



Brief Report of Financial Results (Unaudited)

(For the Six Months Ended August 31, 2022)

October 4, 2022

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

Stock Listing: Tokyo Stock Exchange, Prime Market

Code No: 8570

President and CEO: Kenji Fujita

Contact: Yuro Kisaka, Director, Managing Executive Officer

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

1. Business performance (For the Six Months ended August 31, 2022 and for the Six Months ended August 31, 2021)

(1) Consolidated Operating Results

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

	Operating revenue	Percentage Change	Operating profit	Percentage Change	Ordinary profit	Percentage Change	Profit attributable to owners of parent	Percentage Change
Six Months ended August 31, 2022	221,579	-	31,857	Δ4.2	34,390	0.6	18,204	0.3
Six Months ended August 31, 2021	237,966	3.2	33,240	328.0	34,169	337.5	18,155	-

(Note) Comprehensive income; The 2nd Quarter of Fiscal 2022; 35,678 million (15.3%), The 2nd Quarter of Fiscal 2021; 30,948 million (-%)

	Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
Six Months ended August 31, 2022	84.34	84.33
Six Months ended August 31, 2021	84.12	84.11

(Note) "Accounting Standards for Revenue Recognition" (Corporate Accounting Standards No. 29, March 31, 2020) have been applied since the beginning of the first quarter of the current consolidated accounting period, and each figure for the second quarter of the fiscal year ending February 28, 2023 is the value after the application of the accounting standard, etc., and the rate of change in operating revenue from the same quarter of the previous year is not shown.

(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 August 31, 2022	6,574,396	537,962	6.6	2,016.08
Year ended February 28, 2022	6,278,586	509,055	6.8	1,965.47

(Reference) Shareholder's equity; The 2nd Quarter of Fiscal 2022; 435,170 million, Fiscal 2021; 424,222 million

(Note) "Accounting Standards for Revenue Recognition" (Corporate Accounting Standards No. 29, March 31, 2020) have been applied since the beginning of the first quarter of the current consolidated accounting period, and each figure for the second quarter of the fiscal year ending February 28, 2023 is the value after the application of the accounting standard, etc..

2. Cash Dividends

(Yen)

(Base date)	Dividend per share				
	First quarter period	Interim period	Third quarter period	Term end	Annual
February 2022 term	—	19.00	—	31.00	50.00
February 2023 term	—	20.00	—	—	—
February 2023 term (Estimated)	—	—	—	30.00	50.00

(Note) Amendments from the most recently published dividend forecast : No

Breakdown of dividend for end-second quarter of February 2022 term

: Ordinary dividend 17yen, commemorative dividend for our 40th year of business 2 yen.

Breakdown of dividend for fiscal year-end of February 2022 term

: Ordinary dividend 29yen, commemorative dividend for our 40th year of business 2 yen.

3. Projections (For the fiscal year ending February 28, 2022)

(Millions of yen, %)
(% is the percentage of change to the previous year)

	Operating revenue	YoY	Operating profit	YoY	Ordinary profit	YoY	Profit attributable to owners of parent	YoY	Net income per share
Full year	445,000	1.5	55,000 to 60,000	Δ6.5 to 1.9	55,000 to 60,000	Δ8.2 to 0.1	27,000 to 29,000	Δ10.6 to Δ4.0	125.10 to 134.61

(Note) Amendments from the most recently published projections forecast : Yes

In order to apply the "Accounting Standards for Revenue Recognition" (Corporate Accounting Standards No. 29, March 31, 2020) from the fiscal year ending February 28, 2023, operating revenue in the above consolidated earnings forecasts is the amount after the application of the accounting standards. The rate of change from the previous fiscal year is based on a comparison with the figures after retrospectively applying the relevant accounting standards.

※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
 - ① Change due to a newly issued accounting requirement: Yes
 - ② Change other than ①: No
 - ③ Change accounting quotation: No
 - ④ Restatement: No
- (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 2022: 216,010,128 shares; Fiscal 2021: 216,010,128 shares
 - ② Number of shares of treasury stock at end of term
The 2nd quarter of Fiscal 2022: 160,446 shares; Fiscal 2021: 172,749 shares
 - ③ Average number of shares during the quarter (For the Six Months ended August 31, 2022)
The 2nd quarter of Fiscal 2022: 215,840,136 shares; The 2nd quarter of Fiscal 2021: 215,831,868 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.

