next is the explanation of responses to changes in consumer behavior.

In Japan, lately, the number of infected persons is showing a declining trend and we think consumption activities will gather pace.

- The diagram on top puts together the categories that had negative effects on sales from the spread of COVID-19 and the bottom diagram shows the categories for which needs became established in the new lifestyle such as “nesting” consumption.

- Physical consumption such as at shopping centers, which we are strong at, is expected to recover greatly in revenge consumption. So, we plan to conduct large-scale promotions there and expand sales.

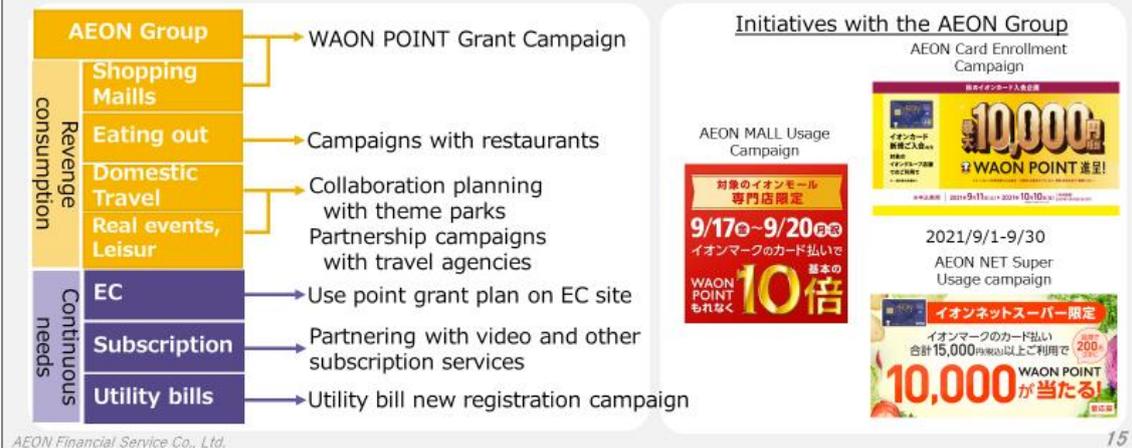
- The situation in the first half was difficult with activity restrictions in place, but we were able to increase credit card shopping handling volume by 5% and the increase will further expand as physical consumption gathers pace.

- As COVID-19 spread, needs for categories such as EC and subscription increased. Consumers are also expected to continue using such categories, so we want to carry out sales promotion measures by grasping the usage situation in a timely manner.

4. Initiatives after Q3·Priority Measures for the 2H

**Initiatives from the Q3 (Domestic business)**

- Plan the following measures to increase card shopping volumes  
 【Internal】 AEON Group's integrated sales promotion activities triggered by WAON POINT  
 【External】 Incorporating revenge consumption and ongoing needs in changes in consumer behavior



- Here we will explain concrete sales promotion measures.

In the AEON Group, we will acquire new card members and expand sales by working together with group stores to promote measures associated with WAON POINT, whose convenience improved thanks to changes in the system.

- In revenge consumption, we are pushing forward with preparations related to joint measures with restaurant chains and travel agencies, and we will also keep monitoring the infection conditions and flexibly respond.

- Further, we aim to steadily increase sales from the needs established by the pandemic by continuously implementing campaigns for utilizing WAON POINT, etc.

- In response to changing customer needs, we will clarify the categories we target and implement sales promotion measures to firmly capture the consumption trend waves.

4. Initiatives after Q3-Priority Measures for the 2H

**Initiatives from the Q3 (Domestic business)**

【Revolving credit】

■ **Expansion of receivables by strengthening appeals for revolving changes**

- All revolving changes, revolving use promotion campaign
- Digital appeals in e-mail magazines and AEON wallets
- Improved convenience by extending the deadline for revolving changes
  - Expanded coverage for financial institutions other than AEON Bank



**Online Cash Advance Promotion Banner Ads**



【Cash advance】

■ **Increase channels with customers and implement measures to increase the number of users**

- Perform attribute analysis to activate caching dormant members
- Growing online cash advance
  - Start of transfer service (August) to designated account
  - In principle, strengthen the appeal of "transfer to the desired account 24 hours a day, 365 days a year"
- Inform revolving changes and increase quotas from Call Center

- Next, we will explain expansion of operating receivables in Japan.

