



# Brief Report of Financial Results (Unaudited)

(For the Six Months Ended September 30, 2019)

November 12, 2019

Registered Company Name: **AEON Financial Service Co., Ltd.**

Stock Listing: Tokyo Stock Exchange, First Section

Code No: 8570

URL: <http://www.aeonfinancial.co.jp/eng/>

President and CEO: Kenji Kawahara

Contact: Hideki Wakabayashi, Director, CFO

## 1. Business Performance (For the Six Months ended September 30, 2019 and For the Six Months ended September 30, 2018)

### (1) Consolidated Operating Results

(Millions of yen truncated to the nearest million, %, yen)

	Operating income	Percentage change	Operating profit	Percentage change	Ordinary profit	Percentage change	Profit attributable to owners of parent	Percentage change
Six Months ended September 30, 2019	235,958	10.8	24,931	Δ23.9	25,430	Δ23.1	12,030	Δ32.9
Six Months ended September 30, 2018	212,983	9.6	32,754	14.5	33,078	15.8	17,936	4.4

(Note) Comprehensive income; The 2nd Quarter of Fiscal 2019; 8,950 million (Δ 64.0%), The 2nd Quarter of Fiscal 2018; 24,872 million (12.5%)

	Net income per share (Yen)	Fully diluted net income per share (Yen)
Six Months ended September 30, 2019	55.75	53.17
Six Months ended September 30, 2018	83.13	78.83

### (2) Financial Position

(Millions of yen truncated to the nearest million, %, yen)

	Total assets	Net assets	Capital ratio	Net assets per share
Six Months ended September 30, 2019	5,648,353	445,042	6.7	1,758.86
Fiscal year ended September 30, 2018	5,254,079	448,705	7.2	1,764.05

(Reference) Shareholder's equity; The 2nd Quarter of Fiscal 2019 ; 379,556 million, Fiscal 2018 ; 380,644 million

## 2. Cash Dividends

(yen)

(Base date)	Dividend per share				
	First quarter period	Interim period	Third quarter period	Term end	Annual
March 2019 term	—	29.00	—	39.00	68.00
February 2020 term	—	29.00	—	—	—
February 2020 term (Estimated)	—	—	—	39.00	68.00

(Note) No revision on dividend projection in the 2nd Quarter expected

## 3. Projections (For the fiscal year ending February 29, 2020)

(Millions of yen truncated to the nearest million, %, yen)

	Operating income	YOY	Operating profit	YOY	Ordinary profit	YOY	Profit attributable to owners of parent	YOY	Net income per share
Full term	430,000	—	70,000	—	70,000	—	38,000	—	176.11

(Note) No revision on the projection of consolidated results in the 1st Quarter expected

※The fiscal year ended March from fiscal 2019, following the approval of "Partial Changes in the Articles of Incorporation" at the Ordinary General Meeting of Shareholders held on June 25, 2019. It is changed the accounting period from the fiscal year ending March to the end of February. The fiscal year ending February 2020, which is the period of change in the fiscal year, is from April 1, 2019 to February 29, 2020. In addition, in accordance with the reorganization, we have changed the way we describe our earnings forecasts.

## ※Notes

(1) Change in significant subsidiary during the term (Change in specified subsidiary that caused a change in the scope of consolidation): No

(2) Application of accounting treatment specific to the preparation of quarterly consolidated financial statements:  
No

(3) Change in accounting principle, procedure, disclosure, etc. concerning preparation of consolidated financial statements

(matters to be mentioned concerning the change of important items as bases for preparation of consolidated financial statements)

① Change due to a newly issued accounting requirement: Yes

② Change other than ①: No

③ Change accounting quotation: No

④ Restatement: No

※ For details, see (Consolidated statement of comprehensive income) section.

(4) Number of issued stock and outstanding stock (Common stock)

① Number of issued stock and outstanding stock at term end (including treasury stock)

The 2nd quarter of Fiscal 2019: 216,010,128 shares, Fiscal 2018: 225,510,128 shares

② Number of shares of treasury stock at end of term

The 2nd quarter of Fiscal 2019: 212,922 shares, Fiscal 2018: 9,732,022 shares,

③ Average number of shares during the quarter (For the Six Months ended September 30, 2019)

The 2nd quarter of Fiscal 2019: 215,787,486 shares; The 2nd quarter of Fiscal 2018: 215,767,123 shares

※This Brief Report of Financial Results (Unaudited) is not required for submission for quarterly audit review.