Attachments

Consolidated Balance Sheets

(Millions of yen)

	As of February 28, 2022	As of August 31, 2022
Assets		
Current assets		
Cash and deposits	738,782	689,363
Call loans	8,864	8,547
Accounts receivable - installment	1,566,284	1,740,063
Lease receivables and investments in leases	12,585	11,968
Operating loans	772,604	821,476
Loans and bills discounted for banking business	2,110,010	2,158,682
Securities for banking business	536,221	604,186
Securities for insurance business	49,397	32,482
Monetary claims bought	27,028	25,046
Money held in trust	111,015	105,919
Other	170,924	188,490
Allowance for doubtful accounts	△124,549	△128,828
Total current assets	5,979,170	6,257,397
Non-current assets		
Property, plant and equipment	34,320	33,943
Intangible assets		
Goodwill	14,924	14,059
Software	107,732	114,141
Other	4,344	4,143
Total intangible assets	127,001	132,344
Investments and other assets	137,377	150,148
Total non-current assets	298,699	316,436
Deferred assets	716	562
Total assets	6,278,586	6,574,396
Liabilities		
Current liabilities		
Accounts payable - trade	225,236	257,721
Deposits for banking business	4,178,544	4,333,458
Short-term borrowings	204,074	299,228
Current portion of long-term borrowings	90,214	117,794
Current portion of bonds payable	63,410	84,476
Commercial papers	85,000	54,000
Provision for bonuses	4,086	3,511
Provision for point card certificates	7,129	1,278
Other provisions	200	105
Other	194,349	177,405
Total current liabilities	5,052,244	5,328,981
Non-current liabilities		
Reserve for insurance policy liabilities	64,367	59,319
Bonds payable	277,250	219,661
Long-term borrowings	335,933	389,790
Retirement benefit liability	2,271	2,484
Provision for loss on interest repayment	6,476	4,910
Other provisions	460	238
Deferred tax liabilities	1,273	1,382
Other	29,252	29,664
Total non-current liabilities	717,286	707,451
Total liabilities	5,769,530	6,036,433

(Millions of yen)

	As of February 28, 2022	As of August 31, 2022
Net assets		
Shareholders' equity		
Share capital	45,698	45,698
Capital surplus	119,990	120,270
Retained earnings	258,525	270,020
Treasury shares	△442	△410
Total shareholders' equity	423,771	435,578
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	△2,549	△19,855
Deferred gains or losses on hedges	△1,628	0
Foreign currency translation adjustment	4,852	19,645
Remeasurements of defined benefit plans	△222	△199
Total accumulated other comprehensive income	450	△408
Share acquisition rights	33	32
Non-controlling interests	84,799	102,759
Total net assets	509,055	537,962
Total liabilities and net assets	6,278,586	6,574,396

Consolidated Statement of Income

(Millions of yen)

	Six months ended August 31, 2021	Six months ended August 31, 2022
Operating revenue		
Revenue from credit card business	64,649	55,422
Revenue from installment sales finance business	21,947	23,215
Financing revenue	65,452	67,670
Recoveries of written off receivables	6,077	7,569
Financial revenue	16,717	17,203
Insurance revenue	19,267	7,137
Fees and commissions	31,374	31,434
Other	12,479	11,926
Total operating revenue	237,966	221,579
Operating expenses		
Financial expenses	10,599	11,167
Insurance expenses	18,578	6,490
Fees and commissions payments	5,727	6,163
Selling, general and administrative expenses	168,356	164,394
Other	1,464	1,506
Total operating expenses	204,726	189,721
Operating profit	33,240	31,857
Non-operating income		
Dividend income	150	75
Gain on investments in investment partnerships	257	250
Foreign exchange gains	15	1,257
Subsidy income	493	117
Compensation income	—	734
Other	56	109
Total non-operating income	973	2,545
Non-operating expenses		
Share of loss of entities accounted for using equity method	29	—
Loss on valuation of investment securities	—	10
Loss on sale of receivables	9	—
Miscellaneous losses	5	1
Total non-operating expenses	44	11
Ordinary profit	34,169	34,390
Extraordinary income		
Gain on sale of non-current assets	7	3
Gain on sale of investment securities	436	—
Gain on termination of retirement benefit plan	239	—
Subsidies for employment adjustment	7	—
Total extraordinary income	690	3
Extraordinary losses		
Loss on disposal of non-current assets	321	237
Impairment losses	139	11
Loss on liquidation of subsidiaries	53	—
Infectious Disease Related Cost	17	14
Other	11	1
Total extraordinary losses	543	265
Profit before income taxes	34,316	34,129
Income taxes - current	8,880	6,703
Income taxes - deferred	1,091	2,454
Total income taxes	9,971	9,157

Profit	24,345	24,971
Profit attributable to non-controlling interests	6,190	6,766
Profit attributable to owners of parent	18,155	18,204

Consolidated State of Comprehensive Income

(Millions of yen)