Operating receivables, which appeared to have stopped falling in the first quarter, once again began declining in the second quarter due to the tightened activity restrictions. In the second half, we hope to increase the receivable balance once again through the described initiatives.

- As for revolving payment for shopping, we will continue with the promotion campaign and also enhance its exposure using e-mails and Aeon Wallet app as its visibility is still low even though most customers who use single payment subsequently switch to revolving payment.

- We will also increase its convenience by extending the deadline for switching to revolving payment at accounts with financial institutions other than AEON Bank to the same period as AEON Bank.

- We will promote credit card cash advance among customers who used to make use of the service before but are no longer using it.

In addition, we will improve the ease of use of cashing service via internet, which can be used with security even during the pandemic, and also aim to promote the use utilizing the outbound operation of call centers.

4. Initiatives after Q3·Priority Measures for the 2H

**Initiatives from the Q3 (Global business)**

**【Hong Kong】**

- **Expansion of customer base and proceed into fee buss through collaboration with AEON Group**
  - Signed an acquirer agreement with AEON Stores Hong Kong. Introduced at all stores in FY2021
- **Accumulation of loan receivables**
  - Promotion of summary loans to other companies' members using the services of external credit information agencies
  - Expand the credit line of existing excellent members and strengthen approaches to dormant members holding loan balances

**【Thailand】**

- **Promotion of shopping use plan in response to the growing demand for online payments**
  - Continue to carry out campaigns for use with major e-commerce sites and food couriers
- **Accumulation of loan receivables**
  - Increase the credit line of excellent members (monthly income of THB50,000 or more)
  - Promote the use of Digital Your Cash (app-complete purpose loan)

**【Malaysia】**

- **Increase transaction volume through campaigns and accumulate outstanding receivables**
  - Expansion of credit card and individual installments triggered by electronic money
  - Conduct sales rewards and low interest rate plans for major motorcycles and car merchants
- **Strengthening cooperation with the AEON Group**
  - Campaign to use My AEON (e-commerce mall of AEON Malaysia) and registered merchants

- Next, we will explain the initiatives by the Global Business.

In the first half, we could not implement any measures associated with risks in many countries we operate business due to the impact of COVID-19.

Meanwhile, quality of operating receivables in each country has been clearly improving and we are shifting into a phase where we should strengthen initiatives to seek returns.

- In Hong Kong, where the infection is showing signs of subsiding, we will strengthen initiatives with AEON Stores (Hong Kong) and expand the share in the loan market by raising the upper limits of credit facilities and revitalizing dormant cardholders.
- In Thailand, we will continue to strengthen the initiatives based on EC, which has a high growth rate, and will increase loans through expansion of the upper limit of credit facility for excellent members, conforming to the consumption vitalization measures by the government.
- In Malaysia, we will strengthen sales promotion measures with member stores used by excellent customers to expand transaction volume in addition to promotion of credit cards and installment finance.
- We will expand operating receivables of the Global Business through these initiatives.

**Policy and Key Measures of Medium-Term Management Plan**

**Second founding  
Value chain innovation and network creation**

**Domestic**

- ① Building infrastructure for the construction of AEON living zone
- ② Incorporating the needs of local communities and customers' living infrastructure
- ③ Increase risk and cost control capabilities

