

July 26, 2017

(Replacement) Replacement of the Replaced Announcement of "Notice of Receipt of the Independent Investigation Committee's Investigation Report and Future Measures"

FUJIFILM Holdings Corporation replaces the replaced announcement of "Notice of Receipt of the Independent Investigation Committee's Investigation Report and Future Measures" dated on June 21, 2017, attaching the whole English translation of the Investigation Report.



(Replacement) Replacement of the Announcement of "Notice of Receipt of the Independent Investigation Committee's Investigation Report and Future Measures"

FUJIFILM Holdings Corporation replaces the announcement of "Notice of Receipt of the Independent Investigation Committee's Investigation Report and Future Measures" dated on June 12, 2017, attaching English translation of "Investigation Report (Summary)".

The whole English translation of the Investigation Report will be disclosed soon after it is complete.

June 12,2017



<u>Notice of Receipt of the Independent Investigation Committee's</u> <u>Investigation Report and Future Measures</u>

FUJIFILM Holdings Corporation ("the Company") has received an investigation report from the Independent Investigation Committee ("the Committee") on June 10, 2017 and hereby announces as follows. The Committee was established to review the appropriateness of accounting practices involving overseas sales subsidiaries of Fuji Xerox Co. Ltd. ("Fuji Xerox") a consolidated subsidiary of the Company.

The Company once again expresses its deepest regrets for the significant delay in its announcement of the financial results for the fiscal year ended March 2017 due to the inappropriate accounting conducted in the past by Fuji Xerox's overseas sales subsidiaries.

The Company takes the findings of the investigation report by the Committee seriously, and it will renew the management structure of Fuji Xerox. Under the new management with strengthened governance by the Company, the Company and Fuji Xerox will exert the utmost effort to rebuild trust of shareholders, investors, their customers and other stakeholders.

- Announcement of the Committee's Investigation Report The Committee's investigation report in Japanese which the Company received on June 10, 2017 is as attached. (The English translation will be disclosed at earliest possible timing.)
- Restatement Adjustments of Past Financial Results Based on the Investigation Report of the Committee Cumulative total from the fiscal year ended March 2011 to the fiscal year ended March 2016 Impact on FUJIFILM Holdings shareholders' equity (Cumulative total of the impact for six years on "net income attributable to FUJIFILM Holdings") JPY 28,100,000,000

*Impact on equity on the balance sheet (Cumulative total of the impact for six years on "net income") JPY 37,500,000,000

**These impacts by fiscal year which are currently examined will be disclosed soon after they are determined.

The effect of such accounting practices on the financial results for the year ended March 2017 was minor.

- 3. Personnel Measures See Attachment (1).
- 4. Future Measures
 - (1) Strengthening of governance of Fuji Xerox by the Company and strengthening of the business management process of Fuji Xerox
 - Revision of organization Strengthening of the business management process by consolidating some of Fuji Xerox's corporate functions into the Company
 - (ii) Dispatch of management personnel from the Company to Fuji Xerox
 - 1) Dispatch of directors and managers in charge of administration of business management
 - 2) Further expansion of personnel exchanges within the Fujifilm Group
 - (iii) Strengthening of the Group's internal control
 - 1) Enhancement of business management guidelines of affiliates
 - 2) Rebuilding and strengthening of the reporting structure within the Group

Rebuilding and strengthening of reporting structure from Fuji Xerox to the Company Rebuilding and strengthening of reporting structure within Fuji Xerox including its affiliates

Rebuilding and strengthening of meeting structure relating to decision making

- 3) Strengthening and thorough reinforcement of compliance education, and strengthening of personnel development
- (2) Change of governance structure of the Company
 - Increase outside directors

At the general shareholders' meeting to be held on June 29, 2017, the Company will propose changing the number of directors of the Company into nine (currently twelve), one-third of which are to be outside directors, and request for the election of an attorney and company executives as outside directors.

By adding one outside director, the perspectives and values of the outside stakeholders will be further incorporated into its management decisions. By obtaining a broad perspective of advice and recommendations based on the expertise and experience of each outside director, the Company will further ensure the adequacy and appropriateness of decision making by the board of directors and increase the transparency of that process.

- Attachment (2) Fuji Xerox: Appointment of Directors and Corporate Auditors
- Attachment (3) FUJIFILM Holdings: Appointment of Directors and Audit & Supervisory Board Members

Attachment (1)

Personnel Measures

Fuji Xerox

Name	Measures
Tadahito	Retirement from the position
Yamamoto	Compensation reduction of 20% (for 3 months)
	Bonus reduction of 30%
Hiroshi Kurihara	Compensation reduction of 20% (for 3 months)
	Bonus reduction of 30%
Haruhiko Yoshida	Retirement from the position
	Compensation reduction of 30% (for 3 months)
	Bonus reduction of 50%
Katsuhiko	Retirement from the position
Yanagawa	Compensation reduction of 30% (for 3 months)
	Bonus reduction of 50%
Masashi Honda	Retirement from the position
	Compensation reduction of 30% (for 3 months)
	Bonus reduction of 50%
Tetsuya Takagi	Demotion from the position
	Compensation reduction of 30% (for 3 months)
	Bonus reduction of 50%
Keiji Somata	Retirement from the position
	Compensation reduction of 20% (for 3 months)
Kazunobu Ogura	Compensation reduction of 20% (for 3 months)
	Compensation reduction of 10% (for 3 months)
	protion reduction starts from April 2017
	Tadahito Yamamoto Hiroshi Kurihara Haruhiko Yoshida Katsuhiko Yanagawa Masashi Honda Tetsuya Takagi Keiji Somata Kazunobu Ogura Kouichi Tamai Tetsuya Shiokawa

* Compensation reduction starts from April 2017

FUJIFILM Holdings

Position	Name	Measures
Chairman and Chief Executive Officer, Representative Director	Shigetaka Komori	Compensation reduction of 10% (for 3 months)
President and Chief Operating Officer, Representative Director	Kenji Sukeno	Compensation reduction of 10% (for 3 months)

* Compensation reduction starts from April 2017

Attachment (2)

Fuji Xerox: Appointment of Directors and Corporate Auditors

1. The structures of Directors to be resolved at the Annual General Meeting of Shareholders and the Meeting of Board of Directors scheduled on June 22, 2017

Chairman of the Board and Representative Director	Shigetaka Komori	Newly appointed
President and Representative Director	Hiroshi Kurihara	Reappointed
Deputy President and Representative Director	Kouichi Tamai	Newly appointed
Director	Masataka Jo	Reappointed
Director	Masaru Yoshizawa	Newly appointed
Director	Toru Yamada	Reappointed
Director	Hisanori Makaya	Newly appointed
Director	Kengo Taneda	Newly appointed
Director	Kenji Sukeno	Reappointed
Director	Royston C. Harding	Reappointed
Director	Jeffrey Jacobson	Reappointed
Director	Farooq Muzaffar	Reappointed

2. The structures of Corporate Auditors to be resolved at the Annual General Meeting followed by the mutual election of the Corporate Auditors

Full-time Corporate Auditor	Kazunobu Ogura	No election takes place
Full-time Corporate Auditor	Toshiyuki lijima	Newly appointed
Corporate Auditor	Shigeru Sano	Newly appointed
Corporate Auditor	Tetsuya Shiokawa	No election takes place

Attachment (3)

FUJIFILM Holdings: Appointment of Directors and Audit & Supervisory Board Members 1. The candidates for the members of Directors to be presented to the 121st Ordinary General Meeting of Shareholders scheduled on June 29, 2017

Director	Shigetaka Komori	Reappointed	
Director	Kenji Sukeno	Reappointed	
Director	Kouichi Tamai	Reappointed	
Director	Yuzo Toda	Reappointed	
Director	Norio Shibata	Reappointed	
Director	Masaru Yoshizawa	Reappointed	
Director*	Tatsuo Kawada	Newly appointed	
Director*	Makoto Kaiami	Newly appointed	
Director*	Kunitaro Kitamura	Newly appointed	
* Outside Directors			
Tatsuo Kawada	Chairman and CEO, SEIREN CO.,LTD. (since June 2014)		
Makoto Kaiami	Attorney at Law,		
	Of counsel of Sophiacity Law Office (sin	nce February 2017)	
	[former President of Tokyo District Court]	
Kunitaro Kitamura Representative Director of Sumitomo Mitsui Trust Holdings, Inc.		tsui Trust Holdings, Inc.	
	(since April 2017)		
	Chairman (Director) of Sumitomo Mitsui	Trust Bank, Limited	
	(since April 2017)		

2. The candidates for Audit & Supervisory Board Members to be presented to the 121st Ordinary General Meeting of Shareholders

Audit & Supervisory Board Member	Kazuya Mishima	Newly appointed
	-	
Audit & Supervisory Board members with no e	election	
Audit & Supervisory Board Member	Mamoru Matsushita	
Audit & Supervisory Board Member**	Hisayoshi Kobayakawa	
Audit & Supervisory Board Member**	Shiro Uchida	
** Outside Audit & Supervisory Board member	ers	

Investigation Report

(Summary)

June 10, 2017

This document is an English translation of the Investigation Report (the "Report") provided to FUJIFILM Holdings Corporation ("the Company") by the Independent Investigation Committee dated on June 10, 2017. The Report in Japanese is the original and English translation shall be used only for the reference. Due to the limitation of time for the preparation of the English translation, this document is subject to further review and change . In the event of any discrepancy between the Japanese original and this English translation, the Japanese original shall prevail. The Company makes no assureance and warranty with respect to the completeness and accuracy of this English translation and assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising out of the translation.

FUJIFILM Holdings Corporation - Independent Investigation Committee

To: FUJIFILM Holdings Corporation

By: FUJIFILM Holdings Corporation – Independent Investigation Committee

Committee Chairman: Taigi Ito

Committee Member: Kyoichi Sato

Committee Member: Koji Nishimura

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Term	Description
Monthly	The minimum monthly usage charge stipulated in an agreement. Even if the
Committed	actual usage is significantly below the target volume, loss can be avoided to the
Payments	extent of the minimum usage.
Individual Entry	An accounting practice that records revenue that is higher than the actual
	revenue, thereby improving financial results or financial conditions.
Residual Values	Residuals values of equipment at the end of a term of lease agreement.
Sponsorship Cost	The cost incurred by FXNZ to provide funding support or to supply furnishings
	free of charge to universities and other organizations that purchase equipment.
Third Party	When FXNZ wins a customer from a competitor, the payment FXNZ makes on
Settlements	behalf of the customer to pay the lease balance the customer has at the time
	with the competitor it had a contract with. This is believed to be an industry
	practice.
Target Volume(s)	The monthly target copy volume regarding MSA or GCSA adopted at FXNZ.
Internal Interest	An issue whereby a contract with an interest rate lower than the target interest
	rate at FXNZ is executed, resulting in entries that increase FINCO's interest
	revenue and Marco's operating expenses at the end of the month.
Committee	The Independent Investigation Committee.
Investigation	This investigation by the Committee.
Report	The investigation report by the Committee.
Macro	An accounting practice that records revenue higher than the actual revenue or
Adjustments	an expense lower than the actual expense, thereby improving financial results
	or financial conditions.
Click Rate	Unit price per copy according to contracts such as MSA or GCSA.
Minimum	Minimum lease payments
Payments	
(Contract)	Transition from an MSA or GCSA, which has a contract term of several years,
Rollover(s)	to a new contract at a lower unit price before the initial contract expires in
	order to record a new sale of equipment.
AGM	Annual General Meeting
All-FX	All FX Group companies
APO	FX's Asia Pacific Sales Headquarters or Asia Pacific Operation
BSG	Business Support Group (a division within FXNZ)
СА	Customer Admin (a division within FXNZ)

Click	Unit price per copy according to contracts such as MSA or GCSA.
CEO	Chief Executive Officer
CFO	Chief Financial Officer
-	
DGC	Deal Governance Committee
DGM	Deal Governance Meeting
DGP	Deal Governance Process
DSA	Document Services Agreement (a type of contract)
DSG	Document Services Group (a type of contract)
EDSA	Education Document Service Agreement (a type of contract at FXNZ for
	educational institutions)
ELT	Executive Leadership Team
FC	Financial Controller
FF	FUJIFILM Corporation
FH	FUJIFILM Holdings Corporation
FH-CC	Corporate Communications Office (Public Relations and IR departments) of
	FH Corporate Planning Division
FINCO	Fuji Xerox Finance Limited, a New Zealand corporation (A financing company
	of FXNZ. MARCO and FINCO together comprise FXNZ. FXA is structured
	similarly. Lease receivables are recorded at FINCO.)
FSMA	Full Service Maintenance Agreement (service sales from finance lease
	contracts)
FX	Fuji Xerox Co., Ltd. (an FH subsidiary with 75% equity held by FH)
FXA	Fuji Xerox Australia Pty. Ltd. (FX's overseas affiliated company (sales
	company) in Australia)
FXAU	A collective term for FXA and FXF in Australia
FXAP	Fuji Xerox Asia Pacific Pte Ltd. (FX's overseas affiliated company in
	Singapore; having functions as an APO to direct the Asia and Oceania area)
FXCA	Branch of Fuji Xerox Asia Pacific Pte Ltd.
FXCL	Fuji Xerox (China) Limited
FXDMS	Fuji Xerox Document Management Solutions Pty. Limited
FXF	Fuji Xerox Finance Ltd., an Australian corporation (a financing company in
	Australia; FXF and FXA together comprise FXAU)
FXHK	Fuji Xerox (Hong Kong) Limited
FXK	Fuji Xerox Korea Co., Ltd.
FXML	Fuji Xerox Asia Pacific Pte Ltd. (Malaysia Operations)
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FXMM	Fuji Xerox Asia Pacific Pte Ltd. (Myanmar Branch)
FXNZ	A collective term for FINCO and MARCO in New Zealand
FXP	Fuji Xerox Philippines, Inc.
FXPC	Fuji Xerox Asia Pacific Pte Ltd, Australia Branch
FXS	Fuji Xerox Singapore Pte Ltd.
FXTH	Fuji Xerox (Thailand) Co., Ltd.
FXTW	Fuji Xerox Taiwan Corporation
FXV	Fuji Xerox Vietnam Company Limited
GCA	Graphic Communication Agreement
GCO	Greater China Operation (operations in the China area)
GCSA	Graphic Communications Service Arts Agreement (a type of contract)
GS	Global Services (a service line within FX)
IBG	International Business Group (each overseas business division such as APO
	and GCO used by FX)
MARCO	Fuji Xerox (Sales) Pty. Limited, a New Zealand corporation (A sales company
	of FXNZ. MARCO and FINCO together comprise FXNZ. FXA is structured
	similarly.)
MD	Managing Director
MDSA	Managed Document Service Agreement (a type of contract)
MSA	Managed Service Agreement (Contract) (A contract consolidating equipment
	sales and maintenance service, etc. for collecting monthly copy charges to
	cover equipment charges, consumable charges, maintenance charges and
	interest.)
NBR	The National Business Review (an economic newspaper in New Zealand)
OPCO(s)	Operating Company(ies) (sales operating companies such as FXNZ, FXA etc.)
ORS	Out Right Sales (Upfront Sales) (machine sales recognized when a finance
	lease is executed)
SFO	Serious Fraud Office (A New Zealand investigation agency. A public office
	that, in consultation with the police, detects, investigates and prosecutes serious
	and complex economic crimes.)
TCLR	Target Volume multiplied by Click Rate (i.e., the product of target copy volume
	stipulated in contracts and unit price per copy)
Tony Night	The sender of a whistleblowing email; the sender is as yet unidentified.
TSC	Total Service Contract (a contract that includes all services provided by the
	company, such as help desk, licensing, etc.)

Customer 1	One of FXNZ's customers.	
XC	Xerox Corporation (A parent company (100% interest) of Rank Xerox Limited	
	(now called Xerox Limited) of the U.K., which holds 25% of equity in FX; a	
	substantial shareholder in FX.)	

Note: In this Report, unless otherwise noted, all department names and titles are department names and titles in effect at the time.

Note: Figures in parentheses in tables in this Repot indicate negative values.

Chapter 1 Outline of the Investigation

1. Background to the Creation of the Independent Investigation Committee

FUJIFILM Holdings Corporation ("FH") is, as of the date of creation of this Report, comprised of the group companies listed in Chapter 2, and Fuji Xerox Co., Ltd. ("FX") is a consolidated subsidiary of FH.

In relation to the financial results of FH for the fiscal year ended March 31, 2017, it is found that there was a need to confirm the appropriateness of accounting practices in terms of accuracy and collectability, etc. regarding receivables in relation to certain lease transactions in or before fiscal 2015 by Fuji Xerox New Zealand Limited ("FXNZ"), an overseas subsidiary of FX (the "Matter"). Please note that in the subsequent chapters of this Report, "the Matter" may be used to collectively describe both the Matter and other facts uncovered in the process of the Investigation relating to the process of decision-making and information escalation processes, etc. by the related parties, including cases similar to the Matter and other connected or related facts.

As a result, FH announced on April 20, 2017 in its "Notice of Creation of Independent Investigation Committee and Postponement of Announcement of Financial Results for Fiscal Year Ended March 31, 2017" (Tokyo Stock Exchange timely disclosure; hereinafter the "April 20 Disclosure") that the Matter had been discovered and that its financial results for the fiscal year ended March 31, 2017 (April 1, 2016 to March 31, 2017) would not be released on the scheduled date (April 27, 2017).

(1) Creationt of an internal investigation committee

On March 22, 2017, prior to the April 20 Disclosure, FH commenced investigations into the Matter and then created an internal investigative committee on March 27.

(2) Creation of the Independent Investigation Committee

At a board meeting on April 20, 2017, FH passed a board resolution creating an independent investigation committee comprised of outside experts without any interests in FH (the "Committee"), to improve the objectivity and credibility of the investigation into the Matter.

2. Entrusted Matters

On April 20, 2017, the Committee was entrusted by FH with performing the following:

- (1) Investigating the facts pertaining to the Matter;
- (2) Investigating the existence or non-existence of the cases similer to the Matter and the facts pertaining to such cases (if any);
- (3) Analyzing the causes of the Matter and making recommendations on preventative measures;
- (4) Other matters recognized as necessary by the Committee.

3. The Committee Members

The Committee is comprised of the following:

Chairman	Taigi Ito	Certified Public Accountant	
		(Ito CPA Accounting Office)	
Member	Kyoichi	Attorney-at-law (City-Yuwa Partners)	
	Sato		
Member	Којі	Attorney-at-law (Matsuo & Kosugi)	
	Nishimura		

The Committee appointed following assistant investigators and had them assist with the Investigation:

Deloitte Tohmatsu Financial Advisory	Representative Assistant Investigator, CPA Shigeru	
	Tsukishima	
	(224 persons in total)	
City-Yuwa Partners	Representative Assistant Investigator, Attorney-at-law	
	Masahiro Terada	
	Attorney-at-law Haruka Shibuya	
	Attorney-at-law Hitoshi Sakai	
	Attorney-at-law Hiroyasu Horimoto	
	Attorney-at-law Yoko Maeda (15 in total)	
Matsuo & Kosugi	Representative Assistant Investigator, Attorney-at-law	
	Kazuo Iwasa	
	Attorney-at-law Yoshihiko Takahashi	
	Attorney-at-law Takeo Tanaka	
	Attorney-at-law Kasumi Hanami	
	Attorney-at-law Shintaro Tominaga (8 in total)	

4. Internal investigation committee's investigation progress report and handover of evidentiary materials

As part of its investigation, the Committee collected the reports provided by the internal investigation committee prepared prior to the creation of the Committee. It also requested, obtained, and took over the preserved data (including data preserved, collected and extracted by digital forensics) contained on the servers of FXNZ, Fuji Xerox Australia Pty. Ltd. ("FXA"), Fuji

Xerox Asia Pacific Pte Ltd ("FXAP"), FX, and FH, with respect to which preservation had already commenced (including examination of data after preservation and preparation for preservation), and contained on PCs used for work by executives and employees subject to investigation.

Of these, for FXNZ and FXA, prior to the Committee being created the internal investigation committee had already commenced preservation, preparation and extraction work for digital forensics and interviews of (several) related parties via a member firm of Deloitte Touche Tohmatsu Limited in New Zealand or Australia (individually or collectively "Local Deloitte").

After determining that it was effective and realistic for the Committee to use the preservation, preparation and extraction state for digital forensics that had been conducted by Local Deloitte, as well as the outcome of the few interviews that Local Deloitte had already conducted, in order to carry out its investigation promptly and effectively, the Committee examined the contents thereof, and used the same in its investigation.

At the time that the internal investigation committee was created, Local Deloitte provided information to the internal investigation committee via respective local law firms (New Zealand: MEREDITH CONNELL, Australia: HWL EBSWORTH) according to the local custom, and this same framework was maintained in investigations after creation of the Committee.

The investigation outcomes and data received from the internal investigation committee will be used as evidentiary material by the Committee, but the findings of the Committee's investigation are not affected by the findings of the internal investigation committee.

5. Investigative methods, etc. used by the Committee and assumptions of the Investigation

(1) Outline of the investigation methods

Between April 20 and June 10, 2017, the Committee conducted its investigation based on data documents disclosed by FH, FX, FXAP, FXNZ, FXA, etc. and their related parties, interviews with related parties, data from digital forensics, and public information, etc. Details are as follows.

(i) Period to be investigated

The Committee was originally created based on the need to confirm the appropriateness of accounting practices for receivables and collectability, etc. for certain lease transactions before 2015, so the target period for the Committee's investigation was set to the period from April 1, 2010 to December 31, 2016, from the perspective of effectiveness and achievability of the investigation. However, the Committee also investigated the facts prior to this period where the Committee found it important to ascertain the background to the Matter, the causes, composition and others.

(ii) Interviews with executives and employees

To ascertain the background, causes, and mechanisms and others of the Matter, the Committee interviewed over seventy people, including executives and employees of FH, FX, FXAP, FXNZ, and FXA, as well as counterparties and other related parties, each at least once, and in some cases several times.

(iii) Interviews with accounting auditors

In the process of the Investigation, the Committee also held multiple interviews with managing partners and other support staff from Accounting Firm 1-1, the accounting auditor for the FH Group up to the fiscal year ended March 2016 (the previous accounting auditor), and Accounting Firm 2-1, the accounting auditor since that time (the successor accounting auditor), and obtained information outlining the circumstances in which each of these accounting auditors conducted their audits of FH consolidated financial statements (auditing framework, auditing plan, audit results and others).

(iv) Digital forensics

Digital forensics is the process of collecting and storing electronic data without damaging its evidentiary value, and browsing the contents of the electronic data collected. Broadly speaking, there are two main parts to this:

(a) Data preservation and recovery

Using specialized tools to collect, copy, and where deleted, restore relevant data from electronic devices and electromagnetic media as set forth below.

- PC
- File servers
- E-mail servers
- Mobile phones, smartphones
- Tablet devices

(b) Data browsing

Housing the preserved and restored data to a browsing system where it can be analyzed using keyword searches, etc.

On this occasion, electronic data (emails and files) were collected and preserved from PCs of 58 corporate persons related to this Matter as per the table below for whom data preservation was not conducted by internal investigation committee with digital forensics. The following tools were used to collect and preserve the electronic data, depending on the data subject:

• FTK Imager

PCs, file servers, e-mail servers

• Oxygen Forensic UFED Touch, UFED Physical Analyzer Mobile phones, smartphones, tablet devices

Commony	Cumulative total
Company	number of people
FXNZ	21
FXA	10
FXAP	8
FX	19
TOTAL	58

Electronic data that was preserved was housed within Nuix and sorted by application, then uploaded to Relativity, and presented in an electronic data format that could be browsed. The persons subject to this browsing were the 75 people in the table below including those for whom data was received from the internal investigation committee.

Commonse	Cumulative total number	Number	of	items
Company	of people	reviewed		
FXNZ	32			56,444
FXA	13			44,396
FXAP	11			84,406
FX	19			175,646
TOTAL	75			360,892

(v) Information collection point

The scope of information providers was set as executives and employees within the FX Group (domestic and overseas) and counterparties of the FX Group, and information was requested broadly in relation to the Matter and similar problems.

(vi) Survey implementation

Surveys were sent to FX, FX's domestic sales subsidiaries and Fuji Xerox Service Creative Co., Ltd. (addressed to heads of accounting and sales divisions), (sent to 1,299 people and responses received from 1,251 people). In addition, of the overseas subsidiaries, surveys were also sent to accounting departments, sales departments and heads of departments at FXNZ, FXA, Fuji Xerox Asia Pacific Pte Ltd. (Malaysia Operations) ("FXML"), Fuji Xerox (Thailand) Co., Ltd. ("FXTH"), and Fuji Xerox Taiwan Corporation ("FXTW") (sent to 2,141 people in total; responses received from 834), in an attempt to ascertain whether or not

any material cases similar to the Matter may have occurred at overseas subsidiaries, and to help understand and analyze the causes and circumstances leading to the Matter.

(2) Assumptions of the Investigation

(i) Uses of the Report and findings

The Report and the Committee's findings are intended for use in confirming the facts within FH and the FH Group about the subject of investigation, and to the extent that problems are found, ascertaining the causes and formulating and evaluating a plan for preventing recurrence thereof. The Committee does not expect that the Report or the Committee's findings will be used for any other purposes.

(ii) No compulsory investigative authority

The Committee believes that it has the cooperation of FH and FH Group companies in good faith with respect to the Committee's investigation; however, the Committee has no power of compulsion, so the investigation is based on the voluntary cooperation of the executives and employees of FH and FH Group companies.

(iii) English version

The Report is prepared in Japanese. The Committee accepts no responsibility whatsoever for the contents of any translated English version that may be prepared.

Chapter 2 Company Overview

1. FH Group as a Whole

(1) Business overview of the entire FH Group

FH is a holding company with two major operating companies of the FH Group, FUJIFILM Corporation ("FF") and FX, as well as Toyama Chemical Co., Ltd. and other companies, under it.

Custome < Imaging Solutions > Sales < Document Solutions > <Information Solutions> companies Sales FUJIFILM Imaging Systems Co., Ltd. FUJIFILM Medical Co., Ltd. Fuji Xerox Tokyo Co. Ltd. Fuji Xerox Osaka Co., Ltd. FUJIFILM Global Graphic Systems Co., Ltd. Fuji Xerox System Service Co., Ltd FUJIFILM North America Corporation FUJIFILM Europe GmbH FUJIFILM ASIA PACIFIC PTE, LTD. Fuji Xerox (China) Limited Fuji Xerox Asia Pacific Pte Ltd FUJIFILM (China) Investment Co., Ltd. Other consolidated subsidiaries: 80 Other consolidated subsidiaries: 74 Other non-consolidated subsidiaries: 7 Other affiliates: 5 Other affiliates: 10 FUJIFILM HOLDINGS CORPORATION FUJIFILM Corporation Fuii Xerox Co., Ltd. Production companies Production companies FUJIFILM Opto Materials Co., Ltd. Fuji Xerox Manufacturing Co., Ltd. Fuji Xerox of Shenzhen Ltd. FUJIFILM Kyushu Co., Ltd. FUJIFILM Electronic Materials Co., Ltd. Fuji Xerox of Shanghai Limited Other consolidated subsidiaries: 3 FUJIFILM Manufacturing U>S>A>< Inc FUJIFILM Manufacturing Europe B.V. Other consolidated subsidiaries: 44 Other non-consolidated subsidiaries: 4 Other affiliates: 7 Other Fuji Xerox Advanced Technology Co., Ltd. FX Global, Inc. Other consolidated subsidiaries: 8 Other companies Other affiliates: 1 FUJIFILM Logistics Co., Ltd. FUJIFILM Holdings America Corporation Other consolidated subsidiaries: 34 Other non-consolidated subsidiaries: 3 Shared services company Other affiliates: 4 FUJIFILM Business Expert Corporation Toyama Chemical Co., Ltd. Key: Arrows (-) indicate the flow of products/materials

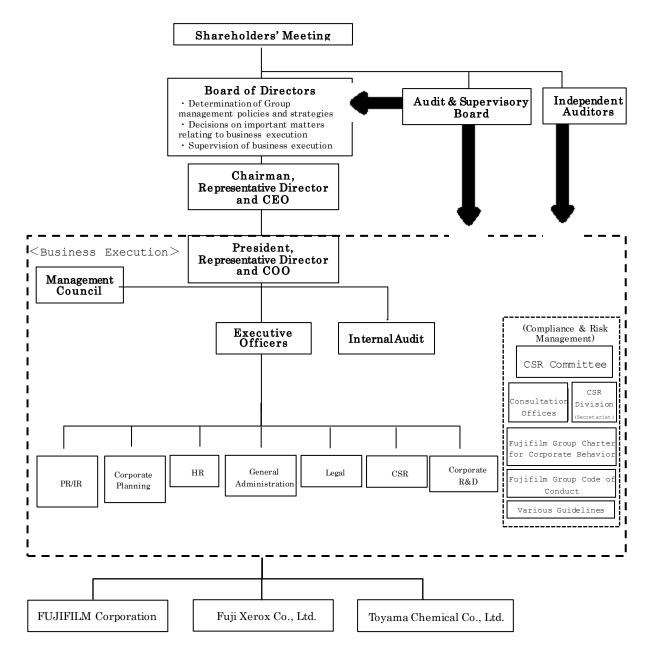
The following is a business organization chart of the FH Group:

(From FH's "120th Term Securities Report", "Business Organization Chart", page 6)

(2) Corporate governance at FH

(i) Overview of the corporate governance structure

FH has adopted the following structure in order to achieve quick and efficient decision making and execution of operations, while also properly supervising and auditing operations and ensuring transparency and soundness in management.



(See FH's homepage and the "120th Term Securities Report", "Corporate Governance Structure", page 93)

2. FX

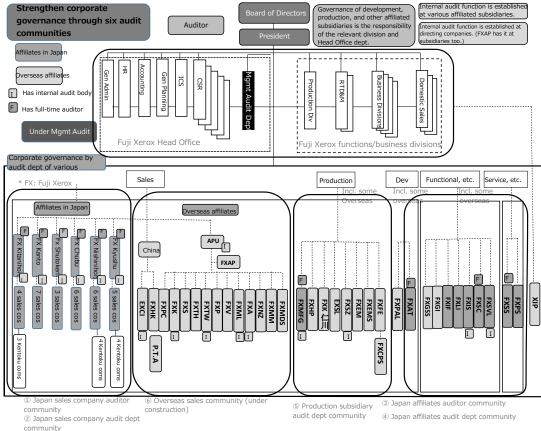
(1) Business Overview of FX

FX was established in February 1962 as a joint venture between FH and Rank Xerox Limited (a U.K. company) and is engaged in the manufacture, sale, etc. of office copiers/multifunction devices, and printers, etc.

Of FH's three operational areas, FX is an operational company at the core of the Document Solution business and has a number of manufacturing subsidiaries and sales subsidiaries in Japan and overseas related to the business.

(2) Corporate governance at FX





(From a chart titled "Internal Audit Structure at Fuji Xerox (Global)" in "Governance Structure Supervised by FX's Internal Audit and Analysis Department" dated April 10, 2017 and prepared by the FX's Internal Audit and Analysis Department)

3. FXAP

(1) Business Overview of FXAP

FXAP is a regional headquarter located in Singapore whose purpose is to supervise sales subsidiaries in Asia and Oceania regions.

In Singapore, there is Asia Pacific Operations (APO) as an internal organization within FX. APO's basic role is to draft marketing strategies for the entire Asia Pacific area and to provide support to help each sales company meet its sales and profit plans.

FXAP as a subsidiary of FX and APO as an internal organization of FX operate without any particular distinction from each other.¹ For example, FXAP's CEO is the head of APO, while FXAP's CFO is General Manager of APO's Finance Department.

Below, the primary focus is based on rules under Singapore law as they relate to FXAP as a subsidiary, but references are made as necessary to rules at APO as an internal organization within FX in view of the actual state of the entities.

- (2) Internal control at FXAP
 - (i) Internal control at companies in Singapore

Under the Singapore Companies Act ("Companies Act" in this section unless otherwise noted), the shareholders' meeting and board of directors exist as decision-making bodies of a company, and companies as a general rule make decisions through decisions of the shareholders' meeting or the board of directors. Other bodies existing under the Companies Act are the company secretary, who prepares company records, etc., and an accounting auditor, who performs accounting audits. There is no body in Singapore companies that is equivalent to an auditor in Japan.

The board of directors has the authority to make decisions on matters other than matters designated for resolution by the shareholders' meeting under the Companies Act or the articles of incorporation (Companies Act, Article 157A.2).

Under the Companies Act, in performing his/her duties, a director must act honestly and use reasonable diligence (Companies Act, Article 157.1), has fiduciary duty to the company under the general law, and is required to execute his/her duties honestly for the benefit of the company. If a director violates such duties, he/she may be held liable under civil and criminal laws (Companies Act, Article 157.3).

(ii) Description of company bodies

(a) Directors and board of directors

Under the articles of incorporation of FXAP, the number of directors at FXAP is to be between 2 and 12, and any director may call a board meeting at any time.

However, in its operation, board meetings are said to have been rarely held, and resolutions are said to have been reached only in a written form even when they were held.

(b) Management meetings

There is no body at FXAP that is equivalent to a management meeting.

¹ Consequently, it should be noted that in some cases statements in this Report referring to FXAP should technically be a reference to APO (or vice versa). It appears that the two are not clearly distinguished even within FX.

(c) Board of corporate auditors

FXAP has no body that is equivalent to a corporate auditor under the Japanese Companies Act.

(d) Internal Audit (IA)

FXAP has Internal Audit Department (IA) with two to three staff in total. IA is in a position to report directly to the CEO of FXAP, but for a time it reported in effect to the CFO of FXAP.

FX has rules called the "Internal Audit Policy" for the audit of Group companies. According to these rules, there are the following two audits: (a) regional audits performed directly by IBG Regional Audit, and (b) self audits performed by each sales subsidiary and FX. IA at FXAP has the role of performing regional audits on overseas sales subsidiaries under FXAP.

Accordingly, IA makes site visits at several selected overseas sales subsidiaries every year. On average, IA makes site visits at each overseas sales subsidiary every three or four years.

(e) Management Quality Office (MQO)

FXAP has a department called the Management Quality Office, which is responsible for risk management. MQO operates in accordance with FX's "All-Risk Management Regulations".

Under the FX's "All-Risk Management Regulations", in the event of any material illegal conduct or violation of articles of incorporation, etc. at any FX subsidiary, it must be reported immediately to the board of directors of the relevant subsidiary. MQO therefore has a duty to report to the board of directors of FXAP if such illegal conduct, etc. were to occur at FXAP.

(iii) Whistle Blowing System

FXAP has a whistleblower system, which allows any content of whistleblowing to be automatically reported to the HR General Manager, but there has not been a single case over the 1.5 years since it was instituted.

A whistle blower system exists and is in operation at each overseas sales subsidiary under FXAP's management (excluding Myanmar and Cambodia subsidiaries), but the system is run independently at each subsidiary and there is no common system or rules across the subsidiaries.

Further, there are no clear rules for escalating the content of whistleblowing up to FXAP.

(iv) Subsidiary management structure

While there are no provisions related to subsidiary management structure in law or regulations under the Singapore law, management of subsidiaries is considered to be part of the directors' business. Accordingly, if, for example, there is any impropriety in the management of subsidiaries, it could be considered a violation of a director's duty of care of a good manager (Companies Act, Article 157).

A standard called the "Communication Matrix" is provided between FXAP and overseas sales subsidiaries under FXAP's charge. The Communication Matrix stipulates in detail required procedures, such as approvals from APO, reporting, etc. to relevant departments at APO, etc., depending on the nature of the operation a subsidiary wishes to perform, and subsidiaries are required to follow the Communication Matrix.

(v) Budget control at FXAP

FXAP's Finance Department is organized with a financial controller positioned below the CFO, and with the Accounting Group and FP&A Group below the financial controller. The Accounting Group is responsible for accounting, and FP&A is responsible for budget control.

FXAP's FP&A receives a budget guide twice a year from FX, which it then rolls out to each overseas sales subsidiary under FXAP's charge.

Each overseas sales subsidiary reports its outlook to FP&A, which then reports it to FX. Based on the report, an all-FX performance review meeting is held at FX. This process takes place twice a month.

Each overseas sales subsidiary under FXAP's charge has its own accounting department that administers accounting for the subsidiary. FXAP's Accounting Group is not responsible for individual overseas sales subsidiaries, but rather functions to consolidate the accounting data reported by each subsidiary.

FXAP's Finance Department (APO's Finance Department) is responsible for directing accounting policies of the overseas sales subsidiaries.

(vi) Performance evaluation

The performance of the MD of each overseas sales subsidiary under FXAP is evaluated by FXAP.

Although decisions on MD's compensation are linked to sales, operating profit and others, how much such factors are taken into consideration varies by country and by FX's policy in effect at the time.

Chapter 3 Issues at FXNZ

1. Outline of FXNZ

FXNZ comprises two corporations: MARCO (Fuji Xerox (Sales) Pty. Limited), FXNZ's sales corporation, and FINCO (Fuji Xerox Finance Limited), FXNZ's financing corporation. Both companies are wholly-owned direct subsidiaries of FXAP, and are also consolidated subsidiaries of FH. Total revenue for the two companies was about NZ\$248 million (roughly ¥20 billion) for the fiscal year ended March 31, 2016, representing about 0.8% of FH's consolidated sales for the fiscal year.

2. Impact on FXNZ's Financial Statements

(1) Impact of Restatement of Results for FXNZ's Preceding Fiscal Years

In connection with the Matter, FH considers restating its financial statements for FXNZ's preceding five years, i.e., the fiscal years ended March 31, 2011 to March 31, 2016 and will revise the amounts booked for the following five items (FH also plans to revise its quarterly reports during the fiscal year ended March 31, 2017, but FH is still looking into those amounts as of the date of this Report, and thus this Report will not touch on them).

	T: 1 1 1
	Fiscal year ended
	March 31, 2016
(i) Revisions to accounting practices pertaining to	(259)
lease transactions	
(ii) Reversal of revenue recognized without	(23)
execution of contracts or installation of equipment	
(iii) Reversal of DSG adjustments	(23)
(iv) Reversal of accounting adjustments made for the	(12)
purpose of managing financial performance at the	
time of settlement	
Total (revised amount of equity)	(318)
Revised amount of FUJIFILM Holdings	(238)
shareholders' equity (based on 75% ownership stake)	
Amount in JPY	(185)
(¥77.88/NZD; ¥100 million)*	

Unit: Million New Zealand dollars

* as of March 31, 2016

In addition to the foregoing, the following revisions have been made in connection to the Matter, but these are ancillary revisions resulting from correction of inappropriate accounting practices and are outside the scope of this investigation. They are thus not mentioned in this Report.

- Booking of asset impairment charges for lease transactions that were determined to be loss-making as a result of the restatement of past years' financial statements
- Tax impact related to the restatement of past years' financial statements
- (2) Restatement Details and Calculation Basis
 - (i) Revisions to accounting treatment of lease transactions

FXNZ developed and traded in lease products with lease fees that fluctuate in proportion to the customer's equipment usage volume. Previously, FXNZ's financial statements were prepared by classifying those lease transactions as sales-type leases under US GAAP. Based on the issues cited in the investigation of the Matter and the opinion of the independent auditor, FH has determined that all of FXNZ's lease contracts for which a Minimum Payment is not guaranteed do not satisfy the conditions for sales-type lease accounting treatment. FH has accordingly changed their classification to operating leases. It would normally be desirable to determine the lease classification of these transactions on a contract-by-contract basis, but FH has determined that it would practically be difficult to do so, and they have explained to the Committee that they changed the classifications to operating leases by making the determination based on the type of lease contract.

Following these revisions, under US GAAP the leased assets become assets owned by FXNZ and not by FXNZ's customers; the leased assets will now be recorded as fixed assets on FXNZ's balance sheet and depreciated over the course of the asset's economic life. In addition, the amount of lease receivables recorded on the balance sheet will now only be amounts for which customer usage was actually confirmed, not the amount based on the total lease fee for the life of the lease contract. The upfront recording of revenue for equipment sales (ORS revenue) on the income statement will be reversed, and only the amount for which customer usage has been confirmed will be recorded as sales.

The specific revised amounts for lease receivables and lease assets were totaled in accordance with the following process.

- (a) Detailed information on all leased assets existed on clients' premises was extracted from FXNZ's internal IT system;
- (b) Each leased asset was linked with its cost of acquisition at the time the contract began;
- (c) The useful life of each leased asset was calculated based on (b);
- (d) The amount of depreciation at the end of each fiscal year was calculated based on (b) and (c); and
- (e) The current book value was calculated based on all of the information above.

The calculated book value of fixed assets has been recorded on FXNZ's balance sheet. Meanwhile, the amount of lease receivables (excluding the amount for which usage by customer has been confirmed for each leased asset) has been revised downward after carrying out the reversal of "(ii) revenue recognized without execution of contracts or installation of equipment" and "(iii) DSG adjustments" discussed below. The difference between the amount of lease receivables that has been revised downward and the amount of fixed assets newly recorded on the balance sheet is the amount of impact on the P&L.

The Committee believe that, as a result of totaling the amounts revised using the method described above, the inappropriate accounting practices that FXNZ employed in the past in regard to lease transactions will be revised collectively.

Item	Past issue	After revision
Target Volume	Revenue overstated due to inflated Target Volumes (expected service usage volume at time of entering lease contracts).	Following the revisions, the balance of lease receivables pertaining to transactions in which leased products exist on
Residual Values	Revenue overstated due to inflated Residual Values (the estimated sale price for leased assets when the contract expires).	customers' premise will be limited to the amount for which usage has been confirmed. The Committee believe that, as a
Contract Rollovers	Lease contracts were renewed before expiration and then recorded as a new sale without reversing the past sale (there was no delivery of new equipment for some transactions). In addition, lease receivables pertaining to initial contracts with doubtful collectability were recorded on the balance sheet as-is.	result, the inflated amount of lease receivables that occurred due to each factor on the left has been comprehensively revised.
Sponsorship Cost	The amount equal to sales promotion costs for the purpose of winning lease contracts was added to sales, and the same amount recorded to lease receivables.	
Third Party Settlements	In order to win a lease contract from a competitor, FXNZ would pay the customer's remaining contract obligations to the competitor, with this amount being added to sales and the same amount recorded to lease receivables.	

In addition, "Sponsorship Cost," "Third Party Settlements" and other inappropriate accounting practices described in the table below were also carried out for lease contracts not classified as operating leases, and the balance of all lease receivables for these contracts was also revised downward.

Furthermore, because FXNZ had not recorded the appropriate amount of allowance for doubtful debt regarding lease receivables with doubtful collectability, additional allowance for

doubtful debt have been recorded. However, as shown in the table below, the overall balance of lease receivables has been reduced following the downward revision of the lease receivable balance, and as a result the shortfall of allowance for doubtful debt for the fiscal year ended March 31, 2016 is now smaller.

FH has explained that it plans to carry out revision in the same way for its financial figures for the fiscal year ending March 31, 2017.

Unit: Million New Zealand dollars

	Fiscal year ended
	March 31, 2016
Revisions to accounting practices pertaining to lease transactions	(247)
Revised amount of allowance for doubtful debt	(12)
Total (revised amount of equity)	(259)

(ii) Reversal of revenue recognized without execution of contracts or installation of equipment

FXNZ had recorded ORS revenue and the corresponding costs before leased assets were shipped to customers or delivered to customers' places of business (including some fictitious transactions).

Of these, the ORS revenue and costs for contracts for which the shipment and delivery of leased assets did not actually occur have been reversed. In addition, ORS revenue and costs for contracts for which the shipment and delivery of leased assets actually did occur have been reallocated to the relevant fiscal years when the shipment and delivery occurred.

Furthermore, the aforementioned revisions will not have an additional impact on the financial figures for the fiscal year ending March 31, 2017.

	Fiscal year ended
	March 31, 2016
Reversal of revenue recognized without execution of contracts or installation of equipment	(12)
Reversal of fictitious transactions	(11)
Total (revised amount of equity)	(23)

Unit: Million New Zealand dollars

Reversal of DSG adjustments

(iii)

FXNZ has recorded sales for lease contracts with fees that depend on the customer's actual equipment usage, based on the service usage volume expected at the time of execution of the contracts. Even if actual service usage falls short of the expectation, the sales that were recorded at the time of execution of the contracts were not reversed; instead the revenue shortfalls were recognized by recording a "DSG adjustment" entry. This resulted in revenue being over-stated, and doubts about collectability arose in regard to the lease receivables for the over-stated revenue amounts.

The amount (net) of impact of these DSG adjustments has been specified, and that amount of revenue and the lease receivables have been reversed.

Furthermore, the aforementioned revisions will not have an additional impact on the financial figures for the fiscal year ending March 31, 2017.

Unit: Million New Zealand dollars

	Fiscal year ended	
	March 31, 2016	
Revised amount of equity	(23)	

(iv) Reversal of adjustments to financial performance at the time of settlement

FXNZ engaged in inappropriate accounting practices, such as the deferral of the recognition of costs, for the purpose of adjusting financial performance.

A cash payment related to the signing of a new long term lease agreement for real estate was received as a reduction in rental expense and the payment was originally booked to P&L as revenue at the time the agreement was signed. However, a correction has been made to recognize the cash payment as a reduction in rental expense, spread out over the life of the lease.

With regard to consumables kept at customers' sites, the value of inventory kept at customers' premises was excessively recorded and COGS was under-reported. This has been revised to the appropriate levels.

Furthermore, FH has explained that it expects to prepare the financial statements for the fiscal year ending March 31, 2017 using the same method as the aforementioned revisions.

	Fiscal year ended
	March 31, 2016
Restatement of cash payment received	(5)
Revision of consumables kept clients' sites	(7)
Total (revised amount of net assets)	(12)

Unit: Million New Zealand dollars

3. Issues at FXNZ

(1) Business Outline of FXNZ

Lease transactions at FXNZ consisted of MARCO making the actual sales and FINCO providing financing; FINCO would take over the lease receivable from MARCO and book interest income.

A total of 9,493 lease contracts existed as of December 2015 (total contract value NZ\$327 million). The MSAs at issue account for over 70% of the total contract value.

(2) Lease Accounting Standards under US GAAP

A lease transaction is a contract that transfers the right to use a building, factory, or equipment (land and depreciable assets) for an agreed period of time. Under US GAAP, lease transactions on the part of the lessor are classified into two types of transactions, capital leases and operating leases, in accordance with their economic reality. Capital leases are further categorized into three types: sales-type leases, direct financing leases, and leveraged leases. FXNZ categorized MSA lease contracts as sales-type leases.

Categories of lease transactions on the part of the lessor	Definitions
Capital lease	 A lease that satisfies any of the four conditions set forth in a. through d. below, and that also satisfies the two conditions set forth in e. and f. below is categorized as a capital lease (Accounting Standards Codification ("ASC") 840).² a. Ownership of the asset transfers to the lessee at the end of the lease term; b. The lessee holds a purchase option with discounted price; c. The lease term accounts for 75% or more of the economic life of the leased asset; or d. The present value of the total amount of the minimum lease fee payment (the minimum lease fee payment amount borne by the customer) exceeds 90% of the fair market value of the leased asset. and e. It is reasonably possible to predict the collection of the total minimum lease fee payment; and f. There is no uncertainty that additional costs that cannot be collected from the lessee will arise. Capital leases are further categorized into the three following types. Sales-type leases The lessor is a dealer or a manufacturer, and the transaction includes profit for the dealer or manufacturer.

²Lease accounting standards were revised in February 2016 (ASC 842), but those standards do not apply to FH's consolidated financial statements for the fiscal year ending March 31, 2017.

	Leveraged lease
	The transaction does not include dealer or manufacturer profit
	factors, and is also a transaction (i) to which a lessor, lessee, and
	long-term creditor are parties, (ii) that is nonrecourse with
	regard to funds provided by the long-term creditor, and (iii) in
	which the lessor's net investment amount declines during early
	period and increases during later periods.
Operating leases	Lease transactions other than capital lease transactions.

The material factors for determining whether an MSA can be classified as a capital lease are the economic life of the leased asset, and an appraisal of the present value of the total amount of minimum lease fee payments. In addition, because MSA used a variable fee system under which the lease fee depends on the actual usage rate of the leased asset (i.e., the number of 'clicks', or copy, print etc.), another material factor is whether collectability of a minimum lease fee payment is reasonably expected.

In the case of operating leases, revenue is recorded as lease fees are received. For sales-type lease translations, an amount equal to the sale price of the leased asset is recorded as revenue in a lump sum at the time of the inception of the transaction, and those proceeds are then collected over the term of the lease contract. Consequently, the decision on whether a lease transaction will be treated as sales-type lease transactions or as an operating lease has a material impact on the timing of when the lessor records revenue.

(3) Outline of Lease Products Pertaining to the Matter and Accounting Practices at FXNZ

(i) Outline of lease products pertaining to the Matter and accounting practices at FXNZ

FXNZ used two types of contracts: MSA and GCSA (which was similar in structure to MSA but was used for different types of leased assets). Both MSA and GCSA used a variable fee system under which the lease fee varied according to actual usage of the leased asset (i.e., the number of clicks). Furthermore, the inclusion of Rightsizing clauses under the standard MSA template gave FXNZ certain contractual rights if the number of clicks was less than expected, although the enforcement of the clause was conditional upon an agreement with the customer, so its legal enforceability was uncertain.

Item	Contract details	
Service details	A contract that bundles equipment sales and maintenance service, etc. for collecting monthly copy charges to cover equipment charges, consumable charges, maintenance charges and interest.	
Term of agreement	An average of 48–60 months	
Fees setting	Actual usage rates (i.e., the number of clicks) x Click Rate (i.e., the unit price set based on the Target Volume). In other words, the MSA did not stipulate a duty for the customer to pay a fixed monthly rate (no minimum payment obligation).	

The terms of a standard MSA template is as set forth below.

Termination clause	The MSA provides a penalty payment if the customer terminates the contract early, equivalent to the Target Volume for the remaining term of the contract.
Transfer of ownership	None
Purchase option	None
Sole Supplier clause	The customer installing a competitor's printer would be in breach of contract; however, the MSA also stipulates exceptions for the customer to be exempted from the Sole Supplier clause.
Rightsizing clause	In the event the customer's usage did not reach the Target Volume established under the contract, FXNZ can remove the printer, change to equipment that is suited to actual volume, or change the Click Rate, but conditional upon FXNZ being able to reach an agreement with the customer.

FXNZ determined that both MSA and GCSA were classified as sales-type leases, and used this accounting treatment.

(a) At lease inception

Unlike an ordinary sales-type lease, MSAs bundled consumables and maintenance services, so the lease receivables (total lease fees + unsecured Residual Value) consist of three revenue streams: an amount equal to an outright equipment sales, an amount equal to interest, and an amount equal to service revenue. The amount equal to interest and the amount equal to services revenue are recorded as revenue in proportion to the term of the lease contract; at the start of the lease contract they are recorded as a lease receivable and deferred income, respectively.

MARCO would then transfer the lease receivables and service revenue receivable to FINCO.

(b) Receipt of lease fees

MARCO would initially collect lease fees from clients, then pay amounts pertaining to ORS revenue and interest to FINCO in accordance with the Target Volume as initially set in the MSA. MARCO handled these transactions using the service revenue account, which thus had to be adjusted to reflect any difference between the amount of service revenue expected at lease inception and actual service revenue received.

At that time, because MSA should include a minimum payment guarantee, an adjustment would be made to recognize the shortfall as accruals to MARCO service revenue and FINCO lease receivables via intercompany accounts (DSG adjustments).

Once FINCO received the initially expected service revenue, lease receivables would be reduced accordingly and FINCO would also record interest revenue. Subsequently, any difference between the expected lease fees and fees actually received would be recorded as a lease receivable via intracompany accounts.

(c) At termination of lease

MARCO receives the leased asset from the customer, and records the difference between estimated Residual Value and actual Residual Value to COGS. Then, the only lease receivable remaining with FINCO is the amount equal to the estimated Residual Value, which is settled using the intracompany account.

FINCO uses the intracompany account to reconcile the lease receivables in the amount equal to the estimated Residual Value that ultimately remains.

(ii) Opinions from accounting firms regarding accounting treatment of MSA and GCSA

On October 22, 2009, FXNZ obtained an opinion from an accounting firm regarding accounting treatments for MSA. The opinion stated that it was reasonable to treat DSG as capital leases if the following conditions are satisfied: (a) management has determined that the lease term accounted for the majority of the economic life of the assets, and (b) the management has determined that the present value of the minimum payment during the lease term (the minimum payment referred to here means the amount calculated by multiplying the Target Volume by the Click Rate) is essentially equal to the fair market value of the lease term.

However, this assessment must be made with respect to each contract. For example, there are cases in which the actual contract terms differed from the standard DSG template, which could have an impact on the determination of appropriate accounting treatment. Consequently, if the actual contract terms differed from the standard contract template, the management would need to assess the appropriate accounting treatment for each contract individually.

FXNZ also engaged a different accounting firm to review the aforementioned accounting firm's opinion, and on November 11, 2009, obtained an opinion from the second accounting firm that, upon providing a supplemental explanation of the satisfaction of conditions for the lease term and the present value of the total Minimum Payment, basically agreed with the opinion of Accounting Firm 1-2. However, Accounting Firm 2-2 added that capital lease accounting would only be appropriate if the Target Volume was "reasonably certain".

(iii) Analysis of accounting treatment of MSA and GCSA

Both MSA and GCSA contracts must be reviewed to ascertain whether the risks and benefits of asset ownership have actually been transferred. However, as shown below, this determination was complicated, both at lease inception and over the subsequent course of the transaction.

(a) At lease inception

All facts and circumstances must be understood at lease inception, but when a determination of minimum payment in contracts with Target Volumes is made, there is room for judgement. The factors noted below complicate that determination:

- i. The standard contract templates were frequently changed based on side letters, oral understanding, etc.
- ii. It is unclear what impact rightsizing and other clauses that protect FXNZ would have on the enforceability of minimum payment at lease inception, nor is it clear whether it was

appropriate for Target Volumes to be used as the basis for determining the minimum payment.

(b) After lease inception

Even after lease inception it may be necessary to reconsider the accounting treatment under certain scenarios as noted below:

- i. "Contract Rollovers" that result in changes to details of the lease contract
- ii. Whether the Rightsizing clause is triggered
- (4) Outline of the Matter
 - (i) Target Volume

FXNZ calculated the total amount of sales for MSA and GCSA based on the Target Volume. Because MSA and GCSA were treated as sales-type leases under US GAAP, at the time of contract execution MARCO would record ORS sales and FINCO would record lease receivables, and the specific amounts were calculated from the total contract amount based on the Target Volume.

However, it was stipulated in the MSA and GCSA payment clauses that only actual usage volume (actual number of clicks × Click Rate) would be invoiced to customers by MARCO, and it had not stipulated a Minimum Payment clause (i.e., a clause that guarantees the payment of a minimum fixed amount based on the Target Volume, regardless of the actual usage volume). If the customer's actual number of clicks fell below the Target Volume, the result would be a shortfall compared to the expected revenue calculated at the time of the execution of the contract, because MARCO could only invoice the customer for actual usage volume.

Meanwhile, FINCO invoiced MARCO on a monthly basis for interest and principal payments due, in accordance with the terms of the initial contract, regardless of the actual amount MARCO invoiced the customer. If the amount that MARCO invoiced the client was lower than the initially expected lease fee (i.e., Target Volume x Click Rate), an adjustment was made to reverse MARCO's service revenue only by the difference to match the lease fee after payment to FINCO with service revenue booked by MARCO.

Based on the sales and lease receivable calculation method set forth above and the details of the MSA and GCSA payment provisions, for contracts for which the Target Volume had been excessively estimated, FXNZ recognized over-stated revenue and receivables at lease inception. There were also transactions where the over-stated revenue exceeded the actual lease fees earned over the term of the lease. Consequently, rather than this being an issue of the timing of revenue recognition, the setting of excessive Target Volumes resulted in excessive revenue recognition over the entire contract term.

In addition, when the Target Volume and the actual number of Clicks diverge and the initially expected level of revenue is no longer assured, this would be clear evidence of the need to

consider an impairment write-down for the receivables. It would be an issue that no evidence has been found to suggest that FXNZ had considered this.

Whether customers have a legal obligation to pay a certain amount of lease fees based on the Target Volume set in MSAs and GCSAs is one of the material factors to classify those contracts to be sales-type leases. However, in the Matter where such a legal obligation was not stipulated in the MSA and GCSA, if the content of a lease contract based on an MSA or GCSA is reassessed, it is possible to be determined that a lease contract that was treated as sales-type lease should have actually been classified as an operating lease.

During the period from January 1, 2010 until January 31, 2016, FXNZ routinely utilized MSAs and GCSAs that included Target Volume clauses. According to internal materials dated November 11, 2015, out of 1,440 contracts, the actual number of clicks was lower than the Target Volume in 982 contracts, and the Target Volume achievement rate was less than 70% in 555 contracts. In addition, in July 2015 the results of an internal audit by FXAP found that the Target Volume was not achieved in about 70% of contracts.

It was widely understood by most officers and employees of FXNZ that customers' usage rates falling short of the Target Volumes set in MSAs and GCSAs became constant practice, including Mr. A, Mr. B, Mr. C, and members of the finance team. The use of MSAs and GCSAs was prohibited from September 2015.

(ii) DSG adjustment

FXNZ introduced an accounting practice called the DSG (Document Services Group) adjustment, in violation of the revenue recognition policies for DSG agreement set by APO. If MARCO's actual service revenue (i.e., the amount obtained by deducting the amount of the lease receivable repayment and interest revenue for FINCO based on the Target Volume from the amount invoiced to the customer) was insufficient to meet the service revenue it expected to receive according to MARCO's initial forecasts of the customers' number of clicks (i.e., the amount equal to the ratio of distribution to service revenue out of the amount invoiced to the customer that MARCO initially stipulated), an amount equal to the shortfall would be additionally recorded as MARCO's service revenue and FINCO's lease receivables, respectively.

However, the MSAs and GCSAs that MARCO had executed with customers stipulated that MARCO must invoice customers based on the actual usage volume, and they did not establish Minimum Payment clauses for the payment of amounts based on the Target Volume and the Click Rate. Posting the shortfalls to MARCO service revenue and FINCO lease receivables using the DSG adjustment entry was not permitted under accounting rules, and thus should be considered to have over-stated revenue and receivables, respectively.

The total amount of the DSG adjustments carried out on FINCO's lease receivable ledger and MARCO's sales ledger from March 31, 2013 until March 31, 2016 was about NZ\$47 million over

the period, and the balance at the end of the fiscal year ending March 31, 2017 (after deducting the NZ\$24 million reversal (cumulative during the period) at the time of Contract Rollover) was NZ\$23 million.

(iii) Residual Values

When FXNZ executes lease contracts, it establishes a Residual Value (the estimated sale price of the leased asset at the expiration of the lease contract term) for the leased asset, even for capital leases. By having a Residual Value, the lease fee paid by the customer can be set at a lower level.

In addition, FXNZ ignored its internal rules and the CFO's instructions by executing 270 capital lease contracts that set a Residual Value exceeding the standard value (10%) permitted as a capital lease contract, and by recording equipment sales (ORS revenue) at the time of contract execution.

(iv) Contract Rollovers

MSAs and GCSAs are ordinarily contracts that cover multiple years, but FXNZ "rolled over" (i.e., renewed) some of them into new contracts in the beginning phases or middle phases of the initial contract term. These Rollovers allow the recognition of new ORS revenue, so they are considered to lead to the inappropriate or excessive recording of ORS revenue. Furthermore, these Contract Rollovers were considered not in conformance with APO policies.

It is difficult to accurately quantify the amount of accounting impact from the excessive recording of revenue and lease receivables due to Contract Rollovers, but according to an analysis by FXNZ's management, the balance of the potentially-related receivables at the end of the fiscal year ending March 31, 2017 was NZ\$153 million, or about half of total balance of all lease contracts.

- (5) Accounting practices pertaining to other issues that were discovered
 - (i) Macro Adjustments

At FXNZ, the double recording of advance sales, the recording of fictitious sales, the fictitious recording or deferral of cost of sales or expenses and other accounting practices known as "Macro Adjustments" that mainly do not have a commercial or accounting basis were broadly and inconsistently implemented. It is considered that FXNZ utilized these Macro Adjustments in order to achieve monthly performance targets.

(ii) Individual Entries

In the fiscal year ended March 31, 2015, FXNZ carried out and recorded asset sales and other non-operating transactions ("Individual Entries") in order to reduce the risk that inappropriate accounting, including the aforementioned Macro Adjustments, would become a problem in an accounting audit at the end of the period. This created the external appearance that FXNZ's financial activities and financial condition had improved in that fiscal year, and that FXNZ had revenue higher than its actual revenue.

(iii) Sponsorship Cost

FXNZ provides cash and free products like tablet computers, and carries out other sales promotion activities it calls sponsorships, mainly to educational institutions and other organizations. MARCO and FINCO recorded the amount equal to the costs for these sales promotion activities (Sponsorship Costs) by adding them to sales to customers and to lease receivables, respectively, and these sales and lease receivables can thus be understood as having been excessively recorded.

In addition, this recording of Sponsorship Costs did not conform to APO's accounting policies, and it is possible that the company may still be seeing an ongoing impact of changes to accounting standards that were implemented during the period.

(iv) Third Party Settlements

FXNZ carries out sales promotion activities called Third Party Settlements for the purpose of acquiring new customers, through which FXNZ assumes the remaining amount of lease obligations and lease contract penalties that a customer who is leasing a competitor's product bears with respect to that competitor, and thereby acquires a new lease contract with that customer. MARCO and FINCO recorded the amount equal to expenses pertaining to Third Party Settlements by adding them to sales to customers and to lease receivables, respectively, and sales and lease receivables can thus be understood as having been excessively recorded. It is considered that this recording of Third Party Settlement expenses was not in conformance with FXNZ's accounting policies.

(v) Credit risk and increase in nonperforming receivables

(a) Credit risk

At FXNZ, it is typical to decide whether to execute a lease contract with a particular customer and the length and other terms on the payment period in proportion to the credit of the customer. However, notwithstanding FXNZ having enacted and revised credit guidelines and also established a Credit Committee, credit screening policies were not adhered to, transactions were continued with customers even though the customers faced financial difficulties, and most of the advice from the Credit Manager was rejected or ignored. Furthermore, it seems that credit screenings were only carried out in about 10% of total transactions.