※Projections above are based on management's assumptions using information available at the time of publication. Owing to various factors, actual results may differ from these projections.

※Information about the business profile and financial results of AEON Financial Service Co., Ltd are available on the company home page.

## **Review of Operating Results and Financial Statements**

### **(1) Analysis of Operating Results**

In the second quarter of the consolidated cumulative period, Aeon Financial Service Co., Ltd. (hereinafter AFS) promoted cashless within and outside the AEON Group prior to the consumption tax hike starting in October, and focused on promoting the use of AEON cards and debit cards, as well as expanding our customer base to increase medium- to long-term transaction volumes. In addition, overseas, we worked to improve the accuracy of membership acquisition measures and credit screening using digital, and to improve the efficiency of operations, and to expand the balance of finance receivables and improve profitability.

As a result, consolidated operating revenue were ¥235,958 million (110.8% year-on-year) for the eighth consecutive year. In terms of operating expenses, advertising expenses increased due to the strengthening of member acquisition measures in Japan, and overseas, especially in Malaysia, bad deb allowance t increased. This was due to an increase in the amount of reserves for the future as a result of the accumulation of the balance of finance receivables, mainly in normal receivables, in Malaysia, which introduced IFRS No. 9 "Financial Instruments" in the same period of the previous year.

As a result, operating profit was ¥24,931 million (76.1% year-on-year), ordinary profit was ¥25,430 million (76.9% year-on-year) and profit attributable to owners of parent was ¥12,030 million (67.1% year-on-year).

In the second quarter of the consolidated cumulative period, we reflects the impact of improper accounting in the previous fiscal year as found by AEON Credit Service(Philippines) Inc., the company's consolidated subsidiary disclosed on November 1. (in ordinary income of 0.57 billion pesos (exchange rate of 2.1 yen), approximately ¥1.2 billion yen in Japanese yen)

### **【Business Segment Information】**

#### **① Domestic Retail Business**

In the domestic retail business, AEON Bank, Ltd. continuously strengthens its proposals for asset formation services such as mortgages, mutual funds, and foreign currency deposits, as well as the promotion of Tsumitate transactions. And, by utilizing the point program, which allows customer to receive preferential treatment such as savings interest rates and transfer fees depending on the transaction contents, we have led to the acquisition of composite transactions.

Aeon Bank continuously promoted the recruitment of "AEON Card Select", which is a united cash card, credit card , and electronic money WAON and "AEON Bank CASH + DEBIT" equipped with a debit payment function in the cash card. Through such measures, bank accounts and deposit balances have increased. As a result, the number of accounts increased by 6.9 million accounts (up 330,000 from the beginning of the fiscal year), and the total balance of accounts deposited at AEON Bank, Ltd. was ¥3,636,981 million (up ¥153,544 million from the beginning of the fiscal year).

In addition, we continued to promote the promotion of competitive special interest rates for mortgages and the promotion of benefits from AEON Select Club, which offers a 5% discount on shopping in the AEON Group every day. As a result, the outstanding amount of loans was ¥2,146,887 million (up ¥35,990 million from the beginning of the fiscal year).

With regard to asset formation services, we continued to promote the handling of foreign currency deposits,

*Tsumitate* NISA (Accumulation Nippon Individual Savings Account), and AEON Bank i.DeCo (individual-type defined contribution pension plan), and increased balance of such deposits.

In addition, from September, AEON Bank introduced the asset management simulation "Port Navi" at all branches, and prepared a model portfolio of more than 60 patterns. We provide asset formation services that can provide optimal proposals in line with customer requests.

As a result, operating revenues in the domestic retail business was ¥100,016 million (106.2% year-on-year) and operating profit was ¥ 5,157 million (74.6% year-on-year).

## ② Domestic Solutions Business

In the domestic solutions business, we held the "U-25 New Life Campaign" for young people from February 25 to April 30 to acquire a new membership base. In addition, during the Golden Week period, we promoted membership acquisition and increased transaction volumes by conducting a new era commemorative enrollment plan and implementing 10times points. In order to respond to rushing demand prior to the consumption tax hike, we implemented a "up to 20% cashback campaign" and "AEON Group Tokimeki Point 10 times campaign" limited to new cardholders as a cashless promotion measure from July to September. We have strengthened the acquisition of new members and the promotion of the use of ion cards. As a result of these efforts, the number of new members acquired during the same period was 590,000 (153.6% compared to the same period of the previous fiscal year).