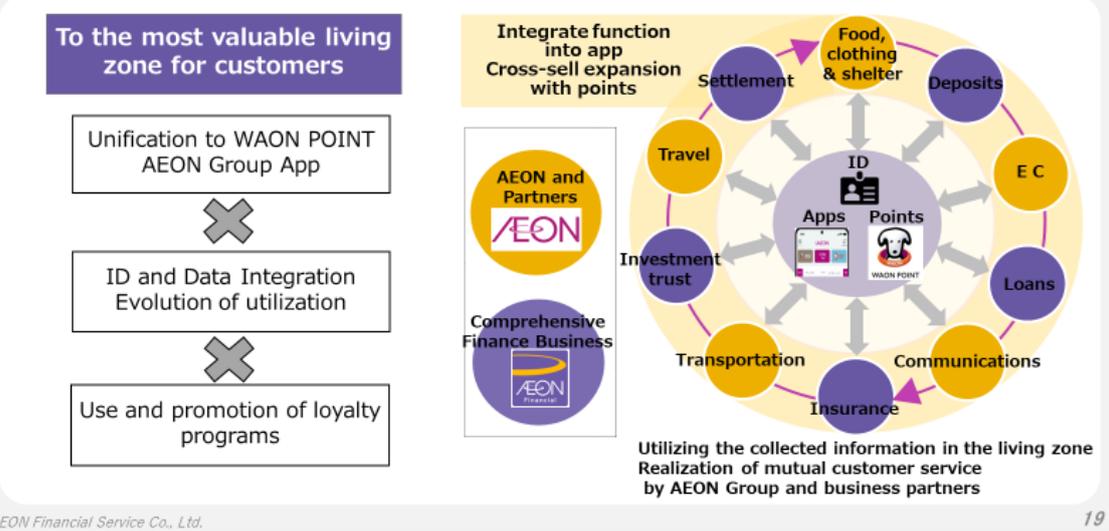
**Global**

- ① Implementing Digital Financial Inclusion in each country
- ② Expansion of business, products, and development areas
- ③ Planning area strategies to meet the differences in urban and local needs

- Next, we will report the status of the initiatives from the medium-term management plan explained at the business result briefing for the fiscal year ended in February 2021 held on April 9, 2021.

- We are currently implementing various initiatives, and here we will explain ① and ② from the main initiatives in the Domestic and Global Businesses.

① Building infrastructure for the construction of AEON living zone



- To create a living zone that would enrich the lives of customers, which is the first initiative of the Domestic Business, we are promoting the building of infrastructure for the AEON Living Zone.
- From September, we started the distribution of iAEON, AEON's integrated app which serves as the common touch point for the entire AEON Group, and we have been focusing on strengthening of channels by combining stores and digital means.
- We simultaneously started offering code settlement Aeon Pay, and worked to improve the convenience of our customers through enhancement of settlement functions and perks by integrating the group's points to WAON POINT and enabled users to use points starting from 1 yen.
- Going forward, we will push forward the development of loyalty programs centered on awarding of points, in addition to integration of customer ID and information, to offer attractive and high-quality services.
- Further, we will work to strengthen the development of products and services and improve them to increase the effect of sending customers within the AEON Group and to our business partners.

② **Incorporating the needs of local communities and customers' living infrastructure**

- Promote the use of registered merchants and incorporate payments for living infrastructure services for individual customers. In addition, promote cross-sales with AEON Group products that meet health needs in health promotion insurance which started in the second half of the fiscal year
- Promote settlement services for business-to-business transactions, such as collecting accounts receivable by AEON Group companies on behalf of the comprehensive financial business. Capture transactions upstream of the supply chain.

Customer (BtoC)	<ul style="list-style-type: none"> <li>■ <b>Importing Settlements for Life Infrastructure Services</b> Campaigns at registered merchants e.g.) Registered merchants: mobile, electric power, gas, water, insurance Online sales: e-commerce, apps, subscriptions</li> <li>■ <b>Cross-sell of AEON Group health-related products (medical, sports, food, etc.)</b> AEON Allianz Life Insurance plans to start selling health-promoting medical insurance in the second half of the fiscal year Cross-sell promotion through benefits available to the Group in response to health promotion activities</li> </ul>
Group companies (BtoB)	<ul style="list-style-type: none"> <li>■ <b>Importing business-to-business transaction settlements at AEON G companies</b> Represented AEON Group stores in the general finance business for collecting accounts receivable. Incorporate settlement of business-to-business transactions of group companies and transactions. e.g.) AEON Group companies : AEON Retail, Kasumi, AEON Ryukyu Business partners of group companies: Nursing homes, school lunch centers, etc.</li> </ul>

- Next, we will explain the second main initiative of the Domestic Business, which is “incorporating the needs of local communities and customers’ living infrastructure.”
- For individual customers, we are promoting campaigns for registered member stores of mobile phones, electricity, gas, etc., whose handling volumes continue to increase, as well as online sales such as subscription services.
- By consolidating payment of multiple services, it becomes easier for cardholders to accumulate points, which also increases through regular shopping, so we will work on it as a key measure.
- In response to growing health-related demand, we are planning to launch a health promoting medical insurance under AEON Allianz Life Insurance. We will collaborate with the AEON Group to boost the attractiveness of insurance products by cross-selling with products for health needs.
- Further, we will start an agent service for collection of receivables targeting AEON Group companies. We will also capture the settlement needs in the upstream of the supply chain.