Although FXNZ was aware that a business purchased by Customer 1, FXNZ's largest customer, had problems with finance, FXNZ positioned Customer 1 as a strategically important customer and rapidly expanded its credit balance. In addition, even though Customer 1's accounting and financial problems became obvious and other financial institutions began to pull back, FXNZ maintained its close relationship with Customer 1 by, for example, extending financing to Customer 1, by assuming a role as Customer 1's payment guarantor, and by

supporting Customer 1 through various methods FXNZ increased the amount of credit extended to Customer 1.

(b) Increase in bad debt

Customer 1's accounts receivable with respect to MARCO rose sharply, from about NZ\$2 million as of the fiscal year ended March 31, 2013 (included payment in arrears of around NZ\$1 million), to about NZ\$9 million as of the fiscal year ended March 31, 2014 (including payment in arrears of about NZ\$7.6 million), about NZ\$17 million as of the fiscal year ended March 31, 2015 (about NZ\$15 million in arrears), about NZ\$25 million as of the fiscal year ended March 31, 2016 (about NZ\$24 million in arrears), and about NZ\$29 million as of the fiscal year ended March 31, 2016 (about NZ\$24 million in arrears), and about NZ\$29 million as of the fiscal year ended March 31, 2016 (about NZ\$24 million in arrears).

However, in October 2013 FXNZ had already received a report, produced by Accounting Firm 3, pointing out that Customer 1 was essentially bankrupt.

Given that the vast majority of those receivables are now unlikely to be recovered, FXNZ faces considerable losses due to its decision to continue increasing its business with Customer 1 even though it should have curtailed its exposure after receiving the information in the aforementioned report. In addition, FXNZ should have been taking provisions against these receivables, but it actually recorded provisions for some of the receivables, which constituted inappropriate accounting practice.

4. Causes of Inappropriate Accounting Practices

(1) Incentives

One of the causes of FXNZ's inappropriate accounting practices was its use of incentives, such as commissions and bonuses that placed an importance in achieving sales targets. Commissions and bonus payments reached massive amounts at FXNZ in 2011 and onwards.

In particular, Mr. A had an extremely high sales target achievement rate, which was particularly emphasized among the assessment items for calculating standard bonuses, and he therefore was paid significant amounts as incentives-based remuneration. It can be inferred that this type of framework caused other employees to seek higher sales and escalated the development of the sales-centric mindset.

(2) Centralization of Reporting Lines

Internally at FXNZ, Mr. B and other executive officers appear to have directly reported to Mr. A, the MD, rather than to the board of directors, and to have centralized authority with Mr. A by centralizing all internal reporting lines with Mr. A. As a result, supervision by the board of directors did not function effectively.

In addition, it seems that FXNZ's reportings to APO was made by Mr. A to the CEO of APO, and that the annual management letter was also directly submitted by Mr. A to the president of FX.

Control functions were not effective and transparency was lacking because the reporting lines to the parent company and others in the group were all limited to Mr. A, centralizing the flow of information.

In such a situation, and given the lack of effective supervision of Mr. A by APO, it was easy for the execution of business by Mr. A to run out of control. There were no internal control within FXNZ onto business conducted by Mr. B and other executives because they simply needed Mr. A's approval to continue their business.

(3) Sales Centric Corporate Culture

According to interviews with multiple persons concerned, FXNZ's corporate culture was characterized by a "sales at any cost" mindset. The FX group also had expectations for FXNZ's sales due to sluggish sales growth in Japan, which helped form FXNZ's sales-centric corporate culture through incentive-based remuneration, and others. Additionally, Mr. A, who was the MD, personally strongly pursued incentive-based remuneration by expanding sales.

(4) Lack of Appropriate Supervision by the Board of Directors

FXNZ's board of directors only met about twice per year (including written resolutions), including one meeting to approve the annual financial statements, and the content of those meetings also seems to have been limited to the approval of documents. It is highly likely that the board of directors substantially did not function, and that sharing information and problems was not made among directors in a timely fashion.

In addition, there does not seem to have been a system for each executive to report business to the board of directors, and it is considered that the board of directors did not appropriately supervise executives.

(5) Insufficient Functioning of Committees and Responsible (Accounting) Departments

In terms of the internal organizations at FXNZ, various committees were created as subordinate organizations of the board of directors, and this should have formed a governance structure under which matters of a certain importance are debated at the committee level, and any illegal or inappropriate matters are prevented by the committees. However, it is in fact possible that the Compliance Committee and the Risk Management Committee and others did not sufficiently exert, or were unable to exert, their governance functions.

In addition, the CFO Mr. B and other members of the accounting department who should have expert accounting knowledge were not able to ensure that proper accounting practices were followed and to exert a control function.

(6) Insufficient Development and Violations of Internal Rules

With regard to inappropriate accounting practices at FXNZ, besides the recognition of revenue being carried out in violation of internal policy, the setting of Residual Values and various other

accounting policies also violated internal rules. It is also possible that the execution of contracts and the ascertainment of customers' credit statuses were also carried out in violation of internal rules.

(7) Whistleblowing System

It is highly likely that the FX Group's and FXNZ's whistle-blowing systems were essentially not functioned.

(8) Deficiencies in the Subsidiary Management System Within the Group

FH has a system that delegates the management of subsidiaries under APO's umbrella to APO, and it did not have a system for direct management. In addition, the management system was insufficient with respect to FXNZ due to APO's physical distance from New Zealand and its insufficiency in human resource in internal audit.

5. Measures to Prevent Recurrence

(1) Development of Internal Systems

At FXNZ, the board of directors which should have a proper supervisory function on corporate business did not function appropriately, and the various committees that should have controlled over specific business lines also did not function adequately. Internal systems must be streamlined to ensure that these bodies can sufficiently fulfil their functions. In addition to deploying personnel and developing checking systems so that the board of directors and the various committees function as systems of internal controls and constraints, systems must be developed so that wrongdoing can be quickly discovered and rectified if it has occurred.

(2) Corporate Culture

The "sales at any cost" corporate culture must be corrected with leadership from the overall group and the MDs. The Company will need to encourage a change in mindset of all employees through internal compliance training and other methods.

(3) Incentive Remuneration

With regard to incentive-based pay at FXNZ, remuneration packages should be revised to avoid having salaries with an excessive incentive-based remuneration compared to fixed salary. Standards should be changed to ensure that incentive remuneration is based on standards that take into account sustainable growth and real profits for the company, rather than standards that only emphasize sales.

Chapter 4 Issues at Other Sales Companies

1. Issues in Australia

(1) FXAU's Revised Amounts for Past Fiscal Years

In connection with the Matter, FH considers restating figures in the financial statements of FXAU for the fiscal year ended March 31, 2012 through the fiscal year ended March 31, 2016, and will be revising the amounts booked for the following three items.

	End of the Fiscal
	Year Ended March
	31, 2016
Revision of accounting treatment of lease	(31)
transactions	
(i) Revision of items managed under R&O	(60)
spreadsheet	
(ii) Other revised items	(57)
(iii) Total (revised amount of equity)	(148)
Revised amount of FUJIFILM Holdings	(111)
shareholders' equity (based on equity state	
of 75% by FH)	
*Exchange rate (86.25 JPY/AUD) (100	(96)
million yen)	

Unit: million AUD

*as of March 31, 2016

In addition to the foregoing, the following revision has been made at FXAU in connection with the Matter, but as this revision is secondary revision of items deriving from the correction of inappropriate accounting practices and is not within the scope of the matters the Committee has been requested to investigate, it is not mentioned in this Report.

Revision of corporation tax, etc. in connection with the above revisions

(2) Details of Revision and Calculation Basis

(i) Revision of accounting treatment of lease transactions

FXAU's lease transactions were divided into Global Service Agreements ("GS Agreements") which include delegated services ranging from comprehensive office services such as printing to just a part of such services outsourced by a client, and other Non-GS Agreements including a type of agreement where a unit cost per page was set with including equipment and services (all-inclusive click rate agreements).

FXAU formerly used accounting practices that treated these lease transactions as capital leases, but based on the issues cited in the investigation of the Matter and an opinion by the independent auditor, FH has determined that from FY2012 some of the GS Agreements and

all Non-GS Agreements fail to satisfy the requirements for a capital lease and has reclassified them as operating leases.

As a result of FXAU's revisions on the accounting treatment for the respective agreements, the revised amount of equity as of March 31, 2016 was 31 million AUD (a reduction in equity). FH also explained that it plans to carry out revision in the same way for its financial results posted for the fiscal year ended March 31, 2017.

(ii) Revision of items managed under R&O spreadsheet

FXAU used spreadsheets called the Risk & Opportunity (R&O) Spreadsheets where it recorded, managed, and reported "risk" items with respect to its financial statements on a monthly basis. A revision of 60 million AUD was made for the fiscal year ended March 31, 2016.

The R&O spreadsheets mainly contained items such as costs incurred in the current term booked as assets in order to carry them over to subsequent years rather than booking them in the profit and loss statement as expenses, and assets booked in connection with sales anticipated in subsequent years, and costs booked as assets for the past fiscal year or revenues that were never achieved were reversed.

(iii) Other revised items

"Other revised items" includes items pointed out by the independent auditor, as requiring revision in past financial statements even though FXAU originally did not state that they were in error. As discussed below, the revised amount of equity for the fiscal year ended March 31, 2016 is 57 million AUD (a reduction in income)

(3) MSA-type Agreements Confirmed as Being used at FXAU

(i) AU Bundled Agreements

FXAU used unique agreement types called Whole of Volume Agreements ("WVA"), Total Volume Agreements ("TVA"), Document Service Agreements ("DSA"), and Agility Agreements (hereinafter WVA, TVA, DSA, and Agility Agreements are collectively referred to as "AU Bundled Agreements"). The New Zealand agreements were adapted for use in Australia in accordance with Australian law, becoming AU Bundled Agreements.

(ii) Characteristics of each AU Bundled Agreement

WVAs set a total committed volume for a committed agreement period, and if the total committed volume for the committed agreement period was not reached, the committed agreement period would be extended for 12 months, or payment would have to be made to reconcile the shortfall not achieved and unpaid amount.

TVAs provided a committed total usage volume and an annual reconciliation date unless an agreement expressly provides otherwise. If the committed total usage volume was not achieved as of the last day of the committed agreement period, payment would have to be made for the shortfall not achieved and unpaid amounts.

DSAs set a monthly Target Volume, rebate rate after the target was achieved, catch-up rate for when the target was not achieved, target annual volume, and an annual reconciliation date unless the agreement expressly provide otherwise. The agreements took a form whereby the client would be invoiced for the shortfall if the annual Target Volume was not achieved, but in the samples examined, the section for the catch-up rate if the target was not achieved was blank, and some agreements had provisions to the effect that no reconciliation would be made even if the actual usage volume was less than the Target Volume.

Agility Agreements have a monthly Target Volume and annual Target Volume, but have no provisions for reconciliation in the event that the Target Volumes are not achieved.

(4) Accounting Treatment of AU Bundled Agreements

(i) Lease classification and ORS recording in breach of accounting standards

According to US GAAP, if no committed payment amount is set, it may not be recorded as a capital lease, and at the very least Agility Agreements that do not set a committed payment amount are clearly not allowed to be recorded as capital leases. Furthermore, WVAs, TVAs, and DSAs also have the section for the catch-up rate in the event of failure to achieve the Target Volume left blank. There are cases where the committed payment amount was not expressly set forth in the agreement and cases where they are believed to have not conducted reconciliation when there was a shortfall in the committed usage volume or committed payment amount. In such cases, in spite of the terms of the agreement, in substance the reality of the transaction is the same as having no committed payment amount, and therefore, the recording of ORS was considered to be the recording of inappropriate sales recording. Further, according to internal rules, if a fixed committed usage volume or committed payment amount cannot be ensured each month, they must not be regarded as capital leases, and WVAs which have the reconciliation date set as the last day of the agreement term and TSAs and DSAs which in principle have an annual conciliation date, are inappropriate accounting treatment which is at the very least in breach of internal rules with respect to the fact that they do not set forth a committed monthly usage volume or committed monthly payment amount.

(ii) ORS recording ratio in breach of accounting standards

As an example with respect to AU Bundled Agreements such as WVAs, TVAs, DSAs, and Agility Agreements, one DSA achieved a margin of 37.7% for ORS, while the FSMA margin is -58369.3%. Numerous similar examples, where the FSMA Margin was found to be extremely low compared to the ORS Margin, and negative, were found to have been recorded. This gives rise to strong suspicions that inappropriate accounting treatment was frequently

carried out for AU Bundled Contracts, where the amount that should have been recorded as FSMA sales were recorded as ORS.

(iii) Recording of sales in breach of accounting standards regarding the timing of the recording of sales

Based on emails and interviews, it was strongly suspected that sales were recorded before the installation of equipment and before the completion of inspections, in breach of accounting standards regarding the timing of the recording of sales.

- (5) Cause of Inappropriate Accounting Practices
 - (i) Agreement approval process

After Mr. A assumed the position of MD of FXAU, apparently agreements other than standard agreements (especially bundle sale agreements) were handled in a manner lacking transparency, where reports were made to employees who had been transferred from FXNZ who then granted approval, and there is a strong possibility that they did not go through the appropriate transaction approval processes.

(ii) Incentive remuneration

The incentive remuneration paid to some employees may have induced inappropriate accounting practices. In April 2016, FXAP President R sent Mr. A an e-mail asking for an explanation because the commission paid to some employees who had been transferred from FXNZ was too high. Additionally, employee interviews revealed that there was dissatisfaction with the fact that higher commissions were arbitrarily paid to the team directly under Mr. A.

(iii) Inappropriate credit risk assessment process

According to interviews and emails, it seems that the credit risk rules were not obeyed as there were instances where transactions were carried out at the discretion of a certain person despite the credit team's determination that a party was inappropriate as a customer, agreements were approved without complying with the criteria, products were delivered six months before the completion of the approval process, and transactions were carried out with customers on the assumption of a certain volume even though it was unlikely the customer is capable of satisfying such volume. There are also emails implying that transactions were made with counterparties posing a high credit risk in order to achieve sales targets.

(iv) Inappropriate organizational operation and organizational changes

From the interviews, it appears that ever since Mr. A came to head the organization formal ELT meetings were rarely held, and even when they were held they frequently only covered matters unrelated to the agenda and minutes were not kept. This leads the Committee to believe that a governance system utilizing ELT meetings was not properly functioned.

Further, Mr. A made organizational changes where the employees from the Commercial Team (whose role was to check whether transactions should be approved in accordance with price decision policies, to cause the Sales Team to comply with rules, report on failures to comply, and review procedures) that was originally part of the Finance Department and employees from the Legal Department were transferred to the Sales Team, which suggests that the organization was changed to weaken the organizational checks and balances on the power of the Sales Team. According to the interviews, there were issues with the capabilities of personnel in the Finance Department, and it seems that the Finance Department functioned weakly, and could not perform its monitoring and checking function properly.

(v) Sales-Centric Corporate Culture

The circumstances discussed above with dysfunctional organizational governance allowed Mr. A's sales-centric culture to spread. Like at FXNZ, this was due to the strong expectations to FXAU's sales under circumstances where sales in Japan were not growing, as well as due to bonuses for achieving targets making up a large proportion of employee compensation (30% of his base pay in the case of Mr. A) as an incentive, of which the portion of sales consideration was big (30%-40% of the bonus). Under this kind of culture, it is believed that inappropriate accounting practices came to be carried out without giving consideration to whether it would contribute to FXAU's revenue.

(vi) Inadequate subsidiary management system in the group including FXAP

Under the FH Group's subsidiary management system, APO was tasked with management of subsidiaries under APO, and it was not structured so that subsidiaries were directly managed by FH. Further, the physical distance from Australia and the shortage of personnel at IA, among other factors, meant that APO's management system for FXAU was inadequate. With respect to the whistleblower system, the FX Group established the "ALL-FX Compliance Helpline Operational Rules" as of April 20, 2004, where a whistleblower system wasprovided for, but there is no sign that the ALL-FX Compliance Helpline received any direct contact from international subsidiaries.

Chapter 5 FXAP (APO), FX and FH response to the matter

1. Overview

This Chapter discusses the actions of FXAP (APO), FX and FH in response to this Matter, based on facts found during the investigation.

2. September 2009 - APO (IBG) Internal Audit

(1) Issues Highlighted by September 2009 APO Internal Audit

The Internal Audit Department of APO (IBG at the time; hereinafter referred to as APO) performed an audit on FXNZ in September 2009. The audit identified DSGs (Document Services Group; different in name but similar in structure to MSAs) as not meeting the conditions for capital (finance) lease accounting treatment due to reasons including the lack of Minimum Payment obligation. The audit opinion highlighted several items as Top Priority issues, including the need to discuss the appropriate revenue recognition for DSGs with APO's Finance Department and the need to ensure that the DSGs in question were recognized as operating leases.

(2) APO's Finance Department Response to Issues Identified by APO Internal Audit

In response to the issues highlighted by APO's Internal Audit Department, APO's Finance Department on October 3, 2009 decided to obtain external advice. FXNZ obtained accounting advice from one accounting firm in October 2009, and a separate opinion from another accounting firm in November. Both accounting firms concluded that the treatment of this type of contract as a capital lease was reasonable. However, both opinions were based on the standard MSA template submitted to the accounting firms for the purposes of obtaining the advice.

After reviewing the above-noted opinions, APO's Internal Audit Departmemt determined that the opinions did not address the issue identified by APO's Internal Audit Departmemt regarding the existing DSGs which did not meet the conditions for capital lease accounting treatment because the accounting firms had only reviewed a standard contract template. APO's Internal Audit Department strongly recommended to APO's Finance Department that revisions on accounting treatment be made for the existing DSGs. However, APO's Finance Department, which was responsible for determining accounting policy for APO and all affiliated operating companies under APO, decided that it would allow revenue recognition of MSAs going forward on the condition that all future contracts strictly adhere to the standard MSA template, with no accounting revisions to be made for existing DSGs already in place. Notwithstanding the above, APO's Finance Department did not put into place any specific measures to ensure only standard MSA templates were used, even though this was given as the condition for allowing MSAs to be recognized as revenue.

The independent auditor conducting the required audit for the fiscal year ending March 2010 did not raise the issue of MSA or DSG revenue recognition. As a result, the accounting treatment for MSAs / DSGs was not questioned until the internal audit review conducted based on the 'whistleblower' email received in July 2015.

3. Actions between November 2009 and July 2015

(1) FXNZ Consistently Meets Performance Targets; Commendations for Mr. A

With the prolonged earnings slump in Japan, Asia-Pacific was positioned as a growth area. APO developed into an earnings driver for FX, posting consecutive periods of steady growth. Starting from April 2010, FXNZ achieved its performance targets for 48 consecutive months, and Mr. A, at the time a MD at FXNZ, was awarded three commendations.

(2) Increased use of MSAs

A total of 218 MSAs were concluded in FY2009 for a total value of NZ\$34 million. This steadily increased, reaching a peak of 1,290 such contracts worth NZ\$81 million in FY2014.

(3) Finance Loans from Parent, Sharp Increase in Receivables

Due to cash shortages, FXNZ had been receiving loans from its parent company FX. The balance of loans from FX and receivables from FXAP jumped sharply from FY2009, reaching a combined total of about NZ\$375 million in FY2014. This was well above the total sales figure for FXNZ in FY2014 (roughly NZ\$320 million). Notwithstanding the FXNZ's financial situation, no suspicions were raised, as the general view of FXNZ's financial situation was that the financing demand was related to the increase in sales from lease agreements.

- (4) The Situation at APO Internal Audit
 - (i) Reporting line: Intervention of head of APO's Finance Department

Based on internal rules, APO's Internal Audit Department directly reported to the head of APO. Following the appointment of Mr. w as the head of APO in April 2008, however, Internal Audit was instructed by Mr. w to report to the head of APO's Finance Department. (Internal Audit has reinstateddirect reporting to the head of APO after Mr. w was succeeded by Mr. R as a position of the head of APO).

(ii) February 2014 internal audit of FXNZ; "suggestions" from head of APO's Finance Department

APO's Internal Audit Department carried out an audit of FXNZ in February 2014. The head of APO's Finance Department repeatedly urged for changes to be made to the draft of the internal audit report. He also "suggested" that Mr. A, one of the subjects of the audit in question, carefully review the internal audit report prior to its submission to the head of APO and FX head office. The revised internal audit report downgraded the 'Top Priority' issues to 'Need to Improve' category.

(iii) APO Internal Audit staffing

APO Internal Audit (one manager and one full-time regular staff) saw high employee turnover between April 2009 and March 2015. In the interviews, numerous people questioned the independence of APO Internal Audit and also noted that the team lacked sufficient budget and manpower for the work required.

4. Response to Whistleblower Email ("Tony Night" email) of July 2015

(1) Receipt of Whistleblower Email and Request for Response from XC

On July 8, 2015 (July 7 in the US time), an email from "Tony Night" was sent to Deputy President y of FX and XC management. The email pointed out cases of inappropriate accounting practices at FXNZ involving the use of inflated Target Volumes for MSAs, resulting in over-stated revenue. XC sent a letter to FX requesting a response to the e-mail.

It was decided that since Deputy President y was responsible for dealing with shareholder (FH and XC) issues, he would carry out an investigation of FXNZ in order to prepare the response to XC.

(2) Audit of FXNZ

On July 24, 2015, Mr. T (APO FC) and Mr. x of APO Internal Audit performed an audit on FXNZ. The audit revealed that revenue had been over-stated due to the use of MSAs with inflated Target Volumes, as had been pointed out in the whistleblower email.

- (3) Report of Findings from FXNZ Internal Audit to APO and FX
 - (i) Report from Mr. x of APO Internal Audit

On July 27, 2015, Mr. x sent a report detailing the findings of the internal audit, to Mr. T of APO FC via email. The report noted that MSAs should not be recognized as sales and further warned that the accounting opinions received in 2009 should not be relied upon. The report additionally included the results of an analysis of a random sample of 10 MSAs (no Minimum Payment obligation in one out of the 10, invalidated rightsizing clause in four out of the 10, actual volume falling short of Target Volume in seven out of the 10). Mr. T did not share the report from Mr. x with Mr R, the head of APO or Mr. CC, head of APO's Finance Department.

(ii) APO FC report regarding FXNZ audit

On July 28, 2015, Mr. T (APO FC) reported the findings of the FXNZ audit to Mr. R and Mr. CC. As part of the report, Mr. T noted that actual volumes were short of Target Volume in 70% of MSAs, that revenues were being artificially inflated due to overestimated Target Volumes as indicated in the whistleblower email, that contracts based on the standard MSA template did not present a problem but that the MSAs actually being put in place that did not include Minimum Payment obligations for clients meant that the accounting treatment was potentially problematic and may fall within a gray area.

(4) Shanghai Meeting: "For now respond that there is no problem"

On August 10, 2015, FX management participated in an event (GCO China Growth Strategy Review) held at FX China's office in Shanghai (Hong Kong New World Tower). That afternoon, Deputy President y, Executive Vice President w, Mr. R, Mr. CC and Mr. T convened in a meeting room on the 51st floor of the Hong Kong New World Tower from approximately 12:25 p.m. to 1:25 p.m. to discuss the FXNZ audit report and the response to XC.

Mr. T stated that in some MSAs Target Volumes were being inflated, as had been pointed out in the whistleblower email, and further noted the results of the analysis of the random sample of 10 MSAs; namely, that one of the 10 did not meet the conditions for capital lease accounting due to the lack of a minimum lease payment obligation, four of the 10 did not include a rightsizing clause, and that seven of the 10 were short of Target Volumes, and that actual volumes were below Target Volumes in over 70% of the 529 MSAs concluded between 4Q 2013 and through 2014.

In response to this, Executive Vice President w commented that any findings "should not 'selectively cherry pick' unfavorable items". Executive Vice President w further commented that the MSAs in question "were approved in the audit, weren't they?" Deputy President y also confirmed that the MSAs had not been raised as an issue by the independent auditor. Deputy President y instructed "first, respond that there are no problems" but "the second chapter of New Zealand will beto respond properly". And he gave instructions that the response to XC would be no problem ("the first chapter") but subsequently the situation would be disposed of properly ("the second chapter").

Deputy President y's instructions were made with the clear understanding that the situation was as per the whistleblower email, that revenues were being overstated due to the use of inflated MSA Target Volumes, and that a random check of 10 MSAs had uncovered five contracts out of ten that deviated from the standard MSA template and thus were clearly at risk of not meeting the requirements for capital lease accounting treatment. The instructions thus are an attempt to conceal the accounting irregularities.

(5) Report to the President

Based on the instructions from Deputy President y at the Shanghai meeting, Mr. T (APO FC) revised the final internal audit report. The revised internal audit report was in line with the instructions from Deputy President y, with the opening paragraph stating that based on "a review of the revenue recognition practice for MSC (note: refers to MSA), no accounting irregularities or cases of overstated revenue such as had been indicated in the whistleblower email were uncovered". The report further provided that a random check of 10 MSAs had only turned up a potential problem with one contract.

On August 20, 2015, a report to the President AA of FX was made based on the final internal audit report and draft of response to XC which mentioned 'no accounting irregularities or cases of overstated revenue such as has been pointed out in the whistleblower email were found' provided that "based on a sample check, one lease contract potentially did not meet the conditions for capital lease accounting treatment".

5. MSA prohibited and measures to address decline in FY2015 revenue

(1) Notification of Decision to Prohibit MSAs

Based on the instructions from Deputy President y at the August 10, meeting in Shanghai to ensure "the matter will be subsequently dealt with properly", APO sent a notification on September 3, 2015 prohibiting the use of MSAs to both FXNZ and FXA, where Mr. A had been working as its MD since April 2015.

(2) October 28, 2015 - Report to Executive Vice President w of FX

APO concluded that based on the decision to prohibit MSAs, 2H FY2015 revenue at FXNZ would likely decline by NZ27 million (42.4 billion) and FXA revenue would decline by AU27 million (42.6bn).

On October 28, 2015, Mr. R, the head of APO informed Executive Vice President w of the impact from the prohibition of MSAs on 2H FY2015 revenue at FXNZ and FXA, then explained that the accounting treatment for XOS deals (a type of GS contact) at FXA would be changed from 1H FY2016. Executive Vice President w approved of this change in accounting treatment for XOS deals at FXA. Executive Vice President w also instructed General Manager R to continue exploring ways to address the expected decline in revenue at FXNZ.

6. Response to "Audit Risk" for Fiscal Year Ending March 2016

(1) K Report

APO removed Mr. B from his position as FXNZ CFO and in January 2016 replaced him with Mr. K. Upon assuming the position of FXNZ CFO, Mr. K discovered a letter from an accounting firm (dated September 3, 2015, noting the need to dispose of losses etc.) that had not been reported by Mr. B, the previous CFO. Upon hearing this news, Mr. T (APO FC) made a business trip to New Zealand for fact finding. While in New Zealand, Mr. K showed Mr. T a report called "FXNZ Accounting Review (K Report). The K Report outlined a series of accounting issues totaling around NZ\$100 million, including NZ\$22.6 million in Macro Adjustments, that the report stated needed to be recognized as losses.

Mr. T and Mr. K selected audit risk items that would likely be pointed out by the independent auditor during the audit if they were not disposed of at the fiscal year ending March 2016. They reported to APO the need to take charges of NZ\$35.7 million (NZ\$7.5 million in additional reserves for Client 1 and NZ\$22.6 million in Macro Adjustments) in response to the audit.

(2) Report to Executive Vice President w of FX - "why are you being so conservative"

Mr. R, the head of APO and Mr. CC, head of APO's Finance Departement, reported to Executive Vice President w on February 18 regarding the need for FXNZ and FXA to recognize the above-noted losses for the fiscal year ending March 2016.

The report indicated that FXA needed to take charges of AU\$32.6 million by the end of the fiscal year, while FXNZ needed to recognize charges worth NZ\$35.7 million, and that in addition at least NZ\$7.5 million was needed for additional reserves for Client 1. The report suggested offsetting the charges with gains of AU\$21.7 million from the sale of an FXA-owned warehouse and gains of ¥900 million on the sale of an FX-owned plant in Korea.

Upon seeing the materials, Executive Vice President w was clearly not pleased, commenting to the effect that they were being "overly conservative", while giving instructions to rank the various items based on expected audit risk.

(3) February 25, 2016 - Report to Executive Vice President w and Deputy President y of FX and Order to Reduce Amount of Loss Disposal

After another risk review together with FX Corporate Finance Department, APO met with Executive Vice President w for the second time, then met with Deputy President y. As per Executive Vice President w's instructions from the first meeting, the explanatory report included the disposal amounts ranked in order of importance, with red (most important) and yellow (important).

Executive Vice President w and Deputy President y both ordered that only the items in red ('most important') for FXA and FXNZ be disposed of in fiscal year ending March 2016 (FXA AU\$17.9 million, FXNZ NZ\$25 million (excludes the additional NZ\$7.5 million in reserves for Client 1; based on further instructions the amount classified as red 'most important' for FXNZ was further cut by an additional NZ\$2.4 million, from NZ\$27.3 million to the actual loss charge amount of NZ\$25 million). At the meeting, it was further agreed to use various gains (sale of the FXA warehouse (¥1.9 billion), sale of the FX-owned plant in Korea (¥900 million), change in consumables inventory valuation method at APO (¥800 million)) to offset the losses of ¥3.6 billion.

(4) February 26, 2016- Report to Chairman and President

On February 26, 2016, the day after the report to Executive Vice President w and Deputy President y, a meeting was held with Chairman HH of FX and President AA of FX, using materials that had been revised based on the instructions from the meetings on previous day, to discuss the proposed charges for the fiscal year ending March 2016. Only the specific items instructed by Executive Vice President w and Deputy President y to be charged in the fiscal year ending March 2016 were shown in the meetings with Chairman HH and President AA.

(5) Remaining Macro Adjustments

After the events above, it was decided that only NZ\$32.5 million in adjustments would be disposed of for FXNZ for the fiscal year ending March 2016 (NZ\$25 million excluding the additional reserves for Client 1, NZ\$7.5 million in additional reserves for Client 1). Based on a review by the independent auditor, however, FXNZ eventually booked NZ\$13.5 million in

additional reserves for Client 1.

In addition, based on the findings of the independent auditor, FXNZ had to prioritize the booking of other bad debt reserves other than for Client 1 as well as reserves against inventory write-downs. As a result, FXNZ was unable to fully dispose of the NZ\$21.2 million of outstanding Macro Adjustments, with some Macro Adjustments staying on the books. This was largely because the NZ\$25 million (excluding the NZ\$7.5 million in reserves for Client 1) in loss disposals had been determined based on the amount that had been expected to be offset by the various gains noted above. Of this NZ\$25 million, Mr. T (APO FC) and Mr. K (FXNZ CFO) had decided on the priority list for the disposals.

(6) Review by Singapore Law Firm

A Singapore-based law firm was hired to review the background of the large losses at FXA and FXNZ.

The Singaporean law firm report identified the Macro Adjustments as being the result of FXNZ's overly aggressive recording of revenue stemming from Mr. A's 'sales first at any cost' culture. MSA were outside the scope of the law firm's review, but the report included comments from interviews with staff discussing the inflated Target Volumes for MSA and over-stated revenue. The report further noted comments from staff stating that the 'sales first at any cost' culture was due in part to pressure from APO to meet harsh targets.

(7) Retirement of Mr. A

On March 31, 2016, Deputy President y, Executive Vice President w and others discussed the report from the Singapore law firm and measures to deal with the issues raised in the report. Deputy President y voiced the opinion that Mr. A. should be dismissed from his position. The findings were reported to Chairman HH of FX and President AA of FX on April 18, 2016, and the decision was made to relieve Mr. A of his duties.

Mr. A was informed that he was recommended to leave the position on May 16, 2016. He subsequently signed a settlement agreement to leave the firm that paid him the full salary and retirement benefit etc. that he would have received had he stayed with the company for the entire term (AU\$1,031,457.62; approx. ¥88 million).

7. May 2016 - Internal Audit and Analysis Department Review

(1) President AA of FX instructs Audit

To prevent a recurrence of similar events in fiscal year ending March 2016, President AA of FX instructed FX Internal Audit and Analysis Department to work with FX's Corporate Finance Department to conduct an on-site audit of FXNZ.

(2) Limiting the Scope of the Audit

Executive Vice President w asked General Manager BB of FX's Corporate Finance

Department to ensure that the audit did not disrupt Accounting, which was in the process of preparing results for the fiscal year ending March 2016. As a result, FX's Corporate Finance Department and FX's Internal Audit and Analysis Department agreed to exclude previous years from the scope of the audit.

(3) Audit Findings

Based on a review of samples of contracts signed in 4Q FY2015 or later, the audit identified improvements, such as contracts properly having minimum payment clauses. However, given that the improvement had only just started, it was agreed that a follow-up review would be conducted in six months.

8. FXNZ Restructuring -'Legacy Losses NZ\$70 Million'

(1) July 22, 2016 – Private Meeting

On July 22, 2016, President AA, Deputy President y, Executive Vice President w of FX, Mr. BB of the head of FX's Corporate Finance Department, Mr. R of the head of APO and Mr. CC (head of APO 's Finance Department) met privately to discuss a reconstruction plan for FXNZ. President AA gave instructions that the members consider why FXNZ ended up with significant losses.

Based on an analysis of historical MSAs (the primary factor behind the major losses at FXNZ), APO calculated that FXNZ faced future losses of NZ\$70 million.

(2) August 23, 2016 – Report to Executive Vice President w and Deputy President y

After further deliberations, Mr. R of the head of APO and Mr. CC prepared a restructuring plan for FXNZ and presented it to Executive Vice President w and Deputy President y on August 23, 2016. The report noted that FXNZ faced 'legacy losses' of NZ\$70 million from previous MSAs, which comprised ORS accruals recognized upfront as revenue, unrecoverable lease receivables and bad debt risk.

(3) August 25, 2016 - Report to President AA

Mr. R of the head of APO and Mr. CC reported the FXNZ reconstruction plan with FX President AA on August 25, 2016. President AA was explained verbally that FXNZ faced future losses of NZ\$70 million due to previous MSAs.

(4) Awareness of the NZ\$70 million in Legacy Losses

As of August 2016, Mr. R of the head of APO and Mr. CC were both clearly aware that FXNZ faced future losses of NZ\$70 million due to previous MSAs. However, while both Mr. R and Mr. CC were aware of this legacy debt as a business risk, the evidence does not support a finding that they were aware of the need for loss-recognizing accounting treatment, particularly given their respective backgrounds (Mr. R had a background in sales; Mr. CC was head of APO's Finance Department but his background was in planning and he had limited accounting

knowledge). The same can be said for President AA of FX.

9. NBR Report, Investigation by SFO

(1) National Business Review Special Investigation: What's been going on inside Fuji Xerox?

FXNZ's financial statements became publicly available on the website of New Zealand's Companies Office (a government agency that provides a publicly available electronic register for corporate financial statements and other statutory corporate information) on September 7, 2016. Shortly afterwards, National Business Review (widely regarded as New Zealand's leading business newspaper) and other media outlets reported on FXNZ, including it posted losses of around NZ\$51 million. NBR subsequently published a special article that included comments from former employees indicating that the inappropriate revenue recognition at FXNZ would go back for several years.

(2) Companies Office, Serious Fraud Office (SFO) Announce Investigations

On September 26, 2016, Companies Office contacted FXNZ regarding the content of the NBR report. FXNZ responded that there had been no inappropriate recognition of revenue in advance. On September 29, New Zealand's Serious Fraud Office (SFO; an organization which is a part of the New Zealand Police) also contacted FXNZ. FXNZ received a compulsory request of production of materials and turned over materials to the SFO. The SFO announced on December 21, 2016 that it had completed its investigation into FXNZ.

(3) Questions from Independent Auditor and Response Scenarios

On October 4, 2016, Accounting Firm 2 said that it would ask about the recent FXNZ media reports in a scheduled interview. After a discussion of how to respond, on October 5 Executive Vice President w instructed to say that the results for the fiscal year ending March 2016 had been approved by the independent auditor and that there were no issues. Deputy President y further instructed to say that the independent auditor had looked at the revenue recognition issue and found nothing inappropriate. In an interview conducted on October 5 by Accounting Firm 2, the reply was that there had been no inappropriate accounting or revenue recognition such as had been indicated in the NBR report.

Both Deputy President y and Executive Vice President w were aware that FXNZ had over-stated revenues. The above instructions were given despite knowing that the responses they instructed were untrue.

(4) Questions from Investor and Response Scenarios

On October 11, a research company and a UK-based investor contacted FH regarding the FXNZ media reports. On October 17, Deputy President y and Executive Vice President w again discussed how to respond to questions from the media and investors regarding FXNZ. Deputy President y and Executive Vice President w agreed to respond by saying that the media reports

indicating accounting irregularities were not factual. This was communicated to FH, and FH responded to the research company and the investor accordingly.

10. December 2016 - Internal Audit and Analysis Department Follow-Up Audit of FXNZ

(1) October 28, 2016 - FX President AA regular meeting with Internal Audit and Analysis Department

According to the minutes of the October 28 regular meeting between FX President AA and the Internal Audit and Analysis Department, FX President AA voiced his opinion "people involved in a problem conceal the problem. Mr. R (the head of APO) says there's no problem. Corporate Finance Department says there is no problem. Executive Vice President w says there's no problem. They tell me that it's a complicated issue and so I might not understand, but there's no problem. Deputy President y says the same thing. That cause doubt".

(2) November 8, 2016 – Deputy President y Regular Meeting with Internal Audit and Analysis Department

According to an email regarding the November 8 regular meeting between Deputy President y of FX and the Internal Audit and Analysis Department, Deputy President y stated that "it should be checked, but there was no irregularities (accounting)" and "the accounting treatments were approved by the independent auditor".

(3) December 2016 - Internal Audit and Analysis Department Follow-Up Audit of FXNZ

The Internal Audit and Analysis Department carried out an audit of FXNZ from December 13 to 16, 2016 as a follow-up to the May 2016 audit. According to Mr. OO of the FX Internal Auditand Analysis Department, they were questioned by APO about going outside the scope when the audit initially touched on aspects that had not been originally included in the scope of the audit, but ultimately they were able to complete the audit with no difficulties.

(4) Report on Findings of Follow-Up Audit

A meeting was held on December 21, 2016 to share the preliminary results of the FXNZ follow-up audit with Deputy President y of FX. The report indicated overall that the situation at FXNZ was improving.

Next, the Internal Audit and Analysis Department discussed the answers it had prepared in response to a list of questions received from the Audit Division of FH. In response to the proposed answers, Deputy President y's instructions were that there was no need to send responses to the Audit Division of FH, saying that 'FX is an independent company'.

(5) Report to President of FX

On December 27, 2016, the Internal Audit and Analysis Department of FX made a report to President AA of FX giving an overview of the follow-up audit of FXNZ conducted earlier that month. However, President AA was not satisfied with the Internal Audit and Analysis Department' report, and instructed further investigation.

11. Developments since January 2017

- (1) January 2017
 - (i) The Internal Audit and Analysis Department of FX made another report to President AA of FX regarding this Matter on January 12, 2017. President AA once again ordered further investigation.
 - (ii) In our interviews with Internal Audit and Analysis Department staff, it was found out that Executive Vice President w of FX had told the Internal Audit and Analysis Department "we are trying to achieve a soft landing so do not rock the boat. We need to think of a way to conclude this Matter or we risk getting audit division involved and losing the trust of FX management."
 - (iii) On January 25, the Internal Audit and Analysis Department once again reported to President AA to discuss the points that President AA had requested be investigated. President AA instructed the Internal Audit and Analysis Department to confirm the situation regarding MSAs with APO. The Internal Audit and Analysis Department subsequently confirmed this issue with APO and reported this information to President AA.
- (2) February 2017

On or around February 15, 2017, notification was received from Accounting Firm 2 stating that the accounting risk (losses) related to the Matter for FXNZ was approximately ¥13.3bn. Mr. UU, head of Corporate Planning at FH shared this information with Chairman VV of FH and President WW of FH.

- (3) March 2017
 - (i) On March 1, 2017, the Internal Audit and Analysis Department of FX reported to President AA that Accounting Firm 2-2 had estimated the accounting risk for FXNZ at a maximum of ¥13.3bn (currency rate: ¥80/NZ\$). Accounting Firm 2 revised its estimate to ¥7.6bn on March 3, 2017.
 - (ii) On March 10, Executive Vice President w of FX responded in writing to FX's corporate auditors regarding the company's response to FXNZ's accounting practices and management controls.
 - (iii) On March 17, 2017, Accounting Firm 2-2 gave notice that it had reason to suspect that fraud had occurred at FXNZ, and that it would be sending official notice (Fraud Letter) on March 20 to FXNZ of its intent to conduct an investigation into the suspected fraud.

12. FX reporting to FH

(1) October 2016

FH-CC received a request for a comment regarding the NBR report from a UK research company on October 11, 2016, and asked FX's Corporate Communications Department about the matter. In response to this, Deputy President y of FX responded to President WW of FH that the over-stated revenue and accounting irregularities indicated in the NBR report were not factual on October 13, 2016.

(2) November 2016

Accounting Firm 2 conducted an audit of FXNZ on October 30, 2016, at which time it determined that there was reason to suspect accounting irregularities had occurred at FXNZ. Accounting Firm 2 reported this audit result to FH's corporate auditors including Mr. XX on November 8, 2016. The Internal Audit and Analysis Department of FX, in response to a query regarding this from FH's Internal Audit Division, reported the facts and findings of the Matter with the FH Internal Audit Division on November 18.

The FH Internal Audit Division received a report from Accounting Firm 2 regarding FXNZ based on Accounting Firm 2's visit to New Zealand.

- (3) December 2016
 - (i) On December 5, 2016, the FH Internal Audit Division reported to President WW of FH regarding the information it had obtained from Accounting Firm 2 (namely, the use of lease contracts based on unclear Target Volumes had resulted in transactions with uncollectible Minimum Payments that were now subject to bad debt write-offs).
 - (ii) The FH Internal Audit Division sent a list of nine items for which it requested action or confirmation to the Internal Audit and Analysis Department of FX on December 6 but no response was received.
 - (iii) On December 20, a full-time corporate auditor of FX gave a report to FH's corporate auditors regarding the FXNZ issues.
 - (iv) On December 21, the Internal Audit and Analysis Department of FX reported on measures being taken regarding FXNZ based on the May 2016 audit results to the FH Internal Audit Division. However, the FH Internal Audit Division was not satisfied with the report and presented further questions to the Internal Audit and Analysis Department of FX.
 - (v) On 26 December, the Internal Audit and Analysis Department of FX responded verbally to the FH Internal Audit Division regarding the additional questions received from the FH Internal Audit Division on December 21.
- (4) January 2017

On January 5, 2017, Mr. SS, head of FH Internal Audit Division, gave an update to FH President WW regarding the FXNZ situation. FH President WW instructed Mr. SS to have FX President AA fully investigate the root causes and where responsibility for the problems exist

and report back to FH Senior Management. The same day, Mr. SS made a strong request to the Internal Audit and Analysis Department of FX that President AA of FX submit his report to President WW of FH before the end of January (ultimately, no report was received in January).

(5) February 2017

On February 15, 2017, Mr. UU, head of Corporate Planning at FH, reported to FH President WW that while FX had estimated the potential losses from the Matter at ¥2.1 billion, Accounting Firm 2 had advised that the potential losses could be as large as ¥13.3 billion.

(6) March 2017

- (i) On March 3, 2017, FX President AA and FX Deputy President y reported to FH Chairman VV and FH President WW that the estimated impact on FX's P&L was around ¥3 billion, and that it planned to offset the losses via gains on the sale of real estate held by FX Taiwan.
- (ii) On March 6, Mr. RR, head of the Internal Audit and Analysis Department of FX, requested Mr. SS, Head of the FH Internal Audit Division, to ask for an assistance from outside corporate auditor of FX.
- (iii) On March 14, General Manager BB of FX's Corporate Finance Department informed Group Manager YY of FH's Accounting Division that, according to Accounting Firm 2, the assumption was that the FXNZ problem included the risk of accounting irregularities, in which case subsequent audit reviews would be carried out in greater detail.
- (iv) Also on March 14, Accounting Firm 2 reported that Accounting Firm 2-2 intended to send a letter on March 20 to the FXNZ board of directors, and that the letter would mention possible accounting irregularities at FXNZ.
- (v) On March 17, Mr. XX and the other FH corporate auditors informed FH President WW that Accounting Firm 2 intended to send out an official Fraud Letter.

Chapter 6 Issues at APO

1. Why the Inappropriate Accounting Practice Could Not Be Prevented at FXNZ, etc.

(1) Lack of Independence at the APO Internal Audit Department

(i) In the internal audit conducted by APO's Internal Audit Department in September 2009, Mr. s of APO's Internal Audit Department discovered that the capital lease requirements had not been met because of lack of Minimum Payment obligations in DSGs, the possible termination of the leases, and other factors. Mr. s indicated in the audit opinion contained in the audit report that the top priorities were that FXNZ should objectively determine DSGs' eligibility as capital leases on a case-by-case basis, that FXNZ should discuss the appropriateness of recognizing DSG sales with APO's FinanceDepartment, and that DSGs that have been discovered should be recorded as operating leases.

However, in response to this, General Manager v of APO's Finance Department decided that (i) the standard contract should be strictly followed for future leases, (ii) FXNZ's senior management should approve any provisions that are deviated from the standard contract on a case-by-case basis (but there was no particular follow-up on these decisions) and (iii) the accounting practice of existing DSGs would not be fixed. APO's Internal Audit Department followed these decisions. Thus, the accounting practice of existing DSGs was not fixed, and subsequently and in the same manner, MSAs with no Minimum Payment obligations continued to be recorded as capital leases at FXNZ.

Audit reports produced by APO's Internal Audit Department are supposed to be given to the president of IBG (FXAP) according to Article 25 of FX's Internal Audit Policy, but as mentioned above, after Mr. w took office as the head of APO in April 2008, APO's Internal Audit Department did not submit audit reports to the head of APO (President of IBG (FXAP)) without approval by General Manager v of APO's Finance Department.

Thus, the independence of APO's Internal Audit Department was impaired, and the opinion of General Manager of APO's Finance Department was followed. Furthermore, it is possible that the accounting treatment was not fixed according to the matters discovered by APO Internal Audit Department because of the insufficient response by the Finance Department at APO, which manages the accounting policies for APO and its affiliated overseas sales subsidiaries.

It is reasonable to conclude that this fact played a key role when considering why this matter could not be prevented or why the damage stemming from this matter became so severe. As mentioned above, the DSGs in fiscal year 2009 amounted to no more than 218 cases and sales of NZ\$34 million, which eventually rose to 1,290 cases and sales of NZ\$81 million in fiscal year 2014 at their peak. It is easy to imagine that FXNZ AMD subsequently allowed the MSAs to increase, seizing the opportunity where the handling by APO's Finance Department (which manages the accounting policy) was insufficient, or even considering that the MSAs were endorsed.

(ii) Mr. x of APO's Internal Audit Department prepared a report during the audit conducted in July 2015 that raised issues about the recording of MSA sales and sent it to APO T FC, however Mr. x did not send it to the head of APO, FX's Internal Audit and Analysis Department, or the corporate auditors. Mr T (APO FC) did not forward that report to anyone, nor did he give instructions to fix the past accounting practice at that time.

It can reasonably be concluded that the failure to share the results of the internal audit with the head of APO, FX's Internal Audit and Analysis Departemnt, or the corporate auditors is one reason why the issue was not fixed at that time.

- (iii) As stated above, it can reasonably be concluded that, the issues were that the change of the company system by Mr. w at APO, which requires APO's Internal Audit Department to report to General Manager of APO's Finance Department, led to the lack of independence of APO's Internal Audit Department, and that appropriate instructions to fix the accounting practice were not issued from APO's Finance Department.
- (2) Inadequate Functioning of APO's FinanceDepartment

APO's Finance Department is responsible for both accounting and budget managing. When taking the appropriate steps in respect of accounting, this dual mandate may have prevented the Finance Department from taking steps because of incentives to achieve the budget, which may have resulted in not handling accounting matters appropriately.

- (3) Concealment by Deputy President y and Executive Vice President w of FX, and Others
 - (i) The main issues about the MSAs that were discovered in the July 2015 audit were reported to Deputy President y and Executive Vice President w of FX at FX's head office, however they did not report those issues to President AA or XC.
 - (ii) Following the K report dated February 12, 2016, APO reported to President of FX, but specific comments, etc. about audit risks regarding Macro Adjustments were removed from the report given to President and Chairman of FX. An earlier version of the report included comments about the risks, which was submitted to Deputy President y and Executive Vice President w of FX.

Later, it was reported to Deputy President y and Executive Vice President w of FX that future loses from MSAs would be NZ\$70 million in the course of a review, etc. about a FXNZ restructuring plan in July and August 2016, but on the other hand, this information was removed from the report materials that were given to President AA of FX.

- (iii) Judging by these circumstances, it is possible that Deputy President y and Executive Vice President w of FX ventured to conceal information by giving instructions to APO, and a proper report was not submitted to President AA of FX or XC. Therefore, it can reasonably be concluded that APO was under the control of Deputy President y and Executive Vice President w of FX, and that their concealment of negative information regarding APO was one reason for the delay in discovering the Matter.
- (4) Insufficient Resources at APO's Internal Audit Department and Physical Distance between Singapore and Oceania

As for accounting practices at FXNZ, the primary expectations are that the Finance Department at FXNZ will properly handle accounting matters, and that the Internal Audit Department at FXNZ will conduct internal audits and fix any inappropriate accounting that it discovers. Secondarily, APO's Internal Audit Department fills the function of monitoring FXNZ so that no inappropriate acts are performed with respect to accounting.

However, the result was that the initial discovery of accounting issues regarding DSGs by APO's Internal Audit Department was during the internal audit conducted in September 2009, and during the subsequent period until July 2015. APO's Internal Audit Department was unable to discover ongoing accounting issues regarding MSAs.

The Committee infers that the reasons for this are as follows.

First, APO manages many subsidiaries of FX in the Asia and Oceania region, and while APO's Internal Audit Department is responsible for auditing all the companies under its management in this region, it is staffed only by two individuals, one manager and one general staff member. Furthermore, there was significant personnel turnover at APO between April 2009 and March 2015, with the management position and general staff position each changing three times.

Thus, APO's Internal Audit Department was hardly able to conduct audits of all the overseas sales subsidiaries each year, and they were essentially conducting audits of only a handful of companies picked up each year. In particular, FXA and FXNZ are physically separated from Singapore by a significant distance, making it difficult for APO's Internal Audit Department to travel there to conduct audits.

Although issues were actually raised concerning FXNZ in 2009, no audit was conducted until 2014, and even then, the focus of the audit was not put on MSAs.

Mr. t resigned from APO's Internal Audit Department in 2014, and according to an exit interview with him, one reason for his resignation was that he was overburdened with job responsibilities.

It can reasonably be concluded that APO's Internal Audit Department lacked personnel and was therefore unable to conduct annual audits, that in the case of FXA and FXNZ especially, it took some time to discover the issues of accounting irregularity because those offices are located so far away from Singapore, and that those could be some of the reasons why the issues continued from 2009 until 2015.

2. Measures to Prevent Recurrence

It can reasonably be concluded that the following points are especially important as measures to prevent recurrence for APO specifically.

 Increase Authority, Provide More Personnel, and Secure Independence at APO's Internal Audit Department

More personnel need to be allocated to APO's Internal Audit Department given that one of the reasons for the delayed discovery of issues at FXNZ in the Matter was the shorthanded staff of only two people positioned there relative to the scope of work that they were supposed to cover.

In addition, the independence of APO's Internal Audit Department needs to be secured, the practice of giving direct reports to the head of APO in accordance with the Internal Audit Policy

needs to be firmly established at a minimum, and if there are any customary business practices left over that contravene these goals, those practices should be abolished.

(2) System Reexamination at APO's Finance Department

The existence of both a section responsible for accounting and another section responsible for managing the budget and results at overseas subsidiaries at APO's Finance Department might be one reason why appropriate accounting treatment was impaired. Thus, it can reasonably be concluded that the system needs to be reexamined, such as by splitting the accounting and budget management divisions.

Chapter 7 Issues at FX

1. Unique Issues of FX

The Committee conducted a survey, etc. and obtained information to the effect that sales in relation to transactions with customers were recorded early to facilitate hitting sales targets in several transactions executed at multiple FX departments. The Committee shared identifiable information with FH to the extent necessary, and it received a report stating that the investigation showed no issues that affect the financial results for the current period.

2. Why Inappropriate Accounting Practice Could Not Be Prevented

(1) Introduction (relationship with APO and FXAP)

FX has Asian Pacific Operations (APO) as the division that manages the Asia Pacific region. APO is a division of the FX organization that oversees sales subsidiaries in the Asia Pacific region, such as FXA and FXZA.

Meanwhile, FXAP is a subsidiary of FX that has sales subsidiaries in the Asia Pacific region, such as FXA and FXZA, as subsidiaries. FXAP's and APO's organizational structure are identical.

APO's head (Executive General Manager of Asia Pacific Operations) holds dual positions, as a Corporate Vice President of FX and President of FXAP.

(2) Inadequate management system at FXAP and APO

(i) The maintenance and operation of the subsidiary management rules for the management of FXAP and the internal rules for APO at FX are unclear.

As stated above, FXAP is a FX subsidiary, but FX has not prepared any management rules regarding FXAP. On the other hand, APO is an organization that exists within FX, and one would expect the decision-making regarding APO to follow certain approval rules within FX.

Some important events occurred with respect to the Matter, including: (a) latent risks were discovered in the MSAs at FXNZ based on a whistleblower letter and email in July and September 2015, and (b) a management restructuring plan at FXNZ was developed mainly because of the risks in the MSAs executed in July and August 2016.

In the Matter, there is no record at FXAP that shows resposes to address risks based on internal rules were considered, even though there were the risks concerning itself and its subsidiaries. On the other hand, the Committee believes that approval procedures at FX were deemed unnecessary according to the approval rules regarding these events at APO. So, it is difficult to say that the above-mentioned rules at FXAP and APO were functioning adequately.

(ii) On the other hand, according to an interview with Mr. R (former head of APO), in the circumstances of the Matter concerning FX, when giving reports to FX regarding APO at the

time, although reports were traditionally supposed to be directed to President AA of FX, reports were actually given to Executive Vice President w of FX at the direction of Executive Vice President w. When considering how such rules were administered, it is evident that clearly written rules were not in place regarding whom APO should report to at FX, and that acutual operation was not based on such rules.

So, when an important decision was made at APO in the Matter, former head of APO effectively took up the matter directly with Deputy President y and the top management at FX, including Executive Vice President w of FX, and effectively obtained sanction within FX by obtaining their approvals. A decision-making process was allowed that insufficient transparency and relied on personal relationships.

(3) Inadequate management system at each subsidiary under APO's management

There are no clearly written subsidiary management rules at FX regarding the direct management of subsidiaries under APO's management. There is a set of rules called the Communication Matrix for FXAP and the subsidiaries under APO's management, but the Matrix does not stipulate provisions about the relationship with FX. Thus, there were no clear rules calling for direct communication with or reporting to FX, even when an important matter arose at a subsidiary under APO's management.

(4) Inadequate management system for information sharing between FX and APO and subsidiaries under APO's management

According to FX's Business Report (for the fiscal year ended March 2016; references to the Business Report below refer to the same report; note that a summary of FX's internal control system is included in Chapter 2), one of the provisions under the "System to Ensure Fair Business Practices at the Corporate Conglomerate Comprising the Company and its Parent Company and Subsidiaries" states that "A system will be built that compels subsidiaries to report to the company regarding important decisions and information regarding financial conditions or management at subsidiaries."

However, due to some causes including irregularities under the management system at APO and its subsidiaries as mentioned above, it is observed that even important information was not being shared between FX and APO or the subsidiaries under APO's management.

(5) Insufficient Transparency in FX Company Rules regarding APO

(i) According to FX's Business Report, one of the provisions under the "system for ensuring that the execution of duties by directors complies with laws, regulations, and the articles of incorporation" states that "Compliance with laws, regulations, and the articles of incorporation will be secured through the establishment of rules regarding compliance with laws, regulations and the articles of incorporation, and rules regarding board of directors, and through the execution of duties by directors in adherence to those rules". However, as noted above, sufficient rules for the management of FXAP were not maintained at FX. Neither were there clear rules on the reporting line from FXAP to FX. In addition, one would expect that matters concerning APO, which was part of FX's organization, would be governed by the approval rules, but the Committee could not find that such rules were complied with. So, the Committee believes that obscure company procedures were followed without a clear understanding as to whether FXAP needed to make a decision or whether APO needed to make one in the Matter.

- (ii) For instance, the Committee could not find in the meeting minutes any record of deliberation taking place at the FX board of directors or the FX Corporate Executive Committee regarding the handling of a reserve in the amount of about NZ\$38 million in FXNZ's financial results for the fiscal year ended March 2016.
- (6) Tendency of Concealment by Deputy President y and Executive Vice President w of FX and Others There was a tendency of concealment regarding reporting of information, in that some of the top management at FX, including Deputy President y and Executive Vice President w of FX, were reluctant to report information that would have a negative impact onbusiness. In other words, as set forth in Chapter 5, some of FX's top management, including Deputy President y and Executive Vice President w of FX, had opportunities to know about latent risks at FXNZ, but they did not make proper information disclosures to the people who should have received them, including Chairman HH, President AA or the corporate auditors of FX, FH, or the independent auditor.
- (7) Inadequate Reporting to Chairman HH and President AA of FX
 - (i) President AA of FX ordered the Internal Audit and Analysis Department to conduct the internal audit in May 2016, and ordered the continuous investigation from December 2016 onwards, but the details regarding the accounting risks of the Matter could not be grasped.

As stated above, the reason for this might be that only Deputy President y and Executive Vice President w of FX, Mr. R (former head of APO), and General Manager BB of FX's Corporate Finance Department, among others, shared important information regarding FXNZ's issues concerning the Matter, and were trying to address the issues unofficially. Therefore, important information about latent risks regarding FXNZ was not quickly reported to Chairman HH and President AA of FX.

(ii) We infer that the cause of the issue might be the personal connections between Deputy President y and Executive Vice President w of FX, both of whom previously worked as managers at APO, and Mr. R (former head of APO), or the personal relationships of the members of the board of directors, but the real cause is unclear. In any event, it cannot be denied that the inadequate reporting to FX's top management, including Chairman HH and President AA, could have led to FX's delayed handling of the issues concerning the Matter. (8) Oversight Function by the Board of Directors Was Inadequate

The Companies Act expects the board of directors to perform an oversight function of the execution of work by each director. However, as stated above, the Committee found no record of deliberation at FX's board of directors regarding the Matter (nor any record of deliberation at FX's Corporate Executive Committee, as stated above), and the board of directors' oversight did not function properly. Therefore, this could be why FX was unable to detect early or prevent the inappropriate accounting practice of the Matter.

(9) Audit Function by Corporate Auditors Was Inadequate

The Companies Act expects corporate auditors to perform a checking function over the directors' execution of work. However, the Committee could not confirm that the corporate auditors had carried out quick and appropriate audit activities regarding the inappropriate accounting practice of the Matter, and consequently the corporate auditors' audits did not function properly.

As for FX's audit system, the full-time auditors of FX and FX's domestic subsidiaries share information at the All-FX Board of Corporate Auditors Meetings that are held once every few months. However, this sharing of information does not happen between FX and its overseas subsidiaries. Therefore, a system that allows FX's corporate auditors to obtain information from overseas subsidiaries is not being adequately maintained, which may be one of the issues.

(10) Issues regarding Internal Audit and Analysis Department

Two internal auditors are stationed at APO and are responsible for auditing, etc. of the overseas sales subsidiaries under APO's management, such as FXA and FXNZ, and they are basically in charge of supervisory audits (when the internal auditors conduct an audit of an overseas sales subsidiary, they discuss the Audit Planning with the Internal Audit and Analysis Department). Therefore, there is basically no mechanism for the FX Internal Audit and Analysis Department to directly conduct audits of the overseas subsidiaries.

As for the Internal Audit and Analysis Department personnel, currently there are only three members assigned to internal audits (overseas) in the Internal Audit and Analysis Department. The Committee is inclined to think that the audits conducted by these staff members of all the overseas subsidiaries may be insufficient.

(11) Issues regarding Corporate Finance Department

The Committee confirmed the following facts based on materials it obtained and interviews it conducted with Group Manager DD and Consolidated Team Manager GG of FX's Consolidated Accounting Group, Accounting Department. According to the facts, FX's Corporate Finance Department harbored concerns about the accounting treatment at FXNZ, but it may not have examined or discussed again the appropriateness of the accounting treatment because General

Manager BB of FX's Corporate Finance Department already approved the accounting treatment of FXNZ, along with Deputy President y and Executive Vice President w of FX.

As the Committee pointed out in each of the chapters above, an accounting department is traditionally supposed to serve the functions of securing appropriateness and implementing the check-and-blance function regarding accounting treatments of a company by using its expert accounting knowledge, and the Committee cannot deny that FX's Corporate Finance Department's failure to perform the appropriate check-and-blance function because of its function of managing results, may have affected the above-mentioned circumstances. This point needs to be examined in an organizational manner.

(12) Sales-Centric Corporate Culture

In the interviews conducted by the Committee, many individuals stated that FX's internal plan was to increase sales in the Asia and Oceania regions at all event, even though domestic sales in Japan were stagnating, and that the local bases of operation were aware of difficult sales targets being set for them as a result.

(13) Insufficient Awareness of Compliance

The Committee cannot deny the possibility that the insufficient awareness of compliance at FX led to the delayed discovery of or contributed to the inappropriate accounting practice of the Matter.

3. Measurs to Prevent Recurrence (Reform Measures)

(1) Rebuilding Subsidiary Management System

The Committee believes that the rebuilding of thorough and clear rules that establish a management system for overseas subsidiaries is a pressing issue for FX. Ideally, the rules should include comprehensive provisions for general management, including the responsible divisions at FX, who to contact at the overseas subsidiaries, a command system, the personnel structure of the overseas subsidiaries, a reporting system, and ways for sharing information.

