

November 1, 2019  
AEON Financial Service Co., Ltd.

## **Inappropriate Accounting Practices by the Company's Consolidated Subsidiary**

AEON Financial Service Co., Ltd. (the “**Company**”) has discovered through internal investigations that a consolidated subsidiary,\* AEON CREDIT SERVICE (PHILIPPINES) INC. (“**ACS Philippines**”), a local corporation in the Philippines, conducted inappropriate accounting practices in the past.

We hereby inform you of the background of the discovery of such accounting practices, the currently known situation, the impact on the Company's consolidated financial results, and future measures to be taken.

We sincerely apologize for concerning and inconveniencing all of our customers, shareholders, business partners and other interested parties.

*\*Subsidiary of AFS Corporation Co., Ltd., a consolidated subsidiary of the Company*

### **1. Background and currently known situation**

In late July, upon receipt of notification through the Group's internal notification system, the Company promptly dispatched a person in charge to the Philippines to conduct an immediate investigation of the incident. The Company has also conducted a special investigation to confirm the facts up to this day.

As a result of these investigations, in the past and current fiscal years, ACS Philippines is found to have underestimated default installment receivables, drawn from deferred installment profits in advance, and booked consulting expenses as assets, which resulted in its profits being overstated. However, an examination of the actual cash flows and payment documentation found no indications of there being any fictitious transactions or embezzlement or misappropriation of funds.

### **2. Impact on our consolidated financial results**

The amount affected by the inappropriate accounting practices at ACS Philippines for the past fiscal years is approximately PHP 570 million in ordinary profit (approximately JPY 1.2 billion at a JPY 2.1 to PHP exchange rate). The financial results for the second quarter of the current fiscal year to be released on November 12 shall be adjusted for this amount.

Hereafter, the impact on our consolidated financial results for the current fiscal year will be reflected in the financial results for the same fiscal year, but at present there are no revisions to the forecast of those consolidated financial results.

### **3. Future measures to be taken**

The Company takes this matter seriously and is working exhaustively to understand the entire situation in order to formulate measures, based on the results of the investigations, to prevent any recurrence of such inappropriate practices. ACS Philippines will consult and cooperate with the local authorities and strive not to inconvenience our local customers, business partners and other trading partners.

<Reference> AEON CREDIT SERVICE (PHILIPPINES) INC.

Location: Pasig, Philippines      Established in February, 2013

Nature of Business: Installment Plan, Personal Loan

Capital: PHP 500,000,000

Main Shareholder and Voting rights ratio : AFS Corporation, Ltd. (73.68%)

AEON Credit Service (M) Berhad (5.26%)