① **Implementation of digital financial inclusion**

② **Expansion of business, products and development areas (Malaysia)**

**Implementing Digital Financial Inclusion**

■ **Digital Bank License Application**

- Applied for a digital bank license on June 30. Currently under review by the authorities (planned to be issued in FY2022 Q1)
- Utilizing digital technology (AI and data analysis), considering a model that provides services through an application and proposes products that fit the customer's life stage as much as necessary when necessary

[Set the purpose]

- ① Realization of a financial inclusion and cashless society
- ② As the foundation for the construction of AEON living zone in Malaysia
- ③ Latest technology, AI analysis technology  
Challenge to develop online services (Study for the future)

**Expansion of business, products, and development areas**

■ **Acquired an insurance broker company**

- Obtained approval from the authorities for a wholly owned investment in an existing broker company and established a new company on October 1.
- Expanded insurance transaction by converting to a broker. Providing comprehensive financial services to AEON Group customers in Malaysia

[Differs between insurance agents and brokers]

	Insurance agents	Brokers
License	No	Yes
No. of insurance companies handled	2 Casualty insurance companies 1 Life insurance company	<b>No restrictions</b>

- Next, we will explain initiatives by the Global Business in Malaysia.

For “implementing digital financial inclusion,” which is the first main initiative of the Global Business, we aim to acquire a digital banking license.

- Apps become the main channel in digital banking and they enable to create contact points with more customers. Utilization of AI technology enables to offer products without manual operation, which will also enable offering of small-amount installment finance, loans, and insurance products, making it possible for us to provide detailed responses to customer needs.

- In addition, for “expansion of business, products, and development areas,” which is the second main initiative of the Global Business, we acquired an insurance broker. This removed the limitation on insurance companies whose products we can handle and is expected to enhance the lineup of insurance products.

① **Implementation of digital financial inclusion**

② **Expansion of business, products and development areas (Thailand)**

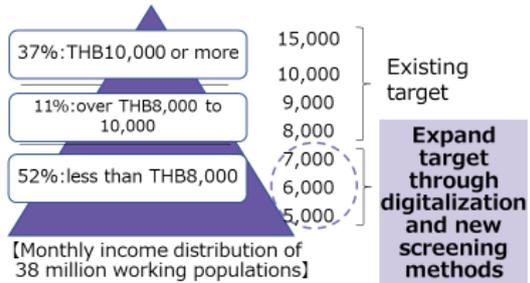
**Implementing Digital Financial Inclusion**

■ **Nanofinance for Online Business Owners**

- Established a joint venture with elevated railway BTS in April
- Aim to expand the foundation for customers who do not have regular income by using the delivery data of goods for screening.

■ **Providing personal loans to new customer**

- By improving access through digitalization promotion and utilizing new screening methods (judging by the payment history of utility bills, etc.), trying to provide personal loans to people with monthly incomes of less than THB8,000



**Expansion of business, products, and development areas**

■ **Reorganized insurance business in Thailand**

- Integrated the business of a Thai subsidiary operating insurance sales business with AEON Thana Sinsap in March
- Promote insurance sales and cross-selling by utilizing digital channels to existing customers of AEON Thana Sinsap

Easily apply for insurance with the app  
Pay by credit card

- Next, we will explain the initiatives in Thailand. For “implementing digital financial inclusion,” the first main initiative of the Global Business, we in April 2021 established a joint venture to offer nano finance to online business operators with BTS, with which we have been collaborating in businesses such as Rabbit Card, which can be used for rapid transit railway services. Currently, we are preparing to apply for a license and we plan to start the business within fiscal year 2021.
- In Thailand, the establishment of laws and regulations made it possible to offer credit to customers who do not have proof of income by conducting screenings based on utility payment records, etc. In response, we are building a system to enhance loans to customers with monthly income of 8,000 baht or less, who we were not able to approach till now, by establishing new screening methods.
- As an initiative for the “expansion of business, products, and development areas,” the second main initiative of the Global Business, Aeon Thana Sinsap (ATS) integrated an insurance subsidiary to improve the efficiency of sales channels and developed a function for credit card holders to apply for insurance products using an app, promoting cross-selling.
- Going forward, we will continue to work on implementation of digital financial inclusion through new business models and screening methods in the countries we operate and promote strengthening of responses to needs by enhancing the products we offer.

### ESG Initiatives

【AFS Group】 The Group Sustainability Department was established through organizational reforms on September 1 to strengthen the promotion system.