(2) Strengthening of Objectivity and Transparency in Company Procedures

Clear rules need to be established at FX that lay out the exact procedures to be followed for making important decisions at overseas subsidiaries. At a minimum, it is undesirable to leave the custom or administration method in which the head of the APO or presidents of overseas subsidiaries speak directly to some of FX's management team to get an approval, and by doing so, a de facto consensus is obtained inside FX. In a decision-making process like this, people in or outside the company cannot verify the appropriateness of the decision-making details or procedures, and it therefore may not be possible to prevent an illegal or inappropriate decision.

(3) Fully Functioning Internal Audit and Analysis Department and Strengthened Authority

The Internal Audit and Analysis Department should have a robust organizational system and be granted authority as an audit department under the direct supervision of President. The activities of the Internal Audit and Analysis Department should also be publicized within the company to garner active support internally, and the internal environment and officer and employee awareness need to be reformed so that the Internal Audit and Analysis Department can fully demonstrate its capabilities. Furthermore, audit results from the Internal Audit and Analysis Department should be shared with not only President, but from the perspective of sharing information, FX should also examine an option of building and operating a system for sharing information whenever appropriate with corporate auditors or the board of corporate auditors.

(4) Strengthening of Checking Function of the Corporate Finance Department

Traditionally, an accounting department is supposed to serve the functions of securing appropriateness and implementing the check-and-balance function regarding the accounting treatments of a company by using its expert accounting knowledge, but at FX, the Comprehensive Planning Group of the Corporate Finance Department is in charge of managing the budget and results of overseas subsidiaries, and the focus is more likely to be on the management and achievement of results rather than the management of proper accounting treatments or demonstrating the supervisory function. There is room to rethink the allocation of roles under in this kind of organization.

As an organizational system, FX's Corporate Finance Department could not directly share figures or information about each subsidiary's accounting treatments under APO's management, and in practice APO had to be contacted each time the necessity arises. If FX's Corporate Finance Department is going to secure the appropriateness of accounting practices and implementing the check-and-balance function over the subsidiaries, then a system needs to be built that will enable flexible and unified management of the figures or data of each subsidiary under APO's management, even if there are merits to a unified information sharing system that goes through APO.

(5) Invigoration of the Board of Directors and Corporate Auditors

In the future, an approach is needed that will invigorate the activities undertaken by the board of directors and the corporate auditors through reforming the awareness of accounting and taking other measures.

(6) Information sharing that leverages a whistleblower system

The whistleblower system was inadequately publicized to potential users of the system in July 2015, and it is possible that there are issues concerning whether the system is user friendly. (The whistleblower system is addressed again in Chapter 9.) FX should therefore consider measures for training employees regarding the outline, etc. of the whistleblower system so that it becomes a fully functioning system.

Chapter 8 Issues at FH

1 Why Inappropriate Accounting Practice Could Not Be Prevented

(1) Inadequate Subsidiary Management System

- (i) According to FH's Business Report (for the fiscal year ended March 31, 2016; references to the Business Report below refer to the same report; note that FH's internal control system is as summarized in Chapter 2), there is a statement to the effect that "as a holding company, FH supervises the execution of business by its subsidiaries from the perspective of a shareholder, while also conducting uniformly, efficiently, and appropriately business which is common throughout the Group, and striving to maximize the corporate value of the FH Group" as one of the "Systems to Ensure Proper Operations in Our Group." In reality, however, it is possible that an adequate management system may not have been maintained and operated to manage FX.
- (ii) Firstly, FH has the "Fujifilm Group: Approval Rules for the Execution of Key Operations" as its rules for managing subsidiaries such as FF, but these rules do not apply to FX and FX's subsidiaries and affiliate companies.

Additionally, the standards for presenting matters to FH's Board of Directors are of course structured so that they require compliance by FX, but FX rarely presents agenda proposals.

(2) Structure for Monitoring FX

By having FH's officers attend meetings of the Board of Directors in the role of directors and corporate auditors of FX, presumably there was the expectation that they would fulfill a certain monitoring function. However, this was limited to matters presented to the Board of Directors, and its contribution to the early discovery of risk matters such as the Matter might be limited.

- (3) Inadequate Audit System in the Audit Department
 - (i) According to FH's Business Report, there is a statement to the effect that "FH has implemented a structure to enable FH's corporate auditors and their staff to regularly audit FH and its subsidiaries, in an effort to ensure the appropriateness of business" as one of the "Systems to Ensure Proper Operations in Our Group."
 - (ii) FH's corporate auditors performed audits of FX Head Office twice a year and 10-20 affiliated subsidiaries every year based on an audit plan, but it could be debatable whether this level of auditing was sufficient. Further, there were only three support staff (one of them was a secretary) in addition to the four FH corporate auditors in FH's Internal Audit Division. Therefore, it is possible that the auditing of the FX Group by corporate auditors had not functioned adequately.
- (4) Inadequate Information Sharing Systems

(i) According to FH's Business Report, there are statements to the effect that "by regularly receiving reports regarding resolution matters and report matters of the boards of directors of key FH subsidiaries, and requesting reports on other matters as necessary, FH manages and supervises the important operational executions in the FH Group" and to the effect that "FH proactively promotes the use of IT for the FH Group's operations, and strives to constantly improve the accuracy and efficiency of operational executions" as "Systems to Ensure Proper Operations in Our Group."

However, the reality seems to indicate that it was difficult for FH to obtain important information about the FX Group.

- (ii) Ultimately, FH's officers attending meetings of FX's Board of Directors was insufficient as a system for collecting information on risk matters.
- (iii) It is also unlikely that there was sufficient sharing of information about audits between the companies through the Audit Department's information sharing system.
- (5) Insufficient Information was Collected through Investigation Activities

This also relates to "(4) Inadequate information sharing systems" above, but it is debatable whether FH's investigation activities with respect to the Matter were adequate.

- (6) Relationship with FX's Shareholder XC
 - (i) FX was established as the sales company for Xerox copiers, initially with Japan as its sales territory, through establishing a joint venture between Fuji Photo Film Co., Ltd. (currently FH) and XC in February 1962 with each company investing 50%. Subsequently, FX successfully improved its operating results, expanded its activities to the manufacture and sale of products, and its territory grew to include China and South East Asia, in addition to Japan. Currently, the business is structured so that FX manufactures Xerox products with technology licensed from XC, sells these products to XC, and XC sells these products all over the world.

With this background, Fuji Photo Film Co., Ltd. (currently FH) acquired an additional 25% of FX's outstanding shares, increasing the shareholding in that company to 75% and transformed that company into a consolidated subsidiary (note that FH changed its trade name from Fuji Photo Film Co., Ltd. to its current trade name as of October 1, 2006).

(ii) In the meantime, each sales subsidiary under FXAP that is under investigation in the Matter were XC's sales subsidiaries in New Zealand, Australia, Malaysia, and Singapore. These subsidiaries were transferred to FX pursuant to an agreement between FX and XC to expand FX's sales territories internationally outside of Japan, and were originally under the management of XC as its sales subsidiaries. FXAU and FXNZ with which the Matter is concerned were also entities transferred to FX from XC under such circumstances.

Perhaps due to the such background, according to the interview with FX's Chairman HH,

each of these sales companies under FXAP conducts their business operations in the XC style in some respects, and in some cases has a stronger relationship with XC than FX.

(iii) Additionally, due to the fact that FX was established as XC's sales company in Japan, the content of its business, operating methods, and governance relied on XC's methods, and to the fact that it still uses XC's technology to manufacture and sell products, it seems that the influence of XC – which holds a 25% stake – is undeniably significant. For example, according to UU, the head of the Corporate Planning Division of FH, FX continues to view XC as it were its parent company in some respects.

In other words, while FH is FX's parent company with a 75% stake in FX, it is inferred that FH's minority shareholder XC is assumed to continue to have influence on FX in excess of its shareholding ratio. On the other hand, it is undeniable that there is a tendency at FX of wanting to do the minimum necessary in terms of management, approvals, and reports with respect to FH, which holds a 75% stake.

(iv) This historical background between FH and XC and the relationship between FH and FX have not necessarily found to be the direct causes of the inappropriate accounting practice in the Matter. However, at the very least these may provide the background for inadequate management, supervision, and obtaining of information by FX and FXAP with respect to each subsidiary under FXAP as discussed in the preceding chapter and this chapter, and for FX's reluctance to share information with FH (or FF), and it would seem the possibility that these factors may have indirectly hampered the sharing of information between FH and FX and adequate and substantial management of subsidiaries by FX that could have prevented the Matter is undeniable.

2 Measures to Prevent Recurrence (Reform Measures)

(1) Rebuilding Subsidiary Management System

FH needs to put in place a subsidiary management system that also applies to FX. It should also, as necessary, revise the rules for presenting matters to the Board of Directors and other related rules, and consider implementing a system to involve FH in decision-making at FX above a certain level.

In additional to building these kinds of systems, FH needs to supervise the operational execution by FX on a day-to-day basis and share information by taking measures such as positioning necessary personnels in FX's Board of Directors and corporate Vice President.

(2) Strengthening of Audit System Functions

Firstly, many of FH's corporate auditors also serve as corporate auditors of FF, and we believe that there is a physical limit to the audit activities that can be performed for FX. We think that it may be necessary to consider a system that makes it physically possible to audit FF

and audit FX. We also think that it is worth considering appointing a dedicated corporate auditor at FH to appropriately manage and oversee audits of FF and audits of FX.

Additionally, we believe that there is a physical limit that makes it difficult for FH's Internal Audit Division to carry out adequate audit activities. In other words, the eight members of FH's Internal Audit Division all also concurrently serve in FF's Internal Audit Division. However, such a system may not allow adequate audits of FX to be performed. Normally, it would be necessary for FH's Internal Audit Division to create a system and rules enabling them to audit FX on a day-to-day basis, but we suspect that at present there are physical limits on performing audits of FX. Therefore, it would be beneficial to consider appointing dedicated FX audit personnel or, alternatively, appoint dedicated FH audit personnel. At the very least it is desirable to put in place an organization that includes enough personnel to audit FX.

FH also needs to consider sharing audit-related information, such as by holding liaison meetings between the FH's Internal Audit Division and FX's Internal Audit and Analysis Department. Further, in order for the FH Group to efficiently perform audits, FH needs to consider putting in place a system allowing for more integrated audit activities, such as partially integrating the functions of the FH Internal Audit Division and FX's Internal Audit and Analysis Department or the exchange of personnel.

(3) Information Collection and Sharing that Utilizes Whistleblower System

According to FH's Business Report, there is a statement to the effect that "by establishing contact points ("Helpline") both inside and outside the Group for consulting, communicating, and whistleblowing in relation to the FUJIFILM Group Code of Conduct, the Company and its subsidiaries shall endeavor to detect violations early, and shall handle such matters appropriately" as one of the "Systems to Ensure Proper Operations in Our Group."

Whistleblowing systems are discussed in detail in the following chapter (Chapter 9), but in the Matter, the details of the whistleblower reports at FXNZ, FXAU, and various sales subsidiary under FXAP were not automatically shared with FX, much less FH, which can be cited as an issue with the system. Accordingly, the state of the whistleblowing system in the FH Group, as well as how whistleblower information is shared at FH with the FX Group should be reexamined. Further, for the whistleblowing system to function adequately, providing education, etc. to employees regarding the outline of the system should be considered. These points are as discussed in paragraph 3(6) of Chapter 7.

Chapter 9 Implementation of A Whistleblower System and Monitoring Its Operation

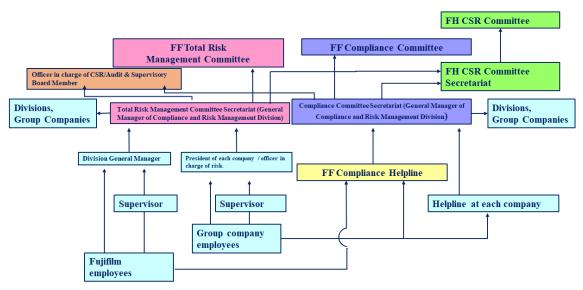
1 Implementation Status of Whistleblower System at Each FH Group Company

(1) Implementation Status of Compliance System in the FH Group

FH does not have its own whistleblower helpline at FH.

(2) FF's Whistleblower System

FF's whistleblower system is as shown in the diagram below. As mentioned above, contact points ("Helpline") for receiving requests, notifications, and reports of findings and concerns related to the Fujifilm Group Code of Conduct and Fujifilm Group Charter for Corporate Behavior have been established, and it is structured in collaboration with FH.

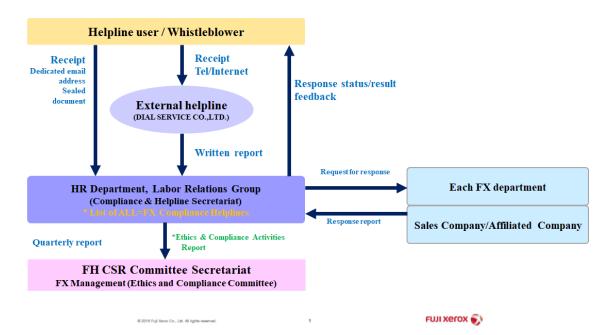


FF Group Consultation Flow Chart (Risk and Compliance Matters)

(Extracted from materials provided by FH)

(3) Implementation Status of Whistleblower Systems at FX and FX-affiliated Companies (All-FX)

On April 20, 2004, the FX Group established the ALL-FX Compliance Helpline Guidelines and implemented the FX Group's own whistleblower system, the Compliance Helpline, separate from the FH Group (see diagram below).



(extracted from materials prepared by the FX Human Resources Department, Employee Relations Group)

(4) Implementation Status of Whistleblower Systems at FXNZ and APO

- (i) FX has issued directions to implement whistleblower systems within the FX Group from 2006. In response to this, implementation of a whistleblower system went forward in the Asia Pacific region under the management of APO, including FXNZ, and currently a whistleblower system is operative in international FX subsidiaries other than FX Myanmar and FX Cambodia (as of April 21, 2017).
- (ii) FXNZ implemented its whistleblowing policy (titled "WHISTLEBLOWING POLICY") (revised as of March 25, 2009). The Whistleblowing Policy sets forth the title name and position of the employee to contact, and as a specific contact point, employees were all made aware of the phone number of the New Zealand government's Employment Relations Infoline. The policy was revised again as of August 8, 2016, and the contact point for FXNZ was changed to a local accounting firm 4. This is how the policy continues to operate currently.
- (iii) Although FXAP put in place a whistleblower system covering its own employees (please see "WHISTLE BLOWING - POLICY & PROCEDURE" dated January 1, 2009), it did not have a contact point for employees, etc. of its overseas subsidiaries.

If a whistleblower reported something at an FX overseas subsidiary under APO, including FXNZ, the details would be reported to the MQO of APO (General Affairs Division), and if the report involved human resources, a report would also go to APO HR (Human Resources Division). Whether the details of a whistleblower communication at each company would be reported to APO was ultimately at the discretion of each company's MD, and there were

differences in how the system was operated at each company. Mr. A's case resulted in a change in the system so that from May 2016 reports regarding the MD of any company would go directly to the MQO of APO, etc. without going through each MD.

2 Operation Status of Whistleblower System at Each FH Group Company

(1) Operation Status, etc. of Whistleblower System at each FH Group Company

A whistleblower system is in operation at the FH Group in accordance with the rules, etc. discussed earlier. In addition to the handling of all types of matters, there is information sharing by the FX Group through regular reports such as the Ethics and Compliance Activities Report and the Risk Management Activities Report from FX.

(2) Operation Status of Whistleblower System in the FX Group

There is a whistleblower system in operation in the FX Group in accordance with the rules, etc. discussed earlier, and as mentioned in (1) above, there is information sharing by means of regular reports, etc. to the FH Group.

On the other hand, the All-FX Compliance Helpline is believed from the provisions of the rules to include as users FX's international subsidiaries, etc. (Article 3(3) of the "ALL-FX Compliance Helpline Operational Rules"), but it is actually premised on use by FX and its Japanese subsidiaries, and there have been no cases of an FX international subsidiary, etc. directly contacting the helpline. Additionally, we could not find any signs that indicated thorough utilization of the system, such as making all employees aware of the actual existence of the All-FX Compliance Helpline, and in substance, presumably, the FX whistleblower system was actually operated in a way that restricts its use to FX and its Japan affiliated companies.

Further, as discussed above, there is still no structure in place for matters reported by whistleblowers at each international subsidiary under FXAP to be escalated to whistleblower reports to APO or from APO to FX.

(3) Operation Status of Whistleblower System at FXNZ

[XX] (non-disclosed) reports regarding FXNZ were confirmed for the period from September 2015 to February 2017, but there was no record of use of the whistleblower system prior to that. Taking into account facts such as that FXNZ's policy with respect to the aforementioned whistleblower reports did not provide a specific contact for receiving reports, it is possible that, as of July 2015, education of potential users about the whistleblower system was insufficient, and there may have been issues as to the ease of use of the system.

The whistleblower email in the name of Tony Night in July 2015 did not use the FXNA, APO, or FX Group whistleblower systems.

In light of the fact that the email was sent to multiple recipients with addresses that would not be known unless one were involved with the company, we presume that it was sent by someone in the FX Group.

We believe that it is possible that the person using the name Tony Night intentionally avoided using the whistleblower systems because they either did not know the existence of the FXNZ or FX Group whistleblower systems, or had doubts about the trustworthiness or effectiveness of the whistleblower systems, or for other reasons.

Chapter 10 Audit by the Accounting Auditor

In conjunction with the term of office of FH's accounting auditor expiring at the close of the ordinary general shareholders' meeting held on June 29, 2016 (the term of office under the Companies Act is one year), FH considered the number of continuous audit years, etc., and decided to change the accounting auditor. At the end of the fiscal year ended March 2017, FH switched from accounting firm 1-1, with which the predecessor accounting auditor was affiliated, to accounting firm 2-1. In conjunction with the change of the accounting auditor at the parent company, FF and FX, subsidiaries of FH, also changed the accounting auditor at the same time following the request of FH.

FH is a listed company and undergoes an accounting audit by a certified public accountant required in the Financial Instruments and Exchange Act (the audit is governed by US GAAP) as well as an audit by an accounting auditor based on the Companies Act. FF and FX (including their domestic sales subsidiaries and other subsidiaries) are non-listed subsidiaries, and they undergo audits by an accounting auditor required in the Companies Act. Other overseas subsidiaries undergo audits by overseas auditors in each of the countries where the subsidiaries are located by the same member firm as the accounting auditor of the parent company, the accounting firm 1 global member firm in the case of accounting firm 1-1, and the accounting firm 2 network firm in the case of accounting firm 2-1. According to Accounting Standards Committee Statement No. 600 "Group Audits" published by the Japanese Institute of Certified Public Accountants (the "Group Audits"), an accounting auditor should be treated as an "other auditor" under the audit system, even if the auditor is an overseas accounting auditor should be treated with the same member firm, etc.

1. Status of Audits by Predecessor Accounting Auditor and Successor Accounting Auditor

Accounting firm 1-1, the predecessor accounting auditor, conducted an audit of FH's consolidated financial statements for the fiscal period ended March 2016, and also conducted an

audit of subsidiaries FF and FX, and their domestic sales subsidiaries and other subsidiaries (the "FH Group Audits").

Accounting firm 2-1, the successor accounting auditor, conducted an audit of FH's consolidated financial statement for the fiscal period ended March 2017 (April 1, 2016 to March 31, 2017), an audit of subsidiaries FF and FX, and their domestic sales subsidiaries and other subsidiaries, and in other words an audit of the FH Group. It also submitted an independent auditor quarterly review report for the consolidated financial statement up until the third quarter (December 2016). At this stage of this Investigation by the Committee, Accounting firm 2-1 is still conducting audit procedures for the period ended March 2017.

2. Occurrence of the Matter and Subsequent Handling by Each Accounting Auditor

An article was published in a New Zealand newspaper on September 22, 2016 that blew the whistle on accounting irregularity. The audit team at accounting firm 2-3 contacted the audit team at accounting firm 2-1, the successor accounting auditor, and it was the first time the Matter came to light. However, it is recorded that FX's and FXNZ's explanation was a false account at odds with facts in the interview conducted by the audit team at accounting firm 2-1 with FX's Legal Affairs Department and the interview conducted by accounting firm 2-2 on October 31, 2016 with FXNZ's management team. Accounting firm 2 conducted a review of the audit report prepared by the predecessor accounting auditor as well as an interim audit to continue the audit agreement, which led to planning the implementation of additional audit procedures regarding the fiscal period ended March 2016 and earlier periods. That, in turn, led to a briefing by accounting firm 2-2 on February 9, 2017 regarding the existence of some circumstances regarding the Matter and a report to FH's Accounting Division and the corporate auditors. Further, a series of conference calls were held with accounting firm 2-2 from February 14, 2017, during which the following points were discovered for the first time: that an internal person blew the whistle in the past, that statements were included in the results of FXNZ operations investigation conducted by another accounting firm and in the results of interviews of FXNZ conducted by a law firm suggesting the existence of the Matter, and that an investigation team was dispatched from FX to FXNZ to do an on-site investigation.

Under these circumstances, and after several requests to FXNZ, accounting firm 2-2 submitted a letter regarding suspicion of wrongdoing on March 21, 2017 titled "Accounting Firm 2 Fraud Letter". With that, accounting firm 2-1 told President of FH, the full-time corporate auditor, General Manager of Audit Department, and the group head of accounting that there may be a material impact on FH's consolidated financial statements and that it had determined that opening a formal investigation was necessary.

The Committee believes that after this, accounting firm 2-1 began to consider the necessity, etc. of adding audit procedures to address new audit risks in light of the results of the investigation

conducted by FH's internal investigation team and the developments yielded in the investigation conducted by the Committee.

The Committee also believes that accounting firm 1-1, the predecessor accounting auditor, began to consider the necessity of adding audit procedures for previous fiscal years to address the newly identified audit risks in light of these investigations, etc., in the same manner as accounting firm 2-1.

3. Evaluation of the Audit Results Produced by Accounting Auditor

The audits conducted by both accounting auditors before the Matter arose are stated in 1. and 3. above. However, as stated in each of the matters above, ultimately the audits conducted by the accounting auditors failed to prevent the occurrence of the issues concerning the Matter at the FH group or detect them early.

The Committee infers, as stated in the summary of each matter above, that the following events affected this situation: that internal controls were thwarted by collusion between related parties, that fabricated audit evidence was submitted and false explanations at odds with fact were given to the accounting auditor, that there was accounting irregularity at companies outside the scope of audits that were deemed not important for audit purposes, and that the accounting auditor—an independent third party that was not authorized to directly or forcibly investigate the facts concerning outside related parties who were outside the FH group—had difficulties collecting facts, etc. as audit evidence that were at odds with the company's explanations in the course of the audits.

The purpose of this investigation was to investigate specific lease transaction issues, the existence of similar issues, and the facts at overseas sales subsidiaries, to analyze the cause of the issues, and to suggest measures to prevent recurrence. Further, because the section "Other Matters Deemed Important by the Committee" was added, the Committee considered whether it would be appropriate to include an evaluation of the appropriateness of the audits conducted by the accounting auditors. However, to evaluate the appropriateness or suitability of the results of an accounting auditor's audit of consolidated financial statements, each accounting auditor usually needs to evaluate the overall framework of the business being audited (programs and systems) regarding all the subject fiscal years, and to comprehensively and specifically investigate and evaluate retroactively the individual audit reports covering all the individual audit procedures. The Committee concluded that it would be difficult to thoroughly investigate and evaluate all these in this Investigation.

Chapter 11 Reasons Why the Inappropriate Accounting Practice Could Not Be Avoided

Our analysis of the causes of the inappropriate accounting practice in the Matter is as respectively stated in Chapter 3, Chapter 4, and Chapters 6 through 8. While the issues that occurred in New Zealand and Australia and their causes have much in common, the issues at APO (Chapter 6) are issues of a different dimension (this is shared with the issues at FX as set forth in Chapter 7), and the issues at FH (Chapter 8) can be said to be an even different issue.

Accordingly, below we will first examine the issue of the "sales pressure" that is pointed out in Chapter 3, Chapter 4 and Chapter 6, and thereafter, we will discuss the material issues behind the causes raised in each chapter.

1. There Was Pressure with Respect to Sales

In the interviews in this Investigation, a number of the interviewees (APO-related people) said that pressure from FX to attain business results (especially to achieve sales) was very intense. In particular, people who were involved in budget allocations and personnel evaluations at FXAP from around 2009 through 2015 uniformly made statements to the effect that with the economic decline and slowdown of growth in Japan, there were expectations from all of FX for the China and Asia region to act as a driving force to restore business performance, and the regions attracted their attentions.

If one looks at the budget formulation materials from that time, for example, in the December 2009 FX Corporate Executive Committee materials titled "FX FY2010 Budget Compilation Policy (Draft)", in the context of how to achieve growth, there is the statement, "capturing opportunities in growth regions > AP China growth strategy". In the February 2010 FX Corporate Executive Committee materials titled "FX FY2010 Budget (Draft)", on the page titled "Direction to Aim For in FY2010," as a budget formulation emphasis item, there is the statement "Driving FX consolidated earnings through growth that is greater than the GDP expansion of each country" with respect to "growth by active investments in the Asia/China market." Also, in the July 2010 FX Corporate Executive Committee materials covering the second half of 2010, it is possible to find the expression "Growth in Asia/China" as one of the second-half budget formulation themes (next to business performance turn-around: return to sales volume of 1 trillion yen "Mo iccho yaruzo!!" which has a double meaning of "Do one more time" and "Achieve one trillion" in Japanese). From the fact that growth in Asia/China was repeatedly raised as a topic at the Corporate Executive Committee and the ardor of "Mo iccho yaruzo!!" at FX, which always strictly managed budgets, it is not difficult to imagine that FX headquarters was placing considerably strong expectations on the officers in charge of AP at that time. Strong expectations from management frequently become strong pressure on subordinates.

Furthermore, from a survey conducted by the Committee, facts have come to light such as excessive pressure to achieve sales is also seen at FX offices in Japan, that some business divisions

are directed to come up with "pride values" (the figure to achive with one's pride at stake), and the "pride values" were used as a tool to push staff to achieve targets for fiscal year 2016.

In light of the sales-centric corporate culture at FX, and given that the Committee perceived these kinds of facts through the Investigation, it is strongly suggested that setting aside Japan, at least at the sales subsidiaries under the APO umbrella, there probably was severe pressure to achieve sales coming from the FX headquarters through APO already at the time around 2009 when the lease transactions that became an issue in the Matter came to be actively carried out. Furthermore, it can be found that this strong expectation by FX management towards achieving business results was a company-wide tendency of not only the Asia region covered by APO, but the FX Group, including within Japan.

2. Causes of the Inappropriate Accounting practice related to the Matter at FX, FXNZ and FXA

(1) The Finance Department at APO also was Responsible for Financial Performance Management

That the APO Finance Department, in addition to having accounting and finance check functions, also performed the role of performance management, can be raised as one of the main causes of the inappropriate accounting practice carried out at FXNZ and FXA. This is said to be the FX group's traditional culture, but there were great expectations from FX headquarters for the region under APO's control to be the driver in performance recovery. Accordingly, at a time when naturally this was viewed by senior management (at the time, APO's CEO was Mr. w) as a top priority (and accordingly, as is seen in 1 above, given the strong pressure towards achieving business results), since the same person was in charge of both functions, it can be surmised that even if it is an inappropriate accounting practice, the approach was to find some way not to bring about an adverse impact on achieving business results, and that there was a sense of crisis that measures had to be taken to achieve the goal. The head of APO's Finance Department at the time, Mr. v, on instructions from the head of APO, Mr. w, made the internal audit function ineffective by intervening in the internal audit reporting line and trying to give "suggestions"; it is difficult to conclude that there was no relationship between his position and the pressure that was APO was subject to. Of course, Mr. v was the person responsible for ensuring that proper accounting practices were followed in formulating accurate financial statements for the firm; that he was also responsible for financial performance management is obviously not a justification for his inability to fulfil these responsibilities.

In any event, the fact that internal control restraints did not function because APO's finance department also was responsible for financial performance management functions is one of the important causes that brought about the inappropriate accounting practice in the Matter.

(2) Corporate Culture of Concealing Information from Accounting Auditors and Stance on Accounting Audits

In interviews in the Investigation, a number of people related to this Matter, from Mr. T, Mr. CC, and the head of APO, Mr. R., staffs of the FX's Corporate Finance Department, right up to Mr. w whois an Executive Vice President of FX, and the head of APO (Mr. R's predecessor) and moreover, Mr. y, FX Deputy President, stated that they had no awareness that the recording of sales based on a MSA that does not meet conditions as a capital lease is "accounting irregularity". When asked the reason for that, they answered, "(this process) had cleared the audit (up to the prior fiscal year)" and "since no comment was made in audits until then, I thought there was no problem." On the other hand, all of them understood that the MSAs that fell short of Target Volumes (particularly those that have no provision for the client to pay a Minimum Payment), though large sales are recorded at the time of lease inception, entailed risk in terms of recovering the full transaction amount from the start, and as a result are transactions that are sales with no substance, and further, it is conceivable that at least FX Deputy President Mr. y, Executive Vice President of FX Mr. w, and APO accounting member (at the time) Mr. T understood also that they do not meet the lease accounting requirements listed as assumptions in the written opinions by the two independent auditors in 2009. While understanding that (however, to what degree they understood, including accounting significance, differs for each of them, and the degree of their understanding differs slightly), they concealed that reality from and did not report it to the independent auditor that was in charge of audits, and they reasoned that if no comment was made in an audit, it had "passed the audit" (in other words, it was determined as not having any accounting issues).

However, according to the following listed statements made in interviews with Deputy President y and Executive Vice President w, it would not be going too far to say that a unique attitude and approach towards accounting audits was prevalent throughout FX. That is to say, it cannot be denied that the culture of concealment when giving explanations to independent auditors conducting accounting audit and the misunderstanding of accounting audits became an underlying cause of the inappropriate accounting in this case, and delayed the opportunity to discover and prevent inappropriate auditing.

- Even if there is a gray area in the accounting process, there is no need to actively report that to the independent auditor, and it is sufficient to deal with it if it is raised in the audit;
- Even if the independent auditor says that there is an audit discrepancy, it is not necessary to accept all of those findings, and it is FX's tradition that FX may reject the auditor's findings;

- FX's approach was that it is not necessary to talk to the independent auditor until the policy was decided within FX regarding (for example) to what extent reserves would be booked (even in the case of a 'gray' accounting area that might be subject to a comment by the auditor);
- We have to try our best (a comment made to an accounting department employee who noticed that there was ¥2 billion of unrealized earnings that still have not undergone consolidated elimination in past account settlements and sought for a policy for dealing with it);
- The approach was, (even if there was something that the person himself thought was 'gray' accounting) if it is not made a topic by the auditor, since it was not raised as an issue up to now, it will be sufficient if we keep quiet about it for this period and it is dealt with in future periods, and it's fine if we do not raise everything all at once during this period's accounting; and
- We think that an audit is for getting a seal of approval for the accounts that we submitted, and the auditor isn't doing it for free.
- (3) There was Pressure from Management on APO's Internal Audit Department

That the internal audit departments in the FX group (especially APO's internal audit department) did not satisfactorily perform their expected roles also is one of the major causes of the inappropriate accounting practice in New Zealand in this case and that accounting not having been corrected for a long period of time also on the FXAP consolidated accounts. As mentioned in Chapter 6, if as of 2009 there had been a correction of direction so as not to post sales based on MSAs that do not satisfy capital lease conditions, even if it had not been possible to entirely avoid the inappropriate transactions, etc. by Mr. A in New Zealand, at least that kind of situation of the expansion of losses due to the MSA overuse probably could have been avoided to a considerable degree.

However, according to facts discovered through the Committee's investigation, the manager in 2009 of APO's internal audit department, Mr. s, apparently strongly refused to back down to Mr. v on the point that said lease posting of sales based on MSAs cannot be accepted, and because Mr. t, who took the post of manager after Mr. s was transferred to the Philippines on Mr. v's recommendation, also received "advice" from Mr. v to the extent that as a result a revision of the audit report was unavoidable, it can be said that APO's internal audit department at the time endeavored to fulfil its responsibilities. That being the case, there must have been all the more pressure from the APO management at the time to the extent that those internal audit department functions were rendered ineffective.

(4) There were Shortcomings in Management System for Foreign Subsidiaries (particularly the Oceania region)

While as mentioned above there are a multiple causes and background circumstances that conceivably resulted in the inappropriate accounting practice in the Matter, it can be said that the inappropriate accounting would not have occurred at the scale of the New Zealand revised amount in the Matter and the revised amount in Australia if at the time that Mr. A was MD in New Zealand and Australia MSAs that lacked Minimum Payments clauses had not come to be made and if lease transactions in which actual volume greatly fell short of target volume had not been overly used. Accordingly, the fact that there were shortcomings in the management system for foreign subsidiaries (particularly sales subsidiaries in the Oceania region) by FX through APO also must be said to be one of the major causes in this case.

Indeed, according to interviews with those concerned, when FX purchased FXNZ and FXA from XC in November 1990, the FX management decided to place these Oceania region sales companies under the umbrella of APO and manage them in Singapore, but unlike many of the other sales subsidiaries under the APO umbrella, people sent from FX headquarters (people who have a certain understanding of Japanese corporate management) were not placed in top positions, and without making changes to management personnel and the like. FX management allowed the existing management methods that were conducted as XC group companies to be followed without change for the time being. It is said that because British Commonwealth countries such as Australia and New Zealand greatly differ from Asia in culture, religion, and racial makeup, the approach was not to bring about an adverse impact on local business (where until then business had been going well) by suddenly introducing so-called Japanese management.

Certainly, we believe that there is reasonableness in maintaining management of sales aspects in order to maintain relations with the existing sales system and customers, but we believe that it may have been necessary to develop FX's audit system with APO as its subject through personnel and system improvements and the like in the accounting and audit departments in order to prevent local managers from being out of control.

Furthermore, it is recognized that borrowing by FXNZ (loan volume within the group) expanded excessively in relation to its size and sales volume, and this also is thought to have been one sign foretelling the Matter, but FX's Corporate Finance Department and APO also unthinkingly continued lending, and did not carry out any particularly detailed investigation. It can be observed that this too is a fact that indicates that the audit system did not function sufficiently.

Moreover, it can be pointed out that a fundamental problem in FXNZ is the coexistence of the sales company and the lease company, and their representative being the same person. Practically speaking the screening of transaction details by the lease company at the time of equipment sales brings to bear a certain check function, but in the Matter the representative at FXNZ is one and the same person, and as a result lease agreements that target transactions for which demand is

diluted are unthinkingly continued. FX tacitly approved maintaining a system at FXNZ that easily resulted in wrongdoing notwithstanding FX, in light of the function of a lease company in business, having conducted so-called third-party lease transactions through outside lease companies that are not with FX's own group.

Management of a foreign subsidiary is an extremely difficult problem, but over 25 years have passed already since the purchase of FXNZ and FXA, so it probably can be said that the time had come when it would have been appropriate to implement some sort of policy to effectuate subsidiary control by FX while controlling any adverse impact on local business. Viewed in this way, here again the shortcomings in the management system and business system of foreign subsidiaries (particularly Oceania region sales subsidiaries) by FX group through APO must be said to be one of the major causes in this case. We also note that whereas the business size and sales volume of the sales subsidiaries that are under APO's control have grown at least several times over the time since APO was established, the size of the management department remains largely unchanged, so it is clear that there existed a problem with physical response capability.

Chapter 12 Measures to Prevent Recurrence (Proposals)

Although we have already proposed various measures to prevent recurrence, in this chapter we summarize below the measures to prevent recurrence that the Committee believes are especially important to propose with respect to this Matter.

1. Proposals with respect to FX

(1) Rectification of the Lack of a Sense of Ethics and Honesty when Preparing Financial Statements As can be judged from what has been seen up to this point, it must be said that some of FX's officers and employees have lacked a sense of ethics and honesty when preparing the financial statements. This lack of a sense of ethics and honesty also gives rise to the misunderstanding with respect to accounting audits that can be seen from the culture of concealment and the "we have to try our best" statement mentioned in section 2 of Chapter 11. We believe that FX's management lacked an awareness or perspective of honesty towards the stock market and investors because FX is not a listed company. However, as a major company whose name and products are widely known around the world, FX has a responsibility to society. In addition, it indirectly participates in the stock market through disclosures in the consolidated financial statements of its parent company (FH), so it also has an impact on the investment decisions of investors. FX needs to rectify this lack of a sense of ethics and honesty when preparing financial statements with a sense of self-awareness, and it needs to bear its share of the social responsibility to produce and disclose appropriate financial statements and fulfill the responsibility to explain them to investors.

FX requires "strength" in numbers for sales and industry market share, etc., and by applying excessive pressure on employees through an overly sales-centric mindset, it is possible that FX may have pushed employees into a situation in which they could not help but to adopt inappropriate accounting practices that are not ethically permitted.

In order to be a company that is trusted by society, we believe that guidance and education for officers and employees is essential to realizing an open, fair, and clear corporate culture, which is the FH Group vision.

(2) Management Department Reorganization — Separation of Financial Performance Management from the Administrative Jurisdiction of the Accounting Department

As discussed in section 2 of Chapter 11, APO's Finance Department normally would be expected to act as a control function by ensuring the proper application of accounting practices with expert accounting knowledge. Having APO's Finance Department be responsible for a financial performance management function in addition to its accounting function is one cause of the inappropriate accounting practices that occurred in the Matter. Therefore, APO's Finance Department should quickly be reorganized. Specifically, the financial performance management and accounting functions should be separated into different departments, and their respective department heads and responsible officers should be different people.

Furthermore, in interviews during our Investigation, we obtained statements to the effect that the accounting department having these two functions at the same time was in line with the traditional culture of the FX Group. In fact, FX's Corporate Finance Department also contains a comprehensive planning group that is responsible for financial performance management, so FX is also in a state where accounting practices and financial performance management are conducted by the same department. As with APO, some type of systemic improvement should be considered.

(3) Securing Independence and Sufficient Staffing for Internal Audit

APO's Internal Audit Department having not functioned effectively is another cause of the inappropriate accounting in the Matter. However, as described in section 2 of Chapter 11, this is due to APO's management at the time having intervened in APO's Internal Audit Department to the point where it was rendered ineffective. We understand that in the past, the internal audit department was staffed with individuals that, like Mr. s (head of APO's Internal Audit Department in 2009) would express necessary opinions to the CFO at the time. In order to restore and strengthen the audit function of the internal audit department in the FX Group (i.e., the Internal Audit Department at APO), there is an urgent need to secure the independence of the internal audit department and to secure superior personnel, including an increase in staffing.

In addition, although FX's internal audit department investigated FXNZ, it ultimately did not lead to the early discovery of the Matter. This suggests that FX may need to review its internal audit department from both a personnel and organizational perspectives.

(4) Review of the Management System for Overseas Subsidiaries (particularly the Oceania region)

As described in section 2 of Chapter 11, we believe that it is difficult in some respects for Japanese companies to manage overseas subsidiaries (particularly those in Commonwealth nations in the Oceania region). This is a deep-rooted problem, and it is doubtful that it can be rapidly improved in a short period of time. However, efforts should be made to ensure that appropriate personnel are appointed as top management, and the systems and methods of subsidiary management are revised so that FX headquarters, and FH as well, can keep an eye on its overseas subsidiaries.

It is obviously necessary to still take care in the future to not have an adverse impact on local business, but a situation that is close to being out of control must not be leftjust because of an excess of concern about adverse impacts on local business. A system for communication and monitoring that is sufficient to ensure management transparency and to bridge the physical distance should be constructed.

In addition, as was mentioned in section 2(4) of Chapter 11, it is possible that a business structure that operates an equipment sales company and a leasing company within the same corporate group may induce inappropriate transactions, and it is desirable to take some type of quick countermeasures regarding the current operation of each company at each overseas subsidiary under APO's control.

2. Proposals with respect to FH — Necessity of Governance of FX, Stimulating a Sense of Unity within the Group

It must be pointed out that the background of the current matter is that FH was not able to, or did not, sufficiently control FX. FH has increased its equity ratio in FX from the previous 50% to 75%, and it has still permitted FX a certain level of independence even after 2001, when it came to control FX through its capital relationship. A sense of unity like the one seen between FH and FF cannot be found between FH and FX.

For example, that is immediately obvious if one looks at both companies' websites, where one does not even get the sense that the two share a direction, let alone a sense of unity as group companies. They merely share "FUJI" in English or Japanese in part of their company names, and have posted small banners or URLs for the other company on their respective websites. Despite the fact that the parent company sets the goal of an "open, fair, and clear corporate culture" in its corporate philosophy, "open, fair, and clear" cannot be found anywhere on FX's website, and FH's slogan "Value From Innovation" also seems to never be skillfully used or introduced in any

advertising or investor relations pages on FX's website. It is undeniable that feelings like the yearning for autonomous management that was desired by FX's management while caught between two major shareholders is in the background of this type of independence on the part of FX, its sales-centric mindset and the distorted view towards accounting that derives from the mindset.

However, in order to prevent problems like the current Matter from repeating, as the FH Group, we believe that FH needs to seriously consider exercising more control over FX. Whatever issues may lie in the background, FX's sales-centric mindset and the distorted view towards accounting that derives from it must be corrected. There is a concern that the same problem could arise in the future unless FH skillfully takes hold of FX: FH may need to remain aware of certain points when exercising control, but we think FH needs to provide strong guidance to ensure rotten parts of the company are removed as noted above, namely the lack of a sense of ethics and honesty when preparing financial statements, ensuring the separation of administrative jurisdiction of the accounting department and the financial performance management function, correcting the problem of the internal audit department and other internal controls being rendered ineffective due to interventions by management, and correcting the issue of excessive pressure to reach sales targets.

In order to realize the appropriate governance of group companies, FH needs to reconsider the proper system of management and administration functions and human resources in the organization, including at FX, and to carry out a company-wide reorganization aimed at achieving a more robust framework for compliance system and internal controls.

End

Investigation Report

June 10, 2017

This document is an English translation of the Investigation Report (the "Report") provided to FUJIFILM Holdings Corporation ("the Company") by the Independent Investigation Committee dated on June 10, 2017. The Report in Japanese is the original and English translation shall be used only for the reference. Due to the limitation of time for the preparation of the English translation, this document is subject to further review and change. In the event of any discrepancy between the Japanese original and this English translation, the Japanese original shall prevail. The Company makes no assurance and warranty with respect to the completeness and accuracy of this English translation and assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising out of the translation.

FUJIFILM Holdings Corporation – Independent Investigation Committee

To: FUJIFILM Holdings Corporation

By: FUJIFILM Holdings Corporation – Independent Investigation Committee

Committee Chairman: Taigi Ito

Committee Member: Kyoichi Sato

Committee Member: Koji Nishimura

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[Glossary]

Term	Description	
Monthly	The minimum monthly usage charge stipulated in an agreement. Even if the	
Committed	actual usage is significantly below the target volume, loss can be avoided to	
Payments	the extent of the minimum usage.	
Individual Entry	An accounting practice that records revenue that is higher than the actual	
	revenue, thereby improving financial results or financial conditions.	
Residual Values	Residuals values of equipment at the end of a term of lease agreement.	
Sponsorship Cost	The cost incurred by FXNZ to provide funding support or to supply	
	furnishings free of charge to universities and other organizations that	
	purchase equipment.	
Third Party	When FXNZ wins a customer from a competitor, the payment FXNZ makes	
Settlements	on behalf of the customer to pay the lease balance the customer has at the	
	time with the competitor it had a contract with. This is believed to be an	
	industry practice.	
Target Volume(s)	The monthly target copy volume regarding MSA or GCSA adopted at	
FXNZ.		
Internal Interest	An issue whereby a contract with an interest rate lower than the target	
interest rate at FXNZ is executed, resulting in entries that increase F		
	interest revenue and MARCO's operating expenses at the end of the month.	
Committee	The Independent Investigation Committee.	
Investigation	This investigation by the Committee.	
Report	The investigation report by the Committee.	
Macro	An accounting practice that records revenue higher than the actual revenue	
Adjustments	or an expense lower than the actual expense, thereby improving financial	
	results or financial conditions.	
Click Rate	Unit price per copy according to contracts such as MSA or GCSA.	
Minimum	Minimum lease payments	
Payments	Payments	
(Contract)	t) Transition from an MSA or GCSA, which has a contract term of several	
Rollover(s)	ollover(s) years, to a new contract at a lower unit price before the initial contract	
	expires in order to record a new sale of equipment.	
AGM	Annual General Meeting	
All-FX	All FX Group companies	
APO	FX's Asia Pacific Sales Headquarters or Asia Pacific Operation	

BSG	Business Support Group (a division within FXNZ)	
СА	Customer Admin (a division within FXNZ)	
Click	Unit price per copy according to contracts such as MSA or GCSA.	
CEO	Chief Executive Officer	
CFO	Chief Financial Officer	
DGC	Deal Governance Committee	
DGM	Deal Governance Meeting	
DGP	Deal Governance Process	
DSA	Document Services Agreement (a type of contract)	
DSG	Document Services Group (a type of contract)	
EDSA	Education Document Service Agreement (a type of contract at FXNZ for	
	educational institutions)	
ELT	Executive Leadership Team	
FC	Financial Controller	
FF	FUJIFILM Corporation	
FH	FUJIFILM Holdings Corporation	
FH-CC	Corporate Communications Office (Public Relations and IR departments) of	
	FH Corporate Planning Division	
FINCO	Fuji Xerox Finance Limited, a New Zealand corporation (A financing	
	company of FXNZ. MARCO and FINCO together comprise FXNZ. FXA is	
structured similarly. Lease receivables are recorded at FINCO.)		
FSMA Full Service Maintenance Agreement (service sales from finance		
	contracts)	
FX	Fuji Xerox Co., Ltd. (an FH subsidiary with 75% equity held by FH)	
FXA	Fuji Xerox Australia Pty. Ltd. (FX's overseas affiliated company (sales	
	company) in Australia)	
FXAU	A collective term for FXA and FXF in Australia	
FXAP	Fuji Xerox Asia Pacific Pte Ltd. (FX's overseas affiliated company in	
Singapore; having functions as an APO to direct the Asia and Oceani		
FXCA	Branch of Fuji Xerox Asia Pacific Pte Ltd.	
FXCL	Fuji Xerox (China) Limited	
FXDMS	Fuji Xerox Document Management Solutions Pty. Limited	
FXF Fuji Xerox Finance Ltd., an Australian corporation (a financing comp		
	Australia; FXF and FXA together comprise FXAU)	
FXHK	CHK Fuji Xerox (Hong Kong) Limited	

FXK	Fuji Xerox Korea Co., Ltd.	
FXML	Fuji Xerox Asia Pacific Pte Ltd. (Malaysia Operations)	
FXMM	Fuji Xerox Asia Pacific Pte Ltd. (Myanmar Branch)	
FXNZ	A collective term for FINCO and MARCO in New Zealand	
FXP	Fuji Xerox Philippines, Inc.	
FXPC	Fuji Xerox Asia Pacific Pte Ltd, Australia Branch	
FXS	Fuji Xerox Singapore Pte Ltd.	
FXTH	Fuji Xerox (Thailand) Co., Ltd.	
FXTW	Fuji Xerox Taiwan Corporation	
FXV	Fuji Xerox Vietnam Company Limited	
GCA	Graphic Communication Agreement	
GCO	Greater China Operation (operations in the China area)	
GCSA	Graphic Communications Service Arts Agreement (a type of contract)	
GS	Global Services (a service line within FX)	
IBG	International Business Group (each overseas business division such as APO	
	and GCO used by FX)	
MARCO Fuji Xerox (Sales) Pty. Limited, a New Zealand corpora company of FXNZ. MARCO and FINCO together comprise F		
MD	Managing Director	
MDSA	Managed Document Service Agreement (a type of contract)	
MSA	Managed Service Agreement (Contract) (A contract consolidating equipment	
	sales and maintenance service, etc. for collecting monthly copy charges to	
	cover equipment charges, consumable charges, maintenance charges and	
	interest.)	
NBR	The National Business Review (an economic newspaper in New Zealand)	
OPCO(s)	Operating Company(ies) (sales operating companies such as FXNZ, FXA	
	etc.)	
ORS	Out Right Sales (Upfront Sales) (machine sales recognized when a finance	
	lease is executed)	
SFO	Serious Fraud Office (A New Zealand investigation agency. A public office	
that, in consultation with the police, detects, investigates and prosed		
	serious and complex economic crimes.)	
TCLR	Target Volume multiplied by Click Rate (i.e., the product of target copy	
	volume stipulated in contracts and unit price per copy)	

Tony Night	The sender of a whistleblowing email; the sender is as yet unidentified.	
TSC	Total Service Contract (a contract that includes all services provided by the	
	company, such as help desk, licensing, etc.)	
Counterparty 1	One of FXNZ's customers.	
XC	Xerox Corporation (A parent company (100% interest) of Rank Xerox	
	Limited (now called Xerox Limited) of the U.K., which holds 25% of equity	
	in FX; a substantial shareholder in FX.)	

Note: In this Report, unless otherwise noted, all department names and titles are department names and titles in effect at the time.

Note: Figures in parentheses in tables in this Repot indicate negative values.

Chapter 1 Outline of the Investigation

1. Background to the Creation of the Independent Investigation Committee

FUJIFILM Holdings Corporation ("FH") is, as of the date of creation of this Report, comprised of the group companies listed in Chapter 2, and Fuji Xerox Co., Ltd. ("FX") is a consolidated subsidiary of FH.

In relation to the financial results of FH for the fiscal year ended March 31, 2017, it is found that there was a need to confirm the appropriateness of accounting practices in terms of accuracy and collectability, etc. regarding receivables in relation to certain lease transactions in or before fiscal 2015 by Fuji Xerox New Zealand Limited ("FXNZ"), an overseas subsidiary of FX (the "Matter"). Please note that in the subsequent chapters of this Report, "the Matter" may be used to collectively describe both the Matter and other facts uncovered in the process of the Investigation relating to the process of decision-making and information escalation processes, etc. by the related parties, including cases similar to the Matter and other connected or related facts.

As a result, FH announced on April 20, 2017 in its "Notice of Creation of Independent Investigation Committee and Postponement of Announcement of Financial Results for Fiscal Year Ended March 31, 2017" (Tokyo Stock Exchange timely disclosure; hereinafter the "April 20 Disclosure") that the Matter had been discovered and that its financial results for the fiscal year ended March 31, 2017 (April 1, 2016 to March 31, 2017) would not be released on the scheduled date (April 27, 2017).

(1) Creation of an internal investigation committee

On March 22, 2017, prior to the April 20 Disclosure, FH commenced investigations into the Matter and then created an internal investigative committee on March 27.

(2) Creation of the Independent Investigation Committee

At a board meeting on April 20, 2017, FH passed a board resolution creating an independent investigation committee comprised of outside experts without any interests in FH (the "Committee"), to improve the objectivity and credibility of the investigation into the Matter.

2. Entrusted Matters

On April 20, 2017, the Committee was entrusted by FH with performing the following:

- (1) Investigating the facts pertaining to the Matter;
- (2) Investigating the existence or non-existence of the cases similar to the Matter and the facts

pertaining to such cases (if any);

(3) Analyzing the causes of the Matter and making recommendations on preventative measures;

(4) Other matters recognized as necessary by the Committee.

3. The Committee Members

The Committee is comprised of the following:

	Chairman	Taigi Ito	Certified Public Accountant
			(Ito CPA Accounting Office)
	Member	Kyoichi	Attorney-at-law (City-Yuwa Partners)
		Sato	
ĺ	Member	Koji	Attorney-at-law (Matsuo & Kosugi)
		Nishimura	

The Committee appointed following assistant investigators and had them assist with the Investigation:

Deloitte Tohmatsu Financial Advisory	Representative Assistant Investigator, CPA Shigeru
	Tsukishima
	(224 persons in total)
City-Yuwa Partners	Representative Assistant Investigator, Attorney-at-law
	Masahiro Terada
	Attorney-at-law Haruka Shibuya
	Attorney-at-law Hitoshi Sakai
	Attorney-at-law Hiroyasu Horimoto
	Attorney-at-law Yoko Maeda (15 in total)
Matsuo & Kosugi	Representative Assistant Investigator, Attorney-at-law
	Kazuo Iwasa
	Attorney-at-law Yoshihiko Takahashi
	Attorney-at-law Takeo Tanaka
	Attorney-at-law Kasumi Hanami
	Attorney-at-law Shintaro Tominaga (8 in total)

4. Internal investigation committee's investigation progress report and handover of evidentiary materials

As part of its investigation, the Committee collected the reports provided by the internal investigation committee prepared prior to the creation of the Committee. It also requested, obtained, and took over the preserved data (including data preserved, collected and extracted by digital forensics) on the servers of FXNZ, Fuji Xerox Australia Pty. Ltd. ("FXA"), Fuji Xerox Asia Pacific Pte Ltd ("FXAP"), FX, and FH, with respect to which preservation had already commenced (including examination of data after preservation and preparation for preservation), and contained on PCs used for work by executives and employees subject to investigation.

Of these, for FXNZ and FXA, prior to the Committee being created the internal investigation committee had already commenced preservation, preparation and extraction work for digital forensics and interviews of (several) related parties via a member firm of Deloitte Touche Tohmatsu Limited in New Zealand or Australia (individually or collectively "Local Deloitte").

The Committee determined that it was effective and realistic to use the preservation, preparation and extraction for digital forensics that had been conducted by Local Deloitte, as well as the outcome of the few interviews that Local Deloitte had already conducted, in order to carry out its investigation promptly and effectively, and therefore examined the contents thereof, and used the same in its investigation.

At the time that the internal investigation committee was created, Local Deloitte provided information to the internal investigation committee via respective local law firms (New Zealand: MEREDITH CONNELL, Australia: HWL EBSWORTH) according to the local custom, and this same framework was maintained in investigations after creation of the Committee.

The investigation outcomes and data received from the internal investigation committee will be used as evidentiary material by the Committee, but the findings of the Committee's investigation are not affected by the findings of the internal investigation committee.

5. Investigative methods, etc. used by the Committee and assumptions of the Investigation

(1) Outline of the investigation methods

Between April 20 and June 10, 2017, the Committee conducted its investigation based on data documents disclosed by FH, FX, FXAP, FXNZ, FXA, etc. and their related parties, interviews with related parties, data from digital forensics, and public information, etc. Details are as follows.

(i) Period to be investigated

The Committee was originally created based on the need to confirm the appropriateness of accounting practices for receivables and collectability, etc. for certain lease transactions before 2015, so the target period for the Committee's investigation was set to the period from April 1,

2010 to December 31, 2016, from the perspective of effectiveness and achievability of the investigation. However, the Committee also investigated the facts prior to this period where the Committee found it important to ascertain the background, the causes, the structure and others of the Matter.

(ii) Interviews with executives and employees

To ascertain the background, causes, and mechanisms and others of the Matter, the Committee interviewed over seventy people, including executives and employees of FH, FX, FXAP, FXNZ, and FXA, as well as counterparties and other related parties, each at least once, and in some cases several times.

(iii) Interviews with accounting auditors

In the process of the Investigation, the Committee also held multiple interviews with managing partners and other support staff from Accounting Firm 1-1, the accounting auditor for the FH Group up to the fiscal year ended March 2016 (the previous accounting auditor), and Accounting Firm 2-1, the accounting auditor since that time (the successor accounting auditor), and obtained information outlining the circumstances in which each of these accounting auditors conducted their audits of FH consolidated financial statements (auditing system, auditing plan, audit results and others).

(iv) Digital forensics

Digital forensics is the process of collecting and storing electronic data without damaging its evidentiary value, and browsing the contents of the electronic data collected. Broadly speaking, there are two main parts:

(a) Data preservation and recovery

Using specialized tools to collect, copy, and where deleted, restore relevant data from electronic devices and electromagnetic media as set forth below.

- PC
- File servers
- E-mail servers
- · Mobile phones, smartphones
- Tablet devices

(b) Data browsing

Housing the preserved and restored data to a browsing system where it can be analyzed using keyword searches, etc.

On this occasion, electronic data (emails and files) were collected and preserved from PCs of 58 persons related to this Matter as per the table below for whom data preservation was not conducted by internal investigation committee with digital forensics. The following tools were used to collect and preserve the electronic data, depending on the data subject:

• FTK Imager

PCs, file servers, e-mail servers

• Oxygen Forensic UFED Touch, UFED Physical Analyzer Mobile phones, smartphones, tablet devices

Company	Total number of people
FXNZ	21
FXA	10
FXAP	8
FX	19
TOTAL	58

Electronic data that was preserved was housed within Nuix and sorted by application, then uploaded to Relativity, and presented in an electronic data format that could be browsed. The persons subject to this browsing were 75 people in the table below including those for whom data was received from the internal investigation committee.

Company	Total number of people	Number of items reviewed
FXNZ	32	56,444
FXA	13	44,396
FXAP	11	84,406
FX	19	175,646
TOTAL	75	360,892

(v) Information collection point

The scope of information providers was set as executives and employees within the FX Group (domestic and overseas) and counterparties of the FX Group, and information was requested broadly in relation to the Matter and similar problems.

(vi) Survey implementation

Surveys were sent to FX, FX's domestic sales subsidiaries and Fuji Xerox Service Creative Co., Ltd. (addressed to heads of accounting and sales divisions), (sent to 1,299 people and responses received from 1,251 people). In addition, of the overseas subsidiaries, surveys were also sent to accounting departments, sales departments and heads of departments at FXNZ, FXA, Fuji Xerox Asia Pacific Pte Ltd. (Malaysia Operations) ("FXML"), Fuji Xerox (Thailand) Co., Ltd. ("FXTH"), and Fuji Xerox Taiwan Corporation ("FXTW") (sent to 2,141 people in total; responses received from 834), in an attempt to ascertain whether or not any material cases similar to the Matter may have occurred at overseas subsidiaries, and to help understand and analyze the structure and causes leading to the Matter.

(2) Assumptions of the Investigation

(i) Uses of the Report and findings

The Report and the Committee's findings are intended for use in confirming the facts within FH and the FH Group about the subject of investigation, and to the extent that problems are found, ascertaining the causes and formulating and evaluating a plan for preventing recurrence thereof. The Committee does not expect that the Report or the Committee's findings will be used for any other purposes.

(ii) No compulsory investigative authority

The Committee believes that it has the cooperation of FH and FH Group companies in good faith with respect to the Committee's investigation; however, the Committee has no compulsory investigative authority, so the investigation is based on the voluntary cooperation of the executives and employees of FH and FH Group companies.

(iii) English version

The Report is prepared in Japanese. The Committee accepts no responsibility whatsoever for the contents of any translated English version that may be prepared.

Chapter 2 Company Overview

1. FH Group as a Whole

(1) Business overview of the entire FH Group

FH is a holding company with two major operating companies of the FH Group, FUJIFILM Corporation ("FF") and FX, as well as Toyama Chemical Co., Ltd. and other companies.

"Fuji Photo Film Co., Ltd." was established in January 1934 as a company that manufactured and sold, etc. photographic film and other products and changed its name into FH in October 2006 when the company switched to a holding company structure. Upon switching to a holding company structure, FF, FH's operating company, succeeded Fuji Photo Film Co., Ltd.'s business of manufacturing and selling, etc. photographic film and other products. FF is a wholly owned subsidiary of FH, and currently 9 of FF's 13 directors concurrently serve as directors of FH, so it can be said that FH and FF are closely tied to each other.

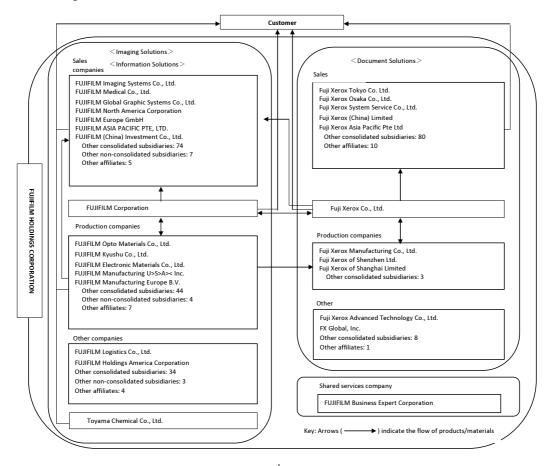
FX was established in February 1962 as a joint venture company between FH and Rank Xerox Limited of the UK (currently Xerox Limited ("XL")) (each company holding a 50% stake). FX has its corporate purpose as the manufacture and sale, etc. of products including office copy equipment and printers. In March 2001, FH acquired an additional 25% of the total issued shares of FX from XL, taking its stake to 75%, and made FX a consolidated subsidiary, and FX remains such to this day. Three of FX's 12 directors are appointed by Xerox Corporation ("XC"), which is XL's parent company with a 100% stake therein and thus, is a substantive shareholder of FX –(hereinafter, when XC is referred to as FX's shareholder it means that XC is FX's substantive shareholder) and only two directors of FX serve concurrently as directors of FH, so the relationship between FH and FX is not be regarded as being closely tied such as that between FH and FF.

The FH Group, including FF and FX, predominantly conducts business in three operating segments – Imaging Solutions, Information Solutions, and Document Solutions. The main products and main group companies of each operating segment are as follows. As of March 31, 2016 there were 285 subsidiaries (of which 271 are consolidated subsidiaries and 14 are equity method subsidiaries) and 27 affiliated companies (all of which are equity method subsidiaries).

