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To All Stakeholders:

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## Disciplinary Actions and Preventive Measures for Improper Accounting Procedure

GEO CORPORATION has carefully examined the report submitted by the External Investigation Committee that was announced in the May 19, 2011 news release titled "Announcement of Results of Investigation Concerning Improper Accounting Procedure at Consolidated Subsidiary." In response to this report, GEO has taken the following disciplinary actions for individuals associated with this incident at GEO and a subsidiary and is enacting the preventive measures described below.

### 1. Disciplinary measures and accountability for individuals involved

The following disciplinary measures will be taken to clarify accountability for this incident. These measures involve the individuals who used the improper accounting procedure as well as the associated supervisors and GEO directors.

#### (1) Disciplinary measures for individuals at GEO and subsidiary RETAILCOMM

General Manager, Products Dept., RETAILCOMM INC.	Punitive dismissal
Manager, Administration Dept., RETAILCOMM INC.	Punitive dismissal
Manager, Merchandise Procurement Dept., GEO	Punitive dismissal
Manager, Merchandise Procurement Dept., GEO	Resignation under instruction

#### (2) Disciplinary measures for directors of GEO

Tetsuya Morihara	President, GEO	40% cut in remuneration for 3 months
Yuzo Endo	Director, GEO	40% cut in remuneration for 3 months
Kiyonori Sawada	Chairman, GEO	10% cut in remuneration for 3 months
Takayuki Kubota	Vice President, GEO	10% cut in remuneration for 3 months
Yasushi Yoshikawa	Director, GEO	10% cut in remuneration for 3 months
Kazuta Ohashi	Director, GEO	10% cut in remuneration for 3 months
Matsuo Shimizu	Director, GEO	10% cut in remuneration for 3 months

Naohito Shibuya, who was president of RETAILCOMM when the improper accounting procedure was used, resigned as a director of RETAILCOMM on May 20, 2011 to take responsibility for this incident.

### 2. Preventive measures

GEO has taken the following preventive measures so that this type of problem does not happen again. These measures are aimed at strengthening the internal control system for GEO and all group companies and at making all group employees more aware of the importance of compliance and risk management.

#### (1) Measures to prevent behavior that caused this incident

##### a. Review of business processes in the Merchandise Procurement Dept.

GEO has completely revised business processes in the Merchandise Procurement Dept., which is the department that was the breeding ground for this improper behavior to continue. Specifically, GEO has

eliminated unwritten rule (no need for approval of supervisor for orders of less than ¥10 million) that is not prescribed in the job authority standards table. GEO also revised the job authority standards table and other rules concerning the division of responsibilities. In addition, responsibilities and authority for organizational unit managers and lower-ranking individuals were established and actions taken to raise awareness of this change. By taking these actions, GEO has established a framework for deterring and preventing improper behavior. Furthermore, GEO has established a system of internal controls for assessing risks associated with purchasing processes at the Merchandise Procurement Dept. and for identifying and addressing with unusual transactions with significant risk. There is also a framework for verifying that these internal controls are functioning properly.

b. Identification of business units with one manager and improvements

GEO will examine the entire group to identify business processes where the decision of a single manager is sufficient for external transactions and settlements of funds for amounts above a certain amount. Actions that include integrating some units with other departments will be taken to eliminate these single-manager units and eliminate the concentration of tasks and authority at a particular employee. Furthermore, GEO is clearly dividing authority for tasks among several managers to create a system with proper checks and balances among different individuals.

In cases where the elimination of single-person business units is not possible, such as at small subsidiaries, GEO will use other methods to establish effective controls.

c. Proper functioning of preventive measures

GEO is taking the following actions to ensure that preventive measures that were not functioning adequately in the past will be used effectively.

A. The functioning of checks and balances within the organization for business tasks will be heightened by clearly separating the items such as receiving prior approval from a supervisor and execution of the task. In addition, GEO will revise its rules to require double checks and follow-up approvals even when authority has been transferred to another individual. These rules will be established at GEO as well as at all group companies.

In addition, the GEO Auditing Dept. will monitor the status of rules at all group companies and require revisions to rules that don't conform to the above policy.

B. Contracts between GEO and subsidiaries as well as executives will be used to ensure that subsidiaries comply legally and effectively with the GEO Group's governance policy. This includes requiring subsidiaries to revise their internal rules so they conform to the GEO Group's governance policy.