【Domestic】 Realization of a decarbonized society

#### ■ AEON Product Finance, AEON Bank

New construction and renovation of decarbonized housing and loans packaged with electric vehicles will be available in November

#### ■ AEON Bank's "AEON Card Select"

Sequentially switching to environmentally friendly recycled plastic materials

【Global】 ESG ratings, high external ratings

FTSE4Good Bursa Malaysia Index

#### ■ ACS Malaysia

Selected as one of the top 200 companies in the ESG Rating of 927 Malaysian listed companies by the Malaysia Stock Exchange  
Top 200 companies make up the FTSE4Good Bursa Malaysia Index and receive high market reviews



FTSE4Good

- Next, we will explain our ESG initiatives.

Although a little late, we newly established the Group Sustainability Department in September to build a system to promote sustainability through concerted efforts by the entire AFS Group.

- Moreover, as an initiative towards realization of a decarbonized society, AEON Product Finance and AEON Bank began offering a loan product that packages decarbonized housing with electric vehicles.

- We have announced to switch the material used for AEON Card Select, which combines credit card, bank account, and electronic money functions and issued mainly by us, to environmentally friendly recycled plastic in stages.

- In the Global Business, AEON Credit Service Malaysia was selected by Bursa Malaysia, the Malaysian stock exchange, as one of the top 200 companies by ESG rating and the company has been also rated highly by the market.

- Going forward, we will strive to strengthen governance, in addition to the initiatives aimed at decarbonizing and financial inclusion, to realize a sustainable society.

7. Revision of Earnings Results and Dividend Forecasts • Annual Earnings Forecast

**Annual Earnings Forecast**

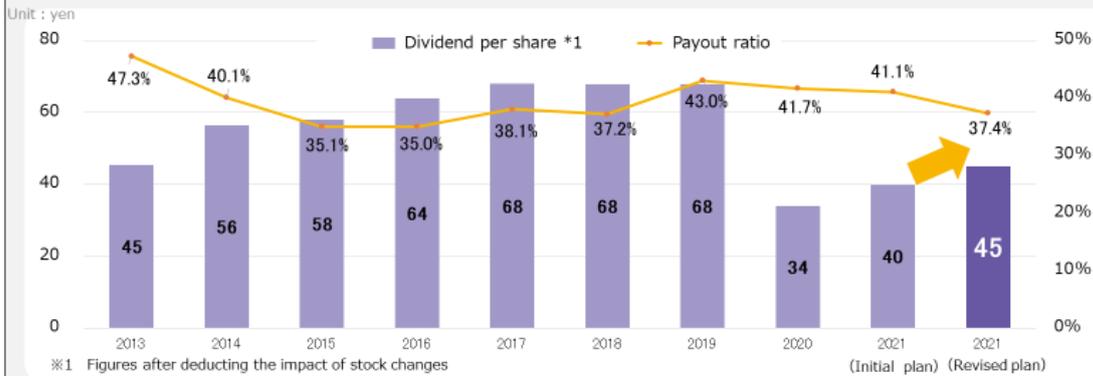
- Revised financial results upward and increased dividends in response to cumulative results for the Q2
- Dividends per share shall be ¥19, up ¥5 from the interim dividend, as a result of the increase in cumulative results for the Q2

	Initial earnings forecast	Revised earnings forecast
Operating revenue	¥490.0 ~ 520.0bn	¥490.0 ~ 520.0bn
Operating profit	¥41.0 ~ 46.0bn	¥46.0 ~ 51.0bn
Profit attributable to the owners of parent	¥19.0 ~ 21.0bn	¥23.0 ~ 26.0bn
Dividends per share	Interim : ¥14 Year-end : ¥26 (Annual ¥40)	Interim : ¥19 Year-end : ¥26 (Annual ¥45)
Payout ratio	41.1% ~ 45.5%	37.4% ~ 42.2%

- Finally, we will explain our full-year earnings forecast and dividends.
- As for full-year business performance, we need to continue to determine the impact of COVID-19 and we are continuing to disclose the forecast in ranges.
- We revised up our operating profit forecast to the range from 46 billion yen to 51 billion yen, and the forecast of profit attributable to owners of parent to the range of 23 billion yen to 26 billion yen, while leaving unchanged the operating revenue forecast at the range from 490 billion yen to 520 billion yen.
- As for dividends, we expect to pay 14 yen per share of interim dividend, up 5 yen per share, which will result in 45 yen per share of annual dividends when including the year-end dividend of 26 yen per share.
- This is expected to result in a payout ratio of 37.4 to 42.2%.