Operating Segment and Major Products	Major Companies
Imaging Solutions	FUJIFILM Corporation (FF)
Color films; digital cameras; photo	FUJIFILM Optics Co., Ltd.
printing color paper, services, and	FUJIFILM Imaging Systems Co., Ltd.
equipment; instant photo systems; optical	FUJIFILM Manufacturing U.S.A., Inc.
devices, etc.	FUJIFILM North America Corporation
	FUJIFILM do Brasil Ltda.
	FUJIFILM Manufacturing Europe B.V.
	FUJIFILM Europe GmbH
	FUJIFILM UK Ltd.
	FUJIFILM ASIA PACIFIC PTE. LTD.
	FUJIFILM (China) Investment Co., Ltd.
	FUJIFILM Imaging Systems (Suzhou) Co., Ltd.
Information Solutions	FUJIFILM Corporation (FF)
Medical system equipment, life sciences	Toyama Chemical Co., Ltd.
products, pharmaceuticals, graphic system	FUJIFILM Techno Products Co., Ltd.
equipment, flat panel display materials,	FUJIFILM Electronic Materials Co., Ltd.
recording media, electronic materials, etc.	FUJIFILM Opto Materials Co., Ltd.
	FUJIFILM Medical Co., Ltd.
	FUJIFILM Finechemicals Co., Ltd.
	FUJIFILM Kyushu Co., Ltd.
	FUJIFILM Business Supply Co., Ltd.
	FUJIFILM RI Pharma Co., Ltd.
	FUJIFILM Global Graphic Systems Co., Ltd.
	FUJIFILM Manufacturing U.S.A., Inc.
	FUJIFILM North America Corporation
	FUJIFILM Medical Systems U.S.A., Inc.
	FUJIFILM Recording Media U.S.A., Inc.
	FUJIFILM Electronic Materials U.S.A., Inc.
	FUJIFILM Dimatix, Inc.
	FUJIFILM SonoSite, Inc.
	FUJIFILM Manufacturing Europe B.V.
	FUJIFILM Recording Media GmbH
	FUJIFILM Europe GmbH
	FUJIFILM UK Ltd.
	FUJIFILM Speciality Ink Systems Limited

FUJIFILM Imaging Colorants Limited
FUJIFILM ASIA PACIFIC PTE. LTD.
FUJIFILM (China) Investment Co., Ltd.
FUJIFILM Printing Plate (China) Co., Ltd.
Fuji Xerox Co., Ltd. (FX)
Fuji Xerox Tokyo Co., Ltd.
Fuji Xerox Osaka Co., Ltd.
Fuji Xerox System Service Co., Ltd.
Fuji Xerox Advanced Technology Co., Ltd.
Fuji Xerox Manufacturing Co., Ltd.
Fuji Xerox Asia Pacific Pte. Ltd. (FXAP)
FX Global, Inc.
Fuji Xerox of Shanghai Limited
Fuji Xerox Singapore Pte Ltd. (FXS)
Fuji Xerox Australia Pty. Limited (FXA)
Fuji Xerox Korea Co., Ltd. (FXK)
Fuji Xerox (Hong Kong) Limited (FXHK)
Fuji Xerox (China) Limited (FXCL)
Fuji Xerox of Shenzhen Ltd.
Fuji Xerox Taiwan Corporation (FXTW)

(From page 5 of FH's Annual Securities Report for the 120th Term (fiscal year ending March 31, 2016); as of March 31, 2016)



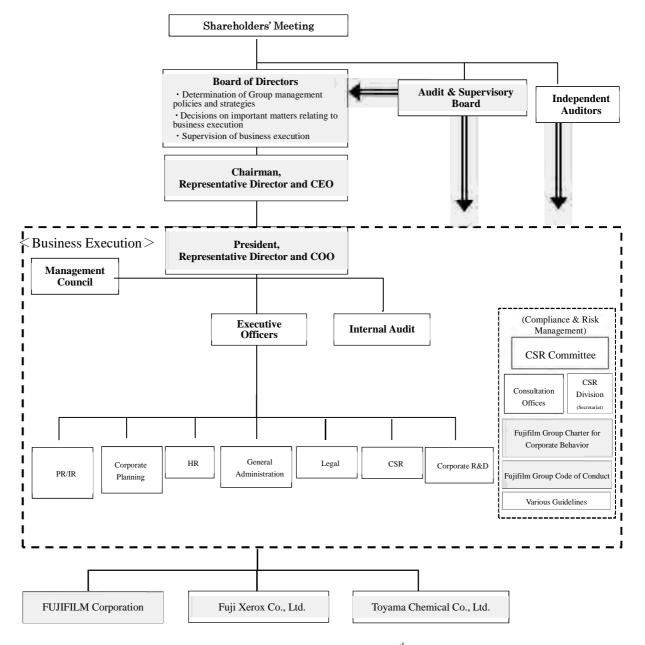
The following is a flow chart of the aforementioned businesses.

(From FH's Annual Securities Report for the 120th Term "Business Organization Chart," page 6)

(2) Corporate governance at FH

(i) Overview of the corporate governance structure

FH has adopted the following structure in order to achieve quick and efficient decision-making and execution of operations, while also properly supervising and auditing operations and ensuring transparency and soundness in management.



(From FH homepage and the Annual Securities Report for the 120th Term, "Corporate Governance Structure," page 93)

(ii) Description of company bodies

(a) Directors and the Board of Directors

Under its articles of incorporation, FH has a maximum of 12 directors. There are currently 12 directors, 2 of whom are outside directors.

In principle, ordinary board meetings are held once a month, and extraordinary board meetings are held as necessary. Additionally, with respect to certain matters, decision-making is carried out flexibly by resolutions of the Board of Directors by special directors. The term of office for directors is one year.

Matters concerning subsidiaries such as "the appropriation and assignment of important assets," "borrowing in a significant large amount" and "other important matters relating to business execution" shall be resolved by FH's board of directors.

(b) Executive Officer System

FH has adopted an executive officer system to expedite the execution of business.

Executive officers are tasked with the execution of business in accordance with the basic policy determined by the board of directors. There are currently 12 executive officers (of whom, 6 concurrently serve as FH directors), and they have a term of office of 1 year.

(c) Management Council

FH has a Management Council chaired by the Chairman, and comprised of executive officers of Executive Vice President rank and above, officers in charge of corporate planning, and full-time corporate auditors.

The Management Council makes decisions on the submission of matters to be exclusively deliberated by the board of directors, and deliberates on measures in important issues in relation to the execution of operation made by the executive officers in accordance with the basic policies, plans, and strategies formulated by the board of directors.

(d) Audit & Supervisory Board Members and the Audit & Supervisory Board

FH has adopted an Audit & Supervisory Board Member system, and the Audit & Supervisory Board currently is comprised of four members (of whom, two are outside Audit & Supervisory Board Members; the two full-time Audit & Supervisory Board Members concurrently serve as FF's corporate auditors).

Each Audit & Supervisory Board Member audits the entire range of the directors' performance of their duties following audit policies and an audit plan in conformity with Audit & Supervisory Board audit standards determined by the Audit & Supervisory Board. At meetings of the Audit & Supervisory Board, which are held, in principle, once a month,

information is shared on the details of their respective audit. Each Audit & Supervisory Board Member attend meetings of the Board of Directors, and, full-time Audit & Supervisory Board Members also attend every Management Council meeting and regularly exchange opinions with the representative directors. In this way, each Audit & Supervisory Board Members audits the entire range of business execution. FH has currently appointed three personnel to support the Audit & Supervisory Board Members.

FH's full-time Audit & Supervisory Board Members exchange information such as information on audit plans and results of audits with FX's Full-time Corporate Auditor at regular meetings (also attended by FH's General Manager of Internal Audit Division and the General Manager of the Internal Audit and Analysis Department of FX) that are held around three times per year. FH's Audit & Supervisory Board Members also personally carry out on-site audits of FX and FX's major subsidiaries, both in and out of Japan.

(e) Internal Audit

FH has an Internal Audit Division, which currently is comprised of eight staff, as an internal auditing unit that is independent of divisions responsible for the execution of business affairs. The Internal Audit Division evaluates and verifies that operational processes and other relevant matters of FH and group companies are appropriate, from the standpoint of a holding company, through cooperation with the internal auditing units at the operating companies. All eight employees also serve concurrently as personnel of FF's internal audit unit (FF's internal audit unit has a total of 20 personnel), and carry out audits in an integrated manner with FF's internal audit unit.

In addition, the division is in charge of assessing internal control over financial reporting by FH and its group companies and preparing internal control reports in response to the April 2008 application of the internal control reporting system in Japan.

Designated staffs are appointed at operating companies, and audits are conducted across certain areas, including the environment and quality control, safety and labor, export control, and pharmaceutical affairs.

Audits by FH's and FF's internal audit units mainly focus on auditing FF and its subsidiaries, and audits of FX and its subsidiaries, etc. are basically conducted by FX.

Since 2014, when irregularities in the use of social expenses by a representative of a FX subsidiary were discovered, FH's Internal Audit Division has carried out annual internal audits of FX. FH's Internal Audit Division exchanges information with FX's Internal Audit and Analysis Department at regular meetings held around three times per year.

(f) Mutual Coordination between Internal Audit, Audit & Supervisory Board Members, and the Independent Auditor

Internal Audit, Audit & Supervisory Board Members, and the Independent Auditor exchange information and opinions each business year at each audit stage (planning, implementation, and overview), and hold ad hoc discussions as necessary. Internal Audit and the Independent Auditor regularly report the results of audits to the Audit & Supervisory Board Members, and report the overview of the business year to the Audit & Supervisory Board.

(iii) Basic Policies for Development of Internal Control System

According to FH's Business Report for the 120th Term and other materials published by FH, FH has set forth the following basic policies based on the Companies Act, etc. that came into force on May 1, 2006 and the revisions to the Companies Act, etc. that came into force on May 1, 2015, in order to ensure the appropriateness of operations. FH also evaluates internal control related to financial reporting by FH and its group companies, prepares internal control reports, and submits them to the Prime Minister in compliance with the internal control reporting system that has applied for all business years commencing on or after April 1, 2008.

- (a) Systems to ensure that the duties of directors and employees of any of the FH Group are carried out in a manner that complies with laws, regulations and articles of incorporation
- Based on the Fujifilm Group Charter for Corporate Behavior and Fujifilm Group Code of Conduct that FH established as basic policies for the corporate activities of the FH Group, FH will strive for the thorough compliance of corporate activities and acts with laws, regulations and social ethics.
- ii. For the purpose of maintaining and further improving the FH Group's compliance and ethical levels in all aspects of its corporate activities, FH will establish the CSR Committee chaired by the President, as well as a dedicated division for promoting compliance, shall strive to spread and raise awareness about compliance issues throughout the FH Group.
- iii. FH will establish contact points ("Helplines") both inside and outside the FH Group for accepting requests for advice, notifications, and reports of findings and concerns related to the Fujifilm Group Code of Conduct and other compliance matters. FH and its subsidiaries will endeavor to detect violations early, and handle such matters appropriately. FH and its subsidiaries will ensure that any person who asks for advice or makes a report through a

Helpline will not suffer any detrimental treatment by reason of such request for advice or reporting.

- iv. FH will ensure that the FH Group severs relations with any antisocial or illegal movements or groups that pose a threat to the order or safety of society, and will not conduct acts to benefit such movements or groups.
- v. FH and its subsidiaries will establish necessary internal rules such as rules and procedures for corporate decision-making, document management rules, insider-trading prevention rules, rules for management of personal information, etc., antimonopoly law (competition law), anticorruption rules. As well as requiring that business operations be conducted in accordance with these rules, FH and its subsidiaries will also establish relevant guidelines and manuals and provide periodic education and training to its personnel to ensure compliance with laws and regulations applicable to its business activities.
- vi. FH will promote establishment of internal control systems for ensuring credibility of the FH Group's financial reporting, as well as systems to evaluate operational effectiveness of such internal control systems.
- (b) Systems concerning the retention and management of information on the execution of FH's directors' duties
- i. FH will establish a document management policy that governs retention and management of documents (including electronic media). FH will record information related to the directors' execution of business in documents such as in minutes of shareholders' meetings, minutes of meetings of the board of directors, forms for corporate decision-making, and others, and will retain and manage such documents in an appropriate manner in accordance with the document management rules.
- ii. All directors and auditors of FH will have the right to access to any of abovementioned documents at any time if necessary for their execution of their duties.
- (c) Rules and other related systems concerning management of risks of losses to the FH Group
- i. As well as establishing appropriate risk management systems in the FH Group, FH will formulate basic policies and study and promote appropriate approaches, etc. for important

risk matters from the perspective of the overall group at the CSR Committee chaired by the President.

- ii. With regard to various types of business-related risks involving information management, safety and health, the environment, disaster prevention, and others, FH will formulate risk management systems by means of establishing rules, guidelines and manuals, and assigning personnel in charge of risk management in FH and its subsidiaries. In addition, along with appropriately judging and approaching risk matters arising in the performance of individual business operations, FH and its subsidiaries will report important risk-related information to the office of the CSR Committee at FH in accordance with the prescribed procedure
- iii. FH will periodically identify and sort out priority risk matters that should be addressed as a whole by the FH Group, and will study and manage the implementation status of measures at FH and its subsidiaries with respect to such matters.
- (d) Systems to ensure efficient execution of the duties of FH Group's directors and employees i. FH holds meetings of the board of directors periodically to decide on the basic policies and strategies for the group-management, important matters related to business execution, and to supervise directors' execution of their duties, pursuant to the regulations covering the Board of Directors and other relevant regulations. Certain matters may be decided by special directors to enable flexible decision-making. The term of office of directors is one year so as to keep their respective missions and responsibilities clear and to enable a quick response to changes in the business environment.
 - ii. To enable quick business execution, FH will adopt an executive officer system. The roles and areas of responsibilities of each executive officer are defined in outlines for management of executive officers. The executive officers are responsible for execution of their duties in line with the basic management policies decided by the board of directors. The term of office of executive officers is one year so as to keep their respective missions and responsibilities clear and to enable quick response to changes in the business environment.
 - iii. FH will have the Management Council as an organization for deliberation by executive officers on matters that should be submitted to the board of directors as well as on other

important matters, meetings of which will be held flexibly to enable efficient execution of business and decision-making.

- iv. FH formulates the FH Group's medium-term and annual business plans through deliberation and resolutions by the board of directors. FH and its subsidiaries conduct their respective business in line with these plans and review the progress thereof regularly.
- v. FH and its subsidiaries will define the functions and responsibilities of each business unit clearly in relevant office regulations, and shall make specific decisions in the course of business execution properly and efficiently in accordance with the rules and procedures for making corporate decisions.
- (e) Other systems to ensure appropriate execution of the FH Group's business operations
- i. As a holding company, FH will monitor and supervise business execution of its subsidiaries from the standpoint of a shareholder, and will itself undertake the execution of operations common among the FH Group in a unified, efficient, and appropriate manner, in order to maximize the corporate value of the FH Group.
- ii. In an effort to ensure appropriate business execution, FH will establish and maintain systems that enable Audit & Supervisory Board members and its staff to conduct audits of FH and its subsidiaries on a regular basis.
- iii. With regard to important business execution by FH's subsidiaries, FH will define matters that require approval by the FH's board of directors or deliberation at the Management Council by stipulating such matters and approval procedures in the Board of Directors Rules and other relevant office regulations, and will require each subsidiary to comply with such procedures in order for FH to manage business execution at its subsidiaries.
- iv. FH will require regular reporting from its major subsidiaries about resolutions of and reports from their board of directors, as well as other matters as necessary in order for FH to manage, monitor, and supervise important business execution in the FH Group.
- v. FH will actively promote information technology in the FH Group's business operations and endeavor to constantly improve the accuracy and efficiency of business operations.

- (f) Matters related to employees supporting the duties of Audit & Supervisory Board Members when so requested
- i. FH will establish Internal Audit. Employees who belong to Internal Audit shall concurrently serve as Audit & Supervisory Board Member staff to support the enhancement of the auditing function of FH's Audit & Supervisory Board Members. FH will seek to strengthen Internal Audit and develop and reinforce Audit & Supervisory Board Member staff for this purpose.
- ii. Within the scope of their duties as Audit & Supervisory Board Member staff, the aforementioned employees will support the duties of the Audit & Supervisory Board Members in accordance with the directions and orders of the Audit & Supervisory Board Members. Personnel affairs of such supporting Audit & Supervisory Board Member staff will require the consent of the Audit & Supervisory Board Members.
- (g) System for the directors and employees in the FH Group to report to FH's Audit & Supervisory Board members
- i. In the event that there arises at FH or its subsidiaries any material fact that is in violation of laws, regulations or articles of incorporation, misconduct, or any fact that may cause severe damage to FH or its subsidiaries, the director or employee of FH or its subsidiaries who becomes aware of such fact, or FH's dedicated compliance promotion division or any subsidiary's corporate auditor who receives a report of such fact from the said director or employee, shall promptly report such fact to the FH's Audit & Supervisory Board Members.
- ii. FH's business units or subsidiaries shall submit monthly reports about their business execution to FH's Audit & Supervisory Board Members. If the Audit & Supervisory Board Members of FH make a request for a report regarding business execution to the extent necessary for their audit, directors and employees of FH and its subsidiaries shall cooperate therewith.
- iii. FH and its subsidiaries will ensure that any person who makes an aforementioned report will not suffer any detrimental treatment by reason of such reporting.
- (h) Other systems to ensure effective auditing by Audit & Supervisory Board Members
- i. FH's Audit & Supervisory Board Members will share audit results and other audit information among themselves in their regular meetings. In addition, Audit & Supervisory Board Members (full-time members) will, in principle, also attend other important

meetings such as Management Council meetings as regular attendees, and shall exchange opinions with the Representative Directors regularly.

- ii. For the purpose of enhancing and strengthening the FH Group's auditing, FH's Audit & Supervisory Board Members will share audit results and other audit information and exchange opinions regularly with corporate auditors of FH's major subsidiaries.
- iii. Under the recognition that mutual interaction and cooperation between Internal Audit, Audit & Supervisory Board Members, and Independent Auditor are important, FH's Audit & Supervisory Board Members will facilitate the sharing of information between these three parties to enable efficient auditing.
- iv. FH will secure a budget necessary and sufficient to cover expenses that may accrue from business execution by FH's Audit & Supervisory Board Members based on relevant audit plans and shall bear such expenses in accordance with related office regulations.
- (iv) Outline of Operational Status of Internal Control Systems

The following is an outline of the operational status of systems to ensure the appropriateness of business executions at FH according to FH's Business Report for the 120th Term and other published materials, etc.

(a) System to ensure that the duties of directors and employees of any of the FH Group are carried out in a manner that complies with laws, regulations and the articles of incorporation FH distributes copies of the Fujifilm Group Charter for Corporate Behavior and Fujifilm Group Code of Conduct to officers and employees of the FH Group, gives high importance to compliance in all aspects of business activities, and educates all officers and employees to approach business activities in the spirit of openness, fairness, and clarity. In order to have the officers and employees of the FH Group execute their duties in accordance with the law and articles of incorporation, FH puts in place relevant rules and guidelines, etc. at each company, and strives to create an environment in which each and every officer and employee can make appropriate judgments and take appropriate actions, such as by promoting education and awareness activities and creating and running reporting and consultation contact points. Reports from, and consultation by, FH Group officers and employees are handled appropriately at each company. The organizations and meeting bodies responsible for compliance are made clear, and FH strives to improve the compliance awareness of FH Group officers and employees by promoting various compliance measures

at each company and implementing the collection and management of material compliance matters.

(b) System concerning the retention and management of information on the execution of FH's directors' duties

FH prepares, retains originals of, and manages minutes of meetings of shareholders and minutes of meetings of the board of directors in accordance with laws and regulations and the articles of incorporation. FH also prepares, retains, and manages corporate decision-making forms pursuant to the corporate decision-making rules and document management rules, and maintains them such that they can be accessed at any time at the request FH's directors and Audit & Supervisory Board Members.

- (c) Rules and other related systems concerning management of risks of loss to the FH Group
 - FH has established rules, guidelines, and manuals, etc. at FH and its subsidiaries with respect to each type of business risk in relation to matters such as information management, health and safety, the environment, and disaster prevention, etc., and conducts risk management by appointing persons responsible for the management of risks, and operating and managing rules, etc. predominantly through such risk managers. FH and its subsidiaries make appropriate judgments on, and respond appropriately to, risk matters arising in the course of the execution of specific duties, and the system is structured so that material risk matters are reported to the office of the CSR Committee chaired by the President, in accordance with the prescribed procedures.
- (d) Systems to ensure efficient execution of the duties of the FH Group's directors and employees

FH regularly holds meetings of the board of directors, passes resolutions determining the Group's basic management policies and strategies in accordance with the regulations covering the Board of Directors and other related rules, passes resolutions determining matters relating to important execution of business of FH and its subsidiaries, and monitors the execution of the duties of FH's directors.

(e) Other systems to ensure appropriate execution of the FH Group's business

As a holding company, FH monitors the execution of business operations of its subsidiaries from the standpoint of a shareholder, and receives reports on resolution matters of the boards of directors of major FH subsidiaries. In accordance with the regulations covering the Board of Directors and other related rules, matters relating to the

execution of material business of FH's subsidiaries that require the prior approval of FH are only carried forward with the approval of FH, which facilitates the management and monitoring of the status of the execution of material business in the FH Group.

(f) Matters related to employees supporting the duties of FH's Audit & Supervisory Board Members when so requested

FH has established Internal Audit, and with the consent of FH's Audit & Supervisory Board Members, FH has appointed dedicated Audit & Supervisory Board Member staff from the employees belonging to such division. The role of dedicated Audit & Supervisory Board Member staff is to assist the execution of duties of Audit & Supervisory Board Members in accordance with the directions and orders of FH's Audit & Supervisory Board Members, and their purpose is to enhance audit functions.

(g) Systems for the directors and employees in the FH Group to report to FH's Audit & Supervisory Board Members

An important fact that violates laws, regulations or articles of incorporation, misconduct, or a fact that may cause severe damage to the company discovered at FH or its subsidiaries is promptly reported to FH's Audit & Supervisory Board Members by the director or employee of FH or its subsidiary that discovered such fact, or by FH's dedicated compliance division or corporate auditor of FH's subsidiary who received such report. Each FH division or FH subsidiary submits monthly reports to FH's Audit & Supervisory Board Members, and provides reports at the request of FH Audit & Supervisory Board Members as necessary.

(h) Other systems to ensure effective auditing by Audit & Supervisory Board Members

FH's Audit & Supervisory Board Members cooperate with Internal Audit and Independent Auditor to conduct effective audits, regularly hold opinion exchanges, etc. with FH's Representative Directors and the corporate auditors of FH's major subsidiaries, and aim to conduct thoroughly detailed audits.

(v) Risk Management Systems

Each company in the FH Group establishes appropriate risk management systems. The CSR Committee formulates basic policies and studies and advances appropriate measures with respect to important risk issues from the perspective of the entire group. With regard to various types of business-related risks involving information management, safety and health, the environment, disaster prevention, and others, FH has formulated risk management systems by means of

establishing rules, guidelines and manuals, and assigning personnel in charge of risk management at FH and its subsidiaries. In addition, each of FH and its subsidiaries appropriately judges and handles risk matters arising in the performance of a particular business of FH or its subsidiaries, and important risk information is reported to the office of the CSR Committee at FH according to prescribed procedures. Specifically, for example, although FH does not have systematic rules focusing on risk management, for FF subsidiaries it is mandatory to promptly report to the relevant division when any of the matters occurs that is listed under "8. Reporting of Significant Information" (e.g. "Damage caused by a disaster or damage incurred in the course of business operations") on page 6 of the "Fujifilm Group: Approval Rules for the Execution of Important Business."

The "Fujifilm Group: Approval Rules for the Execution of Important Business" apply to FF subsidiaries, etc., and do not apply to FX and its subsidiaries, etc. Risk management for FX and its subsidiaries, etc. is basically carried out by FX.

(vi) Subsidiary Management System

As a holding company, FH monitors the execution of business operations of FH's subsidiaries from the standpoint of a shareholder, strives to ensure that business operations common among the FH group are carried out uniformly, efficiently, and appropriately, and endeavors to maximize the corporate value of the FH Group. FH implements a system that enables FH's Audit & Supervisory Board Members and their staff to conduct regular audits of FH and its subsidiaries, and aims to ensure the appropriateness of business operations. With regard to important business execution by FH's subsidiaries, FH defines matters that require approval by the FH's board of directors or deliberation at the Management Council, by stipulating such matters and approval procedures in the Board of Directors Rules and other relevant office regulations, and requires each subsidiaries. FH receives regular reports from its major subsidiaries about resolutions of, and reports from, their boards of directors, as well as other matters as necessary in order for FH to manage and monitor important business execution in the FH Group. By actively promoting the use of information technology in FH Group's business operations, FH constantly strives to improve the accuracy and efficiency of such business operations.

Specifically, for FF's subsidiaries, etc., depending on the details of the business operations they are seeking to implement, the "Fujifilm Group: Approval Rules for the Execution of Important Business" provide detailed procedures that are required, such as obtaining the approval of FH or FF or reports to the relevant division at FH or FF. These procedures are mandatory. Additionally, FF's subsidiaries, etc. provide monthly reports on matters such as the monthly business results and employee circumstances in a more or less standardized form.

On the other hand, the "Fujifilm Group: Approval Rules for the Execution of Important Business" do not apply to the relationship between FH and FX and FX's subsidiaries, and there are no similar approval rules or management rules either. When carrying out a matter subject to the criteria for submission to FH's board of directors, such matters must be submitted to FH's board of directors and approval of the board of directors must be obtained.

Reports on the status of FX's business operations are made to FH's board of directors, etc. as necessary by the two FH directors who also serve as directors of FX and the one FH director who also serves as a non-full-time Corporate Auditor of FX. The two directors concurrently serving as directors of FX and the one director concurrently serving as non-full-time Corporate Auditor of FX also monitor FX's directors, etc. Management of FX's subsidiaries, etc. is basically carried out by FX.

- (vii) Budget Control
 - (a) Budget formulation process at FH and FF
 - i. Plans (budgets) at FH and FF are drafted and deliberated by business segment, and they are not deliberated by subsidiary. FX's plans are drafted and deliberated in the budget for the document solutions segment.

Plans consist of annual plans and second half outlook plans.

- ii. There are no budget formulation rules established at FH and FF, but budgets are formulated using the following process.
 - a. Plan formulation notice

At FH, the Accounting and Finance Group of the Corporate Planning Division notifies each business segment (on a consolidated basis for FH, including FX) of draft policies, issues requiring attention, and the schedule. Notice is provided in mid-December for the annual plan, and in mid-June for the second half outlook plan.

At FF, the Accounting and Finance Division of the Corporate Planning Headquarters notifies each business segment of draft policies, issues requiring attention, and the schedule. Notice is provided in mid-December for the annual plan, and in mid-June for the second half outlook plan.

b. Individual deliberation by FH's Chairman and President

At FH and FF, prior to submission to the Management Council discussed below, FH's Chairman and President receive explanations of the planned figures for each business segment, including FX (document solutions business), and they carry out an individual examination.

Such explanations and examinations are made in early March for annual plans, and late September for second half outlook plans.

c. Role of FH's Management Council related to plans

At FH and FF, FH's Management Council deliberates FH's consolidated sales and operating income, and plans such as FF's business plans and FX's business profit (loss) plans. The Management Council also deliberates the financial results outlook (for the current year).

Deliberation is carried out in late-March for annual plans, and in late September for second-half outlook plans.

d. Role of FH's board of directors related to plans

At FH and FF, FH's board of directors approves of and resolved on FH consolidated PL/BS/CF, and sales and operating income, etc. plans by segment. FX's plan figures are set forth in the "document solutions" business segment plan.

Approval by the Board of Directors is in late-March for the annual plan, and in late-September for the second half outlook plan.

(b) Budget management at FH and FF

There are no budget management rules (including by-laws) set forth at FH and FF, but the General Manager of the Finance and Accounting Group, Corporate Planning Division at FH (who also serves concurrently as the General Manager of FF's Finance and Accounting Division, Corporate Planning Headquarters), who is responsible for budget management, reports to the regular officers' meetings the results, etc. in the monthly reports from each business segment, and carries out year-on-year analysis of sales and operating income, etc.

(viii) Performance Evaluation

(a) As FH is exclusively made up of secondees from operating companies, there is no independent FH performance evaluation.

FF's performance evaluation is carried out once a year, and the evaluation is reflected in bonuses. The performance evaluation is divided into evaluation of individual performance, evaluation of performance by division, and evaluation of company performance. Evaluation of company performance is reflected in bonuses for directors and officers of FF Group companies.

(b) Representative directors of FF subsidiaries have their bonuses determined by FF's HR

Department based on an evaluation of FH's consolidated financial performance and their company's financial performance.

- i. at a profit center, sales, operating income, cash flow results, year-on-year increase/decrease percentage, and percentage of plan achievement are taken into account,
- ii. at a cost center, the cost reduction results for the first and second half, and the achievement percentage of the plan are taken into account, and
- iii. at companies holding inventory, the year-on-year increase/decrease percentage and plan achievement percentage for inventory days and amounts is taken into account.
- (c) In the case of directors other than representative directors, and executive officers, FF's HR Department notifies each company of a total base bonus amount based on FH's consolidated financial performance and the financial performance of such company.

The representative directors of each company have their bonus determined by adding or deducting up to 15% to each officer's base amount to reflect individual performance, to the extent that it does not exceed the total base bonus amount. Bonuses paid are reported to FF's HR Department.

2. FX

(1) Business Overview of FX

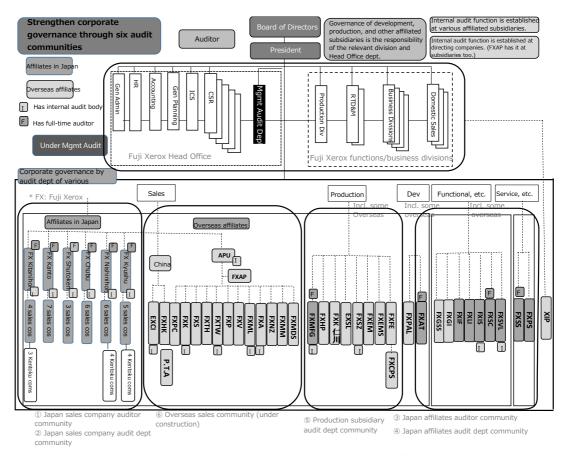
As discussed above, FX was established in February 1962 as a joint venture between FH and XL and is engaged in the manufacture, sale, etc. of office copiers/multifunction devices, and printers, etc.

Of FH's three operational areas, FX is an operational company at the core of the Document Solution business and has a number of manufacturing subsidiaries and sales subsidiaries in Japan and overseas related to the business.

(2) Corporate governance at FX

(i) Overview of the corporate governance structure

FX has the following internal audit structure:



(From a chart titled "Internal Audit Structure at Fuji Xerox (Global)" in "Governance Structure Supervised by FX's Internal Audit and Analysis Department" dated April 10, 2017 and prepared by the FX's Internal Audit and Analysis Department)

(ii) Description of company bodies

(a) Directors and board of directors

The FX Articles of Incorporation stipulate that there can be up to 12 directors; currently, there are 12 directors.

Ordinary board meetings are held approximately nine times a year; in addition, extraordinary board meetings are held when necessary. The term of office for directors is one year.

(b) Executive officers system

FX has adopted an executive officers system in order to achieve quick execution of operations. Executive officers are responsible for the execution of operations in accordance with the basic policies determined by the board of directors. There are 28 executive officers (six of whom are also directors).

(c) Management Council, Corporate Executive Committee

FX has established the Management Council (chaired by the Chairman) and the Corporate Executive Committee (chaired by the President) as the bodies responsible for managerial decision making. FX has also established nine functional committees to assist the Corporate Executive Committee, with the aim of optimizing the execution of operations. The management plan and the yearly budget are made through these committees, and report on matters related to the execution are made thereof.

(d) Corporate auditors and Corporate Auditors Committee

There are four corporate auditors at FX, including two full-time corporate auditors and two part-time corporate auditors. Of the part-time corporate auditors, one is also a director at FH, and the other is a representative of XC (XL's 100% parent company) who resides in Japan.

FX has not adopted a board of corporate auditors system since March 2014, but FX's auditors hold committee meetings, consisting of four corporate auditors, approximately five times a year, where they exchange information.

Each corporate auditor attends important meetings, such as board of director meetings, Management Council meetings, Corporate Executive Committee meetings, CSR meetings, and financial performance review meetings. In addition, the auditors regularly meet and exchange information and opinions with FX's representative directors, Internal Audit Department, general managers, and the accounting auditors, with the aim of improving the quality of the audit function. Furthermore, staffs have been positioned in the Internal Audit Department, which is independent from the execution of operations, in order to support each corporate auditor.

FX's Full-time Corporate Auditors exchange information at the All FX Full-time Corporate Auditor meetings held every two to three months with full-time corporate auditors from FX's major domestic subsidiaries. In contrast, there is no regular information exchange system between FX's corporate auditors and the corporate auditors at FX's foreign subsidiaries.

FX's corporate auditors visit FX's domestic and overseas subsidiaries for on-site visits to review and confirm the business situation and risk management issues in meetings, that last around two to three hours, with the subsidiaries' representative directors (confirmation of operation meetings). The results of these visits are then reported to FX's President.

When carrying out on-site visits, the full-time corporate auditors divide into two groups and partner up with the corporate auditor staff that is staff at the Internal Audit and Analysis Department, which supports auditors, and the on-site visit is performed by two people—one full-time corporate auditor and one corporate auditor staff. In FY2016, on-site visits were carried out at approximately 48 locations, such as the FX head office, and domestic and overseas subsidiaries (between from July 2016 through June 2017). The targets of on-site visits were selected by focusing on companies that had recently undergone a major change, such as change in president. Overseas companies saw the selection of major subsidiaries with significant financial importance for the group, such as subsidiaries in major markets (e.g., FX China and, in the case of the Asia Pacific area (excluding China), FXA, among others). No on-site visit of FXNZ has been carried out by FX's full-time corporate auditors.

(e) Internal audits

FX established the Internal Audit and Analysis Department, reporting directly to the President, as an internal audit unit that is independent of divisions responsible for the execution of operations. There are 21 members of staff in total (one general manager, one secretary, three in planning, three internal auditors (overseas), five internal auditors (domestic), six J-SOX assessors, and two corporate auditor staff).

The Internal Audit and Analysis Department participates in a Management Council meeting attended by the directors about twice a month.

In addition, the Internal Audit and Analysis Department regularly reports to and exchanges opinions with FX's Chairman, President, Deputy President, and other directors and general managers, with the aim of improving the quality of the audits.

Essentially, the full-time corporate auditors and part-time corporate auditors are appointed in each of FX's major domestic subsidiaries, and carry out an audit, and the Internal Audit and Analysis Department carries out a general audit.

APO, an organization that carries out operations for FXAP (a wholly-owned subsidiary of FX), is made up of two internal auditors with the role of auditing FX's overseas sales subsidiaries in the Asia-Pacific area (excluding China). Essentially, APO's internal auditor carries out a general audit of FX's overseas sales subsidiaries, such as FXA and FXNZ. There are three staff in charge of internal audits (overseas) at FX's Internal Audit and Analysis Department who consult with APO's internal auditor on the audit plan for audits carried out by APO's internal auditor on FX's overseas sales subsidiaries that are supervised by APO.

APO's internal auditors make and implement audit plans to enable on-site visits of FX's overseas sales subsidiaries supervised by APO at least once every three to four years. The results of those visits are then reported to FXAP's Representative Director, and FX's Internal Audit and Analysis Department and corporate auditors. When the Internal Audit and Analysis Department carries out on-site visits of FX's overseas sales subsidiaries supervised by APO, such on-site visits are made together with APO's internal auditor.

(f) Nomination and Remuneration Committee

FX has established a Nomination and Remuneration Committee as a body that deliberates on matters in relation to officer nomination and remuneration, and as a deliberative organization that is subordinate to the board of directors. In addition to introducing matters to the board of directors, such as the framework of director and other officer remuneration and candidates for director and executive officers, the Committee determines a performance index and evaluation for each director and the executive officers, and the amount of remuneration and bonuses.

There are currently four officers, two of whom are FX directors (who are also directors at FH) selected based on FH's nomination. One of the two remaining officers is FX's director selected based on nomination by XC, which is XL's 100% parent company, and the other remaining officer is another of FX's directors.

(iii) Basic policy on the development of an internal control system

According to FX's 57th term business report and other materials, FX has formulated the following basic policy in order to ensure the appropriateness of its operations. Further, FX set out the Basic Policy on the Development of an Internal Control System pursuant to the Companies Act and other related laws that were enforced from May 1, 2006 at the board of

directors meeting held on May 29, 2006, and partially amended the Basic Policy based on the amended Companies Act and other related laws that were enforced from May 1, 2015 at the board of directors meeting held on April 23, 2015. In addition, FX evaluates the internal control system every year, and reports to FX corporate auditors, FH corporate auditors, and FX board of directors.

(a) A system to ensure that the duties of directors are carried out in a manner that complies with laws, regulations, and the articles of incorporation

FX will set out regulations in relation to compliance with laws and regulations and articles of incorporation and board of director regulations, and attempt to ensure compliance with laws, regulations, and the articles of incorporation by the board of directors executing duties in compliance with such regulations.

(b) A system concerning the retention and management of information concerning the execution of directors' duties

FX will set out regulations in relation to the management of documents and information, and material documents and information concerning the execution of directors' duties are retained and managed in accordance with such regulations.

- (c) Rules and other frameworks concerning management of risks of losses
 - i. FX will set out regulations in relation to the management of risks of losses, and systems concerning the management of risks of losses are constructed in accordance with such regulations.
 - ii. If an unexpected situation has arisen that could result in significant damaging to the company, a team is to be promptly established to determine a response to the matter.
 - iii. Appropriate activities are carried out to promote a structure for internal control systems in relation to financial reporting.
- (d) A system to ensure the efficient execution of duties of directors
 - i. FX will set out regulations in relation to executive officers, who are material employees, and assign authority in relation to the performance of duties by directors within a reasonable scope to executive officers nominated in accordance with those regulations.
 - ii. FX will establish committees to carry out management's material decisions with the executive officers as fundamental members, and meetings are held regularly and flexibly. Furthermore, FX will establish committees in relation to specific functions as an

organization to assist those committees, and in order to achieve a more efficient decision-making process.

- iii. To ensure flexibility in response to future changes in the business environment, FX will draft a mid-term management plan and budget for each business year and establish company-wide goals. Each department will establish and implement a concrete plan to achieve that goal.
- (e) A system to ensure that the duties of employees are carried out in a manner that complies with laws, regulations, and the articles of incorporation
 - i. FX will set out regulations in relation to compliance with laws and regulations and articles of incorporation and standards in relation to employees' actions, and aim to ensure compliance with laws, regulations, and the articles of incorporation by employees executing duties in compliance with such regulation.
 - ii. FX will establish a structure for the company to be made aware of potential issues by employees making reports when, in the execution of their duties, there is doubt regarding compliance with laws, regulations, and the articles of incorporation. The use of this structure is promoted by ensuring the protection of whistleblowers.
- (f) A system to ensure appropriate operations in the company group made up of FX, and its parent company and subsidiaries
 - i. FX will promote the establishment of a structure to allow subsidiaries to report to FX on important decision-making issues and information regarding the financial situation and management at the subsidiary.
 - ii. FX will promote the establishment of regulations in relation to the management of risks of losses at the subsidiaries, and the establishment of systems concerning the management of risks of losses in accordance with that framework.
 - iii. FX will draft a mid-term management plan and budget for each business year as a company group, including subsidiaries and ask each subsidiary's directors to implement a concrete plan to achieve the goals.
 - iv. FX will set out regulations in relation to compliance at subsidiaries with laws and regulations and articles of incorporation and standards in relation to employees' actions, and attempts to ensure compliance with laws, regulations, and the articles of incorporation by directors and employees of subsidiaries executing duties in compliance with such regulations.

- (g) Matters related to employees supporting the duties of the corporate auditors, if required If requested by the corporate auditors, employees are appointed to support the duties of the corporate auditors, and an outline of the execution of duties in relation to that support is determined upon consultation by the representative director with the full-time corporate auditors.
- (h) Matters related to independence from directors of employees supporting the duties of the corporate auditors
 - i. FX will strive to create an environment where employees supporting the duties of the corporate auditors and corporate auditors can communicate smoothly when such employees execute their duties.
 - ii. FX must respect the opinion of corporate auditors with respect to handling such employees.
- (i) Matters related to ensuring the effectiveness of instructions by FX's corporate auditors to employees supporting the duties of the corporate auditors

The internal regulations will set out matters to ensure the effectiveness of commands and other instructions by corporate auditors to the employees supporting the duties of the corporate auditors.

- (j) A system for directors and employees of FX and its subsidiaries to report to FX's corporate auditors and for other reports to FX's corporate auditors
 - i. Directors and important employees will report to corporate auditors on facts that may result in significant damage to the company and misconduct or acts that violate laws, regulations, and the articles of incorporation.
 - ii. Full-time corporate auditors will be granted the opportunity to attend committee meetings in relation to decision-making regarding the execution of important duties by directors and employees and reports on the execution of important duties.
 - iii. Directors, corporate auditors, and important employees of subsidiaries, and parties that receive reports from those parties will report to FX's corporate auditors on issues that may cause significant damage to those subsidiaries or FX and misconduct or acts that violate laws, regulations, and the articles of incorporation.
- (k) A system to ensure that the reporting parties in policy (j) do not receive disadvantageous treatment due to making that report

FX will inform to its company groups that a party who reported directly or indirectly to the corporate auditors on issues that may cause significant damage to FX and misconduct or acts that are in breach of laws, regulations, and the articles of incorporation under policy (j) shall be protected.

 Matters in relation to policies for expenses or debt that arises from the execution of duties by FX's corporate auditors

FX will set out a policy in the internal regulations for the company to bear expenses that arise in relation to the execution of duties by the corporate auditor, and also repayment procedures.

(m) Other systems to ensure the effective execution of audits by corporate auditors

The representative director, Internal Audit Department, accounting auditor, and corporate auditors will exchange opinions regularly in order to ensure the effectiveness of audits by corporate auditors.

(iv) Outline of the operation of an internal control system

According to FX's 57th term business report, the outline of the operation of the internal control system at FX is as follows.

(a) A system to ensure that the duties of directors are carried out in a manner that complies with laws, regulations, and the articles of incorporation

FX has set out the Ethics and Compliance Regulations, and by listing up the fields of laws and regulations regarding its business activities, the important, relevant laws and regulations in each business field have been clarified and made known. In addition, FX has set out the ALL-FX Risk Management Regulations and introduced a framework for promptly reporting to the board of directors if a material fact that violates laws and regulations, or the articles of incorporation or misconduct has arisen. Furthermore, in the operation of the board of directors, the legal and appropriate execution of duties by directors is secured by making relevant regulations, such as the Board of Directors Regulations, conform to laws and regulations, or the articles of incorporation, and implementing and going through necessary procedures.

(b) A system concerning the retention and management of information concerning the execution of directors' duties

FX has set out regulations in relation to the management of documents and information, such as the Document Management Regulations, established standards for management,

such as access authorizations and retention periods, and made them known throughout the entire company via FX's intranet. Important documents and information regarding the execution of tasks by directors are appropriately maintained and managed in accordance with those regulations.

(c) Rules and other frameworks concerning management of risks of losses

FX establishes regulations and guidelines under the risk management basic policy set out in the ALL-FX Risk Management Regulations, and systematically sets out the corresponding framework for risk management. The importance and degree of priority of risk extracted based on the regulations is assessed, and the main measures determined, at the CSR Council chaired by the director in charge of supervising the head office functions. In addition, the ALL-FX Risk Management Regulations set out a response of establishing a department for countermeasures in case where a situation arises under which FX is significantly damaged. Furthermore, based on the ALL-FX Internal Controls Regulations for Financial Reporting, an implementation plan for the revision of internal controls, and the important matters are regularly reported to the relevant officers.

(d) A system to ensure the efficient execution of duties of directors

FX establishes Executive Officers Regulations that set out the authority and responsibilities of the executive officers. Each director deployed to each business field appropriately delegates authority to the subordinate operating officers, and the scope thereof is made known within FX through a circular notice by the president. In addition, FX has established the Management Council, chaired by the Chairman and the Corporate Executive Committee, chaired by the President in order to make managerial decisions. FX has also established nine functional committees to assist the Corporate Executive Committee, with the aim of optimizing the execution of operations. The management plan and the yearly budget are made through these committees, and report on issues related to the execution are made thereof.

(e) A system to ensure that the duties of employees are carried out in a manner that complies with laws, regulations, and the articles of incorporation

Specifically, FX has set out the ALL-FX Code of Conduct as the ethics action guidelines for officers and employees to comply with, and demonstrates the basic concept of the importance of ethics and compliance in all aspects of business activities. With respect to compliance with laws and regulations, or the articles of incorporation, the role and responsibility of each organization and the fields of laws and regulations related to business are organized in the Ethics and Compliance Regulations, and in particular, guidance is established for important laws and regulations and made common knowledge within the entire company. In addition, FX maintains a whistleblower system in relation to acts of violation, which includes protection of whistleblowers, and notifies employees through the intranet and a variety of training.

(f) A system to ensure appropriate operations in the company group made up of FX, and its parent company and subsidiaries

FX has set out regulations regarding matters that must be approved by or reported to FX beforehand and the procedures therefor, and FX manages financial performance of its subsidiaries, and important decision making and information on management at its subsidiaries. Regulations regarding matters such as an ethics code of conduct, law and regulation compliance, risk management, and document maintenance are established to include subsidiaries, or so that each subsidiary has the same level of regulations as FX, and those regulations are appropriately maintained. Internal training is implemented in relation to compliance and risk management so that business is appropriately and duly executed at FX and subsidiaries. Furthermore, a budget is extended by each management head office to each subsidiary through the budget process twice a year, and the progress of achievements in each subsidiary is managed and monitored by the board of directors.

(g) A system to ensure the effective execution of audits by corporate auditors

FX's corporate auditors attend important meetings, such as board of director meetings and Corporate Executive Committee meetings, as well as regularly report to and exchange opinions with FX's representative directors, Internal Audit Department, and the accounting auditor, with the aim of improving the details of audits. If FX's and its subsidiaries' directors or employees have discovered facts that are likely to cause significant damage to the company or misconduct or acts that violate laws and regulations or the articles of incorporation, a report is given through each meeting body, organization, or the whistleblower system, and each department in charge reports to the corporate auditors. In addition, employees who belong to the Internal Audit Department as corporate auditor staff (assistant employees) and are independent from the execution of operations are deployed, and managers and corporate auditors make an agreement regarding authority and handling of such employees, and guarantee the effectiveness of instructions by the corporate auditors. (v) Subsidiary management system

Between FX and its domestic subsidiaries, regulations referred to as the "Communication Matrix," which are the regulations that set out matters requiring FX's prior approval and prior reports and procedures therefor set out necessary procedures in detail, responding to the details of the execution of operations that the subsidiary intends to implement, such as approval by FX and reports to FX's relevant departments, and those procedures must be implemented.

There is no Communication Matrix between FX and its subsidiary FXAP, and FX's corporate decision-making rules apply to part of FX (subsidiaries that control overseas sales subsidiaries in the Asia Pacific Area, excluding China).

Between FXAP (APO) and FX's overseas sales subsidiaries, the Communication Matrix sets out necessary procedures in detail, responding to the details of the execution of operations that the subsidiary intends to implement, such as approval by APO and reports to APO's relevant departments, and those procedures must be implemented.

(vi) Budget control

(a) Budget formulation process at FX

As detailed in the budget compilation process at FH and FF (1(2)(vii)(a) above), FX is positioned as FH's document solutions business, and the budget is formulated as FX, using the process detailed in 1(2)(vii)(a) above.

(b) Budget management at FX

At FX, each organization's financial forecasts are reported at the monthly performance review meeting, and a financial forecast for FX is formulated.

The financial forecast process has been bolstered since the second half of FY2015, and forecasts have formulated twice a month (once at the beginning of the month and once part-way through the month) to make it easier to make up for underperformance in the month. Further, in addition to deliberations at the two review meetings, individual deliberations are carried out as necessary. Individual deliberations are carried out through private meetings.

(c) Subsidiaries affiliated with FXAP

APO is in charge of finances for subsidiaries affiliated with FXAP, and carries out budget formulation and budget management. APO carries out consolidation work for subsidiaries affiliated with FXAP. Therefore, the FX accounting department cannot see the individual figures for subsidiaries affiliated with FXAP. If necessary, the figures are verified through APO.

- (vii) Performance evaluation
 - (a) FX head office carries out the performance evaluation (officer evaluation) of domestic affiliates. Assessment items differ depending on the business of the affiliate, but in the case of affiliates that carry out business, assessment items regarding performance, such as sales and operating income, make up 80% of the items. The remaining 20% of assessment items are regarding managerial quality, such as customer satisfaction and employee satisfaction. There are no compliance related items in the managerial quality assessment items.
 - (b) FXAP's officers essentially hold the concurrent post of officer at FX's head office. Therefore, FX's head office carries out that evaluation as an officer evaluation.
 - (c) Performance evaluation by APO is made regarding MDs only with respect to subsidiaries affiliated with FXAP. Of the total amount of MD salaries, including base pay, bonuses, and benefits, only the bonus amount fluctuated based on performance evaluations. The annual standard allowance for bonuses is established at 30% of the base pay, and is automatically calculated from the achievement rate for assessment items in the first half of the fiscal year (April through September) and the second half of the fiscal year (October through March), and paid in two parts—a first half bonus and a second half bonus. If the rate of achievement exceeds 100%, the system allows for receipt of bonuses that exceed the standard allowance. The APO Finance Department, the finance department of the subsidiary, and the MD confirm bonus calculations to ensure accuracy.

The assessment items set out at the beginning of the first half and second half of the fiscal years are generally consistent, but the weight of each assessment item may differ somewhat by country or by fiscal year. Those that are not completely consistent are affected by (i) historical factors where current forms and terms of agreements with MDs has fundamentally followed previous forms and terms used before a company in the country became a subsidiary affiliated with FX, which differed in each country, and (ii) management and political factors in which the management indicators to be reinforced differ by country and fiscal year.

In FXA's and FXNZ's assessment items in FY2016, the order of items with the greatest assessment weight were revenue with 30%, operating income with 30%, and service revenue with 20%; the majority of assessment items were thus items related to either sales

or profits. That many of the assessment items were related to sales or profits may have been partially due to the high growth expectations for FXA and FXNZ within the FX group.

As stated earlier, base pay is not linked to the achievement rate for assessment items in the preceding fiscal year. However, APO purchases salary data for each country, and adjusts pay levels to be consistent with other high-tech industries or all industries. Specifically, by adjusting the base pay and benefits taking into consideration the pay level in each country, consideration was made so as not to fall into a situation where the total salary base was too low compared to other companies in the same business. In addition, while there was no automatic promotion scheme, MDs could be promoted to Senior MD for recognition of their achievements over many years. Promotion to Senior MD included a base pay increase of 10%.

(d) FXNZ achievements and cash bonus to Mr. A

FXNZ reported outstanding success in surpassing its monthly financial targets for 48 consecutive months, from January 2011 through December 2014.

During the above period, Mr. A was publicly recognized Managing Director of the Year in FY2011 and FY2012, receiving NZ\$20,000 cash bonuses each year (Mr. A was also recognized as Managing Director of the Year in FY2004, which means Mr. A was recognized as such three times). Mr. A received a NZ\$5,000 cash bonus for his runner-up finish in FY2014.

3. FXAP

(1) Business Overview of FXAP

FXAP is a regional headquarter located in Singapore whose purpose is to supervise sales subsidiaries in Asia and Oceania regions.

In Singapore, there is Asia Pacific Operations (APO) as an internal organization within FX. APO's basic role is to draft marketing strategies for the entire Asia Pacific area and to provide support to help each sales company meet its sales and profit plans.

FXAP as a subsidiary of FX and APO as an internal organization of FX operate without any particular distinction from each other.¹ For example, FXAP's CEO is the Executive General Manager of APO, while FXAP's CFO is Senior General Manager of APO's Finance Department.

¹ Consequently, it should be noted that in some cases statements in this Report referring to FXAP should technically be a reference to APO (or vice versa). It appears that the two are not clearly distinguished even within FX.

Below, the primary focus is to discuss FXAP as a subsidiary based on rules under Singapore law, but references are made as necessary to rules at APO as an internal organization within FX in view of the actual state of the entities.

(2) Internal control at FXAP

(i) Internal control at companies in Singapore

Under the Singapore Companies Act ("Companies Act" in this Section 3 unless otherwise noted), the shareholders' meeting and board of directors exist as decision-making bodies of a company, and companies as a general rule make decisions through decisions of the shareholders' meeting or the board of directors. Other bodies existing under the Companies Act are the company secretary, who prepares company records, etc., and an accounting auditor, who performs accounting audits. There is no body in Singapore companies that is equivalent to an auditor in Japan.

The board of directors has the authority to make decisions on matters other than matters designated for resolution by the shareholders' meeting under the Companies Act or the articles of incorporation (Companies Act, Article 157A.2).

Under the Companies Act, in performing his/her duties, a director must act honestly and use reasonable diligence (Companies Act, Article 157.1), has fiduciary duty to the company under the general law, and is required to execute his/her duties honestly for the benefit of the company. If a director violates such duties, he/she may be held liable under civil and criminal laws (Companies Act, Article 157.3).

(ii) FXAP's internal organization

Following is a diagram of FXAP's internal organization.



(Overview of APO's organization)

- (iii) Description of company bodies
 - (a) Directors and board of directors

Under the articles of incorporation of FXAP, the number of directors at FXAP is to be between 2 and 12, and one-third of all directors resign at the ordinary shareholders meetings held each year. Any director may call a board meeting at any time.

However, in its operation, board meetings are said to have been rarely held, and in cases board meetings were held, there were only circular resolutions.

(b) Management meetings

There is no body at FXAP that is equivalent to a management committee. However, under the articles of incorporation, directors at FXAP may assign any part of their authority to a committee.

(c) Board of corporate auditors

FXAP has no body that is equivalent to a corporate auditor under the Japanese Companies Act.

(d) Internal Audit (IA)

FXAP has Internal Audit Department (IA) with two to three staff in total. IA is in a position to report directly to the CEO of FXAP, but for a time it reported in effect to the CFO of FXAP.

FX has rules called the "Internal Audit Policy" for the audit of Group companies. According to these rules, there are the following two audits: (a) regional audits performed directly by IBG Regional Audit, and (b) self audits performed by each sales subsidiary and FX. IA at FXAP has the role of performing regional audits on overseas sales subsidiaries under FXAP.

Accordingly, IA makes site visits at several selected overseas sales subsidiaries every year. On average, IA makes site visits at each overseas sales subsidiary every three or four years.

(e) Management Quality Office (MQO)

FXAP has a department called the Management Quality Office, which is responsible for risk management. MQO operates in accordance with FX's "All-Risk Management Regulations". Under the FX's "All-Risk Management Regulations", in the event of any material illegal conduct or violation of articles of incorporation, etc. at any FX subsidiary, it must be reported immediately to the board of directors of the relevant subsidiary. MQO therefore has a duty to report to the board of directors of FXAP if such illegal conduct, etc. were to occur at FXAP.

(iv) Whistleblower System

FXAP has a whistleblower system, which allows any content of whistleblowing to be automatically reported to the HR General Manager, but there has not been a single case over the 1.5 years since it was instituted.

A whistle blower system exists and is in operation at each overseas sales subsidiary under FXAP's management (excluding the Myanmar and Cambodia subsidiaries), but the system is run independently at each subsidiary and there is no common system or rules across the subsidiaries.

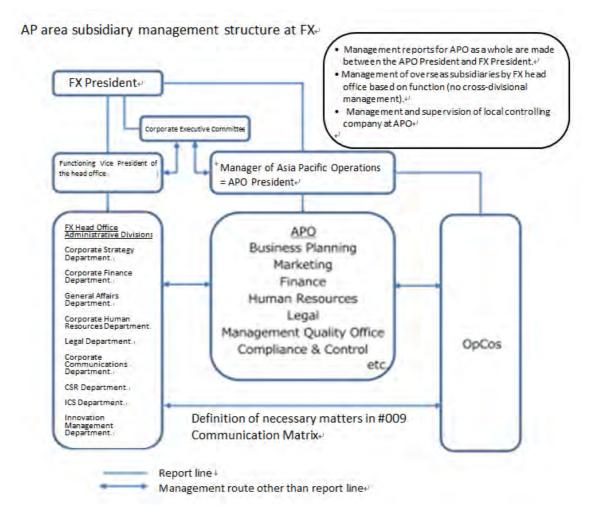
Further, there are no clear rules for escalating the content of whistleblowing up to FXAP.

(v) Subsidiary management structure

See 2(2) above.

While there are no provisions related to subsidiary management structure in law or regulations under the Singapore law, Article 157 of Singapore's Companies Act sets out the company director's general obligation of a director's duty of care of a good manager when carrying out business as a director. Management of subsidiaries is considered to be part of the directors' business. Accordingly, if, for example, there is any impropriety in the management of subsidiaries, it could be considered a violation of a director's duty of care of a good manager.

A standard called the "Communication Matrix" is provided between FXAP and overseas sales subsidiaries under FXAP's charge. The Communication Matrix stipulates in detail required procedures, such as approvals from APO, reporting, etc. to relevant departments at APO, etc., depending on the nature of the operation a subsidiary wishes to perform, and subsidiaries are required to follow the Communication Matrix.



(Outline based on document titled "APO Management Structure" prepared by FH)

(vi) Budget control at FXAP

FXAP's Finance Department is organized with a financial controller positioned below the CFO, and with the Accounting Group and FP&A Group below the financial controller. The Accounting Group is responsible for accounting, and FP&A is responsible for budget control. See 1(2)(vii)(a) and 2(2)(vi)(b) for the budget control process at FX as a whole.

FXAP's FP&A receives a budget guide twice a year from FX, which it then rolls out to each overseas sales subsidiary under FXAP's charge.

Each overseas sales subsidiary reports its outlook to FP&A, which then reports it to FX. Based on the report, an all-FX performance review meeting is held at FX. This process takes place twice a month.

Each overseas sales subsidiary under FXAP's charge has its own accounting department that administers accounting for the subsidiary. FXAP's Accounting Group is not responsible for individual overseas sales subsidiaries, but rather functions to consolidate the accounting data reported by each subsidiary.

FXAP's Finance Department (APO's Finance Department) is responsible for directing accounting policies of the overseas sales subsidiaries.

(vii) Performance evaluation

The performance of the MD of each overseas sales subsidiary under FXAP is evaluated by FXAP.

Although decisions on MD's compensation are linked to sales, operating profit and others, how much such factors are taken into consideration varies by country and by FX's policy in effect at the time.

Chapter 3 Issues at FXNZ

1. Outline of FXNZ

(1) FXNZ (MARCO and FINCO)

FXNZ comprises the following two corporations (both corporations are wholly-owned direct subsidiaries of FXAP, and are also consolidated subsidiaries of FH):

- Fuji Xerox (Sales) Pty. Limited (MARCO) -- sales corporation within FXNZ
- Fuji Xerox Finance Limited (FINCO) -- financing corporation within FXNZ.

Total revenue for the two companies was about NZ\$248 million (roughly ¥20 billion) for the fiscal year ended March 31, 2016, representing about 0.8% of FH's consolidated sales for the fiscal year.

According to interviews, MARCO is a company that sells products and provides services to customers, and it has employees. On the other hand, FINCO has no employees, and the MARCO employees conduct FINCO operations, so FINCO can be said to be an SPC-like entity.

MARCO's primary operations consist of purchasing products for leasing from FX's affiliate companies located abroad and selling them to customers, so MARCO has points of contact with customers. Since customers execute contracts with MARCO, MARCO acquires lease receivables and service revenue receivables to customers, but MARCO assigns these receivables to FINCO. Customers make payments based on the contracts to MARCO, and MARCO delivers amounts equivalent to the lease receivables and service revenue receivables to FINCO. MARCO holds ownership of the leased products even after assigning the lease receivables to FINCO. FINCO acquires interest revenue from the purchased lease receivables.

Furthermore, in the event that they fall short of funds, in addition to covering the shortfall by obtaining a loan from FX, MARCO and FINCO accommodate each other through loans between themselves.

This kind of two-company system has continued from the time that the two companies became consolidated subsidiaries of FH.

- (2) Internal Control in New Zealand
 - (i) Regulations concerning the internal controls of companies in New Zealand

In New Zealand, in addition to statutory provisions concerning internal controls mainly provided in the Companies Act, there exist best practices concerning corporate governance that are governed by guidelines and the like published by the Financial Markets Authority.

(ii) Directors and Board of Directors

(a) Statutory duties

Under the Companies Act, the board of directors is the organization that manages and supervises all the company's operations, and it has all powers to do so.

Directors hold fiduciary obligations towards the company, and are required to act in the best interests of the company, to exercise their powers for a proper purpose, and to exercise the care and diligence that a reasonable director would normally exercise in the same circumstances.

To a certain extent the board of directors may delegate its powers to other persons within the company.

The board of directors must not only promote business operations, but also must build an effective internal control mechanism along with supervising corporate governance.

(b) Corporate governance principles

While the guidelines on corporate governance published by the Financial Markets Authority are not legally binding, they do prescribe, inter alia, that directors establish a code of conduct, and that the board of directors have a diverse composition (in terms of independence, knowledge, experience, and the like), that committees be established for each area, that remuneration be transparent, fair and reasonable, that risks be identified and appropriately managed, that the quality and independence of external auditors be maintained, and that the integrity of financial reports be secured (including rigorous procedures to secure the integrity). It is normal for a company with the size of FXNZ to follow these guidelines.

(iii) Financial reports

As requirements under the Companies Act, companies are obligated to keep accounting records, and to prepare financial reports and have them audited.

The board of directors must ensure that accounting records are kept at all times, have financial reports prepared in accordance with accounting standard, and have the accounting records audited by a qualified auditor. They must also make financial reports to shareholders every year.

The international standards on auditing provide that information required by external auditors be accessible, that an internal control system be established in order to prevent mistakes and wrongdoing, and as best practices, the ethical values be shared with employees, an environment that minimizes incentives for wrongdoing be established, performance evaluations and controls on physical access authority be established, and a risk evaluation process, and maintenance of information infrastructure, be established.

Furthermore, under laws and regulations, external auditors are obligated to give a financial report to shareholders once a year and to report to the board of directors if they discover material wrongdoing or a deficiency.

(3) Organizational Composition and Internal Control System of FXNZ, FXF

(i) Main organizational composition

There exists the board of directors, MD, senior leadership team, and other various committees.