In Addition, in May, Aeon Card's official app "AEON WALLET" started to provide an immediate issuance service of AEON Card, and in an effort to improve the convenience of customers. From July, as the second Disney character design card, "AEON Card (Toy Story Design)", also issued co-branded card "Maruetsu Card" with Maruetsu Co., Ltd. from September, etc., We worked to acquire new members by issuing new cards.

As a result, the number of cardholders for domestic was 28.65 million (up 250,000 from the beginning of the fiscal year), and the transaction volume of credit card shopping was ¥2,887.3 billion (111.8% year-on-year).

In the installment sales finance business, we continued to implement sales promotion measures to expand renovation loans and auto loans, resulting in the transaction of ¥123,868 million (105.3% year-on-year).

As a result, operating revenue was ¥98,173 million (111.9% year-on-year), Operating profit amounted to ¥9,149 million (82.4% year-on-year) due to an increase in advertising expenses such as announcements due to strengthening member acquisition and the revision of web statement.

## ③ China

In Hong Kong, we issued "AEON Premium Card" with high point return rates and mobile damage insurance benefits for middle and high-income groups.. We also made efforts to expand the number of new card members and the volume of transactions by implementing promotional measures in cooperation with Aeon group retail stores, joint promotional measures with international brands, including an invitation prize for the Rugby World Cup 2019, and invitation plan to Ocean Park Halloween..

As a result, operating revenue was ¥9,589 million (100.0% year-on-year). Operating profit was ¥3,097 million (83.7% year-on-year) due to an increase in loan losses, although earnings were maintained amid the effects of trade friction between the U.S. and China and the economic environment and demonstrations against the government in Hong Kong.

#### ④ Mekong Area

In Thailand, we strengthened use promotion measures, such as holding “AEON Thanks Day”, a promotional planning project in cooperation with merchants, in the credit card business, and increased the volume of transactions. In addition, we have made efforts to further improve the convenience of our customers, such as the start of year-to-year card use benefits in restaurants such as cafes that are popular among young people.

In addition, in the installment sales finance business, we strengthened member loans and motorcycle and auto loans for low- and middle-income earners, and the balance of finance receivables increased. As an effort to improve operational efficiency, we expanded the establishment of kiosk-type stores that can be opened with a small investment to improve cost-effectiveness of investment and optimize our sales network. In addition, we consolidated the finance and accounting departments of our Subsidiaries in Thailand into shared service centers to improve the productivity of the back office divisions.

As a result, operating revenue was ¥40,048 million (114.3% year-on-year) and operating profit of ¥6,739 million (91.7% year-on-year) for consolidated earnings in the Mekong Area..

#### ⑤ Malay Area

In Malaysia, we will promote the common membership of AEON Group retailers and promote the use of “AEON Members Plus Cards” equipped with both electronic money and point card functions. We continued to work on developing a customer base utilizing the brand power of the AEON Group and integrating retail and finance. In addition, we linked the "AEON Members Plus Card" with the smartphone app "AEON Wallet" to promote the improvement of convenience by digitizing, such as checking points on smartphones.

In the installment sales finance business, collaboration with the local motorcycle association by issuing corporate cards, etc. was successful, and the balance of small motorcycle loans increased. In addition, as a measure to acquire excellent customers for middle- and high-income earners, we promoted high-cost Japanese vehicle loans and medium-sized motorcycle loans, and our volume of transaction increased.

In addition, through the revamping of the screening system, we worked to improve productivity through digitalization, such as by promoting the automation of the screening process.

In Indonesia, we have introduced an immediate screening app at the acceptance of installment finance since May. By improving convenience for the customers, users and transaction volume have increased.

As a result for consolidated earnings in Malay Area, operating revenue was ¥25,571 million (112.4% year-on-year) .and operating profit amounted to ¥3,476 million (55.0% year-on-year) due to an increase in the amount of reserves for the future as a result of the accumulation of finance receivables, mainly in normal receivables, and the impact of improper accounting processing by local subsidiaries in the Philippines in the previous fiscal year.