C. The GEO Group will take the following actions to ensure that rules are strictly followed.

- 1) Periodic (or random sampling) checks concerning the status of compliance with rules
- 2) Notify employees that they will be punished if the rules are not followed
- 3) Punishment and other disciplinary measures for managers of units and subsidiaries that do not comply with rules
- 4) Make rule violations subject to internal reporting and notify all group employees of this obligation to report violations
- 5) Make appropriate revisions to rules that are not sufficiently effective so that employees understand "the value, obligation and benefits of complying with rules." In addition, GEO will establish a system that allows employees to suggest revisions to rules and ensure that all employees know about this system.

d. Heighten psychological barriers to participation in improper transactions

GEO already distributes to all executives and employees a Compliance Handbook and other pamphlets associated with the GEO Group Code of Conduct. More actions will be taken to reinforce everyone's

understanding of these guidelines. Actions will include periodic training and other measures that are structured to strengthen the commitment to compliance and ethics of executives and employees of GEO and all group companies.

Specifically, GEO will announce a system of fair and just disciplinary measures that will be used when internal rules are violated. There will also be a system for identifying improper transactions. Taking these actions will make anyone who is considering an improper action to stop based on the realization that any such behavior will be identified.

To maintain a strong commitment to compliance, all GEO Group executives and employees are required to sign a written pledge every year stating that they will not engage in improper behavior and are aware of the rules concerning punishment. This pledge also states that they understand that they will be punished for such behavior in line with the disciplinary rules and will not engage in any improper behavior.

e. Periodic personnel rotations

A limit on the length of a particular assignment will be established so that, in principle, an individual cannot remain in any particular business unit for an extended period. Assignments will be particularly short for departments that are subject to allowing improper behavior to occur. Periodic job rotations will also create an environment that makes it difficult for individuals to form a “cozy” relationship with a specific counterparty that could lead to improper behavior.

In addition, GEO will also monitor the personnel operations of group companies with regard to reassignments of employees to check that these companies are performing periodic job rotations.

(2) Measures to early identify causes of improper behavior

a. Systematic support for identifying improper transactions

Business audits of subsidiaries by internal auditing units

(1) These audits will also encompass processes for financial statements and reports, business processes, risk management and compliance. (2) Subsidiaries will be required to submit a written pledge to GEO stating that their internal controls are functioning properly and there is no improper behavior. (3) All subsidiaries other than publicly owned companies will perform internal audits on a regular basis.

In addition, departments and subsidiaries that are likely to conduct transactions that may be improper undergo irregular audits and other examinations to heighten the effectiveness of their prevention measures.

b. Measures to identify signs of improper transactions

A. GEO did not have sufficient activities to ensure that executives and employees understood that all types of improper transactions are “behavior subject to internal reporting.” Consequently, GEO will take steps to be certain that everyone in the GEO Group understands that improper transactions and the improper receipt of money and profits are obviously subject to internal reporting, that individuals who identify such behavior are obligated to report this activity, and that individuals will benefit from submitting these reports.

Measures include distributing reporting instructions from the internal reporting (hotline) unit to all group employees several times each year so that everyone knows that “improper transactions are also subject to internal reporting.”

Furthermore, everyone at the GEO Group will be told that they have an obligation to use internal reports to notify the company, in addition to reporting to their supervisors, of “transactions that are not clearly improper but that are strange, unnatural or otherwise different from usual for some reason.”

B. GEO will take the following actions, too

- a. GEO will perform checks to confirm that transaction counterparties that are effectively the same entities are not both suppliers and sellers. To perform this check, both GEO and its subsidiaries will monitor data concerning the characteristics (executives, location, number of employees, etc.) of these counterparties.
- b. GEO will establish a framework for collecting and accessing data for the purpose of monitoring movements of receivables, payables, loans receivable, amounts due, etc. and identifying signs of unusual behavior among the counterparties for these items.
- c. To raise awareness of these issues among directors who oversee these activities, the status of the above actions will be reported on a regular basis at board of director meetings at subsidiaries as well as at board of director meetings and other meetings at GEO.

(3) Measures to early identify improper accounting procedures, etc.

As in the case, when forged documents that appear to have been issued properly on the surface are submitted, it is difficult for this fraud to be identified during the accounting process. This is not the case, however, for forged invoices, delivery forms, inventory certificates and other documents that are obviously false. Consequently, GEO will immediately put in place measures that can prevent the above causes of improper behavior and early identify such behavior. By taking these actions, GEO will use an organizational approach to preventing the occurrence of inappropriate accounting procedures and other improper behavior.