(a) Members of the board of directors

The membership of the board of directors is made up of inside directors (including parent company directors) for both FXNZ and FXF. Although under principles of corporate governance the appointment of outside directors is not required for an unlisted company in New Zealand, generally at least one outside director is appointed at companies that are of FXNZ's size. However, no outside director was appointed at FXNZ.

(b) Committees

According to FXNZ's annual meeting program, in addition to the senior leadership team, there exists a Business Performance Review and Deal Governance Committee, an Investment Committee, a Compensation Plan Management Committee, a Product Launch Committee, and a Personnel Compensation Approval Committee.

(ii) Internal control system in FXNZ

(a) Internal controls within the Group

There exist FH Group's and FX Group's internal controls systems (FX's Code of Conduct, the Fujifilm Group Charter for Corporate Behavior, and the like), and they apply also to FXNZ. See section 1(2)(iii) and Section 1(2)(iv) of Chapter 2 regarding group's internal controls.

(b) Code of Business Ethics

FXNZ has a Code of Business Ethics, which provides for the following matters.

- Falsification of company records, accounting records, and personal records is prohibited

- Making misrepresentations (whether or not intentional) in an internal audit or an external audit is prohibited

- Failure to make entries in accounting records and illegal operations and transactions are prohibited

- Appropriate reports should be made to senior management, and the manager of each section should carry out appropriate accounting treatment for all transactions

- Compliance by all managers with the Code of Business Ethics and FX's compliance-related internal rules

- Prompt reporting of violations of internal rules by the appropriate person in charge

(c) Employment contract details

The internal rules that employees should observe are listed in an exhibit to the employment contracts that are entered into with each employee in FXNZ, and those rules include the Code of Business Ethics, conflicts of interest, code of conduct, and the like. Also, a fixed training plan is established, and records for Code of Business Ethics training are kept for each individual.

(d) Credit Committee

The Credit Committee Rules establish the Credit Committee that oversees management of credit risk in FXNZ's loan portfolio.

(e) Guidelines on Liabilities Reserve

These guidelines provide for the accumulation of reserves for receivables, as a rule, in the following cases, excluding receivables against certain top-rated companies:

- If an account is frozen;
- If a final peremptory notice is given;
- If there is no payment for two or more months.

(f) Transaction Management Rules

The Transaction Committee Rules, which provides for certain criteria (large sales and cases paying 25,000 dollars or more to a third party (a customer's prior contracting party) for switching over a contract), are enacted based on the Transaction Management Rules, and assessments, approvals, and approvals of accounting treatment for all transactions that fall under those criteria are conducted in line with those rules. Also, signing authority depending on the transaction value is prescribed. These rules were enacted on November 20, 2015 (revised on April 6, 2017).

(g) Other matters

Rules for each committee (Investment Committee, Compensation Plan Management Committee and others), the national business review / business performance review, the customer sponsorship policy, and accounting rules, etc. are prescribed.

2. Impact on FXNZ's Financial Statements

(1) Impact of Restatement of Results for FXNZ's Preceding Fiscal Years

In connection with the Matter, FH is considering restating its financial statements for FXNZ's preceding five years, i.e., the fiscal years ended March 31, 2011 to March 31, 2016 and will revise the amounts booked for the following five items (FH also plans to revise its quarterly reports during the fiscal year ended March 31, 2017, but FH is still looking into those amounts as of the date of this Report, and thus this Report will not touch on them).

Figures enclosed in parentheses are negative amounts; the same applies below.

Unit: Million New Zealand dollars

	Fiscal year ended
	March 31, 2016
(i) Revisions to accounting practices pertaining	(259)
to lease transactions	
(ii) Reversal of revenue recognized without	(23)
execution of contracts or installation of equipment	
(iii) Reversal of DSG adjustments	(23)
(iv) Reversal of accounting adjustments made for	(12)
the purpose of managing financial performance at	
the time of settlement	
Total (revised amount of equity)	(318)
Revised amount of FUJIFILM Holdings	(238)
shareholders' equity (corresponding to 75% FH	
ownership stake)	
Amount in JPY	(185)
(¥77.88/NZD; ¥100 million)*	

* as of March 31, 2016

In addition to the foregoing, the following revisions have been made in connection to the Matter, but these are ancillary revisions resulting from correction of inappropriate accounting practices and are outside the scope of this investigation. They are thus not mentioned in this Report.

- Booking of asset impairment charges for lease transactions that were determined to be loss-making as a result of the restatement of past years' financial statements
- Tax impact related to the restatement of past years' financial statements

(2) Restatement Details and Calculation Basis

 (i) Revisions to accounting treatment of lease transactions (details stated in 3(3) Outline of Lease Products Pertaining to the Matter and Accounting Practices at FXNZ)

FXNZ developed and traded in lease products with lease fees that fluctuate in proportion to the customer's equipment usage volume. Previously, FXNZ's financial statements were prepared by classifying those lease transactions as sales-type leases under US GAAP. However, based on the issues cited in the investigation of the Matter and the opinion of the outside accounting auditor, FH has determined that all of FXNZ's lease contracts for which a Minimum Payment is not guaranteed do not satisfy the conditions for sales-type lease accounting treatment. FH has accordingly changed their classification to operating leases. It would normally be desirable to determine the lease classification of these transactions on a contract-by-contract basis, but FH has determined that it would practically be difficult to do so, and they have explained to the Committee that they changed the classifications to operating leases by making the determination based on the type of lease contract.

Following these revisions, under US GAAP the leased assets become assets owned by FXNZ and not by FXNZ's customers; the leased assets will now be recorded as fixed assets on FXNZ's balance sheet and depreciated over the course of the asset's economic life. In addition, the amount of lease receivables recorded on the balance sheet will now only be amounts for which customer usage was actually confirmed, not the amount based on the total lease fee for the life of the lease contract. The upfront recording of revenue for equipment sales (ORS revenue) on the income statement will be reversed, and only the amount for which customer usage has been confirmed will be recorded as sales.

The specific revised amounts for lease receivables and lease assets were totaled in accordance with the following process.

- (a) Detailed information on all leased assets existed on clients' premises was extracted from FXNZ's internal IT system;
- (b) Each leased asset was linked with its cost of acquisition at the time the contract began;
- (c) The useful life of each leased asset was calculated based on (b);
- (d) The amount of depreciation at the end of each fiscal year was calculated based on (b) and (c); and

(e) The current book value was calculated based on all of the information above.

The calculated book value of fixed assets has been recorded on FXNZ's balance sheet. Meanwhile, the amount of lease receivables (excluding the amount for which usage by customer has been confirmed for each leased asset) has been revised downward after carrying out the reversal of "(ii) revenue recognized without execution of contracts or installation of equipment" and "(iii) DSG adjustments" discussed below. The difference between the amount of lease receivables that has been revised downward and the amount of fixed assets newly recorded on the balance sheet is the amount of impact on the P&L.

The Committee believes that, as a result of totaling the amounts revised using the method described above, the inappropriate accounting practices that FXNZ employed in the past in regard to lease transactions will be revised collectively.

Item	Past issue	After revision
Target Volume (see 3(4)(i) Target Volume)	Revenue overstated due to inflated the Target Volume (expected service usage volume at time of entering lease contracts).	Following the revisions, the balance of lease receivables pertaining to transactions in which leased products exist on
Residual Values (see 3(4)(iii) Residual Values)	Revenue overstated due to inflated Residual Values (the estimated sale price for leased assets when the contract expires).	customers' premise will be limited to the amount for which usage has been confirmed. The Committee
Contract Rollovers (see 3(4)(iv) Contract Rollovers)	Lease contracts were renewed before expiration and then recorded as a new sale without reversing the past sale (there was no delivery of new equipment for some transactions). In addition, lease receivables pertaining to initial contracts with doubtful collectability were recorded on the balance sheet as-is.	believes that, as a result, the inflated amount of lease receivables that occurred due to each factor on the left has been comprehensively revised.
Sponsorship Cost (see 3(5)(iv) Sponsorship Cost)	The amount equal to sales promotion costs for the purpose of winning lease contracts was added to sales, and the same amount recorded to lease receivables. In order to win a lease contract from	
Third Party Settlements (see 3(5)(v) Third Party Settlements)	In order to win a lease contract from a competitor, FXNZ would pay the customer's remaining contract obligations to the competitor, with this amount being added to sales and the same amount recorded to lease receivables.	

In addition, "Sponsorship Cost," "Third Party Settlements" and other inappropriate accounting practices described in the table below were also carried out for lease contracts not

classified as operating leases, and the balance of all lease receivables for these contracts was also revised downward.

Furthermore, because FXNZ had not recorded the appropriate amount of allowance for doubtful debt regarding lease receivables with doubtful collectability (stated in detail in 3(2)(vi) Credit risk and increase in nonperforming receivables), additional allowance for doubtful debt have been recorded. However, as shown in the table below, the overall balance of lease receivables has been reduced following the downward revision of the lease receivable balance, and as a result the shortfall of allowance for the fiscal year ended March 31, 2016 is now smaller.

FH has explained that it plans to carry out revision in the same way for its financial figures for the fiscal year ending March 31, 2017.

	Fiscal year ended
	March 31, 2016
Revisions to accounting practices pertaining to lease transactions	(247)
Revised amount of allowance for doubtful debt	(12)
Total (revised amount of equity)	(259)

Unit: Million New Zealand dollars

(ii) Reversal of revenue recognized without execution of contracts or installation of equipment (3(5)(i) Recording of Revenue Before the Execution of Agreements or the Installation of Equipment, and 3(5)(ii) Macro Adjustments)

FXNZ had recorded ORS revenue and the corresponding costs before leased assets were shipped to customers or delivered to customers' places of business (including some fictitious transactions).

Of these, the ORS revenue and costs for contracts for which the shipment and delivery of leased assets did not actually occur have been reversed. In addition, ORS revenue and costs for contracts for which the shipment and delivery of leased assets actually did occur have been reallocated to the relevant fiscal years when the shipment and delivery occurred. These revisions include both of the revised amounts of 3(5)(i) Recording of Revenue Before the Execution of Agreements or the Installation of Equipment, and 3(5)(ii) Macro Adjustments.

Furthermore, the aforementioned revisions will not have an additional impact on the financial figures for the fiscal year ending March 31, 2017.

	Fiscal year ended	
	March 31, 2016	
Reversal of revenue recognized without		
execution of contracts or installation of	(12)	
equipment		
Reversal of fictitious transactions	(11)	
Total (revised amount of equity)	(23)	

Unit: Million New Zealand dollars

(iii) Reversal of DSG adjustments (3(4)(ii) DSG adjustments)

FXNZ has recorded sales for lease contracts with fees that depend on the customer's actual equipment usage, based on the service usage volume expected at the time of execution of the contracts. Even if actual service usage falls short of the expectation, the sales that were recorded at the time of execution of the contracts were not reversed; instead the revenue shortfalls were recognized by recording a "DSG adjustment" entry. This resulted in revenue being over-stated, and doubts about collectability arose in regard to the lease receivables for the over-stated revenue amounts.

The amount (net) of impact of these DSG adjustments has been specified, and that amount of revenue and the lease receivables have been reversed.

Furthermore, the aforementioned revisions will not have an additional impact on the financial figures for the fiscal year ending March 31, 2017.

Fiscal year	
	March 31, 2016
Revised amount of equity	(23)

Unit: Million New Zealand dollars	3
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(iv) Reversal of adjustments to financial performance at the time of settlement (3(5)(iii) Individual Entry)

FXNZ engaged in inappropriate accounting practices, such as the recording of advance sales without execution of contracts or installation of equipment, fictitious sales, and the deferral of the recognition of costs, for the purpose of adjusting financial performance. Other than the two set forth below, these inappropriate accounting practices are revised in (ii) Reversal of revenue recognized without execution of contracts or installation of equipment.

A cash payment related to the signing of a new long term lease agreement for real estate was received as a reduction in rental expense and the payment was originally booked to P&L as revenue at the time the agreement was signed. However, a correction has been made to recognize the cash payment as a reduction in rental expense, spread out over the life of the lease.

With regard to consumables kept at customers' sites, the value of inventory kept at customers' premises was excessively recorded and COGS was under-reported. This has been revised to the appropriate levels.

Furthermore, FH has explained that it expects to prepare the financial statements for the fiscal year ending March 31, 2017 using the same method as the aforementioned revisions.

	Fiscal year ended
	March 31, 2016
Restatement of cash payment received	(5)
Revision of consumables kept clients' sites	(7)
Total (revised amount of net assets)	(12)

Unit: Million New Zealand dollars

3. Issues at FXNZ

(1) Business Outline of FXNZ

Lease transactions at FXNZ consisted of MARCO making the actual sales and FINCO providing financing; FINCO would take over the lease receivable from MARCO and book interest income (for details, see section 1 of Chapter 3).

A total of 9,493 lease contracts existed as of December 2015 (total contract value NZ\$327 million). The breakdown of the main lease types is as follows, and the MSAs at issue account for over 70% of the total contract value.

Туре	Number of contracts	Percentage of whole	Contract amount (in millions of NZ dollars)	Percentage of whole
Sales-type lease with flat rate	2,778	29%	32	10%
MSA	3,556	37%	243	74%
Operating lease	2,958	31%	36	11%
Other	201	3%	16	5%
Total	9,493	100%	327	100%

(2) Lease Accounting Standards under US GAAP

(i)Categories of lease transactions

A lease transaction is a contract that transfers the right to use a building, factory, or equipment (land and depreciable assets) for an agreed period of time. Under US GAAP, lease transactions on the part of the lessor are classified into two types of transactions, capital leases and operating leases, in accordance with their economic reality. Capital leases are further categorized into three types: sales-type leases, direct financing leases, and leveraged leases. FXNZ categorized MSA lease contracts as sales-type leases.

Categories of lease	
transactions on the part of the	Definitions
lessor	
	 A lease that satisfies any of the four conditions set forth in a. through d. below, and that also satisfies the two conditions set forth in e. and f. below is categorized as a capital lease (Accounting Standards Codification ("ASC") 840).² a. Ownership of the asset transfers to the lessee at the end of the lease term; b. The lessee holds a purchase option with discounted price; c. The lease term accounts for 75% or more of the economic life of the leased asset; or d. The present value of the total amount of the minimum lease fee payment (the minimum lease fee payment (the minimum lease fee payment amount borne by the customer) exceeds 90% of the fair market value of the leased asset. And e. It is reasonably possible to predict the collection of the total minimum lease fee payment; and f. There is no uncertainty that additional costs that cannot be collected from the lessee will arise. Capital leases are further categorized into the three following types. Sales-type leases The lessor is a dealer or a manufacturer, and the transaction includes profit for the dealer or manufacturer. Direct financing leases The transaction does not include profit for the dealer or manufacturer.
	The transaction does not include dealer or manufacturer profit factors, and is also a transaction (i) to which a lessor lessee and long-term creditor are parties (ii) that
	 e. It is reasonably possible to predict the collection total minimum lease fee payment; and f. There is no uncertainty that additional costs that be collected from the lessee will arise. Capital leases are further categorized into the three f types. Sales-type leases The lessor is a dealer or a manufacturer, transaction includes profit for the dealer or manufacturer. Direct financing leases The transaction does not include profit for the dealer or manufacturer.

² Lease accounting standards were revised in February 2016 (ASC 842), but the revised standards do not apply to FH's consolidated financial statements for the fiscal year ending March 31, 2017.

	is nonrecourse with regard to funds provided by the long-term creditor, and (iii) in which the lessor's net investment amount declines during early period and increases during later period.
Operating leases	Lease transactions other than capital lease transactions.

The material factors for determining whether an MSA (set forth below in (3) Outline of Lease Products Pertaining to the Matter and Accounting Practices at FXNZ) can be classified as a capital lease are, in the above table, c. the economic life of the leased asset, and d. an appraisal of the present value of the total amount of minimum lease fee payments. In addition, because MSA used a variable fee system under which the lease fee depends on the actual usage rate of the leased asset (i.e., the number of 'clicks', or copy, print etc.), another material factor is whether collectability of the minimum lease fee payment in e. above is reasonably expected.

Depending on the category of the lease transaction, the ordinary accounting treatment method will differ respectively at (I) the point in time at which the lease transaction begins, (II) the point in time at which the lease fee is received, and (III) the time at which the lease ends, as set forth below. Since FXNZ is a sales company and its lease transactions normally are categorized as sales-type leases or operating leases, the respective accounting treatments are stated and compared below.

	Debit		Credit	
(I) Inception of	Lease receivable	XXX	Sale	XXX
lease	COGS	XXX	Deferred income	XXX
			Fixed asset	XXX
(II) Receipt of	Cash	XXX	Lease receivable	XXX
lease fees	Deferred income	XXX	Interest revenue	XXX
(III) Termination	Cash	XXX	Lease receivable	XXX
of lease	Fixed asset (Residual Value)	XXX	Lease receivable	(Residual Value)
				XXX

(ii)Accounting treatment for sales-type leases (lessor)

(I) Inception of lease

Lease receivables are recorded as the total of the minimum lease fee payment and the leased asset's unsecured Residual Value (the estimated sale price of the leased asset at the expiration of the lease contract term).

Sales are recorded as the current value of the minimum lease fee payment.

COGS is recorded as the amount that results from subtracting present value of the unsecured Residual Value from the leased asset's acquisition price (in the above table, the amount of the fixed asset recorded on credit).

The deferred income is recorded as the difference between the total of the minimum lease fee payment and the unsecured Residual Value and their present value.

(II) Receipt of lease fees

Interest revenue is recorded as revenue by, along with reconciling lease receivables in proportion to the lease fee collection amount, drawing down deferred income only of an amount equivalent to interest out of the cash collection amount.

(III) Termination of lease

Since the only remaining lease receivable is the unsecured Residual Value if the total amount of the lease fee is collected, the leased asset is collected from the lessee, and the remaining lease receivables are transferred to fixed assets (or the lease receivables are collected by disposing of the leased assets).

(iii)Accounting treatment for operating leases (lessor)

	Debit		Credit	
(I) Inception of lease	No entry			
(II) Receipt of lease fees	Cash	XXX	Sales	XXX
	Depreciation expense	XXX	Fixed asset	XXX
(III) Termination of lease	No entry			

(I) Inception of lease

Since the leased asset is treated as the lessor's property, there is no accounting treatment that occurs at the time that the lease transaction begins (if the lessor records leased assets as inventory, it is necessary to transfer from inventory to fixed assets).

(II) Receipt of lease fees

Along with recording the collected amount of lease fees as revenue, the leased asset's depreciation expense is recorded as an expense.

(III) Termination of lease

Since the leased asset is the lessor's property, there is no accounting treatment that occurs at the time that the lease is terminated.

(iv)Impact on financial result depending on category of lease transaction

In the case of operating leases, revenue is recorded as lease fees are received. For sales-type lease translations, an amount equal to the sale price of the leased asset is recorded as revenue in a lump sum at the time of the inception of the transaction, and those proceeds are then collected over the term of the lease contract. Consequently, the decision on whether a lease transaction will be treated as sales-type lease transactions or as an operating lease has a material impact on the timing of when the lessor records revenue.

(3) Outline of Lease Products Pertaining to the Matter and Accounting Practices at FXNZ

(i)Outline of lease products pertaining to the Matter and accounting practices at FXNZ

FXNZ used two types of contracts: MSA and GCSA (which was similar in structure to MSA but was used for different types of leased assets). Both MSA and GCSA used a variable fee system under which the lease fee varied according to actual usage of the leased asset (i.e., the number of clicks). Furthermore, the inclusion of Rightsizing clauses under the standard MSA template gave FXNZ certain contractual rights if the number of clicks was less than expected, although the enforcement of the clause was conditional upon an agreement with the customer, so its legal enforceability was uncertain.

Item	Contract details
Service details	A contract that bundles equipment sales and maintenance service, etc. for collecting monthly copy charges to cover equipment charges, consumable charges, maintenance charges and interest.
Term of agreement	An average of 48–60 months
Fees setting	Actual usage volume (i.e., the number of clicks) x Click Rate (i.e., the unit price set based on the Target Volume). In other words, the MSA did not stipulate a duty for the customer to pay a fixed monthly fee (no minimum payment obligation).
Termination clause	The MSA provides a penalty payment if the customer terminates the contract early, equivalent to the Target Volume for the remaining term of the contract.
Transfer of ownership	None
Purchase option	None
Sole Supplier clause	The customer installing a competitor's printer would be in breach of contract; however, the MSA also stipulates exceptions for the customer to be exempted from the Sole Supplier clause.
Rightsizing clause	In the event the customer's usage did not reach the Target Volume established under the contract, FXNZ can remove the printer, change to equipment that is suited to actual volume, or change the Click Rate, but conditional upon FXNZ being able to reach an agreement with the customer.

The terms of a standard MSA template is as set forth below.

FXNZ determined that both MSA and GCSA were classified as sales-type leases³, and used the following type of accounting treatment. A generalized entry of the accounting treatment is as stated below.

Hypothetical transaction:

Contract terms:

Number of lease payments: 3 times *no early termination

Expected lease fee per payment: 4,000 (= 400 clicks x @10)

Expected total amount of lease fee: 12,000 *not including residual value

Leased asset's ORS revenue: 10,000

Interest revenue: 900

Service revenue: 1,500

Leased asset acquisition price: 6,000

Estimated Residual Value: 400

Residual Value at time of contract termination: 300

Usage:

First time: 400 clicks

Second time: 390 clicks

Third time: 410 clicks

Please note that interest revenue should be recorded using the interest method, but for the sake of simplicity, it is recorded equally for each period below.

MARCO	Debit Items	Amount	Credit Items	Amount
(a) Inception of lease	Inventory	6,000	Cash	6,000
(inventory purchase)				
(Recording of sales)	Lease receivables	12,400	ORS revenue	10,000
			Deferred income	900
			Deferred service	1,500
	COGS	6,000	revenue	
			Inventory	6,000
(Transfer of receivables)	Cash	11,500	Lease receivables	12,400
	Deferred income	900		
(b) First lease fee receipt	Cash	4,000	Service revenue	4,000
(lease fee receipt)				

³ According to interviews, while FXNZ as lessor used a sales-type lease treatment, it is thought that customers did not perceive the contracts to be sales-type lease lessees, and did not use a sale-type lease accounting treatment as lessees.

MARCO	Debit Items	Amount	Credit Items	Amount
(Payment to FINCO)	Service revenue	4,000	Cash	4,000
(Drawdown of deferred	Deferred service	500	Service revenue	500
income)	revenue			
Second lease fee receipt	Cash	3,900	Service revenue	3,900
(lease fee receipt)				
(Payment to FINCO)	Service revenue	4,000	Cash	4,000
(Drawdown of deferred	Deferred service	500	Service revenue	500
income)	revenue			
(DSG adjustment)	Intracompany account	100	Service revenue	100
Third lease fee receipt	Cash	4,100	Service revenue	4,100
(lease fee receipt)				
(Payment to FINCO)	Service revenue	4,000	Cash	4,000
(Drawdown of deferred	Deferred service	500	Service revenue	500
income)	revenue			
(DSG adjustment)	Intracompany account	(100)	Service revenue	(100)
(c) Lease termination	Inventory	300	Intracompany account	400
(receipt of leased item)	COGS	100		
(Leased asset	Cash	300	Inventory	300
disposition)				

FINCO	Debit Items	Amount	Credit Items	Amount
(a) Inception of lease	n/a			
(inventory purchase)				
(Recording of sales)	n/a			
(Transfer of receivables)	Lease receivables	12,400	Cash	11,500
			Deferred income	900
(b) First receipt of lease	n/a			
fees (receipt of lease				
fees)				
(Receipt from MARCO)	ARCO) Cash		Lease receivables	4,000
(Drawdown of deferred	Deferred income	300	Interest income	300
income)				

Second receipt of lease	n/a			
fees (receipt of lease				
fees)				
(Receipt from MARCO)	Cash	4,000	Lease receivables	4,000
(Drawdown of deferred	Deferred income	300	Interest income	300
income)				
(DSG adjustment)	Lease receivables	100	Intracompany account	100
Third receipt of lease	n/a			
fees (receipt of lease				
fees)				
(Receipt from MARCO)	Cash	4,000	Lease receivables	4,000
(Drawdown of deferred	Deferred income	300	Interest income	300
income)				
(DSG adjustment)	Intracompany account	100	Lease receivables	100
(c) Termination of lease	Intracompany account	400	Lease receivables	400
(receipt of leased item)				

(a) Inception of lease

Unlike an ordinary sales-type lease, MSAs bundled consumables and maintenance services, so the lease receivables (total lease fees + unsecured Residual Value) consist of three revenue streams: an amount equal to an outright equipment sales, an amount equal to interest, and an amount equal to service revenue. The amount equal to interest and the amount equal to services revenue are recorded as revenue in proportion to the term of the lease contract; at the start of the lease contract they are recorded as a lease receivable and deferred income, respectively.

MARCO would then transfer the lease receivables and service revenue receivable to FINCO.

(b) Receipt of lease fees

MARCO would initially collect lease fees from clients, then pay amounts pertaining to ORS revenue and interest to FINCO in accordance with the Target Volume as initially set in the MSA. MARCO handled these transactions using the service revenue account, which thus had to be adjusted to reflect any difference between the amount of service revenue expected at inception of lease and actual service revenue received. At that time, because MSA should include a minimum payment guarantee, an adjustment would be made to recognize the shortfall as accruals to MARCO service revenue and FINCO lease receivables via intercompany accounts (DSG adjustments).

Once FINCO received the initially expected service revenue, lease receivables would be reduced accordingly and FINCO would also record interest revenue. Subsequently, any difference between the expected lease fees and fees actually received would be recorded as a lease receivable via intracompany accounts.

(c) At termination of lease

MARCO receives the leased asset from the customer, and records the difference between estimated Residual Value and actual Residual Value to COGS. Then, the only lease receivable remaining with FINCO is the amount equal to the estimated Residual Value, which is settled using the intracompany account.

FINCO uses the intracompany account to reconcile the lease receivables in the amount equal to the estimated Residual Value that ultimately remains.

(ii) Opinions from accounting firms regarding accounting treatment of MSA and GCSA

On October 22, 2009, FXNZ obtained the following opinion from Accounting Firm 1-2 regarding accounting treatments for MSA. That opinion concerns a contract template and is not about the transactions that actually took place, and it states that it is necessary to assess the accounting treatment to be adopted for each actual transaction. Also, as important prerequisites for recognition as a capital lease⁴, Accounting Firm 1-2 premises its opinion on the lease term accounting for most of the economic life of the assets and the present value of the minimum payment (the Target Volume in the contract term multiplied by the Click Rate = minimum payment lease fee) being essentially equal to the fair market value of the leased asset, so it is not an opinion that unconditionally approves the categorization of MSAs as capital leases.

The opinion is based on the international accounting standards that FXNZ applies in its non-consolidated accounts. The principal approach to the relevant conditions for capital leases is considered to be similar under the international accounting standards and the US GAAP. However, the international accounting standards do not specifically indicate the specific numerical criteria that are prescribed as conditions for capital leases in the US GAAP (lease term $\geq 75\%$ of the economic life of the leased assets, or the present value of the total minimum payment lease fee > 90% of the fair market value of the leased asset), instead

⁴ Under the international accounting standards, lease transactions are divided into finance leases and operating leases, but for the sake of convenience this Report uses the term capital lease.

making qualitative provisions for each as in "most of" or "equal to or greater than almost all." Therefore, Accounting Firm 1-2's opinion does not consider these numerical criteria.

(a) Accounting Firm 1-2 opinion (summarized)

An opinion is given as follows with respect to how a DSG (a DSG is one form of lease agreement used at FXNZ from around 2003; the DSG that was devised as a new template for that agreement and that was the subject of Accounting Firm 1-2's opinion is the MSA/GCSA agreement, but there are no substantive differences between the provisions of the two, and that was the understanding also at FXNZ) falls under the four conditions for a capital lease.

9	Transfer	of	ownersh	in
а.	Transfer	UI.	Ownersn	up

No applicable provisions

b. Purchase option

No applicable provisions

c. Lease term

It is provided that if the contract is terminated early, a penalty that is calculated based on the Target Volume must be paid for the number of months left in the contract term, and it constitutes a non-cancellable lease.

Whether the lease term accounts for most of the economic life of the equipment is determined by management, and it is determined on a case-by-case basis.

d. Present value of the total Minimum Payment

The contract does not provide that the customer has an obligation to pay a fixed fee each month (obligation to pay Minimum Payment), and the customer only has an obligation to pay the amount that is the volume that is actually used, multiplied by the Click Rate. However, the Target Volume and the Click Rate (a unit price set based on that Target Volume) are stipulated in the contract, and under the contract, for the following reasons, it is conceivable that the customer is obligated to pay as the Minimum Payment an amount calculated by multiplying those.

- According to management's explanation, the Target Volume is set, for new customers, based on an assessment and determination by an experienced analyst, and for existing customers, based on their actual usage.
- A Sole Supplier clause is provided so that the customer will achieve the Target Volume. If the customer installs a competitor's equipment, as a result of breaching the clause, the customer must pay the balance of the contract amount that is calculated based on the Target Volume.

• If the customer does not achieve the Target Volume, based on the Rightsizing clause, FXNZ has the right to remove equipment and change it to equipment that is commensurate with the actual usage, or to change the Click Rate.

Conclusion:

If the following conditions are satisfied, it is thought to be reasonable to treat DSG as a capital lease.

- Management determines that the lease term accounts for most of the economic life of the assets.
- Management determines that present value of the Minimum Payment during the lease term (the Minimum Payment referred to here means the amount calculated by multiplying the Target Volume by the Click Rate) is essentially equal to the fair market value of the leased asset.

However, this evaluation must be conducted for each individual contract. For example, there are cases in which the actual contract term differs from that of the DSG template, and that possibly will impact the determination on its accounting treatment. Accordingly, if the actual contract differs from the template, the management should on each occasion evaluate the accounting treatment that is employed.

FXNZ also engaged Accounting Firm 2-2 to review the aforementioned opinion of Accounting Firm 1-2, and on November 11, 2009, obtained the following opinion from Accounting Firm 2-2.

(b) Accounting Firm 2-2 opinion (excerpt)

Upon providing a supplemental explanation of the satisfaction of conditions for c. the lease term and d. the present value of the total Minimum Payment, the Accounting Firm 2-2 opinion, as set forth below, basically agreed with the opinion of Accounting Firm 1-2. However, Accounting Firm 2-2 added that capital lease accounting would only be appropriate if the Target Volume was "reasonably certain".

Furthermore, Accounting Firm 2-2 opinion also is based on the international accounting standards, but for reference it mentions the specific numerical criteria provided in order to be judged as a capital lease under US GAAP (lease term $\geq 75\%$ of the economic life of the leased assets, or the present value of the total minimum payment lease fee > 90% of the fair market value of the leased assets), and confirms that DSG satisfies these numerical criteria.

c. Lease term

Management explained that the average DSG contract term is 48-60 months. Internal rules provide that if the DSG contract term exceeds 36 months, the leased asset's Residual Value will not be estimated. These are thought to suggest that the DSG contract term accounts for most of the economic life of the assets.

d. Present value of the total Minimum Payment

The opinion that the DSG satisfies the condition of the present value of the total Minimum Payment is based on the Target Volume being "reasonably certain." According to management, by using evaluations to set Target Volume and existing customer's billing histories, it is ensured that the volume is "reasonably certain."

Since the terms and conditions of DSG agreements stated as the underlying facts for each of the above opinions differ from the actual terms and conditions, it was found when FXNZ audit by the Internal Audit Department of APO was conducted on July 24, 2015 that each of the aforementioned opinions cannot justify the MSA sales recognition (see section 2 of Chapter 5 with respect to this point).

(iii) Analysis of accounting treatment of MSA and GCSA

The following states the criteria pertaining to capital leases in the US GAAP that relate to MSA and GCSA, and examines their application in the Matter.

Salas tupa lagga gritaria	Application to MSA and CCSA	Determination for each
Sales-type lease criteria	Application to MSA and GCSA	item
a. Ownership of the leased	Transfer of ownership is not	Does not satisfy the
assets transfers to the lessee	explicitly stated in the contract,	criteria.
when the lease terminates.	and it is conceivable that	
	transfer of ownership did not	
	take place. There also are cases	
	in which customers were	
	provided with new leased assets	
	in conjunction with Contract	
	Rollovers.	
b. Purchase option with	Not applicable for the Matter.	Does not satisfy the
discounted price		criteria.
A clause that allows the		
lessee an option (at the		

lessee's choice, to purchase		
the assets subject to the		
lease at a price that is		
significantly lower than the		
anticipated fair market		
value) by which the exercise		
of the option is reasonably		
guaranteed.		
c. The lease term accounts for	The lease term is fixed, and it is	There is a possibility
most of the economic life of	conceivable that it was	that it does not satisfy
the leased assets (normally,	determined at the start of the	the criteria.
approximately 75% of the	lease that the lease term will	
life of the leased assets).	account for most of the	
	economic life.	
	However, since Contract	
	Rollover often took place prior	
	to expiration of the lease term,	
	the contractual term and the	
	actual term did not necessarily	
	match.	
d. The present value of the	The Sole Supplier clause and the	There is a possibility
Minimum Payment at	Rightsizing clause do not	that it does not satisfy
inception of lease is	unconditionally confer FXNZ's	the criteria.
substantially equivalent to	rights. Also, FXNZ did not	
the leased asset's fair market	actually charge customers the	
value (normally, this is 90%	amount calculated based on the	
of the asset's fair market	Target Volume.	
value)	Additionally, since there were	
	frequent Contract Rollovers, it is	
	possible that the planned	
	payment amount agreed to by	
	FXNZ with customers was	
	smaller than the amount	

Both MSA and GCSA contracts must be reviewed to ascertain whether the risks and benefits of asset ownership have actually been transferred. However, as shown below, this determination was complicated, both at inception of lease and over the subsequent course of the transaction.

(a) At Inception of lease

All facts and circumstances must be understood at inception of lease, but when a determination of minimum payment in contracts with Target Volume is made, there is room for judgement. The factors noted below complicate that determination:

- i. The standard contract templates were frequently changed based on side letters, oral understanding, etc.
- ii. It is unclear what impact rightsizing and other clauses that protect FXNZ would have on the enforceability of minimum payment at inception of lease, nor is it clear whether it was appropriate for the Target Volume to be used as the basis for determining the minimum payment.
- (b) After inception of lease

Even after inception of lease, it may be necessary to reconsider the accounting treatment under certain scenarios as noted below:

i. "Contract Rollovers" that result in changes to details of the lease contract

In Contract Rollovers there are cases in which the leased asset that is the subject of the original contract continues to be used as-is while there are other cases in which a new leased asset is installed, so there is a possibility that it will be necessary to change the accounting treatment, book asset impairment charges for lease receivables, reconsider the lease contract classification, and the like.

ii. Whether the Rightsizing clause is triggered

If the Target Volume is not achieved and the Rightsizing clause is not triggered, an asset impairment test for the lease receivables will be required, and it will become necessary to consider changing the accounting treatment. Even after triggering the Rightsizing clause, there is a possibility that the amount of the Minimum Payment after triggering the clause will differ from the amount of the Minimum Payment that is based on the Target Volume.

(4) Outline of the Matter

(i) Target Volume

As set forth in (3) Outline of Lease Products Pertaining to the Matter and Accounting Practices at FXNZ, FXNZ calculated the total amount of sales for MSA and GCSA based on the Target Volume. Furthermore, as set forth in (2) Lease Accounting Standards under US GAAP, because MSA and GCSA were treated as sales-type leases under US GAAP, MARCO would record ORS sales and FINCO would record lease receivables at the time of the execution of contracts, and the specific amounts were calculated from the total contract amount based on the Target Volume.

However, it was stipulated in the MSA and GCSA payment clauses that only actual usage volume (actual number of clicks \times Click Rate) would be invoiced to customers by MARCO, and it had not stipulated a Minimum Payment clause (i.e., a clause that guarantees the payment of a minimum fixed amount based on the Target Volume, regardless of the actual usage volume). This meant that if the customer's actual number of clicks fell below the Target Volume, the result would be a shortfall compared to the expected revenue calculated at the time of the execution of the contract, because MARCO could only invoice the customer for actual usage volume.

Meanwhile, FINCO invoiced MARCO on a monthly basis for interest and principal payments due, in accordance with the terms of the initial contract, regardless of the actual amount MARCO invoiced the customer. If the amount that MARCO invoiced the client was lower than the initially expected lease fee (i.e., Target Volume x Click Rate), an adjustment was made to reverse MARCO's service revenue only by the difference to match the lease fee after payment to FINCO with service revenue booked by MARCO.

Based on the sales and lease receivable calculation method set forth above and the details of the MSA and GCSA payment provisions, for contracts for which the Target Volume had been excessively estimated, FXNZ recognized over-stated revenue and receivables at inception of lease. There were also transactions where the over-stated revenue exceeded the actual lease fees earned over the term of the lease. Consequently, rather than this being an issue of the timing of revenue recognition, the setting of excessive Target Volume resulted in excessive revenue recognition over the entire contract term.

In addition, when the Target Volume and the actual number of Clicks diverge and the initially expected level of revenue is no longer assured, this would be clear evidence of the need to consider an impairment write-down for the receivables. It would be an issue that no evidence has been found to suggest that FXNZ had considered this.

Further, whether customers have a legal obligation to pay a certain amount of lease fees based on the Target Volume set in MSAs and GCSAs is one of the material factors to classify those contracts to be sales-type leases. However, there is also the issue that in the Matter where such a legal obligation was not stipulated in the MSA and GCSA, if the content of a lease contract based on an MSA or GCSA is reassessed, it is possible to be determined that a lease contract that was treated as sales-type lease should have actually been classified as an operating lease.

During the period from January 1, 2010 until January 31, 2016, FXNZ routinely utilized MSAs and GCSAs that included Target Volume clauses. According to internal materials dated November 11, 2015, out of 1,440 contracts, the actual number of clicks was lower than the Target Volume in 982 contracts, and the Target Volume achievement rate was less than 70% in 555 contracts. In addition, in July 2015, as a result of conducting an internal audit and proceeding with an investigation to FXNZ by FXAP, it was found that the Target Volume was not achieved in about 70% of contracts.

In this way, it was widely understood by the most of officers and employees of FXNZ that customers' usage rates falling short of the Target Volume set in MSAs and GCSAs became constant practice, including A, B, C, and members of the finance team.

The use of MSAs and GCSAs was prohibited from September 2015.

(ii) DSG adjustment

As set forth in (i) Target Volume, if the actual number of clicks was lower than the Target Volume in MSAs and GCSAs, MARCO's service revenue was reduced by an amount equal to the shortfall.

"The Revenue Recognition Policy for DSG Contracts" dated May 9, 2007 prepared by APO that FXNZ (MARCO and FINCO) was required to comply with, stipulates that revenue recognition should be in accordance with internal rules, the International Accounting Standards, and New Zealand accounting standards. The rules also stipulate that if it is discovered that the revenue that has already been recognized is excessive, and that the service revenue thereafter will be negative, it must be ensured that they at least break even by using any of the following methods: (i) reducing financing income, (ii) reversing equipment sales, or (iii) raising the Click Rate.

However, if FXNZ conducted accounting treatment in accordance with the above revenue recognition rules, the service revenue recorded for MARCO would be low, and in order to handle this revenue shortfall FXNZ introduced an accounting practice called the DSG (Document Services Group) adjustment, in violation of the above provisions. Through the DSG adjustment, if MARCO's actual service revenue (i.e., the amount obtained by deducting the amount of the lease receivable repayment and interest revenue for FINCO based on the Target Volume from the amount invoiced to the customer) was insufficient to meet the service revenue it expected to receive according to MARCO's initial forecasts of the customers' number of clicks (i.e., the amount equal to the ratio of distribution to service revenue out of the amount invoiced to the customer that MARCO initially stipulated), FXNZ additionally

recorded an amount equal to the shortfall as MARCO's service revenue and FINCO's lease receivables, respectively.

If it is considered that the customer bears a legal obligation to make payment of amounts based on the Target Volume and the Click Rate (in this case, it would ultimately be possible to collect the Target Volume through future payment of the DSG adjustment amount), there is a possibility that recording MARCO's service revenue including an additional amount based on the above DSG adjustment could be viewed as appropriate accounting treatment. However, as set forth in (i) above, based on the matters discovered in the investigation, the MSAs and GCSAs that MARCO had executed with customers stipulated that MARCO must invoice customers based on the actual usage volume, and they did not establish Minimum Payment clauses for the payment of amounts based on the Target Volume and the Click Rate. Posting the shortfalls to MARCO service revenue and FINCO lease receivables using the DSG adjustment entry was not permitted under accounting rules, and thus should be considered to have over-stated revenue and receivables, respectively.

Even if there were exceptions where customers had a legal obligation to pay based on the Target Volume and the Click Rate, FINCO would need to investigate whether the lease receivables recorded based on the Target Volume can be collected if the lease fees that FXNZ actually collected from the customer were less than the amount based on the Target Volume. Based on that investigation, if it is thought that the amounts were uncollectable the DSG adjustments would need to be reversed, and the lease receivables would need to be written down. According to the facts revealed by this investigation, the probability of collectability of the lease receivables recorded by FINCO using DSG adjustment was not very high, and therefore even if a customer bore a legal obligation to pay an amount based on the Target Volume, it can be evaluated that the service revenue and lease receivables were overstated by FXNZ.

When DSG adjustment was originally implemented at FXNZ, manual entries were made in FINCO's lease receivable ledger and MARCO's sales ledger, and if contracts with a DSG adjustment balance were executed anew by means of rollover (discussed below), the DSG adjustment balance at the time that the original contract terminated was temporarily reversed in the ledger and a new agreement was registered in the agreement management system (the "System A"), and the reversed balance was recorded in the System A again for the new agreement. Therefore, at least part of the reversed DSG adjustment was recorded again as service revenue and lease receivables for the new agreement through the System A.

In 2012, FXNZ's management instructed its IT department to install a program to automatically record the DSG adjustment amount in the system. Management meetings attended by FXNZ's management examined the results produced by such program, and the

DSG adjustment amount for that month determined at the meeting was recorded at MARCO and FINCO as service revenue and lease receivables, respectively.

However, because the amount that MARCO invoiced customers was based on the Click Rate set forth in the new agreement and the actual number of clicks, MARCO did not separately invoice customers for the DSG adjustment, and the customer was not informed of the fact that FXNZ (FINCO) was booking the DSG adjustment balance for the existing agreement once again as lease receivables when the agreement was executed anew, so it is hard to consider that the customer would have a legal obligation to pay MARCO the fees for the DSG adjustment amount.

The total amount of the DSG adjustments carried out on FINCO's lease receivable ledger and MARCO's sales ledger from March 31, 2013 until March 31, 2016 was about NZ\$47 million, and the balance at the end of the fiscal year ending March 31, 2017 (after deducting the NZ\$24 million reversal (cumulative for the period) at the time of Contract Rollover) was NZ\$23 million.

From the materials disclosed by FXNZ and interviews to relevant personnel, it is found that the process, calculation methods, and issues with respect to such adjustments were commonly known by FXNZ's executive management, employees at finance and accounting department and sales department. DSG adjustment began with the approval of FXNZ's former Managing Director, A, and was implemented under the direction of the former CFO, B, and it enabled FXNZ's management to avoid the pressure of sales targets imposed by APO while allowing them to receive economic benefits such as bonuses for achieving sales targets. FXNZ's current Managing Director, C, has admitted to knowing of the booking of DSG adjustments at FXNZ since his appointment to his previous position as General Manager of the sales department.

(iii) Residual Values

When MARCO executes lease contracts, it establishes a Residual Value (the estimated sale price of the leased asset at the expiration of the lease contract term) for the leased asset, even for capital leases. Irrespective of whether the contract was a capital lease or an operating lease, in general, the lessor in the lease agreement can recover part of the amount invested in the lease asset by selling it at the market price on the second-hand market for the lease asset when the term of lease agreement expires. As the lease fee (usage fee) that the customer pays to the lease company covers elements such as the price difference between the new purchase price and the market price on the second-hand market (Residual Value), interest, tax, and insurance for such lease asset, as long as there is Residual Value, it is possible to discount the lease fee that the customer pays to the lease company just by the amount of the Residual Value of such

lease asset. At FXNZ, the lease fee for the leased asset was set to be paid as a "balloon payment" (a method involving repayment of a set amount during the lease term, with the balance of the principal paid in a lump sum upon expiration of the lease term) upon the expiration of the agreement, but MSAs and GCSAs did not expressly state the details of the payment method.

Capital leases are often structured such that ownership of the equipment purchased by the lease company transfers to the customer upon expiration of the lease agreement, and normally there is almost no Residual Value. With respect to this point, FX's Internal Business Group Accounting Administrative Instructions that came into effect as of October 1, 2010 expressly provide that the Residual Value of agreements treated as capital leases is 10% or less, and agreements where the Residual Value exceeds 10% must be treated as operating leases and equipment sales must not be recognized when capital lease agreements are executed. On October 11, 2010, B sent an email to D and E (with F also CC'd) informing them that if the Residual Value exceeds 10%, the transaction has to be treated as an operating lease, and must not be treated as a capital lease. On April 1, 2011 B confirmed the treatment of Residual Value with G and A. However, in May 2011, FXNZ set the Residual Value higher than the 10% maximum, such as proposing capital lease agreements with a Residual Value of 15% and treating such agreements as capital leases, recorded equipment sales (ORS revenue) at the time of execution of the contract, and around December 2014, a capital lease agreement with Residual Value of 45% was executed. During this time, B repeatedly directed that the Residual Value should be 10% or less and refused to approve capital leases with a Residual Value exceeding 10%, but the A-led FXNZ continued to ignore the rules and B's directions.

If the total value of a contract is fixed, setting a high Residual Value results in the lease fees collected from the customer during the lease term being reduced, which means an ever lower Click Rate can be offered to the customer. However, because a high Residual Value is set, ORS revenue is recorded pursuant to a total contract value that has been overstated due to the use of the balloon payment, despite the reduced Click Rate. Nevertheless, because revenue from capital leases is the present value of cash received from the customer, the Residual Value does not result in an increase in sales. Therefore, setting a high Residual Value can be regarded as having recorded fictitious sales where the lease fees and the actual Residual Value that could be recovered do not match.

On the other hand, because the reduction in the Click Rate reduced the lease fees that customers were invoiced each month, collection of the lease receivables was deferred until the agreement terminated. Therefore, the collectability of lease receivables depended heavily on realizing the Residual Value at the expiration of the agreement, but MSAs and GCSAs contained no express provisions securing the realizability of the Residual Value. Thus, in substance, this practice resulted in fictitious accounting records for both the aforementioned ORS revenue and lease receivables where there were issues with collectability because they were based on unprofitable Click Rate.

When a lease agreement terminated, MARCO held the equipment that was the subject of such lease agreement as inventory for resale.

Additionally, from late April to mid June 2015, FXNZ's management transferred the Residual Value of contracts with high Residual Values to contracts with low Residual Values (contracts with other customers) in order to prevent high Residual Values from being discovered as being in breach of internal rules. As this made the recording of ORS revenue possible for agreements that now had a Residual Value of under 10%, FXNZ recorded ORS revenue, and recorded additional revenue for agreements with an increased Residual Value.

According to records in FXNZ's System A, from October 2010 to March 2016, FXNZ entered into 270 MSAs/GCSAs with a Residual Value of more than 10%. The System A's records show that agreements with a Residual Value of more than 10% increased from February 2014, and were ultimately stopped in March 2016.

(iv) Contract Rollovers

MSAs and GCSAs are ordinarily contracts that cover multiple years, but FXNZ "rolled over" (i.e., re-executed) some of them into new contracts in the beginning or middle phases of the initial contract term. Rollovers allow the recognition of new ORS revenue, even for lease agreements for the same customer and equipment, so they are considered to be for the purpose of the recording new ORS revenue, but according to FXNZ they had the business purpose of locking in a customer by extending the agreement term before the agreement term ended.

The new contract created by Rollover normally had a lower Click Rate than the original agreement, which made it easier to sell to the customer. The reduction in the Click Rate was made up for by an increase in the Target Volume and a longer agreement term. The balance of the lease receivables for the original agreement was carried over into the new agreement when the Rollover was carried out.

Contract Rollovers were carried out in the following two ways:

- (a) The lease assets installed under the original agreement were used as is and a lease agreement was re-executed; or
- (b) New lease assets were installed (or the same lease assets as used under the original agreement were reinstalled), and an agreement re-executed.

No lease asset delivery was involved in the case of (a), but FXNZ recorded ORS revenue when the new agreement was executed.

In the case of (b), ORS revenue was recorded for the lease assets newly delivered (or re-delivered). If the lease assets delivered under the original agreement were removed, lease receivables that should have been collected through use of such lease assets until the expiration of the agreement remained and were classified as "unsecured."

These accounting practices resulted in the inappropriate recording of ORS revenue in the case of (a), and we believe that overstated initial ORS revenue was recorded as a consequence in the case of (b). Additionally, in the case of both (a) and (b), various issues – such as the discrepancy between the Target Volume and actual number of Clicks, the lease receivables collection risk, and the evaluation of Residual Value – are deferred, resulting in an increase in lease receivables with poor prospects for collection.

In January 2014, H informed A and I (with J, C, and B also CC'd) of a plan to achieve the gross profit target through the Rollover of a total of NZ\$• (the amount is not disclosed.) of contracts from January to March 2014.

Additionally, a memo dated September 3, 2015 regarding APO's policy with respect to Contract Rollover contained statements including "when rolling over contracts, if nothing changes with respect to the equipment, revenue was not to be recognized when the agreement was executed", and "if the balance of lease receivables under the original agreement exceeds 20% at the time of Contract Rollover, the portion in excess thereof must be collected from the customer in a lump sum". However, the Rollover of contracts at FXNZ did not comply with this policy.

Around 2009, FXNZ had no policies or rules regarding the handling of contracts. Therefore, even based only on confirmation of materials, from June 2011 to September 2015 there were nine lease agreements where a separate instrument (side letter) was found to amend the content of the lease agreement, and the Rollover of original agreements was predominantly carried out by executing side letters. The use of side letters was expressly prohibited by APO's accounting policies dated October 1, 2015 and internal documents. On September 1, 2016, K also indicated that amendment to the content of agreements by means of a side letter was strictly prohibited.

The appropriate accounting practices regarding Contract Rollover differ depending on the individual circumstances and situations, but at least, the following factors must be taken into account.

- (a) Whether amending terms and conditions falls under executing a new agreement or revising an existing agreement;
- (b) Whether the new agreement satisfies the requirements of a capital lease or whether it should be deemed to be an operating lease; and

(c) Whether to halt the recognition of the lease receivables balance for the existing agreement or whether to declare impairment.

At the very least, it is inappropriate for two types of lease receivables to exist for a single asset (or asset group), and the existence of receivables classified as "unsecured" is regarded as inappropriate.

It is difficult to accurately quantify the amount of the accounting impact from the overstatement of revenue and lease receivables resulting from Contract Rollovers, but the amount of receivables classified as "unsecured" is regarded as one indicator. According to an analysis by FXNZ's management, the balance of the "unsecured" receivables as of March 31, 2017 was NZ\$153 million, or about half of total balance of all lease contracts.

(5) Accounting practices pertaining to other issues that were discovered

(i) Recording of Revenue Before the Execution of Agreements or the Installation of Equipment From the interviews with persons involved with FXNZ, etc. it can be found that FXNZ's management had a strong motivation to achieve their performance targets.

To be specific, National Business Review meetings (NBR meetings) were held at the end of every month at FXNZ to check monthly business results (annual results at the end of the fiscal year). These meetings were attended by persons including A, B, L, C, I, M, D, G, N, E, O, P, J, and sales representatives. In addition to examining business results, these meetings considered methods to achieve performance targets through inappropriate practices to make up for the shortfall in results. Specifically, participants at NBR meetings made decisions to record revenue for transactions before agreements were executed or before equipment was installed, even though APO/GCO Accounting Administrative Instruction Revenue Recognition rules stipulated that, for the purposes of revenue recognition, agreements must be fully and clearly signed by both parties. B carried out the ultimate recording of sales in advance at FXNZ's finance department at the direction of A, but it has been found that all participants at NBR meetings were also aware that the series of activities was in breach of internal rules regarding revenue recognition, and made objections to management about the inappropriate recording of revenue, but in the end, we believe that they were not able to resist management's wishes.

Furthermore, these inappropriate transactions may have included completely fictitious transactions, not just transactions that recorded revenue in advance.

This series of inappropriate activities was carried out repeatedly until the issue was raised when K was appointed CFO in January 2016.

The report prepared by K in February 2016 stated that the cumulative amount (excluding those that satisfied the requirements for recording as sales at that point in time) of sales

inappropriately recorded early using the aforementioned methods was NZ\$90 million as of January 2016, and APO received a report that there were NZ\$9 million of those transactions that posed a particular financial risk based on K's confirmation of the details of each individual transaction at the time.

The total of inappropriately recognized revenue for past fiscal years is as follows. As of the fiscal year ended March 31, 2015 such revenue had increased to close to 30% of the total sales of FXNZ, but from the fiscal year ended March 31, 2016 onwards the balance of uncollected revenue has been reversed.

	Fiscal Year Ended	Fiscal Year Ended	Fiscal Year Ended	As of February 2017
	March 31, 2014	March 31, 2015	March 31, 2016	
Total of incommonwistely.				14
Total of inappropriately	57	88	55	14
recognized sales				
Total sales of FXNZ	271	301	227	TBD

(NZ\$ million)

Of the NZ\$90 million, NZ\$35 million was fictitious sales, and the remaining NZ\$55 million was not fictitiously recorded, but comprises revenue inappropriately recorded early.

In February and March 2016 NZ\$2 million of fictitious sales were newly recorded, and the total for the fiscal year ended March 31, 2016 was NZ\$36 million, but of this, NZ\$16 million was corrected in the fiscal ended March 31, 2016, and NZ\$21 million was carried forward to the fiscal year ended March 31, 2017.

The NZ\$55 million in question were sales inappropriately recorded early at the time, but also includes cases where agreements were subsequently executed as expected and the transactions were completed by the end of the fiscal year.

(ii) Macro Adjustments

Separately from the early recording of revenue at the NBR meetings discussed above, at FXNZ accounting practices known as "Macro Adjustments" were carried out to improve financial performance. "Macro Adjustments" are adjustments that mainly do not have a commercial or accounting basis including the double recording of advance sales, the recording of fictitious sales and the fictitious recording or deferral of cost of sales or expenses,

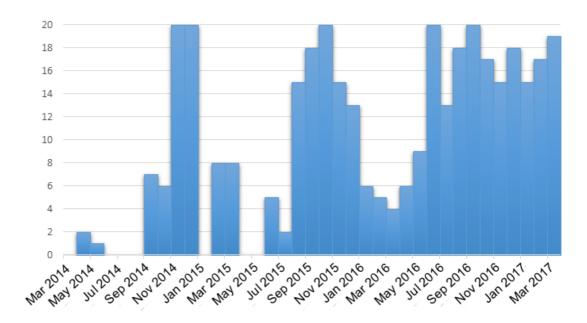
and Marco Adjustments were broadly and inconsistently implemented. According to K, prior to his appointment as CFO, Macro Adjustments were carried out as follows:

- (a) FXNZ prepared monthly account documents on the first business day of the following month;
- (b) When these monthly accounts were prepared, account balances thought to reflect incorrect financial figures were discovered (e.g. COGS was irregular or too high, etc.);
- (c) When there was not enough time to investigate and correct the details of the matters discovered before the completion of the monthly accounts, adjusted entries called Macro Adjustments would be made in the accounting system without confirming what the revised amount should be (e.g. reducing COGS or increasing the assets, etc.); and
- (d) Although they should have been promptly investigated after the Macro Adjustments were entered, and reversed as necessary, as discussed below the total amount of Macro Adjustments remained significantly large until K was appointed as CEO.

The background to these Macro Adjustments being recorded at FXNZ may be that, initially, there was very limited time to prepare the monthly accounts. As discussed above, however, in light of facts such as that after the passing of some time a significant total amount of Macro Adjustments – which should originally have had their cause investigated and been promptly processed – remained until the appointment of K, and given that Macro Adjustments were mainly recorded during the fiscal year and reversed by the end of the fiscal year, we believe that FXNZ carried out Macro Adjustments in order to achieve monthly performance targets. The recording of these Macro Adjustments was carried out by B at the direction of A.

The number of accounting entries that have "macro" in the remarks column is as follows. The following record of numbers includes entries made in order to make revisions, and the revisions for FY2016 comprise the reversals for past years.

	FY2014										
Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
2	1	0	0	0	7	6	20	20	0	8	8
	FY2015										
Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
0	0	5	2	15	18	20	15	13	6	5	4
	FY2016										
Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
6	9	20	13	18	20	17	15	18	15	17	19



K's report states that the total amount of Macro Adjustments as of January 2016 reached NZ\$23 million. K explained that there were Macro Adjustments of NZ\$3.0 million relating to ordinary operations in February and March 2016, and as a result of a revision of NZ\$12 million in the course of the closing of accounts for the fiscal year ended March 31, 2016 NZ\$8 million was carried forward to the fiscal year ended March 31, 2017, as shown in the chart below.

	Amount
As of January 2016	23
Revisions relating to ordinary operations in Feb and Mar	(3)
2016	
Revision amount for the fiscal year ended March 31, 2016	(12)
Balance as of March 31, 2016	8

(NZ\$ million)

(iii) Individual Entries

In the fiscal year ended March 31, 2015, FXNZ carried out and recorded asset sales and other non-operating transactions ("Individual Entries") in order to reduce the risk that inappropriate accounting, including the aforementioned Macro Adjustments, would become a problem in an accounting audit at the end of the period. This created the external appearance that FXNZ's financial activities and financial condition had improved in that fiscal year, and that FXNZ had revenue higher than its actual revenue. K's report in February 2016 states that

four items regarding such transactions (NZ\$11 million) pose a financial risk, but according to his explanation, the following two items were classified as transactions with accounting issues conducted by B. (a) Revenue in connection with the execution of a new real estate lease

In December 2015 FXNZ terminated the lease agreement (the "Old Lease Agreement") for a property in College Hill that it was leasing from the lessor before the expiration of the term of the lease, and entered into a new lease agreement for a property also held by the lessor located on Carlton Gore Road in Newmarket (the "New Lease Agreement"), and FXNZ received NZ\$• from the lessor for the change of lease. In form, the money FXNZ received from the lessor was paid as a penalty for the termination of the Old Lease Agreement due to circumstances on the part of the lessor and at FXNZ's request a memorandum of understanding evidencing the name of such payment was prepared. But in light of the negotiations between FXNZ and the lessor and the fact that there was less than six months remaining in the Old Lease Agreement, this in substance was an incentive paid to FXNZ by the lessor to reduce FXNZ's burden so that FXNZ would enter into the New Lease Agreement. Therefore, in terms of accounting, the NZ\$• that FXNZ received from the lessor should have been allotted over the 12 years of the agreement as a reduction in the rent cost as a lease incentive for the New Lease Agreement. Instead the entire amount was recorded as revenue for the fiscal year ended March 31, 2015 and treated as a penalty under the Old Lease Agreement.

Even if it were possible to deem such payment to be a penalty for termination of the Old Lease Agreement due to circumstances on the part of the lessor, the time at which it should be recognized as revenue should be the fiscal year ended March 31, 2016 when FXNZ actually surrendered the lease property to the lessor, so in either case it is inappropriate to recognize it as revenue for the fiscal year ended March 31, 2015.(b) Increase of Inventory Valuation for Consumables Stored by Customers

FXNZ stored consumables necessary for the use of copiers leased to customers, such as toner, at customers' places of business, etc., recorded such consumables as inventory, and periodically carried out re-valuation. When carrying out the closing of accounts for the fiscal year ended March 31, 2015, FXNZ increased the inventory valuation of such consumables by around NZ\$3 million, and processed it by reducing COGS as the item corresponding thereto. FXNZ's management had concerns about the added inventory value in the fiscal year ended March 31, 2015, but allowed such treatment to be carried out in order to cover up other debt not recorded in the financial statements.

(iv) Sponsorship Cost

FXNZ provides cash and free products like tablets etc., and carries out other sales promotion activities that it calls sponsorships, mainly to educational institutions and other organizations. MARCO and FINCO recorded the amount equal to the costs for these sales promotion activities ("Sponsorship Costs") by adding them to sales to customers and to lease receivables, respectively.

In general, Sponsorship Costs were recorded as follows. Changes to lease fees in connection with changes in ORS revenue and lease receivables have been ignored.

	Before Recording of	After Recording of
	Accrued Sponsorship	Accrued Sponsorship
	Costs	Costs
PL Item		
ORS revenue	100,000	150,000
ORS cost	(70,000)	(120,000)
Gross margin	30,000	30,000
BS Item		
Lease receivables	100,000	150,000
Accounts payable	(70,000)	(70,000)
Accrued Sponsorship Costs	-	(50,000)
Equity	30,000	30,000

(NZ\$)

Although it can be regarded as reasonable as a sales activity to set the terms of the sale at a level that can cover the operating costs, FXNZ added an amount equal to Sponsorship Costs that had no direct relationship with the terms setting lease fees in MSAs, to ORS revenue and ORS costs, irrespective of whether or not it is reasonable as a sales activity, and recorded the amount corresponding thereto as lease receivables (accrued Sponsorship Costs). This addition and recording was not backed up by MSAs, and can each respectively be understood to be over-statement.

The APO/GCO Accounting Administrative Instructions that set forth APO's accounting policies contain the following provisions regarding accounting practices for the provision of sales incentives provided in the form of discounts, coupons, rebates, and the provision of products or services free of charge, etc.

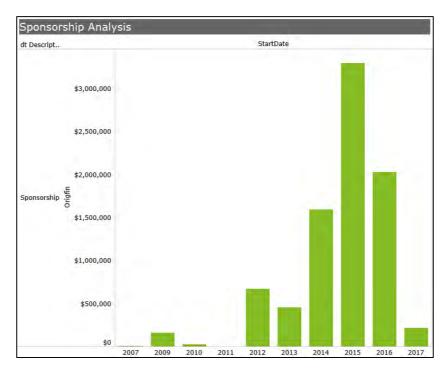
(a) If sales incentives are paid or returned in cash, such amount shall be deducted from sales.

(b) If products or services are provided free of charge, an amount equal to the cost shall be recorded as COGS.

