

July 22, 2019

**Measures to Prevent Recurrence of Inappropriate Accounting at
Our Consolidated Subsidiary KAJITAKU CO., Ltd.**

In response to the discovery of accounting problems at KAJITAKU CO., Ltd. (hereinafter "KAJITAKU") which is our consolidated subsidiary, on April 11, 2019 we established a special investigation committee consisting of outside experts who do not have any interests with us, and worked to grasp the whole situation, clarify the underlying cause of the situation, and determine the amount of impact on our consolidated financial statements. On June 27, 2019, we received a report (*) from the Special Investigation Committee, which revealed that KAJITAKU made inappropriate accounting over the past several years.

Based on the Proposals from the Special Investigation Committee on measures to prevent recurrence, we have decided to strengthen the Group governance system and implement measures to prevent recurrence, as described below.

Going forward, our Group will further strengthen its group management system by strengthening group governance and thoroughly implementing these measures. We will work to restore the trust of our shareholders and other stakeholders by accelerating the growth strategy of the AEON delight Group.

*For a report on the investigation by the Special Investigation Committee, please refer to the "Notice of Disclosure of Investigation Report by Special Investigation Committee and Future Response" dated June 28, 2019.

1. Underlying causes of the inappropriate accounting

The Investigation Report from the Special Investigation Committee pointed out the following underlying causes of the inappropriate accounting: the underlying causes in KAJITAKU and in our subsidiary management.

(1) Underlying cause in KAJITAKU

- ① Sluggish performance of the Housekeeping Support Business, a corporate culture of KAJITAKU that emphasizes budget fulfillment and sales
- ② Lack of management and profit and loss management by division based on erroneous financial information
- ③ Lack of awareness of compliance and lack of self-purification function
- ④ Concurrent role of director
- ⑤ Absence of accurate and clear operating procedures

(2) Underlying causes of subsidiary management

- ① Inadequate group governance system
- ② Subsidiary management system with emphasis on budget/performance management
- ③ Insufficiency of management functions for risk and compliance of subsidiaries

2. Proposals from the Special Investigation Committee on measures to prevent recurrence
Based on the above 1, we received the following proposals from the Special Investigation Committee as "Proposals for measures to prevent the recurrence of KAJITAKU" and "Improvements regarding our company's subsidiary management."

(1) Proposals for measures to prevent recurrence in KAJITAKU

- ① To revamp the management team and increase the number of directors
- ② Reforming corporate culture and raising awareness of compliance
- ③ Strengthen the Administrative Headquarters (particularly the accounting department)
- ④ Establishment of a compliance system and organizational reform
- ⑤ Clarification of business procedures and business flows and thorough compliance with them

(2) Proposals for improvement regarding our company's subsidiary management

- ① Reforming the awareness of our company's officers
- ② Review of subsidiary management system with emphasis on budget/performance management
- ③ To clarify departments and officers in charge of compliance at subsidiaries
- ④ Expansion of the Compliance Department, Affiliated Company Administration Department, and Internal Audit Department
- ⑤ Dispatch of full-time officers and staff to subsidiaries

3. Strengthening the group governance system and implementing measures to prevent recurrence

Based on the proposals of the Special Investigation Committee mentioned in 2 above, we will implement the following "Strengthening the group governance system" and "Measures to prevent recurrence."

(1) Reinforcement of group governance system (See Chart ①)

Our traditional group governance system is based on the fact that our company's share of the overall business portfolio accounts for more than 80% of net sales. We have put our emphasis on our company's corporate governance, and this fact led the inadequacy of group governance system for our subsidiaries. In order to resolve this issue, we believe it is necessary to further expand Group governance functions, such as growth strategies for individual companies, the associated reallocation of resources, and the internal control system for the entire Group.

In response to the proposals of the Special Investigation Committee, we will once again accelerate the growth strategy of the AEON DELIGHT Group as a whole and strengthen the group governance system by establishing 3 pillars of group governance: (1) budget performance management; (2) individual growth strategy; and (3) internal control system.