	Six months ended August 31, 2021	Six months ended August 31, 2022
Profit	24,345	24,971
Other comprehensive income		
Valuation difference on available-for-sale securities	5,861	△17,220
Deferred gains or losses on hedges	184	2,852
Foreign currency translation adjustment	444	25,051
Remeasurements of defined benefit plans, net of tax	113	23
Total other comprehensive income	6,603	10,707
Comprehensive income	30,948	35,678
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	24,936	17,345
Comprehensive income attributable to non-controlling interests	6,011	18,333

(3) Notes on Quarterly Consolidated Financial Statements
(Notes on the Going-concern Assumption)
Not applicable

(Notes when there is a significant change in the amount of shareholders' equity)
Not applicable

(Change in significant subsidiary during the term)
Not applicable

(Changes to Accounting Policies)

(Application of Accounting Standards, etc. Related to Revenue Recognition)

"Accounting Standards for Revenue Recognition" (Corporate Accounting Standards No. 29, March 31, 2020, etc. from the beginning of the consolidated accounting period for the first quarter of the current fiscal year, and when the control of the promised goods or services is transferred to the customer, the revenue is recognized in the amount expected to be received in exchange for the goods or services. the main changes are as follows

(1) Revenue Recognition Related to the Point System

With regard to the points granted to customers based on the point system operated by other companies, the amount equivalent to the points paid to other companies by AEON Bank, a consolidated subsidiary of the Company was previously recorded as promotion expenses of selling, general and administrative expenses. However, as an amount to be collected for a third party, we have changed the method to deduct from revenue from credit card business.

(2) Consideration paid to merchants

Consideration paid to merchants from AEON Credit Service, a consolidated subsidiary of the Company, in response to the use of credit cards, was previously treated as promotion expenses of selling, general and administrative expenses. However, as an amount to be collected for a third party, we have changed the method to deduct from revenue from credit card business.

The application of the Revenue Recognition Accounting Standards, etc. is in accordance with the transitional treatment stipulated in the proviso to Paragraph 84 of the Revenue Recognition Accounting Standards. The cumulative impact of retrospectively applying the new accounting policy before the beginning of the first quarter consolidated accounting period is adjusted to the retained earnings at the beginning of the current first quarter consolidated accounting period, and the new accounting policy is applied from the balance at the beginning of the fiscal year. However, the Company has applied the method set forth in Paragraph 86 of the Revenue Recognition Accounting Standards, and has not retrospectively applied the new accounting policy to contracts for which the amount of almost all revenues has been recognized in accordance with the previous treatment prior to the beginning of the first quarter consolidated accounting period.

As a result, operating income, selling, and general and administrative expenses for the consolidated cumulative period of the second quarter of the fiscal year decreased by ¥17,418 million respectively. In addition, provision for point card certificates decreased by ¥1,178 million, and other current liabilities increased by the same amount. There will be no impact on the retained earnings balance at the beginning of the fiscal year. In addition, due to changes in the point system of the Group, there will be no provision for point card in the future.

In accordance with the transitional treatment set forth in Article 28-15 of the "Accounting Standards for Quarterly Financial Statements" (Corporate Financial Standards No. 12, March 31, 2020), the Company does not include information that breaks down revenues arising from contracts with customers for the consolidated cumulative period of the previous first quarter.

(Application of Accounting Standards, etc. for Calculation of Market Value)

"Accounting Standards for Calculating Market Value" (Corporate Accounting Standards No. 30, July 4, 2019, hereafter referred to as "Market Value Accounting Standards". etc. applied from the beginning of the first quarter consolidated accounting period. In accordance with the transitional treatment set forth in Paragraph 19 of the Accounting Standards for Market Value Calculation and Article 44-2 of the "Accounting Standards for Financial Instruments" (Corporate Accounting Standards No. 10, July 4, 2019), the Company has decided to apply the new accounting policy stipulated in the Market Value Accounting Standards, etc. into the future. The impact of this on the consolidated financial statements for the second quarter of the fiscal year under review will be minor.

(Additional information)

(Accounting estimates of the impact of the covid-19)

There are no material changes to the assumptions, including the timing of the convergence of the covid-19 infection, etc. stated in the (Important Accounting Estimates) of the Annual Securities Report for the previous consolidated fiscal year.

(Segment Information)

For 2nd quarter of FY2021

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

(Millions of yen)

	For the three month ended May 31, 2021							
	Domestic		Global			Total	Adjustments	Consolidated financial statements appropriation
	Retail	Solutions	China Area	Mekong Area	Malay Area			
Operating revenue								
Operating revenue from external parties	109,559	59,225	7,582	36,657	25,208	238,232	△265	237,966
Internal operating revenue between segments	1,667	28,628	0	46	—	30,342	△30,342	—
Total	111,226	87,853	7,582	36,703	25,208	268,574	△30,607	237,966
Segment Profit	5,961	9,851	2,936	7,629	7,629	34,007	△767	33,240

(Notes)1. Operating income is stated in here in replacement of sales turnover of general corporations

2. The amounts shown in the 'adjustments' portion are as follows:

△¥265 million 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 △¥767 million 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.