At FXNZ, however, because sponsorship costs were all recorded as COGS irrespective of whether they were due to the provision of cash or the provision of products free of charge, etc., the accounting treatment consistently used method (b), in breach of internal rules.

However, according to the answers in the questionnaire sent to B, amounts equal to Sponsorship Costs may have been made into a collectible form by setting a high Click Rate in lease agreements. In such case, even though it cannot be said to simply be overstatement of lease receivables because they are supported by agreements, it can be said that the accounting treatment of sales incentives was in breach of APO's accounting policies.

With respect to the issue of adding an amount equal to Sponsorship Costs to ORS revenue, the following table indicates the Sponsorship Costs throughout FXNZ. Sponsorship Costs increased from the fiscal year ended March 31, 2009, in the fiscal year ended March 31, the amount recognized as Sponsorship Costs grew to its highest level – over NZ\$3 million – as of the fiscal year ended March 31, 2015, and subsequently decreased to approximately NZ\$2 million in the fiscal year ended March 31, 2016. These figures match the figures for "(i) Recording of Revenue Before the Execution of Agreements or the Installation of Equipment" and "(v) Third Party Settlements."



The second issue with Sponsorship Costs is that FXNZ's financial statements for the fiscal year ended March 31, 2014 stated NZ\$1 million in Sponsorship Costs as accrued.

In accordance with APO's internal rules, FXNZ originally recorded Sponsorship Costs on an accrual basis (method (a) below), but at the end of the fiscal year ended March 31, 2013, FXNZ changed its recording of Sponsorship Costs from an accrual basis to a realization basis (method (b) below), despite there having been no change in APO's internal rules. During the fiscal year ended March 31, 2015 FXNZ once again changed the recording of Sponsorship Costs back to an accrual basis.

- (a) Recording as accrued at the time a sponsorship agreement is executed, and when an invoice for costs is received from a customer pursuant to the sponsorship agreement, the accrued amount is written down and recorded as accounts payable.
- (b) Not recorded at the time a sponsorship agreement is executed, and recorded as COGS and accounts payable when an invoice for costs is received from a customer pursuant to the sponsorship agreement.

As a result of such change to the basis for recording Sponsorship Costs, costs and accrued amounts were understated in the fiscal year ended March 31, 2014, and it is possible that the financial statements were still being impacted from the fiscal year ended March 31, 2014 and onwards.

(v) Third Party Settlements

FXNZ carries out sales promotion activities called Third Party Settlements for the purpose of acquiring new customers. This entails FXNZ assuming the remaining amount of lease obligations and lease contract penalties that a customer who is leasing a competitor's product bears with respect to that competitor, and FXNZ thereby wins a new lease contract with that customer. MARCO and FINCO recorded the amount equal to expenses pertaining to Third Party Settlements by adding them to sales to customers and to lease receivables, respectively. In general, Third Party Settlements were recorded as follows. Please note that changes to lease fees in connection with changes in ORS revenue and lease receivables have been ignored.

	Without Third Party	With Third Party
	Settlement	Settlement
PL Item		
ORS revenue	100,000	150,000
ORS cost	(70,000)	(120,000)
Gross margin	30,000	30,000
BS Item		
Lease receivables	100,000	150,000
Accounts receivable	(70,000)	(70,000)
Cash	-	(50,000)
Equity	30,000	30,000

(NZ\$)

Like with "(iv) Sponsorship Costs," although it can be regarded as reasonable as a sales activity to set the terms of the sale at a level that can cover the operating costs, FXNZ added an amount equal to Third Party Settlement costs that has no direct relationship with the terms setting lease fees in MSAs, to ORS revenue and ORS costs, irrespective of whether or not it is reasonable as a sales activity, and recorded the amount corresponding thereto as lease receivables (cash). This addition and recording was not backed up by MSAs, and can each respectively be understood to be over-statement.

Under FXNZ's accounting policies, Third Party Settlements should be treated in the same way as sales incentives, which is clear from the "FXNZ Accounting Review" (dated February 12, 2016) submitted to APO by K. As discussed in "(iv) Sponsorship Costs," the accounting treatment for sales incentives set forth by APO is as follows.

- (a) If sales incentives are paid or returned in cash, such amount shall be deducted from sales.
- (b) If products or services are provided free of charge, an amount equal to the cost shall be recorded to COGS.

Because FXNZ recorded Third Party Settlements made in cash to COGS, Third Party Settlements consistently used method (b) in breach of internal rules.

However, according to the answers in the questionnaire sent to B, amounts equal to Third Party Settlements may have been made collectible by setting a high Click Rate in lease agreements. In such case, even though it cannot be said to simply be overstatement of lease receivables because they are supported by an agreement, it can be said that the accounting treatment of sales incentives was in breach of APO's accounting policies.

With respect to the issue of adding an amount equal to Third Party Settlements to ORS revenue, the following table shows the amount of Third Party Settlements calculated using the agreements effective as of the fiscal year ended March 31, 2017. The amount equal to Third Party Settlements is thought to have been added to ORS revenue and lease receivables respectively in each fiscal year.

Year of Execution of Agreement	Third Party Settlement	
Tear of Execution of Agreement	Amount	
Fiscal year ended March 31, 2011	0	
Fiscal year ended March 31, 2012	0	
Fiscal year ended March 31, 2013	1	
Fiscal year ended March 31, 2014	4	
Fiscal year ended March 31, 2015	5	
Fiscal year ended March 31, 2016	5	
Fiscal year ended March 31, 2017	1	
Total	16	

(NZ\$ million)

(vi) Credit Risk and Increase in Bad Debt

(a) Credit risk

At FXNZ, it is typical to decide whether to execute a lease contract with a particular customer and the length and other terms on the payment period in reference to the credit of the customer. However, there were cases where contract execution procedures went ahead in order to record lease contract sales despite insufficient credit screening of customers, and cases where customers with questionable credit standing were provided with support which increased uncollectable receivables, resulting in an increase in credit risk.

Credit business was handled by the FXNZ Credit & Recoveries Team until 2010, but there were no consistent credit screening standards, and decisions were made based on the personal experience and knowledge of the person in charge. The National Credit Manager appointed in April 2010 created the "Credit Evaluation and Credit Limit Setting Guideline" ("Credit Guideline") in May 2010, and from that point onwards credit screening was conducted in accordance with the Credit Guideline. The Credit Guideline provides that the initial credit limit will be the value of such lease contract if the contract value is NZ\$50,000 or less, and if it exceeds NZ\$50,000 it will be determined by the Credit Analyst. The Credit Guideline also set general industry credit levels (levels 1-3) corresponding to the percentage of accrued receivables for each industry, requires strict credit screening for new customers with a lease value exceeding NZ\$50,000, and requires even stricter screening if it exceeds NZ\$200,000. Contracts exceeding NZ\$200,000 for new credit level 3 customers require the signature of FXNZ's CFO and CEO. On the other hand, credit screening of existing customers only requires the approval of a FXNZ sales manager. In order for the Senior Management Team to fulfill their receivables management responsibilities, in October 2011 FXNZ created the Credit Committee comprising the CFO, the Senior Management Team, and the National Credit Manager.

In response to issues pointed out in the internal audit carried out in 2014, the Credit Guideline was revised in December 2014. Under the revised Credit Guideline, a credit screening system is used for all new customers before approval is granted, the FXNZ Credit Analyst carries out screening for lease contracts with a value exceeding NZ\$50,000, and contracts worth NZ\$50,000 or less are divided into initial risk categories based on the industry by the System B and have credit screening carried out automatically.

According to an investigation by an independent law firm, despite the creation and revision of the Credit Guideline and the creation of the Credit Committee, FXNZ did not comply with the credit screening policies for customers with financial issues, and even if a customer was about to file for bankruptcy, FXNZ continued to do business with that customer. Most of the advice from the Credit Manager, Q, was dismissed or ignored by A. Because sales representatives avoided the credit screening procedures before executing a lease contract and directly obtained the approval of the ultimate decision maker, A, credit screening was only carried out for about 10% of contracts.

The general risk management process for FXNZ's largest customer, Customer 1, is as follows.

When Customer 1 acquired a business that had transactions with FXNZ in October 2010, the business in question was troubled by operating losses, had financing problems, and even at FXNZ it had caused significant credit losses and was recognized as having potential cash flow issues. Prior to October 2010, FXNZ only had limited transactions with Customer 2.

Subsequently, Customer 1 expanded its printing business including by acquisition, etc. of five FXNZ customers with financial difficulties, and its number of lease contracts with FXNZ for new equipment also significantly increased, so FXNZ positioned Customer 1 as a strategically important customer. From 2011 through 2012, FXNZ rapidly increased Customer 1's credit balance and extended the transaction conditions (lease fee collection period) with Customer 2 to 60 days. In March 2012, FXNZ also extended the collection

period from 60 days to 80 days for a limited period of three months, and from May 2012 FXNZ procured paper for lease equipment on behalf of Customer 1 and supported Customer 1 by providing credit for the receivables for such transaction.

Consequently, in September 2012, Customer 1 and the five companies acquired by Customer 1 owed FXNZ a total of NZ\$2 million (of which, NZ\$1 million was in arrears at that time), and FXNZ's finance agreements with these companies had grown to a total of NZ\$15 million.

In May 2013, however, when Customer 1's CFO suddenly resigned, it became apparent that Customer 1's financial records were incomplete, and that it had implemented inadequate accounting systems. FXNZ prepared the Risk Countermeasure Plan for Customer 1 (the "Customer 1 Credit Risk Plan"), but in September 2013, the financial institutions that had been providing Customer 1 with funds began to end their business with Customer 1. FXNZ then began to provide Customer 1 with funding, irrespective of the outstanding credit balance, and agreed to guarantee payments to Customer 1's other suppliers, etc., maintaining its close relationship with Customer 1 and supporting Customer 1 in various ways.

In this way, because FXNZ treated Customer 1 as an existing customer in credit screening, even though it was aware that Customer 1 was in financial difficulties, the balance of credit provided to Customer 1 grew from the fiscal year ended March 31, 2011 to the fiscal year ended March 31, 2016 without strict credit screening being carried out.

The following provides a summary of some credit risk issues for customers other than Customer 1.

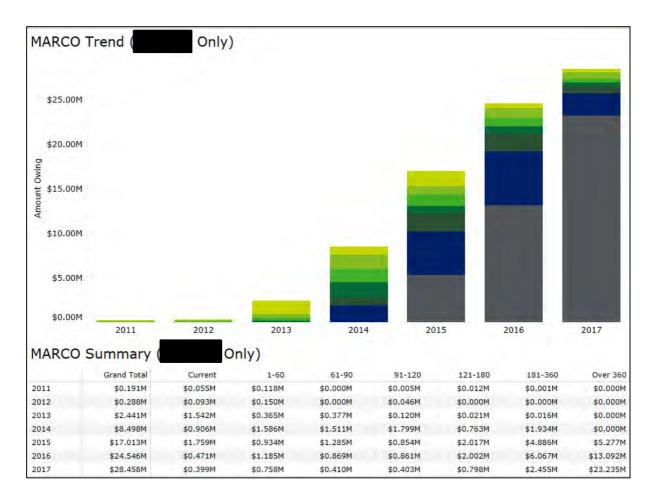
- i. A company with a long business relationship with FXNZ had financial difficulties, resulting in uncollected receivables being accrued.
- ii. A company that FXNZ repeatedly provided refinancing for became insolvent, resulting in uncollected receivables being accrued.
- iii. A company with which a new lease contract was executed and Third Party Settlement carried out without sufficient credit screening went bankrupt, resulting in uncollected receivables being accrued.

(b) Increase in bad debt

The balance of receivables against Customer 1 rapidly grew from 2013, and payments in arrears that could not be collected for long periods increased in particular.

As can be seen from the graph below, accounts receivable with respect to MARCO rose sharply, from about NZ\$2 million as of the fiscal year ended March 31, 2013 (included

payment in arrears of around NZ\$1 million), to about NZ\$9 million as of the fiscal year ended March 31, 2014 (including payment in arrears of about NZ\$7.6 million), about NZ\$17 million as of the fiscal year ended March 31,2015 (about NZ\$15 million in arrears), about NZ\$25 million as of the fiscal year ended March 31, 2016 (about NZ\$24 million in arrears) and about NZ\$29 million as of the fiscal year ending March 31, 2017 (about NZ\$28 million in arrears).



Furthermore, under the Doubtful Debt Provision Guideline prepared in March 2014, allowances for doubtful receivables should have been recorded for receivables in arrears for which the account was frozen, for which an ultimatum was given or that were in arrears for two months or longer (except for receivables to certain blue-chip companies).

However, as a result of consulting with the accounting auditor on the various anticipated allowance amounts for low, medium, and high-risk cases in the process leading to the decision on the amounts of such allowances for doubtful receivables, allowances for doubtful receivables were recorded at a ratio of 100% for receivables delayed for 360 days or more, and at a ratio of 50% for receivables delayed for 180 days or more and less than

360 days (a balance of NZ\$7.5 million at the end of the fiscal year ended March 2015).

Despite this, in October 2013 FXNZ had already received a report, produced by Accounting Firm 3, pointing out that Customer 1 was essentially bankrupt, and we believe it is possible that allowances for doubtful receivables should have been recorded at that point. The balance of receivables with respect to Customer 1 increased to NZ\$20 million or more even after that report was obtained.

Moreover, APO's rules for the impairment of doubtful receivables stipulate that, in addition to the impairment test for individual customers, an impairment test is required at the corporate group level for customers with similar credit risks and receivable balances. Nevertheless, FXNZ did not perform an impairment test at the corporate group level.

In 2015, FXNZ considered acquiring Customer 3, which is one of Customer 1's business departments. While it was ultimately not realized because APO's approval could not be obtained, according to materials discovered in the Investigation, we believe that the purpose of this acquisition was to reduce the receivables with respect to Customer 1 and avoid recording allowances for doubtful receivables by means of a debt equity swap.

There were also other customers with large amounts of receivables in arrears besides Customer 1 for which FXNZ did not record allowances. Allowances were not recorded for receivables with respect to Customer 4 that were in arrears for two months or more despite their climbing from NZ\$0.1 million in March 2014 to NZ\$1.0 million in March 2015, and the allowances were only recorded in December 2015.

An internal audit in 2010 found that allowances were only being recorded for receivables in arrears for 60 days or more, and that the process for deciding the amount of provisions was not clear. An internal audit in 2014 also found that final decisions were made orally, and that appropriate evidentiary materials were not being produced.

Q, who produced the report to the Credit Committee, said that when he mentioned the receivables with respect to Customer 1, "I was told by the CFO and management (A) that they were handling the conversation with Customer 1 themselves, so recording allowances was not necessary." The report dated March 29, 2016 by the Law Firm 1 also found that the problems raised by Q were dismissed by A, who instructed him not to interfere with Customer 1.

Thus, despite the fact that there were receivables for which a large amount of allowances would be necessary, FXNZ increased its business with Customer 1 and other customers with large amounts of payments in arrears, which created even more receivables. Given that the vast majority of those receivables are now unlikely to be recovered, FXNZ faces considerable losses due to this decision to continue increasing its business. In addition, FXNZ did not appropriately record allowances against these receivables, which

constituted an inappropriate accounting practice.

From the foregoing, we can surmise that the Credit Committee had not constructed and operated a system that could prevent this type of business and inappropriate accounting practices, leading us to believe that there were problems in corporate governance.

4. Causes of Inappropriate Accounting Practices

(1) Incentives

One of the causes of FXNZ's inappropriate accounting practices was its use of incentives such as commissions and bonuses.

The senior management team and the sales team receive commissions and bonuses in addition to their regular remuneration, and this system was said to place importance on achieving sales targets. FXNZ paid these commissions and bonus payments to 27 people during the period from January 1, 2011 until March 31, 2017, and we have obtained a statement that NZ\$1,500,000 or more per person was paid over this period, and a statement that the total amount of commissions and bonuses accounted for more than half of the overall remuneration received by these employees.

Furthermore, FXNZ also provided trips to Hawaii, New York, and elsewhere to employees with high annual financial performance as an incentive.

Incentives-based remuneration was particularly high for A, the MD, among those employees, and combined with the flaws in corporate governance discussed below, we believe that this caused FXNZ to try to increase its sales, even to the point of engaging in inappropriate accounting practices. Out of his incentives-based remuneration, A's standard bonus amount was calculated by multiplying 30% of his base annual salary and a certain percentage (i.e., the bonus achievement percentage) obtained based on his level of achievement for each assessment item. Among the assessment items and percentages for the president of a sales subsidiary under FXAP's umbrella, sales were ranked as the most important assessment item, accounting for 30-40% of the total. A attained a bonus achievement percentage that exceeded 100% almost every year (it was a particularly high percentage at 193% in the first half of 2013 and 202% in both the first and second half of 2014), and his target achievement rate for the sales assessment item in particular was continually 100% or more for 48 consecutive months from April 2011 until March 2014 (which are astonishing figures considering that the target number rises in tandem with actual results). Thus, we can infer that continually increasing sales and thereby obtaining large amounts of incentives-based remuneration led to seeking ever higher sales, which fueled the sales-centric mindset.

(2) Centralization of Reporting Lines

Internally at FXNZ, B and other executive officers appear to have directly reported to A, the MD, rather than to the board of directors. A, the MD, also did not report the matters reported by those executive officers to the board of directors, instead reporting directly to the CEO of APO. Thus, authority was centralized with A by centralizing all internal reporting lines with him, and as a result supervision by the board of directors did not function effectively.

It seems that FXNZ's reports to APO were made by A to the CEO of APO. Moreover, because R, APO's former CEO, was also a director of FXNZ from June 16, 2008 until July 15, 2009 and from July 20, 2012 until April 10, 2017, we think that he attended board meetings. However, as discussed in section (4) below, the board of directors only met once or twice per year when they approved financial documents and the like, and because we believe that they did not discuss the business substantially, we think it was difficult to ascertain the condition of the subsidiary through the board of directors, and we also believe that the condition of FXNZ was primarily ascertained through exchanges with A. In addition, the annual management letter was also directly submitted by A to the president of FX. Thus, we believe that the reporting lines to the parent company and others in the group were all limited to A, thereby centralizing the flow of information, so the check-and-balance functions were not effective and transparency was lacking. We believe that the system became one under which it was difficult for other FXNZ directors to receive a broad range of information and difficult for FX and APO to receive information from people other than A, while at the same time it was impossible for the parent company to widely discuss and appropriately supervise problems at the subsidiary through direct reporting to top management.

In such a situation in which there was a lack of oversight and supervision by the board of directors and in which reporting lines were centralized, it was easy for the execution of business by A to run out of control because only certain people at FX and APO were supervising his execution of business, and that supervision was not effective. There were no internal controls within FXNZ onto business conducted by B and other executives because they simply needed A's approval to continue their business.

Therefore, we believe that FXNZ was unable to stop the execution of business that was engaged in by A as seen here, in which he was aware of the inappropriate accounting practices and not only did not correct them, but indeed promoted them.

(3) Sales-Centric Corporate Culture

According to interviews with multiple persons concerned, FXNZ's corporate culture was characterized by a sales-centric mindset. First, the FX group had expectations for FXNZ's sales due to sluggish sales growth in Japan, which helped form FXNZ's sales-centric corporate

culture through incentives-based remuneration, and others. Additionally, A, who was the MD, strongly pursued incentives-based remuneration by expanding sales, and we believe that FXNZ's corporate culture was also owing to his strong personality in trying to convince others of his view. There is also a statement to the effect that he applied pressure to dissenters and created an atmosphere where opposition was impossible.

Despite having received findings from Accounting Firm 1 and an internal audit in around 2009, there were no major changes to methods of executing business, so we believe that the corporate culture was not one that would try to correct inappropriate accounting practices.

It is quite conceivable that this sales-centric mindset distorted corporate governance, and we believe that it inhibited appropriate decision-making and compliance with internal rules.

(4) Lack of Appropriate Supervision by the Board of Directors

As described in Chapter 3.1, under New Zealand law, the board of directors must manage and supervise all company business, and individual directors must take the best course of action for the company.

However, according to the minutes of FXNZ's board of directors, the board of directors only met about twice per year (including written resolutions), including one meeting to approve the annual financial statements, and the content of those meetings also seems to have been limited to the approval of documents, with nothing in the minutes looking like a discussion of problems in the execution of business. While the low number of meetings of the board of directors is not itself necessarily a violation of New Zealand law, the infrequency of meetings of the board of directors and there being essentially no effective debate make it highly likely that there was no sharing information and problems in a timely fashion among the directors who comprise the board of directors.

In addition, as discussed below in section (5), there does not seem to have been a system for each executive to report business to the board of directors, and when that fact is also taken into account, it is considered that the board of directors did not appropriately supervise executives.

Given that FXNZ's board of directors included the CEO of APO and other officers and employees from the parent company, we believe that if governance by such a board of directors had functioned properly, it would have been possible to prevent the execution of business by A, B, and other executives from running out of control.

(5) Insufficient Functioning of Committees and Responsible (Accounting) Departments

In terms of the internal organizations at FXNZ, various committees were created as subordinate organizations of the board of directors, and this should have formed a governance structure under which matters of a certain importance, but not important enough to be taken up by the board of directors, are debated at the committee level, and any illegal or inappropriate matters are prevented by the committees. However, according to interviews, the Compliance Committee and the Risk Management Committee met infrequently, and often did not even prepare minutes. In addition, the Credit Committee was created in May 2011 and the Rules Management Committee was created in November 2015, and we believe that they should have been created earlier. It is possible that each committee did not sufficiently exert, or were unable to exert, their governance functions over their responsible businesses.

In addition, in order to prevent inappropriate accounting practices like those in the Matter, it is important for the accounting department, which should have expert accounting knowledge, to ensure that proper accounting practices are followed and to exert a control function. In the Matter, the accounting department seems to not have had this type of control function. We believe that this was caused by B, the CFO, having indeed engaged in the execution of business that promoted such inappropriate accounting practices despite his having been in a position in which he should have corrected them, and we believe that this caused the inappropriate execution of business to continue without being impeded.

(6) Insufficient Development and Violations of Internal Rules

With regard to inappropriate accounting practices at FXNZ, besides the recognition of revenue being carried out in violation of internal rules, the setting of Residual Values and various other accounting policies also breached internal rules. It is also possible that the execution of contracts and the ascertainment of customers' credit statuses were also carried out in violation of internal rules. Violations of internal rules were also found, such as salespeople creating documents without signatures for customers regardless of the business ethics rules prohibiting the receipt of orders only over the phone without documentation (i.e., an official signature).

In addition, as discussed in Chapter 3.1(3)(ii)(f), the approval of the Transaction Management Committee was required for transactions that satisfy certain conditions stipulated in the transaction management rules, but those rules were enacted on November 20, 2015, which was after problems regarding transactions had been found.

(7) Whistleblowing System

The FX Group enacted the "ALL-FX Compliance Helpline Operation Rules" on April 20, 2004, and developed a whistleblowing system for the FX Group separately from the FH Group. FXNZ formulated a Whistleblowing Policy on November 1, 2008, but it appears that this policy was not actually used. See Chapter 9 for other details regarding the whistleblowing system at the FH Group and FXNZ.

(8) Deficiencies in the Subsidiary Management System Within the Group

FH has a system that delegates the management of subsidiaries under APO's umbrella to APO, and it did not have a system for direct management. In addition, the management system was insufficient with respect to FXNZ due to APO's physical distance from New Zealand and its insufficiency in human resource in IA. See Chapter 6 through Chapter 8 for details of the deficiencies in these management systems within the group.

5. Measures to Prevent Recurrence

(1) Development of Internal Systems

At FXNZ, the board of directors, which should have a proper supervisory function on corporate business, did not function appropriately, and the various committees that should have checked specific business lines also did not function adequately. Internal systems must be streamlined to ensure that these bodies can sufficiently fulfil their functions. In addition to deploying personnel and developing checking systems so that the board of directors and the various committees function as systems of internal controls and constraints, systems must be developed so that inappropriate acts can be quickly discovered and rectified if they have occurred.

Increasing the frequency of meetings of the board of directors, requiring that the board of directors approve matters related to the execution of important business in addition to financial documents, and developing and actually implementing rules that include matters to report to the board of directors must be carried out so that supervisory functions can perform sufficiently.

Even if the MD and each executive reports to the senior leadership team regarding ordinary business, reporting to the board of directors on the execution of business regarding important matters allows substantial supervision by the board of directors. However, we believe that it is possible to limit direct supervision by the board of directors to the appropriate extent by improving the debate at each committee.

It is also worth considering the addition of independent outside directors as members of the board of directors.

With regard to committees, for the purpose of risk management, the current committees must be sufficiently examined to determine whether they are functioning, and if necessary the committees must be reorganized or additionally created in proportion to their business. In addition, the rules that apply to each committee must be revised, and the operation of the committees must thoroughly conform to those rules with certainty.

(2) Corporate Culture

The sales-centric corporate culture must be corrected with leadership from the overall group and the MDs. The Company will need to encourage a change in mindset of all employees through internal compliance training and other methods.

(3) Incentive Remuneration

With regard to incentives-based pay at FXNZ, remuneration packages should be revised to avoid having salaries with an excessive incentives-based remuneration compared to fixed salary. Standards should be changed to ensure that incentive remuneration is based on standards that take into account sustainable growth and real profits for the company, rather than standards that only emphasize sales.

Chapter 4 Issues at Other Sales Companies

1. Issues in Australia

(1) Outline of the Investigation

As seen in Chapter 3, various problems arose at FXNZ due to A's leadership, and the possibility has been raised that problems similar to those at FXNZ also occurred in Australia because A was the MD at the Australian subsidiary from April 1, 2015 until May 16, 2016. Therefore, an investigation was conducted into whether inappropriate conduct similar to that at FXNZ was carried out in Australia, such as the use of contracts similar to the MSA.

(2) Outline of FXAU

(i) FXAU

FX has the following two subsidiaries in Australia.

- Fuji Xerox Australia Pty Limited ("FXA")
- Fuji Xerox Finance Limited ("FXF")

(FXA and FXF are hereinafter collectively referred to as "FXAU.")

As with the two companies in New Zealand, the two companies are wholly-owned subsidiaries of FXAP and consolidated subsidiaries of FH. In addition, the functions of the two companies are essentially the same as the two subsidiaries in New Zealand, i.e. MARCO and FINCO (FXA fulfills the sales function and FXF fulfills the finance function).

(ii) Internal Controls at the Companies in Australia

In addition to the companies in Australia having a duty to comply with laws and regulations, primarily the Corporations Act, they also have non-legally binding corporate governance policies under the rules of the Australian Securities Exchange ("ASX").

(a) Duties under Laws and Regulations

Under Australian law, FXA must have at least one director, and FXF must have at least three directors as well as a company secretary and an auditor. Directors have a duty of good faith, and they are required to exercise a reasonable degree of care and diligence that an ordinary person would exercise if they were in the director's circumstances. Australian law also stipulates a duty to avoid conflicts of interest and a duty not to abuse authority.

Additionally, all companies must produce appropriate financial reports. Directors must attest to the following two points in a financial report: (i) that the company is able to pay its obligations to creditors, and (ii) that the financial report accurately and fairly conveys the financial condition and business results of the company in accordance with accounting principles. The following are required in order to maintain the quality of financial reports.

- A corporate culture that values the quality of financial reports;
- Appropriate procedures and management;
- Directors' knowledge of accounting;
- · Compliance with accounting principles; and
- Appropriate experience and specialization regarding financial reports, and procedures to ensure the propriety of information in financial reports, including engaging outside specialists.

(b) ASX's Corporate Governance Policy

The ASX's corporate governance policy must be complied with by listed companies, but it is also a standard for non-listed companies to enhance corporate governance, and primarily the following matters are stipulated.

- Diversity of the members of the board of directors;
- Selection of independent directors for the majority of the board of directors;
- Appointment of an independent director as the chairperson of the board of directors;
- Distinction between the CEO and the chairperson of the board of directors;
- Oversight and supervision by directors;
- Appropriate division of authority and the exclusion of the concentration of authority in one person;
 Ensuring the transparency of the board of directors;
 Risk forecasting and appropriate internal controls by the board of directors;
 Granting of appropriate incentives-based remuneration to directors;
 Corporate culture and incentives encouraging high-quality financial reporting; and
 Appropriate evaluation of the board of directors.

(iii) Composition and Members of FXAU's Organizations

(a) FXAU has the following major organizations.

- Board of directors;
- Executive leadership team (hereinafter referred to as the "ELT" in this paragraph); and
- Independent auditor.

(b) Members of the board of directors

During the period from April 1, 2015 until May 16, 2016 during which A served as a director, the members of the boards of directors of FXA and FXF were all the same except for one person. Japanese directors dispatched from FXAP comprised four of the seven directors at FXA and three of the six directors at FXF. No independent outside officers were

appointed to either board.

(c) ETL meeting

The ETL meeting at FXAU is a team whose members are A, the MD, the executive general managers of each department such as sales, corporate, technology solutions, customer service and global service, and the CPO (chief personnel officer) and the CFO.

(d) Independent auditor

Accounting Firm 1-3 served as FXAU's independent auditor from December 2001 until June 6, 2016, and Accounting Firm 2 has subsequently served in that role.

(iv) Framework of Internal Controls at FXAU

In addition to designing organizations in accordance with laws and regulations as set forth above, the following rules regarding internal controls were established at FXAU.

(a) Rules regarding Internal Controls in the Group

FH and FX Group internal control rules also apply to FXAU.

(b) Communications Matrix

A communications matrix was established at APO, which stipulates reporting matters to APO and approval matters for APO, reporters to APO, and the employees in charge on the APO side.

(c) Approval Standards

Approval standards establish the person with approval authority for each type and amount of transaction. Commission payment plans are approved by the executive general manager in charge of sales and the CFO.

(d) Transaction Management and Price Decision Procedure Rules

Transaction management and price decision procedure rules have been established, and they stipulate procedures required for employees involved in price decisions for each type of contracts such as standard contracts and other contracts. In addition, the commercial team must check all transactions to confirm whether prices are approved correctly in accordance with price decision policy, make the sales team comply the rules, report on the sales team's non-compliance with the rules, and review the procedures. Furthermore, the person who approves contracts must review whether the price has been set in accordance with the rules using reasonable care, and then decide whether to give approval. The MD and the CFO approve material revisions to the price decision policy.

(e) Credit Approval Policy and Credit Screening Guidelines

These establish approval requirements and standards for each type of customer, screening methods, and that customers who have written off bad debts must be rejected and the like. (The credit screening guidelines were established after A resigned.)

(3) FXAU's Revised Amounts for Past Fiscal Years

In connection with the Matter, FH considers restating figures in the financial statements of FXAU for the fiscal year ended March 31, 2012 through the fiscal year ended March 31, 2016, and will be revising the amounts booked for the following three items (FH also plans to revise its quarterly reports for the fiscal year ended March 31, 2017, but FH is still looking into those amounts as of the date of this Report, and thus they are not mentioned in this Report).

Unit: million AUD

	End of the Fiscal Year Ended March 31, 2016	Reference (Chapter 4.1)
(i) Revision of accounting treatment of lease transactions	(31)	(4)(i), (5), (6), (7)
(ii) Revision of items managed under R&O spreadsheet	(60)	(4)(ii), (8)(iii)
(iii) Other revised items	(57)	(4)(iii), (8)(ii) and (iv)
Total (revised amount of equity)	(148)	
Revised amount of FUJIFILM Holdings shareholders' equity (based on equity state of 75% by FH)	(111)	
*Exchange rate (86.25 JPY/AUD) (100 million yen)	(96)	

* Parentheses in the amounts column indicate negative numbers,

and the same applies hereinafter.

* as of March 31, 2016

In addition to the foregoing, the following revision has been made at FXAU in connection with the Matter, but as this is ancillary revision resulting from the correction of inappropriate accounting practices and is not within the scope of the matters the Committee has been requested to investigate, it is not mentioned in this Report.

Revision of corporation tax, etc. as a result of the above revisions

(4) Details of Revision and Calculation Basis

(i) Revision of accounting treatment of lease transactions

FXAU's lease transactions were divided into Global Service Agreements ("GS Agreements") which include delegated services ranging from comprehensive office services such as printing to just a part of such services outsourced by a client, and other Non-GS Agreements including a type of agreement where a unit cost per page was set with including equipment and services (all-inclusive Click Rate agreements).

FXAU formerly used accounting practices that treated these lease transactions as capital leases, but based on the issues cited in the investigation of the Matter and an opinion by the independent auditor, FH has determined that from FY2012 some of the GS Agreements and all Non-GS Agreements fail to satisfy the requirements for a capital lease and has reclassified them as operating leases.

With regard to GS Agreements, FXAU's management conducted an analysis of all currently-valid GS Agreements that were executed from August 2012 to December 2016, and as a result has reclassified lease transactions for which a minimum lease fee payment is not guaranteed as operating leases.

In addition, with regard to changes of Non-GS Agreements, although it would normally be desirable to determine the lease classification of these transactions on a contract-by-contract basis, FXAU has determined that it would practically be difficult to do so, and they have explained to the Committee that they changed the classifications of all lease transactions that had previously been treated as capital leases to operating leases. Non-GS Agreements are equivalent to AU Bundled Agreements, and the AU Bundled Agreement described below in section "1(5) MSA-type Agreements Confirmed as Being Used at FXAU" have all been revised to operating leases.

Following these revisions, under US GAAP the leased assets fall within assets owned by FXAU and not by FXAU's customers, so the leased assets will be recorded as fixed assets on FXAU's balance sheet and depreciated over the course of the asset's economic life. In addition, the amount of lease receivables recorded on the balance sheet will only be amounts for which usage was confirmed, not the amount based on the total lease fee for the term of the lease contract. The upfront recording of revenue for ORS revenue on the income statement will be reversed, and only the amount for which customer usage has been confirmed will be recorded as sales.

The specific revisions for lease receivables and lease assets were carried out in accordance with the following process.

- (a) Detailed information on all leased assets existing on clients' premises was extracted from FXAU's internal IT system;
- (b)Each leased asset was linked with its cost of acquisition at the time the contract commenced;
- (c) The economic life of each leased asset was calculated based on (b);
- (d) The amount of depreciation at the end of each fiscal year was calculated based on (b) and (c); and
- (e) The current book value was calculated based on all of the information above.

The calculated book value of fixed assets has been recorded on FXAU's balance sheet. Meanwhile, the amount of lease receivables corresponding to each leased asset (excluding the amount for which usage by customer has been confirmed for each leased asset) has been reversed. The difference between the amount of lease receivables that has been reversed and the amount of fixed assets newly recorded on the balance sheet is the amount of impact on the P&L.

As a result of totaling the revised amounts using the method set forth above, following the revisions, the balance of lease receivables pertaining to transactions in which leased products exist on customers' premises will be limited to the amount for which usage has been confirmed. As a result, the Committee believes that the over-stated lease receivables that occurred due to Contract Rollovers and the like will be revised collectively.

As a result of FXAU's revisions on the accounting treatment for the respective agreements, the revised amount of equity as of March 31, 2016 was 31 million AUD (a reduction in equity). FH also explained that it plans to carry out revision in the same way for its financial results posted for the fiscal year ended March 31, 2017.

(ii) Revision of items managed under R&O spreadsheet

FXAU used spreadsheets called the Risk & Opportunity (R&O) Spreadsheets where it recorded, managed, and reported "risk" items with respect to its financial statements on a monthly basis.

The R&O spreadsheets mainly contained items such as costs incurred in the current term booked as assets in order to carry them over to subsequent years rather than booking them in the profit and loss statement as expenses, and assets booked in connection with sales anticipated in subsequent years, and costs booked as assets for the past fiscal year or revenues that were never achieved were reversed. The revised amount of equity for the fiscal year ended March 31, 2016 is now 60 million AUD. While the 59.3 million AUD risk amount that was recorded on the R&O spreadsheets produced at the end of the fiscal year ended March 31, 2016 has been reduced to 38.6 million AUD (as the risk amount for the fiscal year ended March 31, 2016) as a result of being retroactively revised as of the fiscal year ended March 31, 2017, additional items and revisions to the amounts of existing items have caused 21.4 million AUD to be added.

Furthermore, the details of the R&O spreadsheets are described below in section "1(8)(iii) Manipulation of Financial Performance."

(iii) Other revised items

"Other revised items" includes items pointed out by the independent auditor, as requiring revision in past financial statements even though FXAU originally did not state that they were in error. As discussed below, the revised amount of equity for the fiscal year ended March 31, 2016 is 57 million AUD (a reduction in income).

	End of the Fiscal	
	Year Ended March	
	31, 2016	
Revised amount of allowance for doubtful	(21)	i
receivables		
Revision of over-stated recording of	(14)	ii
inventory kept at client sites		
Reversal of revenue recognized without	(10)	iii
installation of equipment		
Revision of the timing of loss recognition for	(6)	iv
Customer 4-2 project		
Other	(6)	
Total (revised amount of equity)	(57)	

Unit: million AUD

i. Revised amount of allowance for doubtful receivables

This item was 21 million AUD at the end of the fiscal year ended March 31, 2016, and it has an additional impact of 6 million AUD at the end of the fiscal year ended March 31, 2017. See section "1(8)(ii) Under-statement of Allowance for Doubtful Receivables" for details.

ii. Revision of over-stated recording of inventory kept at client sites

Although the subject inventory is toner and other consumables provided at client sites, this item means the one that remains FXA's inventory until it is consumed by the customer. Due to the unit price and volume assumptions being exaggerated during the fiscal year-end appraisal of inventory kept at client sites, the over-stated amount of inventory assets has become subject to revision. See section "1(8)(iv) Possibility of Over-Statement of Inventory Kept at Client Sites" for details.

iii. Reversal of revenue recognized without installation of equipment

This is about revenue which was recorded early at the time of the execution of contracts when it should have been recorded at the time of equipment installation. The timing of the recognition of profit and costs has been revised in each fiscal year. See the discussion of bundled agreements in section "1(6)(iv) Recording of Revenue in Violation of Accounting Standards regarding the Timing of Revenue Recognition" for details.

iv. Customer 4-2

In relation to construction services for a passport scanning system for Customer 4-2, because the cost recognition for the system construction costs recorded in the balance sheet were not included in the financial results for FY2015, the loss in FY2016 has been reversed, and then revised to transfer it to losses recorded in FY2015.

(5) MSA-type Agreements Confirmed as Being used at FXAU

(i) AU Bundled Agreements

FXAU used unique agreement types called Whole of Volume Agreements ("WVA"), Total Volume Agreements ("TVA"), Document Service Agreements ("DSA"), and Agility Agreements (hereinafter WVA, TVA, DSA, and Agility Agreements are collectively referred to as "AU Bundled Agreements").

- (ii) Background of the New Zealand Agreements being Adapted for Use in Australia, thereby Creating AU Bundled Agreements
 - (a) In his email, S explains that the Australia-version DSA was adapted into the same type of document as the MSA in New Zealand and is a contract comprising the same types of components such as Right Sizing, Sole Supplier, Service Level, Committed Term, Target (but not committed) volumes, and Non-cancellable Agreement (other than default), but that unlike the Australia-version DSA this cannot invoice the amount of difference if the Target Volume is not achieved, and that this has been named the Agility Agreement. He

also explains that revenue recording and commissions are handled separately in regard to this contract, and that the use is strictly restricted (which means that L approves whether it can be used or not and the details of commission, and an accountant separately determines revenue recording).

- (b) In his email, S explains that the DSA is a New Zealand agreement that has been adapted for use in Australia in accordance with Australian law.
- (iii) Characteristics of each AU Bundled Agreement

When samples of AU Bundled Agreement were obtained and their contents examined, the following characteristics were found.

- (a) WVAs provided a total committed volume for a minimum term, and if the total committed volume for the minimum term was not reached, the minimum term would be extended for 12 months, or payment would have to be made for the shortfall not achieved and unpaid amount.
- (b) TVAs provided a total committed volume and an annual reconciliation date unless an agreement expressly provides otherwise. If the total committed volume was not achieved as of the last day of the minimum term, payment would have to be made for the shortfall not achieved and unpaid amounts. In addition, on the reconciliation date, the amount of difference between the actual usage volume and the proportionally divided volume of the total committed volume as of the reconciliation date has to be reconciled and paid. Then, the TVAs stipulate that the amount of difference paid by the customer must be treated as advances received.
- (c) DSAs set a target monthly volume, over achievement rebate rate, under achievement catch up rate, target annual volume, and an annual reconciliation date unless the agreement expressly provides otherwise. Then, for example, in the event the reconciliation date is set annually, if the actual usage volume exceeds the target annual volume on the reconciliation date, a rebate calculated using the over achievement rebate rate has to be paid, and if the actual usage volume is less than the target annual volume, an amount calculated using the under achievement catch up rate has to be invoiced to the customer. This type of agreement took a form whereby the client would be invoiced for the shortfall if the target annual volume was not achieved, but in the samples examined, the section for the under achievement catch up rate was blank, and some agreements had provisions to the effect that no reconciliation would be made even if the actual usage volume was less than the

Target Volume.

- (d) Agility Agreements stipulate a target monthly volume and target annual volume, but have no provisions for reconciliation in the event that the Target Volume is not achieved.
- (iv) Number of AU Bundled Agreements

Materials received from Mr. T (the current CFO at FXA and was previously GM at FXAP) document 12 WVAs, 18 TVAs, 15 DSAs, and 3 Agility Agreements (Customer 5, Customer 6, Customer 7) at FXAU. They also document two customers that utilized a "special" type agreement.

(6) Accounting treatment of AU Bundled Agreements

- (i) Accounting recognition in AU Bundled Agreements
 - (a) Although there is a degree of variation between 10 of the 12 WVAs, 17 of the 18 TVAs, all of the 15 DSAs, and 2 of the 3 Agility Agreements included in the AU Bundled Agreements detailed in the materials received from Mr. T, ORS is recorded for FY2015 or FY2016, and that average ORS ratio is 37%. In relation to the two customers that utilized the "special" type agreements above, it is documented that there was no recording of ORS.
 - (b) In addition to the three transactions detailed in the materials provided by Mr. T above in which Agility Agreements are utilized, when put together with information in other materials that have been obtained, the following five matters are ascertained.

Customer name	Agreement commencement date	Period (months)	ORS%
(i) Customer 5	2015/11/1	60	26.4%
(ii) Customer 6	2015/11/1	60	61.7%
(iii) Customer 7	2015/12/1	60	0%
(iv) Customer 8	2015/11/1	48	34%
(v) Customer 9	2016/3/1	60	54.5%

From the materials, it is clear that an Agility Agreement was prepared with Customer 10, and was intended to be executed, but it cannot be confirmed that the Agility Agreement was actually executed. According to other materials subsequently prepared, the agreement was arranged to be a DSA. (Commencement on February 1, 2016, 60 months, ORS=28%, Total contract value=\$3,283,020)

(ii) Lease classification and ORS recording in breach of accounting standards

(a) As a side note, a lease that satisfies any of the four conditions set forth in a. through d. below, and that also satisfies the two conditions set forth in e. and f. below is classified as a capital lease under US GAAP (Accounting Standards Codification ("ASC") 840). (For details, see "Chapter 3.3(2) Lease Accounting Standards under US GAAP".)

a. Ownership of the asset transfers to the lessee at the end of the lease term;

b. The lessee holds a purchase option with discounted price;

c. The lease term accounts for 75% or more of the economic life of the leased asset; or

d. The present value of the total amount of the minimum lease fee payment (the minimum lease fee payment amount borne by the customer) exceeds 90% of the fair market value of the leased asset.

and

e. It is reasonably possible to predict the collection of the total minimum lease fee payment; and

f. There is no uncertainty that additional costs that cannot be collected from the lessee will arise.

- (b) In addition, the FXAU internal memo (which specifies that it was prepared for the purpose of clarifying and tightening up rules in relation to upfront revenue recognition and the renewal and extension of agreements) documents that it is not allowed to recognize upfront revenue recognition for sales type leases (i) if there is an agreement in which withdrawal is possible, (ii) if a fixed committed payment amount or a fixed committed printing volume that covers the value of the lease assets has not been stipulated, (iii) if damages are not reserved, or there is no penalty or fee in case of early termination, or (iv) if equipment can be changed at FXA's discretion, and that in such case the monthly annuity should be recorded as rental.
- (c) Further, the internal memo prepared and sent by R details that, in case of new contracts and in cases where a committed fixed payment each month from the customer cannot be guaranteed, such transactions cannot be recognized as a capital lease and must be recognized as rental or operating lease, and that in order to be recognized as upfront ORS revenue, a commitment must be made for the Target Volume multiplied by the Click Rate as the minimum monthly amount from the customer, and also that if the actual monthly usage volume is lower than the monthly Target Volume, FXA must claim a fixed amount

(Target Volume multiplied by the Click Rate) from the customer.

- (d) By referring to the US GAAP and the two FXAU internal memos, it is understood that if at least a committed payment amount has not been stipulated, a transaction is not allowed to be recorded as a capital lease.
- (e) With that, at the very least Agility Agreements that do not stipulate a committed payment amount are clearly not allowed to be recorded as capital leases, and must be recorded as operating leases.

It is understood that, of the five aforementioned Agility Agreements, the ORS was recorded as capital lease for the four agreements with (i) Customer 5, (ii) Customer 6, (iii) Customer 8, and (iv) Customer 9, and on this point at least, it is believed that there was inappropriate recording of sales.

(f) Furthermore, WVAs, TVAs, and DSAs stipulate the fixed committed payment amount, committed usage volume, or column for setting the committed payment amount at least in the agreement form, meaning it is conceivable that it is not the case that ORS recognition is not allowed based on the agreement forms themselves.

However, as stated above, in Customer 11 case examined as a sample of DSAs, the column for the Target Volume under achievement catch up rate is blank, and the committed payment amount is not expressly set forth in the agreement. If there was no committed payment amount, it is recognized that, based on the materials received from Mr. T, the ORS% in that customer's case was 23.9%, that it was recognized as upfront revenue, and that recording of ORS was inappropriate.

(g) In addition, even if the fixed committed payment amount or committed usage volume was stipulated in the agreement in the case of the WVAs, TVAs, and DSAs, it is understood that the agreement should not have been recorded as an operating lease in light of the actual condition of the transaction if FXAU made no request to customers to reconcile the difference between the actual payment amount or usage volume and the committed amount in case the former was lower than the latter. In that case, if that amount was recorded as ORS, it is believed that it was an inappropriate recording.

Regarding this, as detailed in the following email and report, even if the committed usage volume and the committed payment amount is prescribed in the agreement, it is believed that no request was actually made to reconcile the difference with the actual usage volume. If reconciliation was not carried out when there was a shortfall in the committed usage volume and the committed payment amount, in spite of the terms of the agreement, in substance the reality of the transaction was the same as having no committed payment amount. In that case, the recording of ORS in relation to such transactions is considered to be the recording of inappropriate sales.

- i. The FXA internal report describes that the Contract Management Team (in charge of adjusting differences in the committed usage volume and the actual usage volume) did not have processes to implement the adjustment of the difference even if the need for adjusting the differences was prescribed in the System C and excel sheet, and that, as an example, although a certain agreement detailed that the committed usage volume was based on A4 sheets, that customer rarely printed on A4, and there was doubt in the interpretation of the agreement on how to make adjustments (and that there was absolutely no business model, including that the degree of profit from the transaction as a whole was unclear), as well as other matters.
- ii. U's email also details that there were no means for the Contract Service Team to adjust the differences. That indicates strong doubt regarding the inappropriate recording of ORS in the WVAs, TVAs, and DSAs.
- (h) Originally, according to the above internal memo by R, if a fixed committed usage volume or committed payment amount cannot be ensured each month, they must not be regarded as capital leases. But WVAs have the reconciliation date set as the last day of the agreement term, and TSAs and DSAs have a reconciliation date that falls one year after the commencement date, unless the period is otherwise clearly stated in the agreement, and they do not set forth a monthly committed usage volume or committed payment amount. Accordingly, they are inappropriate accounting treatment which is at the very least in breach of FXA's internal rules.
- (i) Based on the above, FXAU employs agreements referred to as WVAs, TVAs, DSAs, and Agility Agreements, and it is understood that inappropriate recording of ORS is recognized in at least 44 transactions.
- (iii) ORS recording ratio in breach of accounting standards
 - (a) In addition to the above issue about whether agreements can be classified as capital lease and ORS recording can be recorded, there is a high possibility that there were issues in

relation to the sales recording ratio as ORS in relation to lease equipment sales and the sales recording ratio of sales under the Full Service and Maintenance Agreement (FSMA).

- (b) Under US GAAP, if one agreement includes multiple elements and meets certain conditions, it should be treated as "separate units of accounting," and the amounts allocated to the separate units of accounting are the amounts based on the fair value (ASC 605).
- (c) However, as detailed below, such accounting practice has not been carried out appropriately, and it is considered that there was inappropriate sales allocation between ORS and FSMA, such as sales that should be recorded as FSMA being recorded as ORS in relation to the AU Bundled Agreements, such as WVAs, TVAs, DSAs, and Agility Agreements.
- (d) In addition, according to the interview of Mr. U, Head of Risk and Assurance, he implemented a sample investigation on the FSMA margin for the 16 agreements as instructed by V in 2016. The investigated agreements were mainly WVAs, TVAs, DSAs, and Agility Agreements that he had not heard of until then, and losses in the FSMA portion were evident in the majority of those agreements. In addition, not even the cost was covered, and there was no evidence of a price established to earn profits or a business model.
- (e) In addition, Group Financial Controller W stated in his interview that the recognition of sales was excessively biased toward the equipment sector compared to the service sector, and he knew that there was an excessive recording of sales upfront, and he reported to the CFO that something was odd.
- (f) Further, it was reported in FXA's internal audit in September 2016 that, when carrying out a sample investigation of the FSMA margin for 16 transactions from April 1, 2015, it was evident that, on the one hand, the average ORS margin in the WVAs, TVAs, DSAs, and Agility Agreements was an excessively positive value, and the average FSMA margin was an excessively negative value.
- (g) Looking at the materials received from Mr. T, as an example, (i) one DSA achieved an ORS margin of 37.7%, with an ORS profit of \$33,619 out of the \$89,112 of recognized ORS, while the FSMA margin was -58369.3%, with an FSMA profit of -\$31,519,415 out

of the \$54,000 recorded as FSMA contract value.

In addition, numerous similar examples, where the FSMA margin was found to be extremely low compared to the ORS margin, and negative, were found to have been recorded, such as (ii) the TVA where the ORS margin was 100% and the FSMA margin -2372.6%, and (iii) the WVA where the ORS margin was 32.4% and the FSMA margin -1232.1%.

Further, the average ORS margin for 50 transactions recorded in the same materials was 21.0% while the FSMA margin -166.1%, and the FSMA margin on average produced at least a loss.

- (h) Based on the statements by Mr. U and Mr. W, and the comparison of the ORS margins and the FSMA margins, there is strong suspicion that inappropriate accounting was frequently carried out for AU Bundled Contracts, where the amount that should have been recorded as FSMA sales was recorded as ORS.
- (iv) Recording of sales in breach of accounting standards regarding the timing of the recording of sales
 - (a) As a separate issue from those stated above, it is recognized to be high possible that there was an issue that sales were recorded in breach of accounting standards regarding the timing of the recording of sales at FXAU.
 - (b) Under US GAAP, proceeds cannot be recorded until they are received, and proceeds are deemed to have been received at the time that most of the matters that the company must carry out have been completed (ASC 605).
 - (c) On this point, according to the interview with Mr. W, as of 2015, when he joined FXA, sales of office production were recorded at the time of delivery, and Mr. W pointed out on numerous occasions to Mr. X and Mr. T that sales should be recorded at the time of installation of the equipment and the user acceptance test (UAT).
 - (d) In addition, as detailed below, at FXAU, numerous documents and email exchanges participated in by Mr. X, Mr. A, and others were discovered which indicating that sales in breach of the accounting standards were recorded on the shipping date and delivery date, which is earlier than the equipment installation and UAT completion date.
 - i. Customer 12 stated in a letter to FXA that the equipment was to be delivered and installed during the period of transition planning which was to end before March 31,

2015, in accordance with the agreement entered into by Customer 12 with FXA with the effective date of December 1, 2014, but Customer 12 requested that FXA store the equipment at a certain facility and that it is deemed to be received at a time when Customer 12 could receive the equipment at that facility, and Customer 12 agreed that the ownership risk, the ownership rights, and the profits from the ownership rights would transfer to Customer 12 upon receipt at that facility.

Further, Mr. Y attached that letter from Customer 12 to an email, and reported that FXA could record the sales based on the attached letter from Customer 12.

- ii. Mr. X's report email to Mr. A detailed that "we did use revenue timing for a number of transaction where we are 100% confident of the transaction (and our contractual position) being delivered in June" in relation to the additional portion of recording sales at FXA on a "shipping" basis in May 2015.
- iii. According to a series of emails, discussions took place about what to do in order not to send invoices before commencement of equipment use in January 2016 to the customers, who accommodated FXA in relation to their agreements to store and receive equipment to enable FXA to record sales in November 2015.

In addition, the series of emails detail that a plan to move forward delivery was determined by the Operational NBR, with Mr. X, Mr. H, Mr. W, and Mr. Z as members, in order to make up for the ORS deficit.

- iv. Mr. a sent an email to Mr. X inquiring which is preferable, in cases where there is no equipment, whether to recognize accounting transactions simply through journal entry book keeping or to make one load of fabricated equipment, stop that load before production, and record sales in manual labor.
- v. In that email, Mr. X stated in relation to January 2016 ORS to the effect that he would record sales based on whether an order was expected before January 31.

To that, Mr. T replied to Mr. X via email that (i) he had no interest in such a strange recording method and that he could not agree given his position, (ii) based on FX group's accounting policy, the timing of sales recording should be at the time the equipment was installed and the test completed, (iii) however, the most he would concede was the explanation of recording based on displacement under US GAAP, (iv) if the equipment was still at the warehouse, FXHQ could not consent to the recording thereof, (v) at least, before making a determination for recording of sales in relation to

PSB's large equipment, detailed investigation of the actual shipping and installation situation were expected, and (vi) evidence showing that the equipment left the warehouse before February 1 were also expected.

After receiving that email from Mr. T, Mr. X wrote in an email to Mr. A, "A, Can we discuss. X."

- (e) Based on the statements and emails above, it was strongly suspected that sales were recorded at FXAU before the installation of equipment and before the completion of inspections, in breach of accounting standards regarding the timing of the recording of sales.
- (v) Accounting treatment in case of interest rates lower than market interest rates
 - (a) Under US GAAP, if one agreement includes multiple elements and meets certain conditions, such agreement should be treated as "separate units of accounting," and the amounts allocated to the separate units of accounting are the amounts based on the fair value (ASC 605). Therefore, interest revenue is also expected to be recorded as earnings based on market interest rates.
 - (b) On this point, in a series of emails, there were discussions about that FXF was instructed by an independent auditor previously that the established interest rate of less than 5% should be revised to 5%, and about how to make FXA revise the interest rate to 5% in the agreement with a six-month interest rate of 0%.
- (7) Those who were aware of the existence of the AU Bundled Agreements at FXAU and what they were aware
 - (i) It is understood from various emails that there were limited people who were aware of the existence of the AU Bundled Agreements and were able to use them for transactions.
 - (a) In an email sent to c by b, who was the Legal Counsel of Corporate Operations, he asked her not to send the DSAs, TVAs and Agility Agreements to anyone because they were not distributed to a lot of people. In addition, in the same email, he explained that L had explained that only E, d (upon consulting with E and L), e, f, g, and h were allowed to use them in cases where the reconciliation date was in one year or less, and that in cases where the reconciliation date was in more than one year, the approval of L or i was required.

- (b) Further, revised versions of the DSA and TVA were sent to related parties as an attachment to b's email, but he stated that he did not want the email to be shared with people other than the recipients of the email without the approval of L. The email was addressed to d, E, L, S, j, and i. e, f, g, hh, k, a and X were copied in it.
- (c) The existence of the DSAs and TVAs was also made known to U, the Head of Risk and Assurance, when an email was forwarded to him on April 6, 2016. When U asked b what kind of agreements they were, b explained that he and S from Legal had drafted the DSAs upon request by A and L, that they were drafted for use by certain Sales personnel who were familiar with similar agreements in New Zealand, that the TVAs were drafted by b upon request by L, S, and certain other senior-level Sales personnel, and that both were approved by L, X, and S, but that the use was only permitted for those limited people.
- (ii) In W's email, he stated that Agility Agreements must, in principle, be recognized as operating lease agreements or rental lease agreements, and that the only limited exceptions were the cases where delivery was made by September 30, 2015 and X specifically approved. As mentioned above, there is no committed volume or committed amount provided in the Agility Agreement, and there were no grounds that could justify recording this as a capital lease. Therefore, at the least, as for transactions recorded as a capital lease, it is understood that X implemented this practice while being aware that the recording of ORS revenue was in violation of accounting standards.
- (iii) According to the interview with A's ex-secretary, I, A did not send emails by himself, did not put anything in writing, issued all instructions through L, his subordinate who he brought from New Zealand, and said to other people that L was acting on his behalf. Therefore, in light of the fact that, as mentioned above, L knew about the AU Bundled Agreements, b explained that S and he drafted the DSA upon request by A and X, and that in an email from X to A it was explained, quoting from T's email, that the recording of ORS and the recording of Upfront Revenue by contract extension regarding the Agility Agreement were the main risks, we believe that A was aware of the existence of the AU Bundled Agreements, that he understood the content thereof, and that he gave instructions through L.

(8) Other problems identified

(i) Inappropriate accounting under Managing Director m

According to FXA's current CFO, T, instances of inappropriate accounting also took place under Managing Director m, A's predecessor. Examples of such inappropriate accounting are outlined below. This means that instances of inappropriate accounting had already existed before the inappropriate accounting practices related to AU Bundled Agreements (WVAs, TSAs, DSAs, Agility Agreements, etc.) started under A after he became Managing Director at FXAU.

(a) Customer 13

When renewing a contact with a client called Customer 13 in September 2014, the company booked the renewed contract as a capital lease and recognized ORS revenue as one-time, upfront sales even though no new equipment was installed. This was included in an April 18, 2014 internal report created by FXAP APO titled "FXA/FXNZ audit risk and countermeasures".

An internal memo from R states that when a contract was extended before the end of the initial contract term, no additional upfront revenue was to be booked if the extension did not include the transfer of equipment.

The memo was created after the booking of ORS revenue related to the September 2014 extension of Customer 13 contract. However, it is ex post evidence that the recognition of ORS revenue booked related to the renewed Customer 13 contract of September 2014 was improper (at the very least, it went against FXA internal policy).

(b) Customer 14

In March 2015, FXA bought a lease contract made between a competitor and Customer 14 from the competitor. As a result of buying the contract, the company needed to pay compensation for the remaining contract obligations to the competitor.

The new equipment was installed at Customer 14 in April 2015 or after, so any ORS revenue should have been recognized in April 2015 or after as well, but the ORS revenue was instead recognized in March. Costs booked related to the deal were also understated by AU\$1.4 million. This is thus an instance of improper accounting treatment, with ORS revenue booked earlier than appropriate and costs being understated. According to T, this occurred in March 2015, the final month of the fiscal year, and earnings were well below target, and the under-reporting of profit was deliberate.

(c) Customer 15

FXA sold two major machines (an Impika and a Rishiri) to a client called Customer 15 in 1Q 2014. Customer 15 subsequently complained of poor performance from the Impika machine. FXA ultimately reached a compromise with Customer 15, revising the contract in November 2015 and taking back the Impika machine in 4Q 2015. The company

received the complaint shortly after the installation of the machines, and was involved in a dispute with the client about the matter, yet dragged the issue out for almost two years, then delayed the loss recognition over two fiscal-year periods. This is clearly problematic from an accounting perspective. In addition, under the new Managing Director, in order to meet FY15 earnings targets, no loss provisions were booked. This information was included in an April 18, 2014 internal report created by FXAP APO titled "FXA/FXNZ audit risk and countermeasures" and, according to the internal report, losses totaling AU\$2 million would be required to book the return of the Impika machine and reverse the related lease obligations.

(d) Failure to recognize special incentives

According to T and the above-noted internal report, in 4Q FY2014, earnings were at risk of falling significantly short of plan and the Managing Director at the time, m, introduced a special 'challenge incentive' program. However, the Accounting Department was never informed of this new program, and as a result no provisional estimates for future incentives-based remuneration were recognized for the fiscal year ending March 2015. Mr. m stepped down as Managing Director in April 2015, and the company subsequently discovered that it faced up to AU\$4 million in outstanding incentive-based remuneration payments. These payments were made, but were not recognized on the financial statements at the time in order to meet earnings targets. A took over as Managing Director following the departure of m. A also deferred cost recognition in order to meet earnings targets, with the intention of absorbing the costs through future operations. However, as profitability worsened, cost recognition had not been recognized before the end of the fiscal period.

(ii) Under-reporting allowances for doubtful receivables

- (a) An email sent by T to X notes that the company had been able to compensate for lower revenue in March with an intensive focus on reducing allowances for doubtful receivables.
- (b) According to W, the AU\$3 million in allowances for doubtful receivables as of March 2016 was not based on a rigorous calculation due to the lack of time to do a full analysis.
- (c) In an email to X, n states that the company required total allowances for doubtful receivables of AU\$42 million.
- (d) As of October 2016, in the R&O spreadsheet, total allowances for doubtful receivables were AU\$27.5 million.
- (e) In addition, based on the valuation of the 'Risk' items in the March 2017 R&O spreadsheet, at a minimum, allowances for doubtful receivables at end-March 2016 was understated by AU\$27.5 million.

- (f) Based on the explanation from W that the allowances for doubtful receivables as of March 2016 were not based on proper analysis, the sharp rise in allowances for doubtful receivables after March 2016, and the email from Mr. T noting the deliberate under-reporting of allowances for doubtful receivables to offset below-target revenue, it appears very likely that allowances for doubtful receivables as at March 2016 were significantly and deliberately under-reported in order to offset weak top-line numbers.
- (iii) Financial performance management
 - (a) Summary

As we will detail below, it is suspected that FXA management improperly recognized sales and costs or deferred the booking of costs that would have been recognized in order to pretend that they were achieving revenue and/or profit targets and to make FXAU look better than it actually was in its financial performance.