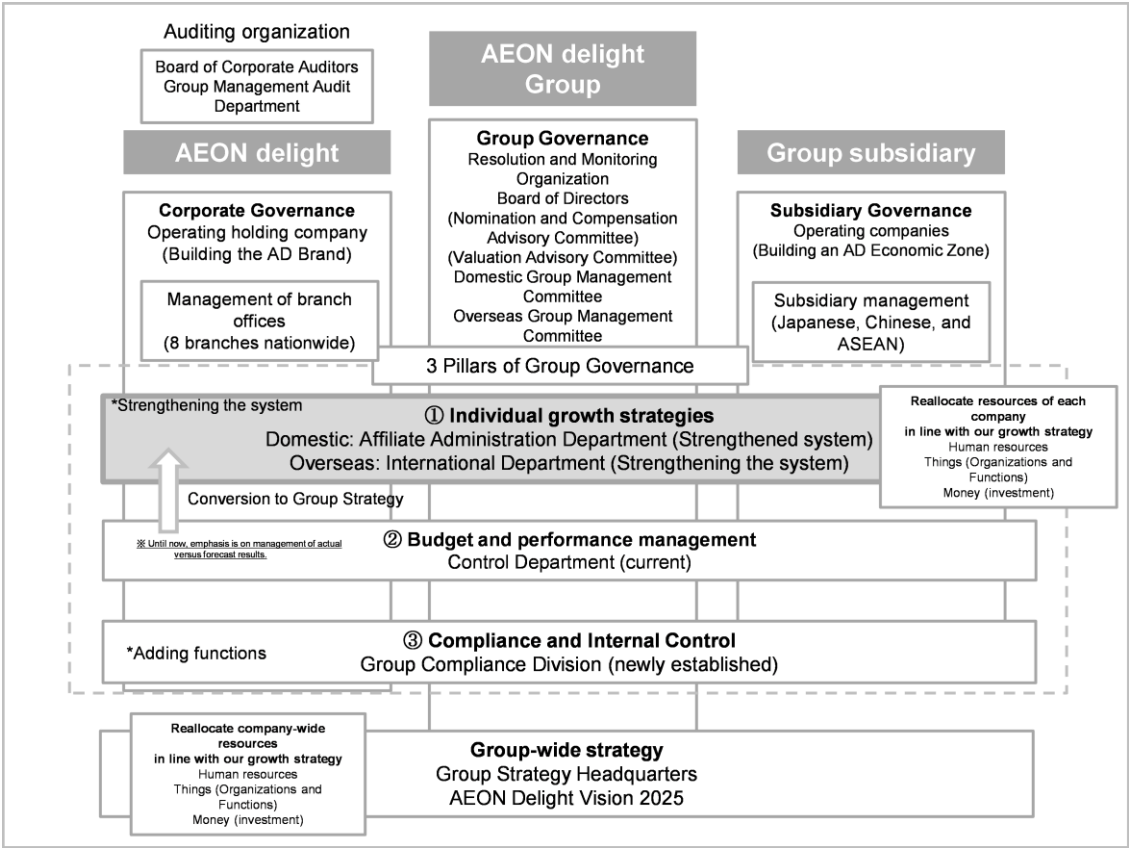
Specifically, in addition to the budget and performance management that has already been introduced, the Affiliated Companies Administration Department in Japan and the International Department overseas are responsible for growth strategies for each company.

The Affiliated Companies Administration Department and the International Department will work with Group companies to formulate individual growth strategies and reallocate resources to implement those strategies. In addition, the Group Compliance Division has been newly established as a new function (an executive officer has been appointed), and the Group will establish a new Group governance system by linking them to the internal control systems of each Group company. Along with these efforts, we will review the company-wide organizational design and work to align the relevant division of duties.

In addition, the Board of Directors, the domestic Group Management Committee and the overseas Group Management Committee, to which authority has been transferred, will monitor whether these 3 pillars of Group governance are functioning systematically. In addition, the Board of Corporate Auditors and the Group Management Audit Department will decide to redistribute each company's resources, and will audit the effectiveness of these 3 pillars as a whole. Moreover, we have established the Recurrence Prevention Committee, which includes lawyers, accountants, and other specialists. The committee conducts quarterly monitoring of Group governance and whether measures to prevent recurrence are functioning.

The Group Strategy Division will continue to assume responsibility for the Group's overall strategy, and by reallocating company-wide resources for the execution of the Group's medium-to long-term growth strategy, we will reform our system to promote Group-wide growth.

Chart ① New Conceptual Diagram of the Group Governance System for AEON delight



(2) Recurrence Prevention Measures (See Figure (2))

We will implement measures to prevent recurrence in accordance with the basic policies described below for each section of the Special Investigation Committee's proposals for measures to prevent recurrence described in 2 above.