7. Revision of Earnings Results and Dividend Forecasts • Dividend Measures and Policies

**Earnings Forecasts and Dividends**



■ Dividend Policy

• **The basic policy is to allocate internal reserves, investment funds and dividends by one-third each** in order to appropriately allocate profits with regard to investments aimed at expanding business and improving efficiency and shareholder returns to shareholders

- As for the trend in dividends, our basic dividend policy is to allocate one-third each of the retained earnings to internal reserves, funds for investment, and dividends.
- Going forward, we will appropriately distribute profits based on this basic policy.
- We are expecting the external environment to improve in the second half compared with the first half and we will strive to develop the base for growth in the next fiscal year.
- We look forward to your continued support.

[Questions and Answers]

■ Mr. Watanabe, analyst at Daiwa Securities

Q: Regarding the dividend policy, should we consider the payout ratio as including the commemorative dividend for the current fiscal year?

It had been hovering around 40% from the past. Are we looking at about 33% for the current fiscal year?

A: (Tomoyuki Mitsufuji, Director and Senior Executive Officer in charge of Group Corporate Management)

We calculated it by including the commemorative dividend this time. Our basic policy is one-third and we will be maintaining it in the range of 30 to 40%.

Q: You have explained the IFRS9 approach regarding allowance for doubtful accounts. You said you have calculated based on the past results, but have you incorporated the prospects of a worsening economic environment due to the COVID-19 pandemic? What is the concept of the allowance in the second half onwards?

A: (Mitsufuji, Director and Senior Executive Officer in charge of Group Corporate Management)

Allowance for doubtful accounts include predictions for the future, and economic indicators, etc. are also included as factors.

What we would like you to understand from our explanation this time is that it is necessary to record allowance for the period equivalent to 12 months also for performing loans. And we would like you to pay attention to the fact that the allowance for doubtful accounts will increase as operating receivables increase. However, NPL ratio has been declining and quality of receivables has been improving.

It is difficult to predict the impact of the COVID-19 in the future, we plan to firmly expand operating receivables in the second half and it is certain that allowance for doubtful accounts will increase corresponding to it.

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

Q: In the graph on page 13, what is the factor behind the better-than-expected first-half results, which is the second item from left? Is it the curbing of credit costs at ACS Asia (Hong Kong)? Also, regarding the third item in the graph, the decline in 2H due to a decrease in the balance in 1H. Did it happen in Japan or abroad?

A: (Kenji Fujita, President and CEO)

As for the better-than-expected 1H results, profits increased both in Japan and abroad. In particular, the main factor was that allowance expenses overseas were kept lower than expected.

Both Japan and overseas were behind the decline in 2H due to a decrease in the balance in 1H. Specifically, operating receivables declined in Thailand, while they recovered in general in Malaysia, though still lower than expected. In Japan, accumulation of receivables did not go as planned primarily in cash advances due to the COVID-19 pandemic.

Q: What is the impact of the campaign in page 15 compared with the cost and the plan?

Will there be more campaign expenses in the future?

A: (Fujita, President and CEO)

The 10-times point campaign was effective, but it was not 100% because of the impact of the state of emergency. We will firmly expand the topline by spending on sales promotion in time for the lifting of the state of emergency at the start of October. That expense has been incorporated in the second-half plan.

■Mr. Hara, analyst at SMBC Nikko Securities

Q: You have said that concerns for any downward swing from 3Q onwards have been eliminated.

What is your assumption regarding the return of demand for funds in the future?

A: (Mitsufuji, Director and Senior Executive Officer in charge of Group Corporate Management)

The revision of the full-year outlook is a result of the strong progress made versus the budget in the first half. We assume that the economic environment will recover due to the easing of regulations and elimination of restrictions on economic activities although it is somewhat slower than what we initially expected. After the pandemic, there will be revenge consumption, etc. and we can expect recovery in fund demand too. So, we will carry out sales promotion.

Q: What are the changes in policy and regulations such as lowering of maximum interest rate by Thailand?

A: (Shigeto Nasu, Executive Officer and Group Corporate Division Head)

The lowering of maximum interest rate in Thailand last year has been having an impact of about 500 million yen in revenue decline per month.