- (b) Emails that corroborate the conclusion that financial performance was managed
 - i. For example, X sent an email to m and Z, in which he wrote that 'revenue is OK but profit not so', and that he had delayed the booking of costs while he looked into the numbers.
 - ii. X also wrote an email to T noting that they had needed to delay costs in order to achieve the outlook number.
 - iii. In another email, T asked X to defer all items to 4Q to realize the same numbers as the November's second outlook numbers in December, even if it meant worse 4Q numbers.

X forwarded this email from T to A with the note that T instructed X to defer items to boost earnings. A's response (via email) to X was 'Interesting'.

- iv. In another email to X, T first thanks X for his efforts to manage the December performance, but cautions him to not touch intercompany transactions noting that they are 'easily checked by auditors' and that they had some cases in the past.
- v. X sent A an email with a table showing the journal entries taken to achieve the performance number. The email went on to state that they had delayed costs or brought forward revenue of AU\$6.1 million in order to achieve the profit number.
- (c) It is surmised that FXAU was managing financial performance going back at least as far as m. Financial performance management was tracked in a management table called "R&O (Risks & Opportunity) Excel spreadsheet" and the adjustments being made in order to manage the company's financial performance was recorded in the spreadsheet.

- i. According to our interview with W, W and Y created a Risks & Opportunity (R&O) spreadsheet each month that identified actual and potential risk items that required monitoring. The R&O spreadsheet was shared each month with the CFO, and the CFO used the spreadsheet in communications with APO. The R&O spreadsheet was used to correct previous problematic adjustments to the financial statements. W noted that the CFO always intended to clean up the reporting by year end, but that it had sometimes not been possible to have everything sufficiently cleaned up in time.
- ii. The R&O spreadsheet contained the following categories. W identified the meaning / usage of each category

Category	Code	Meaning/usage (according to Mr. W)
Quarantined	Q	Item related to achieving a profit number
Parked / Delayed	Р	Deferred costs
Operational	0	Transactions that may require provisions in the future
BS Clean up	BSC	Balance sheet items with little support for staying on the balance sheet that thus are required to be written off
BS WIP	BSWIP	Items on the balance sheet that are not necessarily a risk, but are potentially a risk

- iii. According to W, the R&O spreadsheet was shared with the CFO, the head of Financial Reporting & Analysis (FP&A) o and T (particularly between Jan-Mar 2016). However, the R&O spreadsheet was not shared with the independent auditors.
- (d) Summaries of R&O spreadsheet

As noted above, the R&O spreadsheet was compiled each month. The balance of items recorded on the R&O spreadsheet as of end-March 2016 totaled AU\$59.3 million.

(e) Risk items as of end-March 2016

The table below shows the risk positions as evaluated by FXA for the March 2016 and March 2017 fiscal periods, based on the March 2016 risk categories. Most of items identified on the R&O spreadsheet at end-March 2016 as risks were still on the R&O spreadsheet as risk items at the time of March 2017. Conversely, some items, like items in the 'Other' category, were released to the income statement in the March 2017 period after being judged as non-risk items.

Risk item (AU\$ million)	Fiscal year ending March 2016	Revised Fiscal year ending March 2017	
Customer 16 project	12.4	12.4	i
Deferred costs to meet profit requirements	4.6	4.6	ii
Intercompany suspense costs	2.4	2.4	iii
Revenues brought forward/ Costs deferred related to accrued ORS	2.4	2.4	iv
Other claims	4.0	4.0	v
COGS deferred	(1.7)	(1.7)	vi
Major retailer rebates not booked	1.6	1.6	vii
Allowance for doubtful receivables	3.0	-	viii
Other	30.6	9.5	
Total	59.3	38.6	
Additional items added in March 2017 period	-	21.4	ix
Total	59.3	60.0	
'Other' items (numbers)	26	14	

i. Customer 16 project

The March 2016 R&O spreadsheet identified Customer 16 project as a AU\$12.4 million risk item. The April 2016 R&O spreadsheet revised it to a risk value of AU\$36 million. The R&O spreadsheet included an explanation that the item was to be treated as CIP (construction in progress) assets.

According to T and W, however, project delays from the FXA side had resulted in FXA paying fees to the previous provider, Customer 17, to continue providing service to Customer 16. Based on the contract with Customer 16, these extension service fees were capitalized on the balance sheet as CIP. However, these fees were not related to software development activities. The fees should not have been capitalized as software production costs; the fees were operating costs. Placing the fees on the balance sheet as CIP was thus incorrect accounting treatment.

This suggests that the accounting treatment for the items handled via the R&O

spreadsheet was not proper.

ii. Deferred costs to meet profit requirements

The March 2016 R&O spreadsheet included the three items identified as costs deferred to meet December 2015 profit targets: travel costs (AU\$0.6 million), service labor (AU\$1.2 million), and dealer subsidy costs (AU\$2.8 million). These items should have been expensed when occurred, but instead were deliberately deferred in order to meet the December profit targets. It can be surmised that the items were deferred based on the instructions from the email from T noted above, ordering that all items be deferred to 4Q to realize the December numbers as per the second outlook number from November. We note, however, that at April 2016 even after 4Q, the items were not expensed.

The above suggests that not only were costs not properly expensed when incurred, there were cases where costs were not expensed even after the deferred period ended.

iii. Intercompany suspense costs

The March 2016 R&O spreadsheet identified AU\$2.4 million in intercompany suspense costs on the balance sheet.

Based on remarks in the R&O spreadsheet, it appears these items included COGS and SG&A costs from FY2013–FY2015 and were long-standing.

It appears that W and Y were inclined to release the items to the income statement, but T and X both appeared to think that no action was required.

Based on the above, it is likely that these intercompany suspended costs should have been expensed, which means it is likely that the financial statements as at end-March 2016 were misstated.

iv. Revenues brought forward/ Costs deferred related to accrued ORS

Both the March and April 2016 R&O spreadsheets identified roughly AU\$2.4 million in revenues brought forward and costs deferred related to accrued ORS. A breakdown of the items is as per below; our understanding is that the AU\$2.4 million represents the potential impact on the income statement (negative for profit) if the risk items were properly adjusted for.

- Revenues brought forward related to accrued ORS (AU\$1.76 million): the explanatory comment in the R&O spreadsheet indicated that this item was related to a profit improvement initiative from June 2015, that there was

insufficient funding to reverse it as of 31 January 2016, and that the aim was to reverse it by the end of the fiscal year (March 2016).

 Costs deferred related to accrued ORS (AU\$636,000): This was deferred by reducing COGS due to the significant gap between actual and expected profit. It appears that actual COGS was confirmed prior to the reduction, but the spreadsheet notes that profit was insufficient to reverse the costs.

According to the R&O spreadsheet comments, W and Y were both inclined to release these items to the income statement, but T and X felt that no action was required.

The R&O spreadsheet comments indicate that a given level of profit was required to eliminate these risk items by expensing them to the income statement, but that they were not reversed due to insufficient profit. Based on these comments, it is likely that these cost items should have been recognized in the fiscal year ending March 2016, but were instead left unaccounted for, which means it is likely that the financial statements as at end-March 2016 were misstated.

v. Other claims

Both the March and April 2016 R&O spreadsheet included AU\$4 million in 'other claims' costs.

A comment added to the April 2016 R&O spreadsheet indicated that based on a review of other external creditor accounts, some portion (of the costs) should have been booked to COGS in prior fiscal periods. The comment further noted that the adjustments were not yet completed and the final amount was still undetermined. Based on the above, it is likely that these other claims costs which should have been expensed in the fiscal period ending March 2016 were incorrectly left unaccounted for, which means it is likely that the financial statements as at end-March 2016 were misstated.

vi. COGS deferred

The March and April R&O spreadsheets identified a total of AU\$1.7 million in Customer 13 costs (equipment COGS). A comment to the item says that the item is COGS deferred for AU\$1.7 million in revenue for October 2014 – September 2015 booked in May 2015. Y and the controller added comments that the item should be released to the income statement, but X determined that it would be reversed against other Customer 13 revenue.

Based on the above, it is likely that these COGS, which should have been expensed in the fiscal period ending March 2016, were incorrectly left unaccounted for, which means it is likely that the financial statements as at end-March 2016 were misstated.

vii. Major retailer rebates not booked

The March 2016 R&O spreadsheet identified AU\$1.6 million in major retailer rebates that had yet to be booked to the balance sheet.

In our interview, W noted that the company had been in a dispute with Customer 18 about the rebate, and that the rebate may not have been booked due to this ongoing dispute. However, if the rebate was not properly recognized, it means that it is likely that the financial statements as at end-March 2016 were misstated.

viii. Allowances for doubtful receivables

AU\$3 million in allowances for doubtful receivables had been recognized as of March 2016. According to W, however, the amount was not based on a rigorous calculation due to the lack of time to do a full analysis.

The R&O spreadsheet for October had an updated allowance for doubtful receivables amount of AU\$27.5 million. Given the sharp rise in allowances for doubtful receivables in such a short period of time, it is likely that allowances for doubtful receivables as of March 2016 should have been higher. This item was removed from the table in March 2017 since this item was organized under 'other adjusted items" (1(4)(3)(i)).

ix. Other additions for March 2017 period

Based on the investigation in FXA, a number of risk items that we had been unaware of were identified as the items which should have been managed in the March 2016 period. Examples include items that likely should have been expensed, such as AU\$4.3 million in commissions to retailers and AU\$1.4 million in lease equipment cleaning costs.

We also confirmed that as at August 2016, in regards to lease revenue previously cancelled out prior to March 2016, an additional AU\$10.5 million in lease revenue should have been reversed.

There were a number of other minor adjustments to the existing items labeled i through viii above.

- (iv) Overstatement of customer site stocks
 - (a) An internal document prepared by Mr. p mentions the possible overstatement of inventory held on the client premises. At the end of the fiscal period, inventory unit price for

customer site stock includes the rebate amount, which significantly overstates the unit price used to value the inventory as of the end of the fiscal period compared to the unit price after the rebate is excluded. Mr. p's document indicates that the rebate was usually equivalent to around 60% of the total inventory value, and that wholesale inventory assets may be overstated by AU\$15-17 million.

(b) In our interview, T noted that customer site stock may not be accurately valued since a proper analysis had not been carried out.

Based on the investigation in FXA, a number of risk items that we had been unaware of were identified as the items which should have been managed in the March 2016 period. Examples include items that likely should have been expensed, such as AU\$4.3 million in commissions to retailers and AU\$1.4 million in lease equipment cleaning costs.

We also confirmed that as at August 2016, in regards to lease revenue previously cancelled out prior to March 2016, an additional AU\$10.5 million in lease revenue should have been reversed.

There were a number of other minor adjustments to the existing items labeled i through viii above.

(v) FXGS issues

- (a) In our interview, q (Finance Manager for Global Services) stated her opinion that there were contracts at Global Services with costs being capitalized with no basis, and with overstated accrued revenue.
- (b) Also in our interview, q stated that many of the contracts concluded in the previous two years did not have minimum volume commitments, and that some contracts included a minimum volume commitment but offered to credit the client for the difference if volume fell short of the minimum.
- (c) A September 3, 2015 email from R notes that contracts that do not include a Minimum Fixed Payment needed to be recognized as a rental or operational lease. In our interview, however, W advised that based on instructions from APO to X, and subsequently from X to W, FXGS did not follow the rules outlined in the R email, and instead continued to account for the contracts as it had previously.
- (d) Based on the above it is likely that Global Services capitalized costs with no basis, overstated revenue accrual, recognized revenue from transactions treated as capital leases despite the absence of minimum volume commitments, and continued to treat contracts

without minimum volume commitments as capital leases despite the email from R that prohibited contracts without minimum volumes or minimum payment obligations from being treated as capital leases.

- (vi) Incentives-related issues
 - (a) According to APO internal documents, following A's move to FXA, nine employees of FXNZ had also transferred to FXA as of April 1, 2016, mainly following recruitment from either A himself or L. Five of the nine employees were on salaries that exceeded benchmarks as provided by an HR consultant payscale benchmarks. Of particular note, Business Development Manager E was paid an annual salary of AU\$1.085 million (included AU\$0.8 million in incentives-based remuneration), which was 3-3.4 times the benchmark level. A's son, hh, was paid an annual salary of AU\$0.74 million (includes AU\$0.42 million in incentives-based remuneration), which was 2-2.3 times the benchmark level.
 - (b) In our interview, current FXA Managing Director V indicated that previously, commissions had accrued based on receipt of the order (this process has now been changed so that commissions are based on installation of equipment).
- (vii) Use of company funds for personal use
 - (a) Based on the above-noted APO internal document, an examination of corporate credit card expenditures made by A, L and r suggests that A and other members originally from the FXNZ office may have repeatedly used their corporate credit cards to pay for dining at high-end establishments. Even looking only at credit card charges of over AU\$500, the APO document notes 41 separate such dining bills for the three persons noted above between June 2015 and April 2016 (average of 4.1 dinners per month) at a total cost of AU\$50,132, with an average cost per dinner of AU\$1,233.
 - (b) FXA's travel policies did not include any provisions for daily allowances. Instead, employees were expected to submit receipts to be reimbursed for meals, transportation and other relevant travel expenses. However, the above-noted APO document notes that A would withdraw cash in local currency on his corporate credit card but would not submit receipts to support the withdrawals. The document notes that this occurred on nine separate occasions for a total amount of AU\$9,780.14.
- (9) Cause of Inappropriate Accounting Practices

(i) Agreement approval process

After A assumed the position of MD of FXAU, apparently agreements other than standard agreements (especially bundle sale agreements) were handled in a manner lacking transparency, where reports were made to employees who had been transferred from FXNZ who then granted approval, and there is a strong possibility that they did not go through the appropriate transaction approval processes.

(ii) Incentive remuneration

The incentive remuneration set forth in (8)(vi) above may have induced inappropriate accounting practices. In April 2016, APO President R sent A an e-mail asking for an explanation because the commission paid to some employees who had been transferred from FXNZ was too high. Additionally, employee interviews revealed that there was dissatisfaction with the higher commissions being arbitrarily paid to the team directly under A.

(iii) Inappropriate credit risk assessment process

According to interviews and emails, it seems that the credit risk rules were not obeyed as there were instances where transactions were carried out at the discretion of a certain person despite the credit team's determination that a party was inappropriate as a customer, agreements were approved without complying with the criteria, products were delivered six months before the completion of the approval process, and transactions were carried out with customers on the assumption of a certain volume even though it was unlikely the customer was capable of achieving such volume. There are also emails implying that transactions were made with counterparties posing a high credit risk in order to achieve sales targets.

(iv) Inappropriate organizational operation and organizational changes

From the interviews, it appears that since A took over as head of the organization, formal ELT meetings were rarely held, and even when they were held they frequently only covered matters unrelated to the agenda, and minutes were not kept. It is surmised that a properly functioning governance system for the ELT meetings was not in place.

Further, A made organizational changes where the employees from the Commercial Team (whose role was to check whether transactions were being approved in accordance with price decision policies, to ensure the sales teams complied with the rules, to report on failures to comply, and to review procedures) that was originally part of the Finance Department and employees from the Legal Department were transferred to the Sales Team, which suggests that the organization was changed to weaken the organizational checks and balances on the power of the Sales Team. According to the interviews, there were issues with the capabilities of personnel in the Finance Department, and it seems that the Finance Department functioned weakly, and could not perform its monitoring and checking function properly.

(v) Sales-Centric Corporate Culture

The circumstances discussed above with dysfunctional organizational governance allowed A's sales-centric culture to spread. Like at FXNZ, this was likely due to strong expectations for FXAU sales given the lack of sales growth in Japan, as was also due to bonuses for achieving targets making up a large proportion of employee compensation (30% of base pay in the case of A) as an incentive, with sales accounting for a significant portion of the bonus calculation (30%-40% of the bonus). Under this kind of culture, it is believed that inappropriate accounting practices came to be carried out without giving consideration to whether it would contribute to FXAU's profit.

(vi) Inadequate subsidiary management system in the group

Under the FH Group's subsidiary management system, APO was tasked with management of subsidiaries under APO, and it was not structured so that subsidiaries were directly managed by FH. Further, due to the physical distance from Australia and the shortage of personnel at IA, among other factors, APO's management system for FXAU was inadequate. With respect to the whistleblower system, the FX Group established the "ALL-FX Compliance Helpline Operational Rules" as of April 20, 2004, where a whistleblower system was put in place, but there is no evidence that the ALL-FX Compliance Helpline received any direct contact from international subsidiaries. See Sections 6-9 of this report for a more detailed discussion of the inadequate management structure within the group.

2. Issues at other APO marketing affiliates

In addition to the investigation of FXNZ, the location where this Matter originated, this Committee also looked into possible evidence of similar problems at FXA, where A had taken over as Managing Director having transferred from FXNZ. In addition to our investigations in these two countries, surveys were sent to employees of overseas sales subsidiaries of APO in Malaysia, Thailand and Taiwan in an attempt to ascertain whether there were material cases similar to the Matter at overseas sales subsidiaries. This did not uncover any potentially significant issues that would render this report incomplete unless the scope of this Committee's investigation was significantly expanded.

Chapter 5 FXAP (APO), FX and FH response to this Matter

1. Overview

(1) Overview of this Chapter

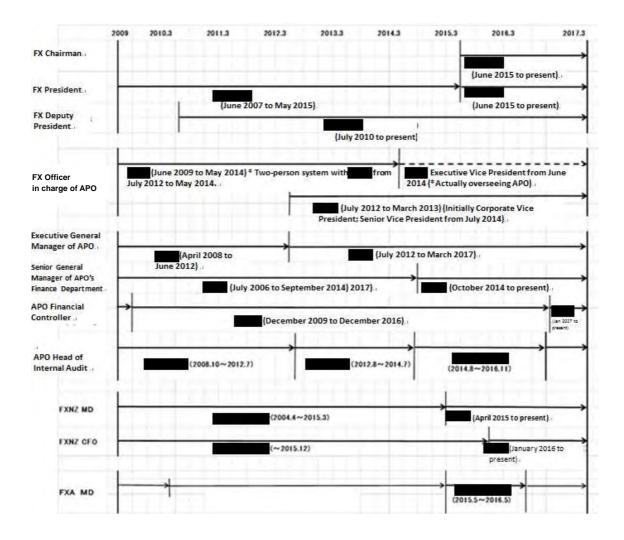
This Chapter discusses the actions of FXAP (APO), FX and FH in response to the Matter, based on facts found during the investigation. This Chapter covers the time period starting from September 2009, when APO's Internal Audit Department warned FXNZ that MSA contracts did not meet conditions for capital leases⁵, up to March 2017, when the audit firm sent out the Fraud Letter.

This Chapter discusses on the findings revealed during the investigation as preambles to Chapter 6 (Issues at FXAP), Chapter 7 (Issues at FX), Chapter 8 (Issues at FH) as well as in Chapter 11 (Reasons Why the Inappropriate Accounting Practice Could Not Be Avoided) and Chapter 12 (Measures to Prevent Recurrence (Proposals)).

(2) Key senior managers & directors

Key senior managers and directors at FXAP (APO) and FX from September 2009 to March 2017 discussed in this Chapter are as per below.

⁵ See Chapter 3 section 3-(3)-(ii) for a discussion of capital leases as used in this Report



(3) Key persons and roles

Roles as given in this Chapter are as of the time period in question.

(4) APO and FXAP

This Chapter discusses response to the Matter by APO and FXAP, both are responsible for FX's business in the Asia Pacific region. APO (Asia Pacific Operations) is an FX's division in the Asia Pacific region, while FXAP is an FX subsidiary based in Singapore. FXAP's CEO is the Executive General Manager of APO (and is an FX officer), while the General Manager of APO's Finance Department is also FXAP's CFO.

In practice, the operations of FX's marketing organization (APO) and FX's subsidiary (FXAP) are heavily intertwined, and it appears that the two are not necessarily clearly distinguished even within FX. Therefore, hereafter the term of "APO" is used in this Chapter.

2. September 2009 – APO (IBG) Internal Audit

(1) Issues Highlighted by September 2009 APO Internal Audit

The Internal Audit Department of APO (IBG at the time; hereinafter referred to as APO) performed a regularly scheduled audit on FXNZ, one of the OPCOs under APO, in September 2009. The audit was conducted by the head of APO's Internal Audit Department, Mr. s, and his subordinate, Ms. t. Mr. u and other members of FX's Internal Audit and Analysis Department participated in the audit as advisors.

Based on a sample check (of contracts) carried out as part of the audit, Mr. s and Mr. u identified contracts called DSGs (Document Services Group; different in name but similar in structure to MSAs) as not meeting the conditions for capital (finance) lease accounting treatment due to reasons such as the lack of Minimum Payment obligation and not being non-cancelable contracts. The participants in the internal audit subsequently prepared an audit opinion in the audit report that identified a number of items deemed to be 'Top Priority' issues, including the need for FXNZ to assess each contract separately and objectively as to whether capital lease accounting was appropriate, discuss the appropriate revenue recognition for DSGs with APO's Finance Department and recognizing the DSGs identified during the audit as operating leases. Both Mr. u and Ms. t are licensed CPAs.

(2) APO's Finance Department Response to Issues Identified by APO Internal Audit

In response to the issues highlighted by APO's Internal Audit Department, APO's Finance Department on October 3, 2009 determined that it would tighten contract terms for DSG agreements to ensure they could be treated as capital leases. The Department also determined that the company should obtain outside advice. FXNZ obtained accounting advice from Accounting Firm 1-2 in October 2009, and a separate opinion from Accounting Firm 2-2 in November. Both opinions were in agreement that the treatment for this type of lease as a capital lease was reasonable. However, both opinions were based only on standard MSA contract templates submitted to the accounting firms for the purposes of obtaining the advice. The opinions noted that any contracts that included additions or changes to the standard contract would need to be assessed individually (it should be noted the audit in July 2015 discussed below found the opinions had been based on DSG contracts that used different assumptions from actual contracts, and that the opinions themselves thus could not be used to justify revenue recognition from MSA contracts).

After reviewing the above-noted opinions, Mr. s, head of APO's Internal Audit Department, determined that the opinions were based on standard contract templates that were not actually used in practice, and that the review did not cover existing FXNZ DSG contracts, which meant that the opinions did not address the issue identified by the internal audit concerning existing DSGs not meeting the conditions for capital lease accounting treatment. Mr. s strongly

recommended to APO's Finance Department that the accounting treatment for the existing DSGs be amended (For FY2008, the total revenue of outstanding DSGs was NZ\$24.9 million, and the revenue as at August 2009 was NZ\$8.9 million).

This matter was discussed between Mr. s and the APO Finance Department (Senior General Manager Mr. v and Mr. K), which was responsible for determining accounting policy for APO and all affiliated operating companies under APO. Mr. v's decision was to allow revenue recognition of MSAs going forward on the condition that all future contracts strictly adhere to the standard MSA template, with individual approval by FXNZ's senior management required for any contract that deviated from the standard MSA template. Mr. v also decided that no accounting revisions would be made for existing DSGs already in place, even though he was aware that the two accounting for the existing DSG contracts. In our interviews with persons that interacted with the audit department at the time, Mr. s admitted that he was struggling with knowing how far he should assert his position to Mr. v, Senior General Manager of the APO Finance Department and a Japanese member of senior management.

Notwithstanding the above, APO's Finance Department, which was responsible for determining accounting policy for APO and all affiliated operating companies under APO, did not put into place any specific measures to ensure compliance with the conditions it had stipulated for allowing MSAs to be immediately recognized as revenue - namely, all future contracts strictly adhere to the standard MSA template, and individual approval by FXNZ's senior management required for any contract that deviated from the standard contract. There is no written record of APO instructing FXNZ to strictly adhere to the standard contract template, nor are these conditions noted anywhere in FXNZ's internal policies & procedures documentation. The auditor conducting the statutory audit for the fiscal year ended March 2010 did not raise the issue of MSA or DSG revenue recognition. As a result, the accounting treatment for MSAs and DSGs was not questioned again until the internal audit review conducted based on the 'whistleblower' email received in July 2015. In our interview, Mr. v denied the claim that no action had been taken following the APO internal audit, saying that detailed guidelines regarding the recognition of revenue from lease contracts had been drawn up based on the findings of the internal audit. However, the new guidelines put in place do not specifically address MSAs. Further, Mr. v was unable to explain why the accounting treatment for existing DSGs was not revised even though the new guidelines made clear that DSGs could not be treated as capital leases for accounting purposes.

As noted above, Mr. s had a different perspective on the accounting treatment for DSGs compared to Mr. v's view. In the summer of 2012, on Mr. v's recommendation, Mr. s was transferred from FXAP (Singapore) to FXP (Philippines).

3. Actions between November 2009 and July 2015

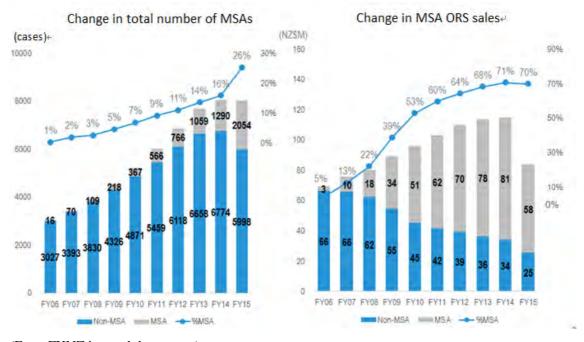
(1) FXNZ Consistently Meets Performance Targets; Commendations for Mr. A

With the prolonged earnings slump in Japan, Asia-Pacific was positioned as a growth area, and APO developed into an earnings driver for FX, posting steady earnings growth.

Starting from April 2010, FXNZ achieved its performance targets for 48 consecutive months. Mr. A, at the time a MD at FXNZ, received Managing Director of the Year awards three times, (winning outright in 2011 and 2012, runner-up in 2014).

(2) Increased use of MSAs

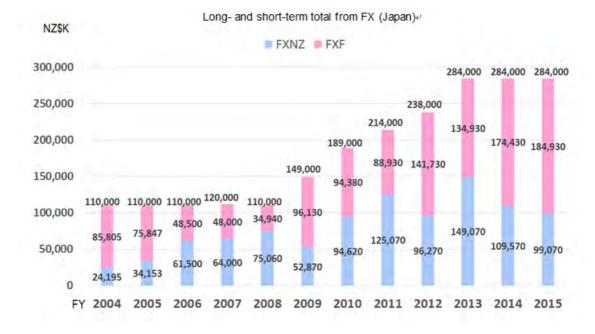
A total of 218 MSAs were concluded by FY2009 for a total revenue of NZ\$34 million. This steadily increased, reaching a peak of 1,290 such contracts worth NZ\$81 million in FY2014. (It should be noted that the use of MSAs was prohibited from September 2015.)



(From FXNZ internal documents)

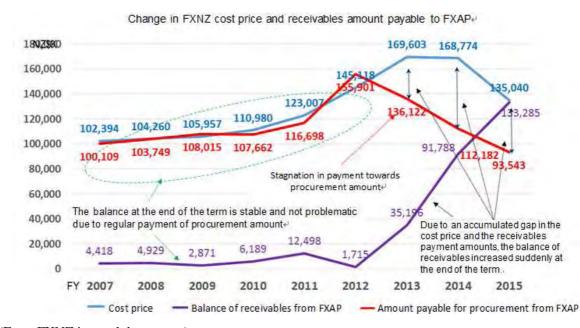
(3) Finance Loans from Parent Company, Sharp Increase in Receivables

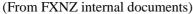
Due to cash shortages, FXNZ had been receiving loans from its parent company FX. The balance of loans of FXNZ (the total of amounts borrowed by MARCO and FINCO) from FX increased from NZ\$149 million in FY2009 to NZ\$284 million for FY2013.



(From FXNZ internal documents)

The balance of loans from FX remained unchanged at NZ\$284 million after FY2013. However, payments to FXAP for equipment purchases began to be delayed from around 2013, and the balance of receivables from FXAP increased sharply thereafter (from roughly NZ\$35 million in FY2013 to roughly NZ\$91 million in FY2014).





As described above, the balance of loans from FX and receivables from FXAP jumped

sharply from FY2009, reaching a combined total of about NZ\$375 million in FY2014. This was well above the total sales amount for FXNZ in FY2014 (roughly NZ\$320 million).

Regarding the expansion of loans from the parent company, in 2010, FX's Corporate Finance Department asked Mr. v, Senior General Manager of APO's Finance Department, for a detailed explanation for the (historical) rise in borrowing at FXNZ, and further requested an update on the current situation at FXNZ, noting that funding demand would increase if the rise in borrowing was due to rising demand for working capital because of an increase in healthy lease assets with no deterioration in turnover.

Despite FXNZ's financial situation, no real suspicions were raised at FX and APO, as the consensus view was that the financing demand was related to the increase in sales from lease agreements; FX and APO instead actually viewed FXNZ as an excellent OPCO that was consistently achieving its sales targets.

(4) The Situation at APO Internal Audit

(i) Reporting line: Intervention of Senior General Manager of APO's Finance Department

Based on its internal rules, APO's Internal Audit Department reported directly to the Executive General Manager of APO. However, following the appointment of Mr. w as the Executive General Manager of APO in April 2008, APO's Internal Audit Department was instructed by Mr. w to report to Mr. v, Senior General Manager of APO's Finance Department. According to Mr. w, this change was made because Mr. w wanted Internal Audit Department to not only identify problems, but also propose possible solutions. Another change made was requiring Mr. v's sign-off on internal audit reports before submission to the Executive General Manager of APO and the head of FX's Internal Audit and Analysis Department. (In our interview, Mr. v insisted that the Internal Audit Department was supposed to directly report to the Executive General Manager of APO, in line with the internal rules, and that his involvement was limited to giving 'suggestions' based on a request from the Executive General Manager of APO, Mr. w).

In July 2012, Mr. R took over as Executive General Manager of APO from Mr. w. Mr. R reverted the APO Internal Audit Department back to a direct reporting line to the Executive General Manager of APO, based on the request of Ms. t, who had taken over as head of the Internal Audit Department from Mr. s, and because of Mr. R's experience that information from the Internal Audit Department was beneficial from a corporate governance perspective. Because Mr. R's background was in sales, and he was aware that he lacked specialist accounting knowledge, Mr. R encouraged Ms. t to consult with Mr. v, Senior General Manger of APO's Finance Department, for issues that required specialist accounting knowledge.

(ii) February 2014 internal audit of FXNZ; "suggestions" from the Senior General Manager of APO's Finance Department

APO's Internal Audit Department carried out an audit of FXNZ in February 2014. The audit report did not identify the MSA contracts as an issue as it was not one of the core agenda items for the audit. However, the audit report did identify a number of 'Top Priority' issues, specifically regarding inadequate procedures in relation to client credit screening and credit management, and regarding accounts receivable collection management and provision recognition for delinquent accounts. Mr. v, the Senior General Manager of APO's Finance Department repeatedly requested Ms. t to make changes to the draft of the internal audit report, writing in an email that the report was very negative in tone and simply listed numerous items without giving any real message from a broad perspective. He also sent an email to Mr. A – as Managing Director of FXNX, one of the subjects of the audit in question – suggesting that Mr. A review the internal audit report prior to its submission to the Executive General Manager of APO and the FX head office ("I would like to suggest you had better review the report again with her before she submits it to Mr. R and Corporate.")

Subsequently, the revised internal audit report downgraded the 'Top Priority' issues to the 'Need to Improve' category. In an email, Mr. v reported to Mr. R that the downgrade in category was not due to Mr. v's instruction, but because they had received additional explanations regarding the issues in question from FXNZ. In our interview, Mr. v denied that his back-and-forth with Ms. t and Mr. A was aimed at applying 'pressure' to the internal audit result, saying that involvement with Ms. t and Mr. A was aimed at giving advice or suggestions to improve the quality of the internal audit. When asked if he thought an independent third-party observer could possibly view his interaction as pressuring the internal audit process, his response was that he could not agree with such a viewpoint.

The final report for the February 2014 FXNZ internal audit was submitted on May 16, 2014. Approximately two months later, Ms. t resigned from the APO Internal Audit Department on July 8, 2014.

(iii) APO Internal Audit staffing

APO Internal Audit (consisting one manager and one full-time regular staff) saw high employee turnover between April 2009 and March 2015. The manager, Mr. s, was transferred to FXP (Philippines) in August 2012. His successor, Ms. t, resigned in July 2014. (It is noted that Ms. t's successor, Ms. x, resigned in November 2016, approximately two years after joining the firm). The full-time regular staff that joined the company in September 2012 left the company in February 2013. The next full-time employee joined in October 2013 and left the company in

January 2014, and another full-time employee joined in February 2014 and left in June 2014.

In our interviews with people that had worked in the APO Internal Audit Department, numerous people questioned the independence of the Department and also noted that the team lacked sufficient budget and human resources given the number of OPCOs which the Department covered and the amount of tasks required.

4. Response to Whistleblower Email ("Tony Night" email) of July 2015

(1) Receipt of Whistleblower Email and Request for Response from XC

On July 8, 2015 (July 7 in the US), a whistleblower email from "Tony Night" was sent to FX Deputy President Mr. y and XC management. The email pointed out cases of inappropriate accounting at FXNZ involving the use of inflated Target Volumes for MSAs, resulting in over-stated revenue. XC forwarded the letter to FX Executive Vice President Mr. w and Mr. z, General Manager of FX's Legal Department and requested a response from FX.

The issue was discussed among the senior management members in the FX Chairman's office. It was subsequently decided that, since FX Deputy President Mr. y was responsible for dealing with issues related to FX shareholders (i.e., FH, holding 75% stake, and XC, holding 25% stake), Mr. y would carry out an investigation of FXNZ in order to prepare the response to XC. Note that FX Deputy President Mr. y had actually been at FX eight years longer than FX President Mr. AA, who had taken over as President and CEO in June 2015. Mr. y had been a representative director of FX since 2007 (and was appointed Deputy President in July 2010).

Mr. w was effectively in charge of FX's overseas operations, and he was thus instructed by Mr. y to look into the situation related to the whistleblower email. A meeting was held at Mr. w's office on July 10, 2015 to address the situation (attendees: Mr. w, FX Executive Vice President, Mr. R, Executive General Manager of APO, Mr. BB, General Manager of FX Corporate Finance Department, Mr. z, General Manager of FX Legal, Mr. CC, Senior General Manager of APO Finance Department). At the meeting, Mr. w's instructions were that the response to XC would be sent out by Mr. z, General Manager of FX Legal, that the response would first be drafted in Japanese, and that Mr. T, Financial Controller (FC) from APO's Finance Department and Ms. x, APO Internal Audit, were to be sent to FXNZ to carry out the investigation.

(2) Audit of FXNZ: "everything the letter say is real"

Mr. T, APO FC and Ms. x, APO Internal Audit traveled to FXNZ on July 24, 2015 and performed an audit on FXNZ. The audit revealed that revenue had been over-stated due to the use of MSAs with inflated Target Volumes, as had been pointed out in the whistleblower email. The audit also uncovered the fact that during the audit of FXNZ's financial statements for the

fiscal year ended March 2015, the audit firm was insisting that FXNZ book NZ\$7.5 million in bad debt reserves for Counterparty 1, a major client of FXNZ (under New Zealand laws, companies are required to submit audited financial statements by the end of August).

Mr. T, APO FC sent the preliminary findings from the audit to Mr. R, Executive General Manager of APO, and Mr. CC, Senior General Manager of APO Finance Department in an email as per below:

Managed Service Contract

After checking all contracts concluded last year, we see evidence that strongly suggests that Target Volumes were inflated in order to maximize ORS revenue recognition. A subsequent sample check uncovered some contracts where to ensure the client would sign the contract with inflated Target Volumes, the terms of the contract were very favorable for the client. We also uncovered some contracts that did not meet the requirements for capital lease accounting treatment.

We will consider how to make an official report for this later.

Ms. x, APO Internal Audit, sent the following chat message to a colleague in Singapore via an internal messaging system:

everything the letter say is real lo.

As the conversation continued, the two discussed FX's cover-up and how Japanese staff did not understand the role of internal audit. Towards the end of the conversation, the colleague in Singapore sent the following message:

one day their company will all be like Toshiba nia all resign lol

(3) Report of Findings from internal audit of FXNZ to APO and FX

(i) Report from Ms. x, APO Internal Audit

On July 27, 2015, Ms. x, APO Internal Audit, sent a report detailing the findings of the internal audit to Mr. T, APO FC, via email. The report noted that MSAs should not be recognized as sales and the email also included an Excel file detailing the results of an analysis of 10 randomly selected MSAs.

Ms. x's internal audit report pointed out that, regarding the MSAs, recognizing revenue based on the Target Volume and the cost per click was inaccurate, recognizing revenue when renewing a lease prior to the end of initial lease term was an overstatement of revenue, and that the cancellation clauses, rightsizing clauses and Sole Supplier clauses were insufficient to ensure payment based on the contracts' Target Volumes. The report further noted that the accounting opinions received in 2009 were provided based only on a review of the standard contract templates rather than the actual operation by FXNZ, did not cover the recognition of revenue when renewing a lease, and had assumed that the client was required to pay an amount based on the Target Volume as noted in the contract even though the actual contracts included no such payment obligation for the client, and that as a result the accounting opinions from 2009 could not be relied upon.

In addition, the Excel file showed the results of an analysis, noting that one of the 10 had an invalidated Minimum Payment clause, four of the 10 had invalidated rightsizing clauses, and actual volume shortfalls versus Target Volumes for seven of the 10.

Mr. T, APO FC, did not share the report from Ms. x with Mr. R, Executive General Manager of APO, or Mr. CC, Senior General Manager of APO's Finance Department. According to Mr. T, APO FC, he did not share the Ms. x's report because (i) the audit of FXNZ had been conducted so that they could respond to XC to say that there was no problem, so returning such a report that said the opposite was not an actual option, (ii) based on his many years of experience, even if such a report was delivered to FX management, they would still make a judgment that there was no problem since everything had been approved in previous years by the auditors, and (iii) they had received the accounting opinions in 2009 and no issues had been identified by the auditors since then, and therefore the realistic risk of issues being subsequently identified was low without a change of auditors.

(ii) Report from Mr. T, APO FC, regarding FXNZ audit

On July 28, 2015, Mr. T, APO FC, reported the findings of the FXNZ audit to Mr. R, Executive General Manager of APO, and Mr. CC, Senior General Manager of APO Finance Department. As part of the report, Mr. T noted that actual volumes were short of Target Volume in 70% of MSAs, that revenues were being artificially inflated due to overestimated Target Volumes as indicated in the whistleblower email, that contracts based on the standard MSA template did not present a problem but that the MSAs actually being put in place that did not include Minimum Payment obligations for clients meant that the accounting treatment was potentially problematic and may fall within a gray area, and that the audit firm were refusing to sign off on the financial statements unless FXNZ recognized NZ\$7.5 million in bad debt reserves for Counterparty 1. Mr. R, Executive General Manager of APO, instructed Mr. T to prepare materials by which Mr. T would make a report to Mr. y, FX Deputy President, and Mr. w, FX Executive Vice President, on the occasion of the GCO China Growth Strategy Review in Shanghai on August 10, 2015.

Mr. R, Executive General Manager of APO, subsequently told Mr. CC, Senior General Manager of APO's Finance Department, that he had informed Mr. y, FX Deputy President, of

the matter and received his understanding, and that Mr. y's instructions were that the response to XC should be along the lines of saying 'no problems regarding the issues noted in the Whistleblower E-mail, but....' and to prepare a draft of the response to XC. As per Mr. y's instructions above, Mr. CC, Senior General Manager of APO's Finance Department, instructed Mr. T, APO FC, to prepared the materials to be used on the occasion of the said Shanghai Meeting dated August 10, 2015.

(4) Shanghai Meeting: "For now respond that there is no problem"

On August 10, 2015, FX management participated in an event (GCO China Growth Strategy Review) held at FX China's office in Shanghai (Hong Kong New World Tower). That afternoon, Mr. y, FX Deputy President, Mr. w, FX Executive Vice President, Mr. R, APO Executive General Manager, Mr. CC, Senior General Manager of APO Corporate Finance Department, and Mr. t, APO FC, convened in a meeting room on the 51st floor of the Hong Kong New World Tower from approximately 12:25 p.m. to 1:25 p.m. to discuss the FXNZ audit report and the response to XC.

Mr. T, APO FC, stated that in some MSAs, Target Volumes had been inflated, as had been pointed out in the whistleblower email, and he further noted the results of the analysis of the random sample of 10 MSAs; namely, that one of the 10 did not meet the conditions for capital lease accounting due to the lack of a minimum lease payment obligation, four of the 10 did not include a rightsizing clause, and that seven of the 10 were short of Target Volumes, and that actual volumes were below Target Volumes in over 70% of the 529 MSAs concluded between 4Q 2013 and through 2014.

Results from MSC audit

> Audit process

- A random sample of 10 MSCs was selected from the 529 MSCs (including Renewals) executed from 4Q 2013 and 2014. The 10 MSCs were reviewed to confirm the lease agreement, revenue recognition method, terms and conditions of the agreement, and the gap between actual vs target volume.
 - One of the 10 contracts had the following Additional Agreed Details item: "There will be no costs for any target volume that has not been achieved over the fixed term of the agreement"
 - Since this contract has no guaranteed minimum payment, the contract does not meet the conditions for capital lease accounting treatment
 - Four of the 10 contracts had the following Additional Agreed Details item: Click charge rates are fixed for the duration of the term"
 - This renders the Rightsizing clause invalid. As of June 2015, actual volume was below the Target Volume for two of the four contracts
 - For seven of the 10 contracts, actual volume was below the Target Volume
 - For contracts where actual volume is below Target Volume, the normal practice is to enact a Contract Extension
 rather than invoking the Rightsizing clause. This delays one-time ORS revenue recovery which impacts financing.
 - We then looked at actual volumes for the 529 MSCs (including Renewals) executed in 4Q 2013 and 2014, and found that over 70% of the contracts had actual volumes that were significantly below Target Volume. Seasonal factors may need to be taken into account, but looking purely at the data, it is estimated that the result is a revenue recovery delay of NZ\$0.5 million each month (cash basis).
 - Audit Firm has never identified our revenue recognition process for MSCs as an issue

(FXNZ business trip report (internal audit report) dated August 10, 2015)

In response to this, Mr. w, Executive Vice President, commented that any findings "should not 'selectively cherry pick' unfavorable items" and further commented that the MSAs in question "were approved (in the audit), weren't they?" Mr. y, Deputy President also confirmed that the MSAs had not been raised as an issue by the audit firm and instructed "first, respond that there are no problems" but "the second chapter for New Zealand will be to respond properly". And he gave instructions that the response to XC would be no problem ("the first chapter") but subsequently the situation would be handled properly ("the second chapter").

Deputy President Mr. y's instructions were made with the clear understanding that the situation was as pointed out in the whistleblower email, that revenues were being overstated due to the use of inflated MSA Target Volumes, and that a random check of 10 MSAs had uncovered five contracts out of 10 that deviated from the standard MSA template and thus were clearly at risk of not meeting the requirements for capital lease accounting treatment. The instructions thus are an attempt to conceal the accounting irregularities.

Mr. y, Deputy President, said in our interview that "I believe the decisions were made without completely understanding of the MSAs or the content of the internal audit report. Even if that is the case, the responsibility for having made decisions based on incomplete understanding is grave, and that responsibility lies with me. However, I had absolutely no intention of concealing the problems. I would like to stress that." Other attendees of the Shanghai Meeting including Mr. w, Executive Vice President, admitted that they had been aware that the situation had been as indicated in the whistleblower email.

(5) Report to the President

Based on the instructions from Mr. y, Deputy President, at the Shanghai Meeting, Mr. T, APO FC, revised the final internal audit report and prepared an English draft of response to XC. Based on the Shanghai Meeting, Mr. T, APO FC, sent the following email on August 10, 2015 with the English draft of the response attached to Mr. DD of FX Corporate Finance Department:

"As I mentioned a bit on the phone the other day, the Deputy President's comments instructed to state the background for this situation to have occurred at the beginning (in the response), for communications intended for outside the company, not to go into details as long as there are no problems with the big picture, but, in communications intended for internal use, to address the revealed problems and make improvements."

The revised internal audit report was in line with the instructions from Mr. y, Deputy President, with the opening paragraph stating that based on "a review of the revenue recognition practice for MSC (note: refers to MSA), no accounting irregularities or cases of overstated revenue such as had been indicated in the whistleblower email were uncovered".

FXNZ inspection (summary)

- ✓ APO Finance and IA visited FXNZ on July 24 to conduct an inspection focusing on a review of the entire accounting process and a specific focus on Managed Service Contracts (MSCs)
- Results summary:
- Review of accounting process
 - Our review of the revenue recognition process focused primarily on MSCs. We did not identify any cases of improper accounting or oversated revenue such as was claimed in the anonymous email. However, a check of a random sample of MSCs did uncover one contract that may not meet the conditions for capital lease accounting treatment.
 - Accounting Firm has never identified our revenue recognition process for MSCs as an issue
- Based on a careful analysis of accounts receivables, we identified accounts worth NZ\$14 million as being over 180 days in arrears, of which NZ\$10 million was for Counterparty 1, a Premier Partners client. In an interview with the CFO we learned that Accounting Firm is insisting that FXNZ book additional bad debt provisions against the Counterparty 1 account.
- Review of Managed Service Contract (MSCs) review
- Accounting Firm 1-2 and Accounting Firm 2-2 both reviewed the MSC contracts in 2009 and were in agreement that the agreements could be treated as capital leases for accounting purposes (assuming a standard contract)
- We checked a random sample of 10 MSCs from the 529 MCS executed between January 2014 and March 2015.
- One of the 10 contracts had an Additional Agreed Details item that means it is highly likely that the contract does not meet the conditions for capital lease accounting treatment.
- The Auditor for FY14 has not raised MSC handling or accounting treatment as an issue

(FXNZ business trip report (internal audit report), page 1, dated August 19, 2015)

The report further provided that a random check of 10 MSAs had only turned up a potential problem with one contract out of 10 contracts, and statements indicating that problems were found in four out of 10 or that the Target Volume was not reached in 70% of MSAs out of 529 were deleted.

Results from MSC audit

- A random sample of 10 MSCs was selected from the 529 MSCs (including Renewals) executed from 4Q 2013 and 2014. The 10 MSCs were reviewed to confirm the lease agreement, revenue recognition method, and terms and conditions of the agreement.
 - One of the 10 contracts had the following Additional Agreed Details item: "There will be no costs for any target volume that has not been achieved over the fixed term of the agreement"
 - Since this contract has no guaranteed minimum payment, the contract does not meet the conditions for capital lease accounting treatment
 - For contracts where actual volume is below Target Volume, the normal practice is to enact a Contract Extension rather than invoking the Rightsizing clause. This delays one-time ORS revenue recovery which impacts financing.
 - Accounting Firm, never identified our revenue recognition process for MSCs as an issue

(FXNZ business trip report (internal audit report), page 4, dated August 19, 2015)

On August 19, 2015, the revised internal audit report and draft of response to XC, both prepared in accordance with the instructions provided at the Shanghai Meeting, were explained to Mr. w, Executive Vice President, and Mr. y, Deputy President. The following day (August 20, 2015), a report to Mr. AA, FX President, was made based on the final internal audit report and draft of response to XC, which said that 'no accounting irregularities or cases of overstated revenue such as has been pointed out in the whistleblower email were found', but that "based on a sample check, one lease contract potentially did not meet the conditions for capital lease accounting treatment".

Mr. w, Executive Vice President, instructed in the morning of the day of the report to the President to delete "Counterparty 1" and replace it with "a GA company" in the internal audit

report. Through interviews, it was found that Counterparty 1 was well-known internally as a company that Mr. w, Executive Vice President, when he was Executive General Manager of APO and in charge of sales (according to Executive Vice President Mr. w), had sold the state-of-the-art product (Shikishima), the most expensive product FX at the time.

5. MSA prohibited and measures to address decline in FY2015 revenue

(1) Notification of Decision to Prohibit MSAs

Based on the instructions from Mr. y, Deputy President, at the August 10, 2015 meeting in Shanghai to ensure "the matter will be subsequently dealt with properly", Mr. R, APO Executive General Manager, Mr. CC, Senior General Manager of APO's Finance Department and Mr. T, APO FC sent around a notification on September 3, 2015 that revenue could not be recognized for MSAs unless there was a provision that a pre-established fixed fee would be paid if the monthly usage fell short of the Target Volume and for contracts renewed before expiration. The notice, which essentially prohibited MSAs, took effect immediately.

The notification prohibiting the use of MSAs was sent to both FXNZ and FXA, where Mr. A had been working as its MD since April 2015.

(2) CFO of FXNZ dismissed

Mr. R, APO Executive General Manager, Mr. CC, Senior General Manager of APO's Finance Department and Mr. T, APO FC, traveled to New Zealand on September 22 and 23, 2015 along with Mr. EE of APO Marketing in order to discuss the MSA prohibition with FXNZ and its handlings. Mr. R, Executive General Manager, decided to dismiss Mr. B, FXNZ CFO, due to his incoherent answers in the meeting and upon learning that, as a debt recovery option, he had proposed acquiring Counterparty 1 against which he decided to set aside significant account provisions, and learning that Mr. B had been appointed as director of Counterparty 1. It was subsequently decided that Mr. K (head of APO Compliance & Control) would be dispatched as FXNZ CFO in January 2016.

Mr. F, FXNZ COO, studied scenarios for having Mr. B, FXNZ CFO, leave his position and requested Accounting Firm 4 to prepare a report on the accounting function to provide for an argument to support the reason for his departure. A scenario to discharge him was also considered, but because at the time FXNZ had a pending trial with an employee who had been discharged and it had already been decided that Mr. K would take the position in January 2016, an agreement with Mr. B for him to leave the company (as of January 29, 2016) was reached on December 18, 2015 after presenting a condition to give a total of NZ\$135,000 in redundancy compensation.

The report by Accounting Firm 4 contained numerous findings critical of FXNZ's

accounting functions, such as the following: "collection of accounting evidence is inadequate to present risk issues to APO, the accounting function is not properly working as a check against the aggressive sales-centric mindset", "There is a focus on term-end compliance audit and insufficient monitoring of compliance issues regarding accounting treatment during the term", "Incorrect application of accounting standards for inventory and revenue recognition, etc. is causing errors in the financial statements." However, since the report was prepared with the purpose of giving FXNZ a reason to dismiss CFO Mr. B, the report was never presented to APO. Findings in Accounting Firm 4's report were referred to in the auditor's March 2017 Fraud Letter.

(3) October 28, 2015 - Report to Mr. w, Executive Vice President of FX

After the trip to FXNZ in late September 2015, Mr. R, Executive General Manager, Mr. CC, Senior General Manager of APO's Finance Department and Mr. T, APO FC, concluded that based on the decision to prohibit MSAs, 2H FY2015 revenue at FXNZ would likely decline by NZ\$27 million (¥2.4 billion) and FXA revenue would decline by AU\$27 million (¥2.6 billion). The decline in revenue at FXA was due mainly to XOS contracts (i.e., a type of GS agreement where output-related services, etc. was outsourced comprehensively bundled along with machine installation; at FXA, only revenue from the machines was recognized at delivery) without any minimum payment established.

Although it was conveyed from Mr. CC, Senior General Manager of APO's Finance Department to Mr. BB, General Manager of FX Corporate Finance Department that there could be up to a ¥5 billion decrease in revenue as a result of the MSA prohibition, it was decided that the matter would be reported to Mr. w, Executive Vice President, as the prohibition would cause a considerable shortfall from the financial targets for 2H FY2015, which had already been determined. In interviews, more than one person said that Mr. w, Executive Vice President, was extremely strict about achieving financial performance and gave statements that "When I reported a shortfall, he banged on the desk, saying "How do you expect me to report this to the higher ups?"" and "I got yelled at many times", and "He gets upset often." Mr. w himself and Mr. v, however, denied in interviews that Mr. w ever acted in such a manner such as banging on the desk, yelling, etc.

On October 22, 2015, Mr, BB, General Manager of Corporate Finance Department of FX, Mr. CC, Senior General Manager of APO's Finance Department and Mr. T, APO FC, held a meeting to prepare for an explanation to Mr. w, Executive Vice President. At this meeting, it was decided that, given that, among other things, it was unlikely for Mr. w, Executive Vice President, who was adamant about achieving performance targets, would approve of the decrease in revenue at FXA as a result of the prohibition of XOS deals, as this would be a huge revenue

decline in addition to the FXNZ revenue decline, and that XOS deals unlike MSAs enjoyed high customer loyalty and held promise as a business, it was decided to proposed to Mr. w, Executive Vice President that revenue would be recognized for 2H FY2015, but a performance target incorporating the impact from changes in accounting practices for XOS deals would be established when planning budgets for FY2016, and the accounting practices would be changed starting in 1H FY2016.

On October 28, 2015, Mr. R, APO Executive General Manager, informed Mr. w, Executive Vice President that, due to the prohibition of MSAs, there would be a revenue decline of NZ\$27 million (¥2.4 billion) at FXNZ and AU\$27 million (¥2.6 billion) at FXA in 2H FY2015, then explained that the accounting treatment for XOS deals at FXA would be changed from 1H FY2016. Mr. w, Executive Vice President approved of this change in accounting treatment for XOS deals at FXA. However, he insisted that the ways to address the expected decline in revenue at FXNZ resulting from the MSA prohibition were not sufficient and instructed them to further explore ways to address such decline.

It is noted that the documents that were used in this presentation to Mr. w, Executive Vice President included the same slides as those indicating the result of MSA audits in the documents used at the August 10, 2015 Shanghai Meeting (see paragraph 4(4)) and further contained an express statement that "Accounting risk of Managed Service Agreement: As Contract Minimum Payments are not clear, lease accounting may not be applicable." Moreover, the document was sent from Mr. T, APO FC, to Mr. BB, General Manager of Corporate Finance Department of FX, then forwarded to Mr. DD of FX Corporate Finance Department in advance, it is supposed that at least by this time the FX Corporate Finance Department was aware of the actual situation of MSAs at FXNZ and the possibility that the upfront revenue recognition requirements would not be met conditions under the applicable lease accounting standards.

(4) November 16, 2015 - Report to Mr. w, Executive Vice President of FX

In accordance with the instruction of Mr. w, Executive Vice President, APO were forced to explore ways to address the expected decline in revenue at FXNZ resulting from the MSA prohibition. Accordingly, a material was prepared that included performance assurance measures such as (i) allowing contracts without any minimum payment established with customers in good standing upon review in view of Mr. w, Executive Vice President, who opposed a full prohibition of MSAs and (ii) ideas such as utilizing refurbished (used) machines that Mr. w, Executive Vice President, mentioned. On November 16, 2015, Mr. R, APO Executive General Manager, gave an explanation based on the material to Mr. w, Executive Vice President, and obtained his approval.

6. Response to "Audit Risk" for Fiscal Year Ended March 2016

(1) Mr. K's Report

In January 2016, Mr. K took over as FXNZ CFO. On January 26, 2016, Mr. K reported to Mr. T, APO FC, and Mr. R, APO Executive General Manager, stating that he found a letter from Accounting Firm 1-2 (dated September 3, 2015) that had not been reported by Mr. B, the previous CFO. The letter pointed out inadequate of bad debt reserves overstatement of supplies expense deposited by the customer site, recognition of sponsorship costs as revenue, etc. Upon hearing this, it was decided that Mr. T, APO FC, made a business trip to New Zealand for fact finding and, in the meantime, Mr. K, FXNZ CFO, was instructed to verify the situation.

While in New Zealand, Mr. K, FXNZ CFO, showed Mr. T, APO FC, a report called "FXNZ Accounting Review" (the Mr. K's Report). From the Mr. K's Report, Mr. T, APO FC, learned that there was a series of accounting issues totaling around NZ\$90 million, including Macro Adjustments (NZ\$22.6 million), Counterparty 1 additional reserves (NZ\$13.3 million), ORS backdated posting (NZ\$9 million), and DSG adjustments (NZ\$23.9 million), that would need to be recognized as losses. As the table below shows, the impact on the P/L from the total amount of items listed on pages 9 and 10 of the Mr. K's Report amounts to approximately NZ\$90 million. Further, the Mr. K's Report notes that a total of NZ\$10.6 million were subject to accounting adjustment through "exceptional" transactions. In total, the Mr. K's Report noted approximately NZ\$100 million that needed to be recognized as losses. However, it was ultimately determined that of the NZ\$10.6 million "exceptional" transaction for the fiscal year ended March 2015, approximately NZ\$2 million did not involve any accounting issues.

ŧ	issue	e Description	E		P&L		BS		
			FY15 Urgent Urgent	FY14 EY EY Letter Letter	DR R	CR R	DR R	CR R	(Gash
1	-	Situation deteoriated from LY - will not be satisfied with LY	Yes	Yes	13.3			13.3	
1		satistied with LY provision rationale: \$13.3m = 50% = 50%			3			3	
2	"Macro"	Variety of accounting adjustments made in FY15 to show	Yes	No	22.6			22.6	
	adjustments s	FY15 to show "enhanced" FXNZ performance • Cumulative balances sitting in various BS accounts accounts			6			6	
3	ORS revenue revenue /cost	 ORS revenue/cost accruals have increased significantly in significantly in EY15. 	No	No	9.0			9.0	
	/cost accruals accruals					_		_	
4	DSG revenue	MSA adjustment made to make service revenue "whole" for	No	No	23.9			23.9	
	revenue adjustments s	revenue "whole" for contracts with lower than target volume target volume			9			9	
5	Unaccrued	 Known business costs not accrued at end Jan-16 	Yes	Yes	1.0			1.0	
	costs	16							1
6	 Inventory 	Consumables at customer sites	Yes	Yes	3.1			3.1	
	valuation	Inventory revaluation Inventory reporting and SCV valuation	No No	Yes No			23.8	23.8 8	
7	 Inventory provisions 	D1/D2 provision requirements not being followed, with no good followed, with no good business rationale	Yes	Yes	6.3			5.4	
8	Debtor provisions	debtor provisions	Yes	Yes	6.7			6.7	

(FXNZ Accounting Review 12th February 2016, page 9. Positions of red frames as in the original document)

#	Issue	Description		P&L		BS DR CR		
			FY15 Urgent	EY Letter	DR R	CR R	DR R	CR R
9	 High level of unsecured unsecured lease assets assets 	Level of unsecured debt on balance sheet is sheet is high and been increasing	No	No	1	Vot est	imated	
10	 Sponsorship accrual accrual 	New deals have sponsorship accrued, but we accrued, but we need to catch-up pre FY15 pre FY15 deals	Yes	Yes	2.3			2.3
11	 Revenue recognition on recognition on 3rd party party settlement and and buyback machines machines 	Recognising revenue and cost on 3rd party settements Buyback machines (not estimated) estimated)	No	No	(5.3)	5.3		
12	 Finco loss of income income journal 	Marco.compensating <u>Finco</u> for low interest rate interest rate deals Net nil P&L impact but lower <u>Finco</u> rev rev	Yes	No	(2.3)	2.3		
13	Showroom machines machines	 Showroom machines should be capitalized capitalized They are in inventory 	No	No			0.3	(0.3))
14	 Revenue Recognition Recognition with high high RVs 	 ORS revenue should not be recognized on recognized on deals with high RVs>10% RVs>10% 	No	No	16.6 6	14.0 0		2.6
15	•	Receive payment in virtual currency Conversion rate to cash is c 60%	No	No	0.3			0.3

(FXNZ Accounting Review 12th February 2016, page 10.)

Mr. T, APO FC, and Mr. K, FXNZ CFO, picked up audit risk items that would likely be pointed out by the audit firm during the audit if they were not disposed of at the fiscal year ended March 2016 (items in red frame in the tables above). On February 15, 2016 upon his return to Singapore, Mr. T, APO FC, reported to Mr. R, APO Executive General Manager, and Mr. CC, Senior General Manager of APO Finance Department that as countermeasures to the audit, there needed to be NZ\$7.5 million in additional reserves for Counterparty 1, plus the recognition of a total of NZ\$35.7 million in losses, including NZ\$22.6 million in Macro Adjustments (FXNZ was making unwarranted journal adjustments such as deferring costs and recognizing revenue early in order to meet monthly financial performance targets). Although Mr. R, APO Executive General Manager, and Mr. CC, Senior General Manager of APO Finance Department realized that there was a business risk associated with MSAs that could potentially result in losses of NZ\$50-70 million in the future, the K's Report was not shared with them and there is insufficient evidence to show that they were aware that there was approximately NZ\$100 million in losses that should have been recognized.)

As the loss of NZ\$22.6 million incurred through Macro Adjustments was a complete surprise, it was decided that this should be reported immediately to Mr. w, Executive Vice President on February 18, 2016. It was also decided that the losses at FXA that needed to be recognized properly in the fiscal year ended March 2016 would be reported to him.

(2) February 18, 2016 - Report to Mr. w, Executive Vice President of FX – "why are you being so conservative"

On February 18, 2016, Mr. R, APO Executive General Manager and Mr. CC, Senior General Manager of APO Finance Department, presented a material titled "FXA/FXNZ Audit Risks and Countermeasures" to Mr. w, Executive Vice President and explained the losses that FXNZ and FXA would need to recognize for the fiscal year ended March 2016.

The material indicated the following matters: (i) FXA should take charges of AU\$32.6 million by the end of the fiscal year, of which AU\$19.3 million definitely needed to be recognized; (ii) FXNZ needed to recognize charges worth NZ\$35.7 million by the end of the fiscal year,; and (iii) at least NZ\$7.5 million was needed for additional reserves for Counterparty 1. As countermeasures, the material suggested offsetting the charges with gains of AU\$21.7 million from the sale of an FXA-owned warehouse (but with a one year leaseback) and gains of ¥900 million on the sale of an FX-owned plant in Korea.

Upon seeing the document, Mr. w, Executive Vice President was clearly not pleased, making such comments as "Are these the risk after you've done everything you can?", "Aren't these solely based on what Mr. T reviewed? How come so conservative was the review?", "We've always made it through the audits, so why are there so many issues this time?", "Aren't there any measures that would cut legitimate expenses?", "Aren't there anything else that could generate profits?" After making these comments, Mr. w, Executive Vice President instructed them to rank

the amounts to be recognized as losses based on expected audit risk, while also explore further countermeasures other than selling assets.