① Measures to prevent recurrence in KAJITAKU

[Proposal (1)] To revamp the management team and increase the number of directors

[Basic Policy (1)] Restructure the management team and announce the statements from the new president emphasizing compliance

[Action Plan (1)] The president of KAJITAKU has already been replaced by a director who is dispatched to us, and the general manager of the Administration Division and the Compliance Manager have also been placed under the supervision of a director who is dispatched to us. In addition, 2 new directors have been appointed, and the Company's management has already been revamped. In addition, the new president himself/herself continuously sends messages of legal compliance both inside and outside the company. For the future being, we will continue to dispatch full-time directors in charge of the Administration Division and Compliance to establish a system that enables mutual monitoring by avoiding the concurrent role of directors in the business and administrative divisions, and will continue to make efforts to maintain and improve the KAJITAKU compliance system.

[Proposal (2)] Reforming corporate culture and raising awareness of compliance

[Basic Policy (2)] Reform corporate culture and raising awareness of compliance

[Action Plan (2)] We will formulate operational procedures and manuals in accordance with the contents of our businesses, while listening to the opinions of employees, us, and experts on the job site. We will ensure thorough compliance with these procedures. At the same time, we will extract information and elements that could pose risks in each department, and will share this information with management to take measures across departments, and will establish a system for continual review. In addition, we will regularly plan and conduct training for all employees on specific incidents involving misconduct at our company and other companies.

[Proposal (3)] Strengthen the Administrative Headquarters (particularly the accounting department)

[Basic Policy (3)] Secure the reliability of finance, accounting, and paymaster's works, and visualize operations

[Action Plan (3)] We will share the financial accounting and supervisory operations of each group company with the purpose of ensuring the reliability of the financial statements of each group company, including KAJITAKU, and visualizing the financial and accounting operations.

[Proposal (4)] Establishment of a compliance system and organizational reform

[Basic Policy (4)] Establish a compliance system, compliance with company regulations

[Action Plan (4)] As a result of the management team's renewal, the system of concurrent appointments by a single officer has been dismantled so that the checks and balances between the sales and administrative divisions will have their original functions. In addition, we appoint compliance committee members who do not concurrently serve as officers at

each group company. At the same time, we evaluate the appropriateness of our activities based on the general manager of the Group Compliance Division, and appoint and dismissal such committee members as appropriate. In addition, we will thoroughly familiarize employees with the Group's whistle-blowing system and operate it independently of the management team of each Group company.

[Proposal (5)] Clarification of business procedures and business flows and thorough compliance with them

[Basic Policy (5)] Clarify business procedures and workflows, and compliance and thorough adherence to them

[Action Plan (5)] Clarify the work process and formulate a manual for each work. In addition, the Internal Control Department of the Group will check the status of the development of regulations and manuals for Group companies, including KAJITAKU, and if there is any shortage, it will be prepared. In addition, the Group Management Audit Department, which will be described later, will conduct audits to confirm whether operations are being carried out in accordance with the manuals.

② Preventive measures in our subsidiary management

[Proposal (1)] Reforming the awareness of our company's officer

[Basic Policy (1)] Raise the awareness of our executives to further strengthen our compliance system

[Action Plan (1)] We will reform the awareness of our directors and strengthen the supervisory function of the Board of Directors for each Group company. Specifically, the Board of Directors of each Group company reviews the implementation status of the Board of Directors meetings of each Group company on a quarterly basis by the directors in charge of each company, clarifies not only the effectiveness of the review but also the management issues faced by each company, and decides to reallocate resources for the Group as a whole.

Every fiscal year, the Valuation Advisory Committee, an advisory committee to the Board of Directors, evaluates the effectiveness of the Board of Directors of each Group company. Our Board of Corporate Auditors shall audit these Board of Directors and directors' initiatives.

[Proposal (2)] Review of subsidiary management system with emphasis on budget/performance management

[Basic Policy (2)] Review the subsidiary management system to support stable and sustainable

growth of group companies

Action plan

• Share the financial and accounting operation

As described in ②-(1)-(3), we will share the financial accounting and supervisory operations of each Group company in order to ensure the reliability of the financial statements of each Group company and visualize the financial and accounting operations of each Group company.

- Appointment of Accounting Auditors or Accounting Advisors

We will establish an accounting auditor or an accounting advisor with certification as a certified public accountant according to the size of businesses of each company.

- Strengthening the structure of overseas subsidiaries

In the Chinese business, we have appointed a representative corporate auditor and an internal audit department under the supervision of the representative corporate auditor. In this way, we have established a system for auditing major subsidiaries based on an annual audit plan. Accounting auditors have already been appointed at each Chinese business company.

For each ASEAN business company, an internal audit department has been appointed at each company to establish a system for conducting audits based on an annual audit plan. Accounting auditors have already been appointed at each ASEAN business.