3. 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 FY2022

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

(Millions of yen)

	For the six months ended August 31, 2022							
	Domestic		Global			Total	Adjustments	Consolidated financial statements appropriation
	Retail	Solutions	China Area	Mekong Area	Malay Area			
Operating revenue								
Operating revenue from external parties	84,154	56,901	10,500	41,207	28,938	221,702	△123	221,579
Internal operating revenue between segments	1,606	28,729	0	16	—	30,352	△30,352	—
Total	85,761	85,631	10,500	41,223	28,938	252,055	△30,476	221,579
Segment Profit	4,078	6,941	3,407	9,596	8,878	32,901	△1,043	31,857

(Notes)1. Operating income is stated in here in replacement of sales turnover of general corporations

2. The amounts shown in the 'adjustments' portion are as follows:

△¥123 million shown in the operating revenue from external parties includes operating revenue of holding companies which do not fall under the category of any business segments.

Adjustment amount of △¥1,043 million shown in the 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.

3. Segmental profit has been adjusted with the operating profit in the quarterly consolidated income statement.

4. Revenue arising from contracts with customers subject to revenue recognition accounting standards, which are included in operating revenue to external customers for the consolidated cumulative period of the second quarter of the fiscal year under review, was ¥16,799 million for domestic retail, ¥31,925 million for domestic solutions, ¥1,924 million for China Area, ¥3,598 million for Mekong Area, ¥3,119 million for the Malay Area, and ¥102 million for adjustments, respectively.

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

(Important Subsequent Events)

(Merger of Consolidated Subsidiaries)

At the Board of Directors meeting held on October 4, 2022, the Company resolved to execute absorption-type merger of AEON Credit Service Co., Ltd. (hereafter “AEON Credit Service”), a consolidated subsidiary of the Company.

1. Purposes of the Merger

Under the basic policy of "Second Founding: Innovation of Value Chains and Creation of Networks" in the medium-term management plan, the Company's Group aims to create a platform that goes beyond the boundaries of the Group's financial products, services, and customer base by connecting AEON Group companies and external partners with financial services such as settlement and points.

Through this reorganization, the Company will accelerate the above initiatives by strategically utilizing management resources across the Group and further speeding up decision-making.

Through the further expansion of our payment network and the provision of seamless financial services utilizing both online and offline, the Company aim to be the financial group closest to our customers.

2. Outline of the Merger

(1) Schedule

Date of resolution of the Board of Directors: October 4, 2022

Date of signing the merger agreement: December 1, 2022 (Planned)

Effective date of the Merger: October 1, the first half of 2023

※With respect to The Company, the merger falls under “simplified absorption-type merger” as stipulated in Article 796, Paragraph 2 of the Companies Act of Japan, and for AEON Credit Service, “short-form merger” as stipulated in Article 784, Paragraph 1 of the Companies Act of Japan. Accordingly, either the Company or AEON Credit Service will not hold a respective general meeting of shareholders concerning the approval of the merger agreement.

(2) Form of the merger

Under this absorption-type merger, the Company will be the surviving company. AEON Credit Service will be dissolved.

(3) Details of allocation related to the merger

No applicable information.

(4) Treatment of the absorbed company's stock acquisition rights and bonds with stock acquisition rights

No applicable information.

(5) Name of the merger

AEON Financial Service Co., Ltd

3. Overview of the Companies Involved in the Merger

	Dissolved company (as of February 28, 2022)
Corporate name	AEON Credit Service Co., Ltd.
Head office	1-1, Kandnishiki-cho, Chiyoda-ku, Tokyo, Japan
Job title and name of representative	President and CEO Kenji Fujita
Line of business	Credit card, payment service and processing business
Capital stock	¥500 million
Established	November, 2012
No. of shares issued and outstanding	10,000,000 shares
Fiscal year-end date	February 28
Major shareholders and shareholding ratios	AEON Financial Service Co., Ltd. 100%
Financial position and operating results for the previous fiscal year (ended in February 2022)	
Total assets	¥75,738 million
Net assets	¥514,183 million
Net assets per share	¥7,573.88
Operating revenue	¥149,582 million
Operating profit	¥7,250 million
Ordinary profit	¥7,261 million
Net income per share	¥467.89

4. Outline of Accounting Procedures to be Implemented

Based on the "Accounting Standards for Business Combinations" (Corporate Accounting Standards No. 21, January 16, 2019) and the "Guidelines for the Application of Accounting Standards for Business Combinations and Accounting Standards for Business Separation and Other Matters" (Guidelines for the Application of Corporate Accounting Standards No. 10, January 16, 2019), the transaction will be processed as transactions under common control.