## 2.Consolidated Financial Statements

### (1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2019	As of September 30, 2019
<b>Assets</b>		
Current assets		
Cash and deposits	644,502	712,102
Call loans	30,496	52,680
Accounts receivable - installment	1,453,160	1,622,910
Lease receivables and investments in leases	11,425	12,463
Operating loans	850,508	850,118
Loans and bills discounted for banking business	1,584,990	1,718,358
Securities for banking business	324,946	307,818
Monetary claims bought	13,316	16,624
Money held in trust	22,406	42,684
Other	148,506	134,821
Allowance for doubtful accounts	△102,831	△111,699
Total current assets	4,981,426	5,358,884
Non-current assets		
Property, plant and equipment	39,204	45,395
Intangible assets		
Goodwill	20,061	19,143
Other	80,116	86,527
Total intangible assets	100,177	105,671
Investments and other assets	133,042	137,767
Total non-current assets	272,425	288,834
Deferred assets	228	634
Total assets	5,254,079	5,648,353
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	285,653	285,464
Deposits for banking business	3,469,134	3,635,005
Short-term borrowings	161,744	258,385
Current portion of long-term borrowings	51,142	78,865
Current portion of bonds	50,522	73,234
Current portion of bonds with share acquisition rights	29,946	—
Commercial papers	102,079	160,819
Provision for bonuses	4,015	3,664
Provision for point card certificates	17,543	19,960
Other provisions	208	92
Other	153,634	170,034
Total current liabilities	4,325,626	4,685,528
Non-current liabilities		
Bonds payable	92,621	151,813
Long-term borrowings	331,935	307,046
Retirement benefit liability	4,120	4,054
Provision for loss on interest repayment	4,176	3,861
Other provisions	223	238
Deferred tax liabilities	3,935	3,690
Other	42,736	47,078
Total non-current liabilities	479,748	517,783
Total liabilities	4,805,374	5,203,311

(Millions of yen)

	As of March 31, 2019	As of September 30, 2019
Net assets		
Shareholders' equity		
Share capital	45,698	45,698
Capital surplus	120,213	120,214
Retained earnings	235,413	214,649
Treasury shares	△24,948	△545
Total shareholders' equity	376,376	380,016
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,150	5,693
Deferred gains or losses on hedges	△1,675	△3,196
Foreign currency translation adjustment	1,472	△2,341
Remeasurements of defined benefit plans	△679	△616
Total accumulated other comprehensive income	4,267	△460
Share acquisition rights	103	90
Non-controlling interests	67,957	65,395
Total net assets	448,705	445,042
Total liabilities and net assets	5,254,079	5,648,353

## (2) Consolidated Statements of Income

(Millions of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Operating revenue		
Revenue from credit card business	60,518	66,509
Revenue from installment sales finance business	19,661	21,077
Financing revenue	71,821	77,885
Gain on bad debts recovered	3,688	4,106
Financial revenue	14,544	16,742
Fees and commissions	29,591	30,552
Other	13,157	19,085
Total operating revenue	212,983	235,958
Operating expenses		
Financial expenses	11,178	12,286
Fees and commissions payments	5,091	5,552
Selling, general and administrative expenses	162,375	191,175
Other	1,583	2,012
Total operating expenses	180,228	211,027
Operating profit	32,754	24,931
Non-operating income		
Dividend income	114	117
Gain on investments in investment partnerships	—	155
Foreign exchange gains	224	139
Other	82	102
Total non-operating income	420	515
Non-operating expenses		
Loss on valuation of investment securities	—	2
Miscellaneous loss	97	14
Total non-operating expenses	97	16
Ordinary profit	33,078	25,430
Extraordinary income		
Gain on sales of non-current assets	6	7
Total extraordinary income	6	7
Extraordinary losses		
Loss on disposal of non-current assets	201	186
Impairment loss	10	213
Loss on liquidation of subsidiaries	45	—
Other	4	150
Total extraordinary losses	261	550
Profit before income taxes	32,823	24,887
Income taxes - current	11,808	11,764
Income taxes - deferred	△2,828	△3,964
Total income taxes	8,979	7,800
Profit	23,843	17,087
Profit attributable to non-controlling interests	5,907	5,056
Profit attributable to owners of parent	17,936	12,030



**(Consolidated statement of comprehensive income)**

(Millions of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Profit	23,843	17,087
Other comprehensive income		
Valuation difference on available-for-sale securities	200	611
Deferred gains or losses on hedges	1,268	△2,639
Foreign currency translation adjustment	△508	△6,175
Remeasurements of defined benefit plans, net of tax	68	65
Total other comprehensive income	1,029	△8,137
Comprehensive income	24,872	8,950
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	17,837	7,302
Comprehensive income attributable to non-controlling interests	7,035	1,648

**(3) Notes on Quarterly Consolidated Financial Statements**  
**(Notes on the Going-concern Assumption)**

N/A

**(Notes when there is a significant change in the amount of shareholders' equity)**

**Cancellation of Treasury Stock**

The Board of Directors of AEON Financial Service Co., Ltd. (AFS) resolved that AFS will cancel a portion of its treasury stock. As a result, retained earnings and treasury stock decreased by 24,354 million yen, respectively.