In addition, we will establish a compliance division and an internal reporting system in both the ASEAN and Chinese businesses.

- Group audits and risk management

In order to verify whether the above-mentioned governance systems have been established and are functioning, and whether the measures taken by each group company are appropriate, we will hold a risk management committee twice a year and examine and update the risk scenarios of each group company. In accordance with these risk scenarios, our Group Management Audit Department will conduct audits of each company.

- M&A due diligence (*1) checks and PMI (*2)

When conducting an M&A, we will appoint a PMI task team at our Board of Directors. In addition to monitoring the status of improvement in response to events discovered through due diligence, the PMI Task Team will respond to issues that could not be discovered through due diligence. At the same time, we will clarify the business process flow of the company concerned.

*1 Due Diligence: In making investments, investigate the value and risks of the company and investee in the investment

*2 PMI(Post Merger Integration: Integration process to maximize integration effect after M&A (merger & acquisition). The scope of integration is diverse, such as management, operations and awareness

[Proposal (3)] To clarify departments and officers in charge of compliance at subsidiaries

[Basic Policy (3)] Maintain the compliance system of group companies

[Action Plan (3)] The head of our Group Compliance Management will be the director in charge of compliance for the entire Group and the responsibility will be clarified. At the same time, we will rename our conventional Compliance Division as the Group Compliance Division and work with the Compliance Committee members newly appointed to each group company to strengthen activities that contribute to raising awareness of compliance among the managers and employees of each company.

[Proposal (4)] Expansion of the Compliance Department, Affiliated Company Administration Department, and Internal Audit Department

[Basic Policy (4)] Support the sound management of group companies, ensure appropriate monitoring, and enhance the organization for conducting audits from the viewpoint of preventing inappropriate actions

Action plan

- Appointment and dismissal of directors and corporate auditors (including full-time directors) of Group companies

The Nomination and Compensation Committee, an advisory committee to the Board of Directors, discusses the appointment and dismissal of presidents and directors of Group companies, and proposes the contents to the Board of Directors. In addition, the Board of Corporate Auditors of each group company discusses the contents of corporate auditors and proposes them to our Board of Directors. A full-time statutory auditor shall be appointed for important subsidiaries to monitor whether the management of each group company is operating in a sound manner.

- Strengthening management auditing

Our traditional Internal Audit Department is the Group Internal Audit Department, and we will conduct audits in accordance with risk scenarios that are selected for each Group company's business. In addition, we will strengthen our auditing functions by assigning personnel with literacy in fields other than operational audits, such as accounting and IT. In the future, we will also organize an audit team dedicated to international divisions, subject overseas business companies.

- To reinforce internal control

The internal control function for each group company is strengthened, and when creating the business process flow for each group company, our Group Internal Control Department will provide guidance and support for the creation of the business process flow for each group company. Whether these processes are functioning or not will be checked by the Audit Department of the Group Management Audit Department, and if necessary, corrections will be made after receiving the indication, and a system will be put in place for a renewed check.

- To strengthen compliance function

The former Compliance Department will be made into the Group Compliance Department, and in collaboration with the Compliance Committee members newly appointed in each Group company, we will strengthen activities that contribute to raising compliance awareness among the managers and employees of each company.

- Establishment of Group compliance and internal control systems

We will establish the Group Compliance Division, and the Group Internal Audit Department, the Group Internal Control Department, and the Group Compliance Department will be subordinated to the Group Compliance Division, in order to exercise the abovementioned management audit, internal control, and compliance functions throughout the Group.

• Implementation of appropriateness assessment of accounting auditors

The Board of Corporate Auditors will evaluate the appropriateness of accounting auditors and take measures, including changes, as necessary to strengthen the accounting audit system.

[Proposal (5)] Dispatch of full-time officers and staff to subsidiaries

[Basic Policy (5)] Dispatch full-time directors and staffs engaged in daily works, detect inappropriate actions at an early stage through personnel exchanges, and improve the corporate culture

Action plan

- Personnel transfers and personnel exchanges based on plans

The presidents and managers of the administrative divisions of each group company are periodically transferred to other companies or changed in their duties, taking into account the situation of each company. Employees other than liability personnel also exchange personnel with us and other Group companies in order to understand each other's business models and to foster an organizational climate in which mutual opinions can be shared. We also manage the personnel information of these Group companies and implement personnel transfers based on plans to prevent fraud and revitalize the organization.

Chart ② Correlation Chart of Measures to Prevent Recurrence