The collection charge (100 baht per case) from customers with delays in collection was halved as a result of the tightening of regulations and the revenue will decline by about 30 to 50 million yen per month. Even then, we are not expecting any major impact. Currently there are no talks regarding expanding the regulation of maximum interest.

■Mr. Otsuka, analyst at JP Morgan Securities

Q: In page 13, does the second-half operating profit include 12 billion yen to be spent on switching of points and the insurance business? Do you plan to use up the entire amount as planned?

A: (Nasu, Executive Officer and Group Corporate Division Head)

Yes, it does. We are expecting the top line to recover, so we plan to use it according to the initial plan.

Q: In page 13, what is the outlook of consolidated allowance expenses in the second half compared with the level of the first half?

A: (Nasu, Executive Officer and Group Corporate Division Head)

In the second half, we will firmly spend on sales promotion and focus on expansion of receivables, and for this reason allowance for doubtful accounts is expected to increase 1.8 billion yen. Worsening of large collections and economic activity restrictions due to the state of emergency are not incorporated into the scenario and allowance for doubtful accounts is expected to increase relative to the increase in receivables.

■Mr. Niwa, analyst at Citigroup Global Markets Japan

Q: What is your thinking in terms of income for the next fiscal year? Is the 2 billion yen, for the effect from expanding operating revenue and improving productivity, in page 13 something that can be sustained?

A: (Nasu, Executive Officer and Group Corporate Division Head)

For the first half, it is included as a factor in the upward swing. For the second half, we are expecting it to be at about the same level as the first half, as there will be expansion of operating revenue, personnel cost reduction, and control of costs by promoting digitization.

Q: What is the level of the actual operating profit for the next fiscal year?

A: (Nasu, Executive Officer and Group Corporate Division Head)

We consider the level before the pandemic of about 70 billion yen as the yardstick. However, recovery is delayed for three to six months as of now and there are investments we have been planning since the beginning under the Medium-term Management Plan, so we consider 60 billion yen as the lowest level given the expected growth acceleration in FY2024 and FY2025.

■Mr. Sato, analyst at Mizuho Securities

Q: Is the -4 billion yen due to “investments for member acquisition, expansion of receivables” impacting second-half income, mentioned in page 13, something that was carried over from the first half? Is it the increase in allowance for points? If so, what is the impact in figures?

A: (Nasu, Executive Officer and Group Corporate Division Head)

In the first half, due to the impact of the lockdown, we were unable to expand the operating receivables as expected, so it is the expenses for accumulating receivables. The recovery in the top line is expected to be delayed by about three to six months depending on the country. So, in

order to quickly recapture the accumulation of top line in the second half, we would like to use it for capturing the revenge spending and sales promotions.

The point allowance is within the initially planned range, and we do not expect any addition to occur in the second half.

Q: You have disclosed that the allowance for doubtful accounts at AEON Thana Sinsap (Thailand) has been increased as management overlay. Is there any impact on the consolidated level? What is the background and the impact in figures?

A: (Nasu, Executive Officer and Group Corporate Division Head)

It is the allowance for the Myanmar subsidiary. As per the local authority's policy, the allowance standard for the Myanmar subsidiary is about 1% of the operating receivables, but when we consolidate AEON Thana Sinsap, we allocate the necessary level of allowance. The allowance is about 1.2 billion yen and we are recording about half of that in the current fiscal year.

■Mr. Okada, analyst at UBS Securities

Q: What is the background of lowering the payout ratio from the initial about 40% to one third?

A: (Mitsufuji, Director and Senior Executive Officer in charge of Group Corporate Management)

Please note that our basic policy is to allocate one-third each to dividends, investment, and internal reserves and the figure we disclosed at the beginning of this fiscal year included the commemorative dividend.

The profit level of the initial forecast is slightly conservative but we also wanted to respond to the expectations of the shareholders in the plan. Now that we see the annual outlook clearly, we set annual dividend at 45 yen also by taking into consideration the future investment plan.

Q: I recognize that AEON Pay, which was launched in September, is aimed at enclosing customers in the AEON Group. What are related initiatives outside of the group and outlook for future revenue?

A: (Fujita, President and CEO)

AEON Pay is the settlement function of iAEON, which is AEON's app. iAEON is a tool that integrates ID and apps of group companies. In the future, we plan to add contents from the group companies and also from outside the group, which we believe will increase customers' lifetime value. We aim to monetize it by integrating customer IDs and implementing benefit plans by leveraging customers' purchase records and financial service records.