- |                                       |                        |
|---------------------------------------|------------------------|
| (1) Type of shares to be cancelled:   | Shares of common stock |
| (2) Number of shares to be cancelled: | 9,500,000 shares       |
| (3) Cancellation amount:              | 24,354 million yen     |
| (4) Date of Cancellation:             | September 20, 2019     |

**(Changes in important subsidiaries during the consolidated period for the current quarter)**

N/A

**(Change in accounting policy)**

IFRS No. 16 "Lease"

IFRS No. 16 "Lease" has been applied since the beginning of the first quarter consolidated accounting period at overseas consolidated subsidiaries.

In accordance with the applicable accounting standards, at the beginning of the first quarter consolidated accounting period, ROU assets (property, plant and equipment) and lease obligations (included in "other" under current liabilities and non-current liabilities) increased 6,346 million yen and 6,346 million yen respectively.

The effect of the application of such accounting standards on profit and loss in the consolidated cumulative period for the first quarter is negligible.

## (Segment Information)

For 2nd quarter of FY2018

1. Operating income and profit/loss is reported based on business segments as follows:

(Millions of yen)

	For the six month ended September 30, 2018							
	Domestic		Global			Total	Adjustments	Consolidated financial statements appropriation
	Retail	Solutions	China Area	Mekong Area	Malay Area			
Operating income								
Operating revenue from external parties	92,798	52,999	9,585	35,023	22,750	213,157	△174	212,983
Internal operating income between segments	1,408	34,767	3	6	—	36,186	△36,186	—
Total	94,207	87,766	9,588	35,030	22,750	249,344	△36,360	212,983
Segment Profit	6,908	11,101	3,703	7,349	6,318	35,382	△2,627	32,754

- (Notes)
- Operating income is stated in here in replacement of sales turnover of general corporations.
  - The amounts shown in the 'adjustments' portion are as follows:  
 △174 million yen shown in the 'Operating revenue from external parties' section includes Operating income of holding companies which do not fall under the category of any business segments.  
 Adjustment amount of △2,627 million yen shown in 'Segment profit' represents the net amount after elimination of operating profit belonging to holding companies which do not fall under the category of any business segments and internal operating income between segments.
  - Segmental profit has been adjusted with the operating profit in the quarterly consolidated income statement.

2. Notes on loss on disposal of non-current assets and goodwill on each segments:No

For 2nd quarter of FY2019

1. Operating income and profit/loss is reported based on business segments as follows:

(Millions of yen)

	For the six month ended September 30, 2019							
	Domestic		Global			Total	Adjustments	Consolidated financial statements appropriation
	Retail	Solutions	China Area	Mekong Area	Malay Area			
Operating income								
Operating revenue from external parties	97,142	63,957	9,586	40,034	25,571	236,291	△332	235,958
Internal operating income between segments	2,874	34,215	3	14	—	37,108	△37,108	—
Total	100,016	98,173	9,589	40,048	25,571	273,399	△37,440	235,958
Segment Profit	5,157	9,149	3,097	6,739	3,476	27,620	△2,688	24,931

- (Notes)
- Operating income is stated in here in replacement of sales turnover of general corporations
  - The amounts shown in the 'adjustments' portion are as follows:  
 △332 million yen shown in the 'Operating revenue from external parties' section includes Operating income of holding companies which do not fall under the category of any business segments.  
 Adjustment amount of △2688 million yen shown in 'Segment profit' represents the net amount after Elimination of Operating profit belonging to holding companies which do not fall under the category of any business segments and internal operating income between segments.
  - Segmental profit has been adjusted with the operating profit in the quarterly consolidated income statement.

2. Notes on loss on disposal of non-current assets and goodwill on each segments:No

3. Matters concerning changes to reporting segments, etc.

From the first quarter consolidated accounting period, the classification of assets and liabilities and the classification of revenues and expenses, we have created a table under rules on terms, forms, and method of creation of financial statements Quarterly Consolidated Financial Statements in accordance with Cabinet Office Ordinance No. 64, Heisei 19. As a result, the profit of the reported segment is changed based on the conventional ordinary income figures to the operating income. Segment information for the previous consolidated cumulative period was also we disclose it by the calculation method.