List of amounts requiring recognition at FXA (from the presentation given to Mr. w, Executive Vice President on February 18, 2016)

1-3. March 2016 Audit Risks

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 $\hfill\square$ Following are matters thought to require handling before March 2016

Item	Details	Amount (AS M)	
Cost recording	PRIDR YEAR melates to profit in provem entactivity agreed in Septem ber 2014 .Profit over balance of period not sufficient to support accurals to support the nature of the dealbeing altered by	(63)	
Cost recording	PRIDR YEAR melates to profit in provem ent activity agreed in M arch 2015.Dealoriginally approved by commercialwas for contract extension with no unitm ovem ent.Finalagreed position by altered to being new unit deal.	(I.A.)	
-	PRIDR YEAR -In FY14 entered in to a contractwill based on an up front boss of the Im pika and Rishiri units. The up front boss has been progressively brough down at \$100 kperm onth Note this am ount also includes the expected in pairm ent of Im pika inventory.	units.The up front bas has been onth Note this am ount a loo	19.3M
Excess recording or constructions in progress	PRIDR YEAR -Final1H FY15 neview of costs identified certain costs that should not have been able to be capitalised, eg training. The neview has confirm ed the costs to be adjusted need to be written back to the P&L.	(4.2)	during this period.
software repeal	PRIDR YEAR -Dates back to FY12 and has not been in paired overmultiple years.Software acquired by FXGS for a specific custom er, the how everwhen altered scope FXGS did not have the approvpriate contractual terms to bind the mesoupe costs.	(1.4)	
FY 14 performance	Temporarily recorded on BS and P&L reflection avoided for expenses and costs	(4 D)	
FY 15 performance adjustment	Temporarily recorded on BS and P&L reflection avoided for expenses and costs	(133)	Treatment required, but can be deferred using quotation
	Total audit risk	(32.6) FUJI	reversal (rolling) process. Impact from FY 16 onwards

("FXA/FXNZ Audit Risks and Countermeasures" dated February 18, 2016, page 4)

List of amounts requiring recognition at FXNZ (from the presentation given to Mr. w, Executive Vice President on February 18, 2016)

• If FXNZ was included in the scope, there is a need to clear all audit risks, but if excluded from the scope, revisions to sections that cannot (will not) be handled are inevitable in the statutory report (around August), and as a result, will be reflected in FY 16 performance. (FXNZ is usually excluded from the scope from the point of view of scale and importance.).

• 4Q TR rate 82.85 / direct sport rate 74.7.

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("FXA/FXNZ Audit Risks and Countermeasures" dated February 18, 2016, page 10)

(3) February 25, 2016 - Report to Mr. w, Executive Vice President, and Mr. y, Deputy President of FX and Order to Reduce Amount of Loss Disposal

Based on the instructions given when the report was made to Mr. w, Executive Vice President, on February 18, 2016, Mr. BB, General Manager of Corporate Finance Department of FX, Mr. CC, Senior General Manager of APO's Finance Department and Mr. T, APO FC, held a meeting and it was decided that Mr. T, APO FC, and Mr. GG of FX Corporate Finance Department would review risks as well as study opportunities for gains that would make up for the losses to be recognized (communications between Mr. T, APC FC and Mr. GG of FX Corporate Finance Department Finance Department were reported to Mr. DD of FX Corporate Finance Department from Mr. GG).

After such reviews, "FXA/FXNZ Audit Risks and Countermeasures" (dated February 25, 2016) was prepared. On February 25, 2016, a second report to Mr. w, Executive Vice President, was made, followed by a report to Mr. y, Deputy President. In the February 25, 2016 document, as per instructions by Mr. w, Executive Vice President given at the first report, amounts that need to be recognized in each category were ranked in order of importance in relation to audit risk into red ('most important') and yellow ('important').

Mr. w, Executive Vice President, and Mr. y, Deputy President decided that only the items in red ('most important') for FXA and FXNZ be recognized in fiscal year ended March 2016 (FXA AU\$17.9 million, FXNZ NZ\$25 million (excludes the additional NZ\$7.5 million in provisions for Counterparty 1); based on further instructions at the report meeting, the amount classified as red ('most important') for FXNZ was further cut by an additional NZ\$2.4 million, from NZ\$27.3 million of the loss charge amount to NZ\$25 million). It was further agreed to use various gains (sale of the FXA warehouse (¥1.9 billion), sale of the FX-owned plant in Korea (¥900 million), change in consumables inventory valuation method at APO (¥800 million)) to offset the losses of ¥3.6 billion, which excludes additional reserves for Counterparty 1 (¥620 million). In the process of reaching decisions with regard to the sale of real estate to generate gains in order to offset these losses, it was confirmed numerous times that the book value of the properties to be sold were below ¥2 billion. The reason for this is that sale and purchase of real estate of ¥2 billion or more per property must be submitted to the board of directors (Criteria for Submissions to the Board of Directors, Article 1), which would necessitate an explanation to directors from FH and XC, the shareholders (sale of real estates below ¥2 billion per property is subject to an approval by the FX President).

Additionally, instructions were given about the tone of the material for reporting to the Chairman and President scheduled for the following day.

List of amounts requiring recognition at FXA (from the presentation given to Executive Vice President Mr. w and Deputy President Mr. y on February 25, 2016)

1-2. March 2016 Audit Risks *

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□ Following are matters thought to require handling before March 2016

Item	Details	Amount (A\$ M)	
Cost recording	PRIDR YEAR - Profit overbalance of period not sufficient to support septem ber 2014. Profit overbalance of period not sufficient to support accurate to support the nature of the deal being a hered by	(6.3)	
Cost recording	FRIDR YFAF relates to profit in provem ent activity agreed in M arch 2015. Dealoriginally approved by commercial was for contract extension with no unitm ovem ent. Final agreed position by the relation by t	(L A)	
	PRIDR YFAR -In FY14 entered in to a contract with on a contract with on a contract with on an up front best of the Im pike and Rishiriunits. The up front best has been progressively brough down at \$100 kperm onth. Note this am ountalso includes the expected in pairm ent of Im pike inventory.	Ø.0)	- 17.9M Treatment required during
Excess recording of	PRIDR YEAR -Final1H FY15 review of costs identified certain costs that should not have been able to be capitalised, eg training. The review has confirm ed the costs to be adjusted need to be written back to the P&L.	(4.2)	this period.
FY 14 performance	Temporarily recorded on BS and P&L reflection avoided for expenses and costs	(4 D)	
oftware repeal	PRIDR YEAR -Datesback to FY12 and has not been in paied overmultiple vears.Software acquired by EXGS for a specific custom er, who how everwhen alread scope EXGS did not have the approvpriate contractual term s to bind who to recoupe costs.	(L A)	Treatment required, but can be deferred using quotation reversal (rolling)
FY 15 performance adjustment	Temporarily recorded on BS and P&L reflection avoided for expenses and costs	(L3 3)	process. Impact from
	Total audit risk	(32.6)	FY 16 onwards

("FXA/FXNZ Audit Risks and Countermeasures" dated February 25, 2016, page 3)

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List of amounts requiring recognition at FXNZ (from the presentation given to Executive Vice President Mr. w and Deputy President Mr. y on February 25, 2016)

2-2. FXNZ FY-15 Annual Audit Risk Summary

	Read as	The second s	(NZSM).	
Item#	Details ²	Most	Important	1
Macro-Adjustment- (Performance- adjustments)+ ²	 In order to show performance properly, adjustments are made through monthly settlement of accounts. Including filling in of vouchers without documentation or grounds, in addition to deferment of expenses and costs and acceleration of sales.*¹ Previously, intentionally carried out based on grounds guidance, but since left, only the practice of making adjustments has continued, and the adjustment amount is increasing while performance worsens.*¹ At one time, there was consistency due to earning one-off profit before the end of the term, but under system, that initiative was lacking and now there are no measures.*² 	important	ą	
Excessive-recording- of-deposited- consumables-(FY-14)#	 Change-in-premise-of-recording-deposited-consumables-as-capital- to-set-off-FY-14's-macro-adjustment, and earn-profit. Although-this-matter-was-not-an-audit-discrepancy-at-the-time-of- account-settlement-in-FY-14, the-auditor-showed-concern. 	ę	3.1₽	
Under-reporting-of- allowance-for- doubtful-debt+ ²	 In-order-to-maintain-performance-in-FY-15, in-addition-to-the-macro- adjustment- above, the- allowance- for- doubtful- debt- without- grounds-was-continually-reduced, and at-that-time, there-was-a- shortage-of-6.7M.*³ 	2.54	4.2*	
Recording-of- estimates-of- sponsorship-costs+	 In educational institutions and the education industry, there is often the situation of providing discounts for event support costs, and the accounting practice saw the full amount of expenses recorded at the time of the agreement, and written down in line with the actual invoice. In order to manage the FY-14-macro adjustment, the entire BS balance (already recorded as expenses) is refunded, and profits earned. Although there was a return to the previous practice for new cases in FY-15 after receiving an opinion from audit-following a sudden change in the accounting practice, the treatment of the portion returned in FY-14-remained as is. 	1.32	1.04	
	4	27.4-	8.34	
Total-audit-	risk-requiring-a-swift-response-(excluding-	35	.7.	

If FXNZ/was included in the scope, there is a need to clean all auditinsks, bub if excluded from the scope, revisions to sections that cannot (will not) be handled are inevitable in the statutory report (around August), and as a result, will be reflected in FY-16 performance. (FXNZ is usually excluded from the scope from the point of view of scale and importance.).

* 4Q TR-rate 82.85 / direct-sport-rate 74.7,

11

1

("FXA/FXNZ Audit Risks and Countermeasures" dated February 25, 2016, page 10)

(4) February 26, 2016- Report to Chairman and President

On February 26, 2016, the day after the report to Mr. w, Executive Vice President, and Mr. y, Deputy President, a presentation was given to Mr. HH, FX Chairman and Mr. AA, FX President, based on "FXA/FXNZ Audit Risks and Countermeasures" that had been revised based on the instructions from the previous day's meeting and was now dated February 26, 2016, to explain the proposed charges for FXA and FXNZ for the fiscal year ended March 2016.

Based on the instructions given by Mr. w, Executive Vice President, and Mr. y, FX Deputy President on the previous day, the red and yellow color-coding was eliminated and it was decided that FXA would recognize AU\$17.9 million, while FXNZ would recognize NZ\$25 million plus NZ\$7.5 million in additional bad debt reserves for Counterparty 1 (in the end, however, the additional provisions for Counterparty 1 was NZ\$13.5 million due to a recommendation from the auditor). In addition, it was decided to sell FXA-owned warehouse (¥1.9 billion), sell the FX plant in Taiwan (¥900 million) and to change the consumables inventory valuation method at APO (¥800 million) in order to generate gains (totaling approximately ¥3.6 billion) to offset the losses (total of ¥4.6 billion).

List of amounts requiring recognition at FXA (from the presentation given to FX Chairman Mr. HH and FX President Mr. AA on February 26, 2016)

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1. FXA-Audit-Risks-at-End-of-FY-15-

- □. At: FXA, estimates: were: not: recorded: for: costs: that: were: originally: meant: to: berecognized as: expenses: (recording of P&L) during FY-14, for activities: primarily in FY-14. (e.g., matters: with extensive GS/PS business and IT investments), and there were items: for which the recording of P&L was avoided in FY-14. (Because no actual cost has arisen, the audit of accounts for FY-14 was passed through.) **
- It was established that actual costs arose at FXA in FY 15, and there was a total of A\$17.9M (1.5-billion yen) of costs that would be an audit risk if not recorded as expenses (recording of P&L) at the end of FY-15.+

liem)+	Listella	Amount
	 No-record of costs in GS matters: (a): Extension of agreement and recording of sales only, without installation of equipment, in September 2014. Evidence of commencement of installation of equipment in second half of FY-15, and recording of actual costs. Requires account treatment. 	AS- <u>5.3M</u> (500-million-yen)
No record of costs in matters with extensive GS/PS-business+	■ No-record-of-costs-in-GS-matters- agreement-and-recording-of-sales-only, without installation-of- equipment, at-the-end-of-FY-14Evidence-of-commencement- of-installation-of-equipment-in-FY-15,-and-recording-of-actual- costs. Requires-account-treatment+*	A5-1.4M - (100-million-yen)
-	No-record of costs in PS-matters Repeated occurrence- of-issues for-customers that installed third-party-equipment- in FV-13-resulting in installation of Rishiri in FV-15. Those costs- actually arose in FV-15 and require account treatment +	AS-2.0M (200-million-yen)
Excess-recording-of constructions-in- progress=	those with expenses that were originally unrelated were identified in the FY-15 asset investigation.	
No-record of special- incentives at the end of- FY-14+	 No estimate recorded for term-end special incentives by MD- at the end of FY-14. Identified in claim from SR in FY-15, but not-recorded. 	A\$-4.0M+ (300-million-yen)
	+ + + + Total-AS17.9N	(1.5-billion-ven)

("FXA/FXNZ Audit Risks and Countermeasures" dated February 26, 2016, page 1)

List of amounts requiring recognition at FXNZ (from the presentation given to FX Chairman Mr. HH and FX President Mr. AA on February 26, 2016)

2. FXNZ Audit Risks at End of FY-15-+

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- - > The balance of monthly macro adjustments (performance adjustments) was identified as a total of NZ\$25M (2.1 billion yen) following the replacement of the general manager of the Corporate Finance Department. The new general manager of the Corporate Finance Department reported that he could not carry out account treatment in FY-15 through his own efforts.
 - The risk of bankruptcy of large PS customer doubted increasing, and additional allowance for doubtful debt required.

(tem+	Octailt	Amount
Macro Adj.	 The replacement of general-manager-of-the-Corporate-Finance-Department-revealed-	NZS-21.2M
(Performance	the adjustment of monthly-performance-in-vouchers, etc. to postpone expenses and	(1.8-billion-
adjustments)+	costs that originally arose in the monthly accounts.	yen)-
Account-	 Account-treatment-items-of-concern-by-the-audit-firm-in-FV-14-accounts-audit,-in-	NZ5-3.8M
treatment-	addition-to-the-above-performance-adjustments-	(300-
items of concern by the audit firm+	 Need for suitable-treatment of under-reporting of allowance-for doubtful-debt (2.5M)-and removal-of-records of estimates of sponsorship costs for training- (1.3M). 	yen)+

Subtotal-NZ525M-(2.1-billion-yen)+

Additional allowance for doubtful debt for	 The risk of bankruptcy of large PS-cus increasing, and treatment of doubtfu required through additional long-ter Counterparty 1 in FY-15.4 	il-debt-allowance-	NZ\$-7.5M - (600-million-yen)-
u -		Total-NZ\$32	5M-(2.7-billion-yen)

("FXA/FXNZ Audit Risks and Countermeasures" dated February 26, 2016, page 2)

(5) Remaining Macro Adjustments

After the events described in (4) above, it was decided that only NZ\$32.5 million in adjustments would be recognized for FXNZ for the fiscal year ended March 2016 (NZ\$25 million excluding the additional provisions for Counterparty 1, NZ\$7.5 million in additional provisions for Counterparty 1). Based on a review by the audit firm, however, FXNZ eventually booked NZ\$13.5 million in additional provisions for Counterparty 1.

In addition, based on the findings of the audit firm, FXNZ had to prioritize the booking of other bad debt reserves other than for Counterparty 1 as well as reserves against inventory write-downs. As a result, FXNZ was unable to fully dispose of the NZ\$21.2 million of outstanding Macro Adjustments, with some Macro Adjustments staying on the books. This was largely because the loss disposals of NZ\$25 million (excluding the NZ\$7.5 million in provisions for Counterparty 1) had been determined to be executed based on the amounts that had been expected to be offset by the various gains noted above. Of this NZ\$25 million, Mr. T, APO FC, and Mr. K, FXNZ CFO, had decided on the priority list for the disposals.

In a handover of duties as a result of personnel change, Mr. T, APO FC, in late December 2016 explained in an email to Mr. II, who was to be APO FC Mr. T's successor, about the K's Report and he noted that not all of the Macro Adjustments had been recognized. No evidence has been found that sufficiently show that anyone other than these staff knew that there were Macro Adjustments still remaining even after the closing of the fiscal year ended March 2016.

In the email referred to above, there are statements that suggest the involvement of FX Corporate Finance Department:

"This is a result of prioritizing matters that were noted in the audit at the March closing (bad debt reserves and inventory reserve, i.e., so-called classic items), which led to recognition with different priorities within a given fund.

What could not be recognized was costs. This was scattered among explainable transactions and we made it through the audit.

Due to K's activities towards soundness, ORS estimate has declined dramatically, which is making it almost impossible to hide all those items that were scattered (see third file).

The underlined parts were done in communication with Mr. GG's team, but I don't know how much and in what way he's told Mr. BB.

This matter has undoubtedly not been reported to management, and the term "Macro Adjustment" itself needs to be kept from leaking outside the company.

In an interview with Mr. GG of FX Corporate Finance Department about the Macro Adjustment remaining, although he knew of the existence of the Macro Adjustments when the fiscal year ended March 2016 was closed, he believed that they had all been recognized in that fiscal year. In the interview with Mr. DD of FX Corporate Finance Department also, we could not extract a statement indicating he was aware that Macro Adjustments remained.

(6) Review by Singapore Law Firm

After the events described in (4) above, at the same time as the countermeasures for audit risks for the fiscal year ended March 2016 was decided on February 26, 2016, it was decided to investigate the background of the large losses at FXA and FXNZ at the intention of Mr. y, FX Deputy President.

For the investigation, Mr. y, FX Deputy President and Mr. w, FX Executive Vice President, instructed to have the investigation be conducted by a third party, to do an investigation focused on the current issues such as the Macro Adjustments rather than a general investigation, and to identify whether they were made through an extension of routine processes or by something pernicious. They said that they will consider human resources proposals including disciplinary action in the future at FXA and FXNZ based on the results of the investigation.

It was decided that APO Legal Department would find a law firm who can handle such an investigation, and APO Legal Department decided to hire a Singaporean law firm (Law Firm 1) reputed to be competent in this type of matter. It appears that although Mr. y, FX Deputy President, had intended to have either an audit firm or a law firm do the investigation, it had been decided on a law firm partly due to the fact that the due date for the report was the end of March 2016. However, there is no clarity as to the reason why an audit firm was not chosen.

On March 11, 2016, Mr. JJ of APO Legal Department and Mr. T, APO FC met with attorneys Mr. KK and others from the law firm and gave a briefing. At the meeting, four items (the Macro Adjustments, unposted bad debt reserves for clients other than Counterparty 1, deferred sponsorship costs, and bad debt reserves for Counterparty 1) in which involvement, etc. by the FXNZ management were identified as the scope of the investigation, and a request was delivered to conduct the investigation objectively and impartially. According to Mr. KK, the investigation he was requested to do was not an accounting audit, but an investigation into facts and causes of the problems, such as why these problems occurred and when and who were behind the problems. In addition, a due date for a report was designated as March 31, 2016 in time for a meeting in Tokyo in early April 2016.

Mr. KK, et al interviewed three subjects in Australia, and then twelve in New Zealand. Interview subjects were designated by APO and, prior to the interviews, no documents other than documents outlining general matters were provided to the attorneys. At the interviews, Mr. JJ of APO Legal Department, APO FC Mr. T, Mr. LL of FX Internal Audit and Analysis Department, and Mr. MM of FX Corporate Finance Department were in attendance. A report by the Singaporean attorneys was presented to APO on March 29, 2016. Although a draft of the report had been provided in advance, no changes or modifications to its content were requested.

The report by Law Firm 1 identified the Macro Adjustments as being the result of FXNZ's overly aggressive accounting treatment, which was caused by the sales-centric mindset fostered by Mr. A, and concludes that the understating of bad debt reserves resulted from FXNZ's sales-first philosophy and the promotion of and pressuring by Mr. A to continue transactions, and that the deferral of sponsorship costs was partly caused by the culture of relentless focus on sales, etc. Although MSAs were outside the scope of the law firm's review, the report included comments from the interviews discussing the inflated Target Volumes for MSAs and over-stated revenue. The report further noted comments from staff stating that the 'sales-centric' culture was due not only to Mr. A, but in part to pressure from APO to meet difficult performance targets.

The results of this investigation were reported to Mr. HH, FX Chairman, and Mr. AA, FX President, in a document titled "Results of Investigation through Interviews by Outside Attorneys into the FXA/FXNZ Problem" (dated April 18, 2016), but risks associated with FXNZ were not fully conveyed, instead emphasizing that the financial statements for the fiscal year ended March 2016 were prepared properly

(7) Resignation of Mr. A

On March 31, 2016, in the office of Deputy President Mr. y, Mr. w, Executive Vice President and others discussed the report from the Singapore law firm and measures to deal with the issues raised in the report. Mr. y, Deputy President voiced the opinion that Mr. A should be dismissed from his position as a way to bring an end to the issue of responsible party. It was decided that the final decision would be made on April 18, 2016 with the Chairman and the President in attendance.

Based on this, Mr. R, APO Executive General Manager, instructed Mr. JJ of APO Legal Department to consider two scenarios under which Mr. A was asked to resign or a disciplinary dismissal was ordered, and instructed Mr. NN of APO HR to investigate whether Mr. A had actually used company funds for personal expenses.

According to the investigation by Mr. NN of APO HR (dated August 8, 2016), between June 2015 to April 2016, payments were made for private trips taken by Mr. A and his family members that the company paid for (A\$43,704) and for meals by Mr. A and former FXNZ members that the company paid for (A\$50,132, or A\$4,557 as a monthly average). Furthermore, it was found, among other things, that some FXA sales employees that Mr. A brought with him from New Zealand were being extremely well compensated.

Mr. R, APO Executive General Manager, noted to and asked for explanations from Mr. A

about numerous MSAs found to have no minimum payment, forced delivery of products to Counterparty 1, some sales employees receiving very high commissions, etc., but Mr. A denied his own responsibility. As Mr. R, APO Executive General Manager, worked towards dismissing Mr. A, Mr. w, FX Executive Vice President told Mr. R, APO Executive General Manager, that he was against firing Mr. A and that having Mr. A stop personal use of company's expense and some disciplinary action would be enough. In interviews, Mr. w, FX Executive Vice President stated that he never opposed dismissing Mr. A.

The results of the investigation by the Singapore attorneys were reported to Mr. HH, FX Chairman, Mr. AA, FX President, Mr. y, FX Deputy President and Mr. w, FX Executive Vice President on April 18, 2016, and the decision was made to relieve Mr. A of his duties.

APO studied how to proceed with the dismissal, and upon advice from a law firm that, among other things, it would be difficult to relieve the MD of FXA due to circumstances while he was at FXNZ under Australian law, that Mr. A may work for a competitor or start his own company and steal customers, and that a suit may be filed and the dispute could last for a long time, a resignation upon agreement was chosen rather than a dismissal.

On May 16, 2016, Mr. R, APO Executive General Manager, Mr. NN of APO HR and others paid a visit to Mr. A with an attorney. Upon being recommended to leave his position, he broadly agreed. Subsequently, a negotiation on the condition of his leaving commenced with the attorney's participation and an agreement to leave the firm was reached on May 23, 2016 with Mr. A. Conditions for his leaving specifically included the payment of full salary and severance payment etc. that he would have received had he stayed with the company for his two-year appointment (AU\$1,031,457.62; approx. ¥88 million). Severance payment was to be paid in installments over one year to enforce the conditions in the resignation agreement, such as restrictions on working for competitors, etc.

7. May 2016 - Internal Audit and Analysis Department Review

(1) Mr. AA, President of FX instructs Audit

Mr. AA, FX President, though that a full picture of the problems at FXNZ was not provided no matter how much time passed and instructed FX Internal Audit and Analysis Department to work with FX's Corporate Finance Department to conduct an on-site audit of FXNZ in order to prevent a recurrence of similar events in fiscal year ended March 2016. Based on this, the Internal Audit and Analysis Department decided to conduct the audit of FXNZ on May 23 to 27, 2016. It was decided that Mr. LL of the FX Internal Audit and Analysis Department, Mr. OO of FX Internal Audit and Analysis Department, Mr. DD of FX Corporate Finance Department, Ms. x of APO Internal Audit Department, and APO FC Mr. T would participate in the audit. (2) Limiting the Scope of the Audit

Mr. w, Executive Vice President, asked Mr. BB, General Manager of FX's Corporate Finance Department to ensure that the audit did not disrupt Accounting, which was in the process of preparing results for the fiscal year ended March 2016. As a result, FX's Corporate Finance Department and FX's Internal Audit and Analysis Department agreed to exclude previous years from the scope of the audit and instead investigate the status of lease agreements and what improvements were being made since the fourth quarter of FY2015 after Mr. K took his post as FXNZ CFO.

The audit was conducted in New Zealand on May 23 to 27, 2015. In one situation when Mr. OO of FX Internal Audit and Analysis Department began to ask for past documents in his investigations, APO FC Mr. T requested that Mr. OO conduct the audit within the scope of the audit.

In an email dated April 27, 2016 from Mr. CC, Senior General Manager of APO's Finance Department to Mr. BB, General Manager of Corporate Finance Department of FX, a following statement about conducting the audit was made:

"I wonder if this matter is done with the knowledge of the Corporate Finance Department of the Head Office or Mr. w, Executive Vice President. Or, is this something that the Internal Audit and Analysis Department doing on its own? To be frank, if we were to start looking into contracts dating back to the time of the former President Mr. A and former CFO Mr. B, there will be problems. That's why things were put to stop last October and now we're trying to get rid of the responsible parties. I am confused as to the reason and the background for once again auditing NZ at this time and therefore struggling to handle the situation."

Given what was noted by APO to the FX Corporate Finance Department, because problems would be uncovered if contracts from previous years were audited, it is possible that it was the intention of Mr. w, Executive Vice President, and Mr. BB, General Manager of FX's Corporate Finance Department to have FX Corporate Finance Department ask FX Internal Audit and Analysis to exclude previous years from the scope of the audit.

(3) Audit Findings

The audit results showed, based on an audit sampling since 4Q FY2015, that improvements were being made, such as contracts properly having minimum payment clauses, rational Target Volumes being set when contracts are renewed, etc. However, given that the improvement had only just started, it was agreed that a follow-up review would be conducted in six months and this was reported to FX President Mr. AA.

According to an interview with Mr. PP, FX Corporate Auditor, he had been informed by the FX Corporate Finance Department that approximately NZ\$38 million would be recognized as reserves for the fiscal year ended March 2016 at FXNZ, but he does not recall being informed about MSAs. He was only informed, though when he was informed is unclear, by APO FC Mr. T that MSAs were discontinued because 60 to 70% of them failed to meet the Target Volume, and he states that he was unaware of accounting risks.

8. FXNZ Restructuring -'Legacy Losses NZ\$70 Million'

(1) July 22, 2016 - Private Meeting

On July 22, 2016, FX's President Mr. AA, Deputy President Mr. y, Executive Vice President Mr. w, Mr. BB, General Manager of FX's Corporate Finance Department, Mr. R, APO Executive General Manager and Mr. CC, Senior General Manager of APO's Finance Department met privately to discuss a restructuring plan for FXNZ.

On the direction of the restructuring, APO reported about trying to turn profitable in FY2017 through strengthening sales structure and reduction of fixed costs at FXNZ.

At the meeting, the following instructions were given: rather than focusing on restructuring, it should present a revitalization scenario for FXNZ as a whole, including strengthening the sales structure; and rather than a large-scale restructuring that could lead to a downward spiral and reputation risk, it should be restricted to mild measures such as reassigning job categories for indirect employees. FX President Mr. AA gave instructions that the members consider why FXNZ ended up with significant losses, what the contributing factors were, whether FXNZ can be revitalized despite such situations, and what measures and path the restructuring should take.

Mr. R, APO Executive General Manager, and Mr. CC, Senior General Manager of APO's Finance Department, along with Mr. T, APO FC, again studied ways for the restructuring based on the instructions given in the private meeting on July 22, 2016. Based on an analysis of contract data regarding historical MSAs (the primary factor behind the major losses at FXNZ), future losses due to MSAs were calculated to be NZ\$70 million.

(2) August 23, 2016 - Report to Mr. w, Executive Vice President, and Mr. y, Deputy President

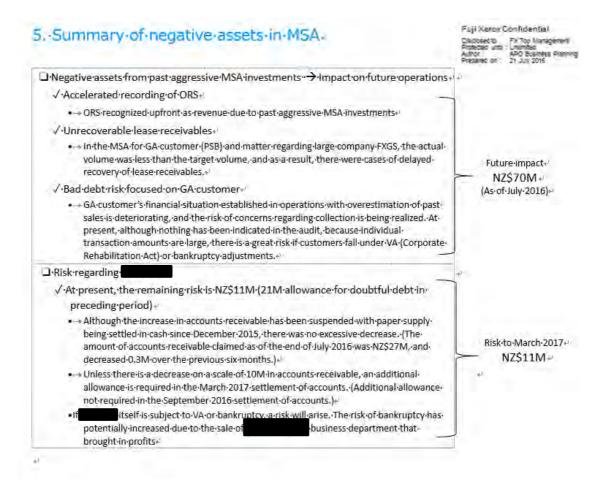
After further deliberations, Mr. R, APO Executive General Manager, and Mr. CC, Senior General Manager of APO's Finance Department prepared a restructuring plan for FXNZ and presented it to Mr. w, Executive Vice President, w and Mr. y, Deputy President on August 23, 2016.

The report noted that FXNZ faced 'legacy losses' of NZ\$70 million from previous MSAs, which comprised ORS accruals recognized upfront as revenue (ORS with backdated posting

due to aggressive MSA management in the past), unrecoverable lease receivables (situations with MSAs where the actual volume is lower than the Target Volume, resulting in a delay in collecting lease receivables) and bad debt risk (concern over collectability due to customer's worsening financial condition as a result of sales-centric operations in the past).

Legacy losses: NZ\$70 million

(From the report to Mr. y, FX Deputy President, on August 23, 2016. The slide is also contained in the document used to report to Mr. w, FX Executive Vice President.)



(From: "About FXNZ" dated August 24, 2016, a document for confirmation by FX Deputy President Mr. y⁶)

(3) August 25, 2016 - Report to FX President Mr. AA

Mr. R, APO Executive General Manager, and Mr. CC, Senior General Manager of APO's Finance Department reported the FXNZ reconstruction plan based on a material modified per instructions from Mr. y, FX Deputy President to Mr. AA, FX President, on August 25, 2016. In

⁶ The date on the document is August 24, 2016, but the report was given on August 23, 2016.

this material, the slide showing the legacy losses from the MSAs as NZ\$70 million and the breakdown under paragraph (2) above was deleted per instruction from Mr. y, FX Deputy President, but FX President Mr. AA was explained verbally that FXNZ faced future losses of NZ\$70 million due to the previous MSAs.

(4) Awareness of the NZ\$70 million in Legacy Losses

As of August 2016, Mr. R, APO Executive General Manager, and Mr. CC, Senior General Manager of APO's Finance Department, were both clearly aware that FXNZ faced future losses of NZ\$70 million due to the previous MSAs. However, while both were aware of this legacy debt as a business risk, the evidence does not support a finding that they were aware of the need for loss-recognizing accounting treatment, particularly given their respective backgrounds (Mr. R has a background in sales; Mr. CC was the Senior General Manager of APO's Finance Department but his background was in planning and he had limited accounting knowledge). The same can be said for Mr. AA, FX President.

On the other hand, Mr. y, FX Deputy President and Mr. w, FX Executive Vice President possessed ample accounting knowledge and were also shown the breakdown of the legacy of losses. It is therefore supposed that they were aware that loss recognition may be required. On this point, My. y, FX Deputy President, said in out interview that while he was aware as of August 2016 that there was NZ\$70 million in backdated posting from the past, this was returned to further review at his instruction to review the amount once again, and that because it was being reviewed, he did not report to the audit firm for the audit process for the fiscal year ended March 2017.

9. NBR Report, Investigation by SFO

(1) National Business Review Special Investigation: What's been going on inside Fuji Xerox?

FXNZ's financial statements became publicly available on the website of New Zealand's Companies Office (a government agency that provides a publicly available electronic register for corporate financial statements and other statutory corporate information) on September 7, 2016. The following day (September 8, 2016), National Business Review (NBR; widely regarded as New Zealand's leading business newspaper) and other media outlets reported on FXNZ, including that it posted losses of around NZ\$51 million.

On September 16, 2016, NBR published a special six-page article with subheadings, "What's been going on inside Fuji Xerox?" "Japanese owners wanted 'more, more, more", etc.



The NBR article stated, according to former employees; FXNZ had been improperly posting revenue over several years; a contract format called Managed Services Agreement was introduced, with which the output was overestimated in some cases and customers enjoyed low prices; Mr. A's predecessor was highly regarded, but he was exhausted with the extremely high targets set by Japan; Mr. A was overwhelmed by the pressure, too, and it was just the Japanese work style to demand "more, more, more"; Mr. A was a good leader, but no management was accomplished; the downhill slide has just begun, etc.

(2) Companies Office, Serious Fraud Office (SFO) Announce Investigations

On September 26, 2016, Companies Office contacted FXNZ regarding the content of the NBR report. FXNZ was asked questions about reasons for the decline in sales and whether there were backdated posting of sales and was also asked to submit the opinion letters from the audit firms obtained since 2009 regarding the MSAs. On September 29, 2016, FXNZ responded that there had been no inappropriate early recognition of revenue, and FXNZ submitted the 2009 opinion letters from the audit firms regarding MSAs.

On September 29, New Zealand's Serious Fraud Office (SFO; a department of the New Zealand Police) also contacted FXNZ. FXNZ received a compulsory request of production of materials and turned over materials, including the above-noted 2009 opinion letters regarding MSAs to the SFO.

In responding to such requests, on September 30, 2016, APO FC Mr. T sent to the FX Corporate Finance Department the 2009 opinion letters from the audit firms regarding MSAs (it was sent to Mr. GG of the FX Corporate Finance Department, which was then forwarded to Mr. DD of the same Department with a note to pay attention to comments by APO FC Mr. T). In the email⁷, APO FC Mr. T makes the following comments: "This was written based on a check of

⁷ Quotes are as they appear in the source.

the standard template, so it is basically general in nature," "This may be effective in terms of external justification, but if Accounting Firm 1 and Accounting Firm 2 had any doubts about this, their expected response would be to confirm whether actual contracts were following the conditions as indicated in the opinion letters," "In the actual contracts, many of them list conditions that are advantageous to the customer in the summary section, and there's a risk that some may not meet the conditions for lease accounting," "Consequently, I personally feel that it would be better to avoid showing this to Accounting Firm 2 and Accounting Firm 2 as much as possible," and "I think we could be tripped up if, although unlikely, they decide to take actions to protect themselves based on this." He also urges caution in the handling of the opinion letters.

The SFO subsequently announced on December 21, 2016 that it had completed its investigation into FXNZ.

(3) Questions from Accounting Auditor and Response Scenarios

On October 4, 2016, Accounting Firm 2, the accounting auditor, upon learning of the NBR article, contacted FX to say that it needed to ask questions to confirm facts and for an explanation about the situation over the recent FXNZ media reports, due to a scheduled interview with the accounting auditor scheduled for October 7. On October 5, Mr. y, FX Deputy President, Mr. w, FX Executive Vice President, Mr. BB, General Manager of Corporate Finance Department of FX, Mr. z, General Manager of FX Legal Department, Mr. R, APO Executive General Manager, and Mr. CC, Senior General Manager of APO's Finance Department held a discussion on how to answer the questions related to Accounting Firm 2's interview.

Mr. w, FX Executive Vice President, after prefacing that no questions from the media would be answered, instructed to say to Accounting Firm 2 that there were in fact whistleblowing emails, they were assumed to have been sent by people who had been laid off, FX did check twice, there were some grey area issues that were subsequently stopped, the results for the fiscal year ended March 2016 had been approved by the accounting auditor, and that there were no other issues. Mr. y, Deputy President, further instructed to say that the audit firm is being consulted as to how revenue should be recognized, there is nothing inappropriate, the audit was passed, and that accounting opinion letters had been obtained from Accounting Firm 1-2 and Accounting Firm 2-2.

In an interview conducted on October 5, 2016 by Accounting Firm 2, Mr. z, General Manager of FX's Legal Department followed the predetermined scenario and answered that, among other things, there had been no inappropriate accounting or over-stated revenue such as had been indicated in the NBR report, an accounting firm in 2009 had expressed an opinion that capital lease treatment for the contracts were reasonable, there were no whistleblowing in the

past but there were whistleblowing emails in July 2015, NBR's article is groundless and was based merely on rumor or gossip, and therefore the company had no plans to do anything in response to the article.

Both Mr. y, Deputy President, and Mr. w, Executive Vice President, were aware that FXNZ had over-stated revenue. They decided on the above scenario and gave the above instructions despite knowing that the responses they instructed were untrue.

Mr. w, Executive Vice President, admitted in his interview that he knew that the answer scenario to say that revenue had not been over-stated, etc. was contradictory to the facts, but denied that he understood it as an "accounting irregularity." According to Mr. w, even if revenue was over-stated, it would not be an improper accounting regardless of the cause as long as reserves were recognized, the amount was insignificant and the duration was not so long that it lasted over many fiscal years. Further, Mr. y, Deputy President, stated that he remembered only the report on August 19, 2015 stating that "there were no problems, but there was one out of 10 that seemed suspicious," and therefore instructed to answer accordingly.

(4) Questions from Investor and Response Scenarios

On October 11, a research company and a UK-based investor contacted FH regarding the FXNZ media reports. Subsequently, on October 17, Mr. y, Deputy President, and Mr. w, Executive Vice President, again discussed how to respond to questions from the media and investors regarding FXNZ and agreed to respond by saying that they believe the media reports indicating accounting irregularities were not factual, the decline in performance is partly due to the decline in the market environment, and that FX Head Office was providing full financial support to FXNZ. This was communicated to FH, and FH responded to the research company and the investor accordingly.

10. December 2016 - Internal Audit and Analysis Department Follow-Up Audit of FXNZ

 October 28, 2016 - FX President Mr. AA regular meeting with Internal Audit and Analysis Department

The news reports about FXNZ and the damage being caused by rumors were reported at the regular meeting between FX President Mr. AA and the Internal Audit and Analysis Department held on October 28, 2016, and according to the minutes of the Internal Audit and Analysis Department, FX President Mr. AA voiced the following opinions.

• "Looking at the responses by APO and the FX Corporate Finance Department, they are extremely similar to Toshiba's response. Toshiba also said at the outset that there were no problems because they had gone through an audit firm, but once they were investigated thoroughly all manner of things came out. Everyone from Mr. R, Mr. w, to the Corporate

Finance Department is trying to put a lid on this by saying that there's no problem. That is why I have told that the Internal Audit and Analysis Department should look into this."

- "People involved in a problem conceal the problem. Mr. R says there's no problem. The Corporate Finance Department says there is no problem. Mr. w says there's no problem. They tell me that it's a complicated issue and so I might not understand, but there's no problem. Mr. y says the same thing. That causes doubt. I therefore spoke with the Chairman, and I told him that this is bad. I also reported to the shareholders."
- "We should tell the truth. This is the second time. Despite the fact that we should have looked into this properly and handled it the first time, we shut it down by saying that there was no problem, and as a result this has happened the second time, leading to the current situation. We should have revealed this at that time. We should have said that there was a problem but we acted immediately to correct it. FX does not properly manage risk."
- "Audits must be conducted under the assumption that people are fundamentally evil; they should not be seen as fundamentally good."

(2) November 8, 2016 – FX Deputy President Mr. y Regular Meeting with Internal Audit and Analysis Department

According to an email report regarding the regular meeting between Mr. y Deputy President of FX and the Internal Audit and Analysis Department held on November 8, 2016, FX Deputy President Mr. y stated the following in regard to FXNZ.

- "It should be checked, but there were no irregularities (in accounting)."
- "The accounting treatments were approved by the audit firm."
- "There were no irregularities, so I want to take a strong position. Ultimately, I am prepared to sue NBR over the damage from rumors."
- "I want the Internal Audit and Analysis Department to look at this impartially, not from the viewpoint that there are irregularities."
- "I think that FXNZ, both management and employees, must be uneasy about this, including the damage from rumors, and they are doing their best while they are being hounded. It is not advisable for the follow-up audit to also hunt down (irregularities). FX should protect FXNZ."
- (3) December 2016 Internal Audit and Analysis Department Follow-Up Audit of FXNZ

The Internal Audit and Analysis Department carried out an audit of FXNZ from December 13 to 16, 2016 as a follow-up to the May 2016 audit. Mr. OO of FX's Internal Audit and Analysis Department, Mr. QQ of FX's Internal Audit and Analysis Department, and Mr. DD of FX's Corporate Finance Department participated as auditors, and they were supported by Mr. T, APO FC, and by Mr. II, who had been decided on as Mr. T's successor. The subject of the audit was

the confirmation of the findings from the May 2016 audit of FXNZ (e.g., the confirmation of the revision status of contracts that was pointed out, the status of conversion from the MSA to new contracts, and the reconfirmation of improvements in sales recognition), the confirmation of the matters found by the APO's internal audit in 2009, and the confirmation of the status of damage from rumors based on news reports by NBR and elsewhere.

On December 6, 2016, FX's Internal Audit and Analysis Department received nine items for which FH's Internal Audit Division requested action or confirmation regarding the FXNZ matter, and it was necessary for the Internal Audit and Analysis Department to also do a retrospective investigation in order to answer them. FX President Mr. AA also agreed to a retrospective investigation.

Then, on December 13, 2016, Mr. RR, General Manager of FX's Internal Audit and Analysis Department instructed Mr. OO of FX's Internal Audit and Analysis Department, who was leaving to conduct the audit, via e-mail saying that SFO, Accounting Firm 2 and FH are investigating the Matter and he did not think they would end it in a convenient place, that he thought it would be better for them to settle the matter themselves before SFO, Accounting Firm 2, and FH said that there were irregularities, and that focusing on Counterparty 1 would be good to settle the matter, so he should obtain as much evidence as possible.

According to Mr. OO of FX's Internal Audit and Analysis Department, they were questioned by APO about going outside the scope when the audit initially touched on the investigation of past contracts and Counterparty 1, which had not been originally included in the scope of the audit, but ultimately they were able to complete the audit with no difficulties because Mr. R, Executive General Manager of APO and Mr. RR, General Manager of FX's Internal Audit and Analysis Department talked and reached a shared understanding.

(4) Report on Findings of Follow-Up Audit "FX is an independent company"

A meeting was held on December 21, 2016 to share the preliminary results of the FXNZ follow-up audit with Mr. y, Deputy President of FX, and Mr. OO of FX's Internal Audit and Analysis Department and Mr. DD of FX's Corporate Finance Department reported the results of the audit.

The report indicated overall that the situation at FXNZ was improving, despite problems such as omissions in contracts and insufficient aspects of internal document management, the possibility that insufficient provisions for long-term receivables could be found, and decision-making relying on individuals. They also reported that SFO had given notice of the end of its investigation.

Next, the Internal Audit and Analysis Department discussed the answers to questions from the Internal Audit Division of FH. In response to the proposed answers, Deputy President Mr. y commented that:

"Who at FH is asking about such minor things in the first place?"

"Explaining is fine, but it's okay if you answer by giving your conclusion and saying that there were no irregularities."

"FX is an independent company."

"There is no need to answer line-by-line."

"You can say that I'm saying this."

"SFO says that there are no irregularities."

Deputy President Mr. y instructed that, since the Matter is a problem at the level of FH's management and FX's management, there was no need for FX's Internal Audit and Analysis Department to send responses to the Internal Audit Division of FH.

On December 22, 2016, Mr. RR, General Manager of FX's Internal Audit and Analysis Department told Mr. SS, General Manager of FH's Internal Audit Division that he had been instructed by Deputy President Mr. y that FX's Internal Audit and Analysis Department could not answer FH's questions.

(5) Report to President of FX

On December 27, 2016, the Internal Audit and Analysis Department of FX made a report to FX President Mr. AA about the receipt of the notice from SFO that their investigation had ended, the background of the Counterparty 1 matter, and an overview of the follow-up audit of FXNZ conducted earlier that month. However, FX President Mr. AA was not satisfied with the Internal Audit and Analysis Department's report, saying, among other things, that too many facts about Counterparty 1 were unclear, and he instructed further investigation.

Mr. DD of FX's Corporate Finance Department, who had been tasked with investigating further, expressed the following sentiments to Mr. T, APO FC, and Mr. II, who had been decided on as Mr. T's successor, in an e-mail requesting their cooperation on December 29, 2016.

"I am worried because the nuances of the responses of the Executive Vice President/Deputy President and the President are fundamentally different in certain respects. The Internal Audit and Analysis Department is under the direct supervision of the President, so I am also in a dilemma in that respect."

"I intend to put everything on the line if it looks like this is moving in a strange direction (I don't mean that I would burn my bridges, but I do mean that I want both sides to understand. My feeling is that I want to leave a proper company for the next generation), and I would appreciate your understanding and cooperation on that point by all means."

11. Developments since January 2017

(1) January 2017

- (i) The FX's Internal Audit and Analysis Department made the following report to FX President Mr. AA on January 12, 2017. However, FX President Mr. AA once again ordered FX's Internal Audit and Analysis Department to further investigate not only the Counterparty 1 case, but also to further investigate the MSA contract status analysis, and the circumstances of Mr. A's resignation.
 - (a) With regard to the Counterparty 1 case, it is highly likely that FXNZ's management at the time aggressively pushed the case in order to obtain revenue, while being aware of Counterparty 1's credit uncertainty at the time.
 - (b) Counterparty 1 is in a state where it would immediately go bankrupt if FXNZ stopped doing business with it.
 - (c) The on-site investigation by Accounting Firm 2 is ongoing, and not only is it possible that additional provisions will be required, it is also possible that it would lead to restatements due to "irregularities."
- (ii) In our interviews with FX's Internal Audit and Analysis Department staff, we obtained testimony that Mr. w, Executive Vice President of FX had made the following statements to the Internal Audit and Analysis Department
 - (a) January 20, 2017
 - When FX's Internal Audit and Analysis Department staff reported to Mr. w, Executive Vice President on the situation after the audit in December 2016, he told them:
 - "We are trying to achieve a soft landing so do not rock the boat. We need to think of a way to conclude this Matter or we risk getting the audit division involved and losing the trust of FX management."
 - (b) February 20, 2017
 - When FX's Internal Audit and Analysis Department staff tried to report on the FXNZ matter to Mr. TT, General Manager of FX's General Affairs Department, Mr.w told them:
 - "I am handling the numbers myself with Corporate Finance, so don't make too many moves."
 - (c) March 10, 2017

- Mentioning the report by FX's Internal Audit and Analysis Department staff at the corporate auditor committee on March 7, 2017, he told them:
- "The Internal Audit and Analysis Department staff are on an executive side, so reporting those types of cases will be a betrayal of management."
- Furthermore, according to Mr. w, Executive Vice President of FX, the intention behind these statements was that he was concerned about information becoming mixed up at the stage when the numbers were not fixed.
- (iii) On January 25, the FX's Internal Audit and Analysis Department once again reported as follows to FX President Mr. AA to discuss the points that FX President Mr. AA had requested be investigated.
 - (a) Counterparty 1's current and future status requires continuous monitoring.
 - (b) Accounts receivable collection had been delayed for 551 of the 890 subject MSAs, and based on that rate of non-collection, the maximum non-collection risk is about NZ \$25 million.
 - (c) With regard to Mr. A, APO had treated him as a dismissal, but in order to avoid litigation and other risks, he was treated to resign for personal reasons with a severance payment.
 - In response, FX President Mr. AA instructed the FX's Internal Audit and Analysis Department to directly confirm the situation regarding the Counterparty 1 matter, the MSA status analysis, and the circumstances of Mr. A's resignation with APO.
- (iv) After receiving the aforementioned instructions from the President, the FX's Internal Audit and Analysis Department confirmed the following matters with APO and reported this information to FX President Mr. AA on January 27, 2017 as follows.
 - (a) The handling of Mr. A was decided by Mr. R, Executive General Manager of APO and Mr. w, Executive Vice President of FX in consultation with one another. They requested Mr. A's resignation because they obtained an opinion from attorneys at the time that it would be difficult to have him take responsibility for past problems.
 - (b) The Counterparty 1 matter is being examined both by FX's Corporate Finance Department and Mr. w, Executive Vice President, and at APO.
 - (c) With regard to the remaining MSA risk, the risk calculated by FX's Internal Audit and Analysis Department (maximum non-collection risk is about NZ \$25 million) is the same as APO's understanding.

(2) February 2017

On or around February 15, 2017, a notification was received from Accounting Firm 2 stating that the accounting risk (losses) related to the Matter for FXNZ was approximately ¥13.3bn. Mr. UU, General Manager of the Corporate Planning Division at FH shared this information with Mr. VV, Chairman of FH and Mr. WW, President of FH.

(3) March 2017

- (i) On March 1, 2017, the Internal Audit and Analysis Department of FX reported as follows to FX President Mr. AA that Accounting Firm 2-2 had estimated the accounting risk as follows.
 - (a) FXNZ CFO Mr. K reported to Accounting Firm 2 that the maximum accounting risk is ¥13.3bn (currency rate: ¥80/NZ\$).
 - (b) Subsequently, on February 15, 2017, Accounting Firm 2 also reported to Mr. y, Deputy President of FX and to FH.
 - (c) However, Mr. y, Deputy President of FX told Accounting Firm 2 that his understanding is that the risk is about ¥3bn yen.
 - (d) Accounting Firm 2 plans to conduct an additional audit to closely examine FXNZ's accounting risk.
- (ii) Accounting Firm 2 revised its estimate to ¥7.6bn on March 3, 2017.
- (iii) On March 10, Mr. w, Executive Vice President of FX responded in writing to FX's corporate auditors regarding (i) SFO's investigation process, (ii) FXNZ's accounting practices and financial results, (iii) the company's response from the perspective of supervising management and management controls, and (iv) the response to the settlement of accounts in the current financial year and efforts towards restructuring.
- (iv) While FXNZ's accounting risk was being estimated and responded to also within FX, on March 17, 2017, Accounting Firm 2-2 gave a notice that it had reason to suspect that fraud had occurred at FXNZ, and that it would be sending an official notice (Fraud Letter) on March 20, 2017 in order to notify FXNZ of its intent to conduct an investigation into the suspected fraud.

12. FX reporting to FH

(1) October 2016

FH-CC received a request for a comment regarding the NBR report from a UK research company on October11, 2016. FH-CC therefore asked FX's Corporate Communications

Department about the truth of the Matter and for a proposed response. In response to this on October 13. 2016, Mr. y, Deputy President of FX, reported to Mr. WW, President of FH as outlined below.

- (i) The overstated revenue and accounting irregularities indicated in the NBR report were not factual.
- (ii) There had been an e-mail from a person named Tony Night in July 2015, but thereafter MSAs had been strictly managed.
- (iii) Accounting Firm 1's opinion in 2009 must be confirmed for safety's sake.
- (iv) Activities to increase the health of the company will continue in the future.

(2) November 2016

Accounting Firm 2 conducted an audit of FXNZ on October 30, 2016, and as a result it determined that there was reason to suspect accounting irregularities had occurred at FXNZ. On November 8, 2016, Accounting Firm 2 reported this audit result to Mr. XX, FH's Audit & Supervisory Board Member, Mr. SS, General Manager of FH's Internal Audit Division, and Mr. YY, General Manager of FH's Accounting & Finance Group, Corporate Planning Division. Thereupon, on November 9, 2016, Mr. SS, General Manager of FH's Internal Audit Division requested a report on details and background from Mr. RR, General Manager of FX's Internal Audit and Analysis Department.

In response, on November 18, 2016, the Internal Audit and Analysis Department of FX reported to FH's Internal Audit Division a summary of the facts and findings of the Matter, the status of the audits that were conducted in May and December 2016, and MSA problems and the like, based on the report titled "Situation surrounding FXNZ and the Involvement of the Internal Audit and Analysis Department" (dated November 18, 2016).

On November 22, 2016, the FH Internal Audit Division received a report from Accounting Firm 2 regarding FXNZ based on Accounting Firm 2's visit to New Zealand.

- (3) December 2016
 - (i) On December 5, 2016, the FH Internal Audit Division reported the following matters to Mr. WW, President and Chief Operating Officer of FH regarding the information it had obtained from Accounting Firm 2.
 - (a) New revenue had been recorded by terminating (five year) sales-type leases early and executing new sales-type lease contracts at a discount.
 - (b) Evaluations of performance from a sales-centric mindset had normalized inappropriate operations.

- (c) The use of lease contracts based on unclear Target Volumes had resulted in transactions with uncollectible Minimum Payments that were now subject to bad debt write-offs.
- (ii) The FH Internal Audit Division sent a list of nine items for which it requested action or confirmation to the Internal Audit and Analysis Department of FX on December 6, 2016. However, FX's Internal Audit and Analysis Department did not respond to the FH Internal Audit Division regarding those requests for action or confirmation.
- (iii) On December 20, 2016, a full-time corporate auditor of FX gave a report to FH's Audit & Supervisory Board Members regarding the FXNZ issues.
- (iv) On December 21, 2016, the Internal Audit and Analysis Department of FX reported the following points to the FH Internal Audit Division based on a report titled "FXNZ Follow-up Audit Preliminary Results" (dated December 21, 2016). However, the FH Internal Audit Division was not satisfied with the report and presented further questions to the Internal Audit and Analysis Department of FX.
 - (a) The status of the response based on the results of the audit conducted in May 2016.
 - (b) The confirmation of the status of the matters found in the internal audit by APO in 2009.
 - (c) The status of the damage from rumors based on the NBR news report and the like.
- (v) On December 26, 2016, the Internal Audit and Analysis Department of FX responded verbally to the FH Internal Audit Division regarding the additional questions presented by the FH Internal Audit Division on December 21, 2016.
- (4) January 2017

On January 5, 2017, Mr. SS, General Manager of FH's Internal Audit Division gave an update to Mr. WW, FH President regarding the FXNZ situation. Mr. WW, FH President instructed Mr. SS to have FX President Mr. AA fully investigate the root causes and where responsibility for the problems exist and report back to FH Senior Management. The same day, Mr. SS made a strong request to the Internal Audit and Analysis Department of FX that President Mr. AA of FX submit his report to Mr. WW, President of FH before the end of January (ultimately, no report was received in January).

(5) February 2017

On February 15, 2017, Mr. UU, General Manager of the Corporate Planning Division of FH

reported the following points to Mr. WW, FH President.

- (i) While FX had estimated the potential losses from the Matter at ¥2.1 billion, Accounting Firm 2 had advised that the potential losses could be as large as ¥13.3 billion.
- (ii) FX would respond appropriately.

(6) March 2017

- (i) On March 3, 2017, FX President Mr. AA and FX Deputy President Mr. y reported the following points to Mr. VV, FH Chairman, and Mr. WW, FH President.
 - (a) The estimated impact on FX's P&L was around ¥3 billion, and it planned to offset the losses via gains on the sale of real estate held by FX Taiwan.
 - (b) They planned to support FXNZ by reducing sale prices from APO and the like.
 - (c) They had replaced FXNZ's former president.
 - (d) They will report to Mr. WW, FH President in the future.
- (ii) On March 6, 2017, Mr. RR, General Manager of FX's Internal Audit and Analysis Department reported to Mr. SS, General Manager of FH's Internal Audit Division that he will report on the problems at FXNZ at the corporate auditor committee scheduled on March 7, 2017 and ask for assistance from outside corporate auditors of FX (Mr. ZZ and Mr. aa).
- (iii) On March 14, 2017, Mr. BB, General Manager BB of FX's Corporate Finance Department informed My. YY, General Manager of FH's Accounting and Finance Group, Corporate Planning Division that the awareness of the situation at FX was anticipated to be within the amount of the gains on the sale of real estate held by FX Taiwan, and that, according to Accounting Firm 2, the assumption was that the FXNZ problem included the risk of accounting irregularities, in which case subsequent audit reviews would be carried out in greater detail.
- (iv) Also on March 14, 2017, Accounting Firm 2 reported that Accounting Firm 2-2 intended to send a letter on March 20, 2017 to the FXNZ's board of directors, and that the letter would mention possible accounting irregularities at FXNZ.
- (v) On March 17, 2017, Mr. XX and Mr. bb, both are FH Audit and Supervisory Board Members, Mr. YY, the General Manager of FH's Accounting & Finance Group, Corporate Planning Division, and Mr. SS, General Manager of FH's Internal Audit Division informed Mr. WW, FH President that Accounting Firm 2-2 intended to send out an official Fraud Letter.

Chapter 6 Issues at APO

1. Why the Inappropriate Accounting Practice Could Not Be Prevented at FXNZ and others

(1) Lack of Independence at the APO Internal Audit Department

(i) September 2009 audit

In the internal audit conducted by APO's Internal Audit Department in September 2009, Mr. s of APO's Internal Audit Department discovered that the capital lease requirements had not been met because there was the lack of Minimum Payment obligations in DSGs, the lease was not termination-free, and other factors. Mr. s indicated in the audit opinion contained in the audit report that the top priorities were that FXNZ should objectively determine DSGs' eligibility as capital leases on a case-by-case basis, that FXNZ should discuss the appropriateness of recognizing DSG sales with APO's Finance Department, and that DSGs that have been discovered should be recorded as operating leases. However, despite these findings, the accounting treatment of existing DSGs was not revised, and thereafter FXNZ continued to record MSAs, which similarly lack Minimum Payment obligations, as capital leases, and FXNZ did not take advantage of the findings in the audit report from APO's Internal Audit Department.

This is directly derived from the fact that Senior General Manager Mr. v of APO's Finance Department had decided in response to APO's Internal Audit Department asserting that DSGs should be directly recorded as operating leases, that (i) the standard contract should be strictly followed for future leases, (ii) FXNZ's senior management should approve any contracts that are deviated from the standard contract on a case-by-case basis, but there was no particular follow-up on these decisions and (iii) the accounting practice of existing DSGs would not be fixed, and that APO's Internal Audit Department had followed those decisions.

Audit reports produced by APO's Internal Audit Department are supposed to be given to the president of IBG (FXAP) according to Article 25 of FX's Internal Audit Policy, but as mentioned above, after Mr. w took office as the Executive General Manager of APO in April 2008, in practice APO's Internal Audit Department was required to submit reports to Senior General Manager Mr. v of APO's Finance Department, and APO's Internal Audit Department could not submit audit reports to the Executive General Manager of APO (President of IBG (FXAP)) without approval by Senior General Manager Mr. v.

Because Executive General Manager Mr. w of APO made this change to the internal structure, the independence of APO's Internal Audit Department was impaired, and the opinion of the Senior General Manager of APO's Finance Department was followed. Furthermore, it is possible that the accounting treatment was not fixed according to the issues discovered by APO Internal Audit Department because of the insufficient response by the Finance Department at APO, which manages the accounting policies for APO and its affiliated overseas sales subsidiaries.

Namely, notwithstanding decisions (i) and (ii) by Senior General Manager Mr. v, APO's Finance Department did not issue any particular instructions to make sure that MSAs should strictly follow the standard contract, and for those that deviate from the standard contract, permitting the recording of sales on the condition that FXNZ's senior management gives its approval on a case-by-case basis. Moreover, the decision outlined in (iii) led the inappropriate treatment of existing DSGs to continue.

It is reasonable to conclude that this fact played a key role when considering why this matter could not be prevented or why the damage stemming from this matter became so severe. As mentioned above, the DSGs in fiscal year 2009 amounted to no more than 218 cases and sales of NZ\$34 million, which eventually rose to 1,290 cases and sales of NZ\$81 million in fiscal year 2014 at their peak. It is easy to imagine that FXNZ MD Mr. A subsequently allowed the MSAs to increase, seizing the opportunity where APO's Finance Department (which manages the accounting policy) had not taken stringent measures, or even considering that the MSAs were endorsed.

(ii) July 2015 audit

As set forth above, Ms. x of APO's Internal Audit Department prepared a report during the audit conducted in July 2015 that raised issues about the recording of MSA sales. Ms. x of APO's Internal Audit Department sent it to APO FC Mr. T, however FC Mr. T did not send it to the Executive General Manager of APO, FX's Internal Audit and Analysis Department, or the corporate auditors. Mr. T (APO FC) did not forward that report to anyone, nor did he give instructions to fix the past accounting practice at that time.

This has been explained as being due to the fact that the July 2015 audit was not an audit following the regular Internal Audit Policy, but was rather a special audit conducted after receiving a whistleblower e-mail.

Thus, in July 2015 as well, it is considered that the failure to share the results of the internal audit with the Executive General Manager of APO, FX's Internal Audit and Analysis Department, or the corporate auditors is one of the reasons why the issue was not fixed at that time.

(iii) As stated above, it is considered that the issues were that the change of the company system by Executive General Manager Mr. w of APO, which requires APO's Internal Audit Department to report to the Senior General Manager of APO's Finance Department, led to the lack of independence of APO's Internal Audit Department from the Finance Department, and that appropriate instructions

to fix the accounting practice were not issued from APO's Finance Department.

(2) Inadequate Functioning of APO's Finance Department

APO's Finance Department is responsible for both accounting and budget management. When taking the appropriate steps in respect of accounting, this dual mandate may have prevented the Finance Department from taking steps because of incentives to achieve the budget, which may have resulted in not handling accounting matters appropriately.

The main issues about the MSAs that were discovered in the July 2015 audit were reported to Deputy President Mr. y and Executive Vice President Mr. w of FX at FX's head office, in addition to the Senior General Manager of APO's Finance Department and the Executive General Manager of APO.

However, these issues were deliberately not reported to FX President Mr. AA and XC at the instruction of Deputy President Mr. y and Executive Vice President Mr. w of FX.

Meanwhile, in light of the accounting and financial risks involved with MSAs, in September 2015 Executive General Manager Mr. R of APO issued an instruction prohibiting MSAs, but the accounting treatment of the existing MSAs was not revised.

(ii) Mr. K Report dated February 12, 2016

Following the Mr. K Report, APO reported to President of FX, but specific comments and the like about audit risks regarding Macro Adjustments were deleted from the report given to the President and Chairman of FX. An earlier version of the report included comments about the risks, which was submitted to Deputy President Mr. y and Executive Vice President Mr. w of FX.

Later, in the course of a review about a FXNZ restructuring plan in July and August 2016, it was reported to Deputy President Mr. y and Executive Vice President Mr. w of FX that future losses from MSAs would be NZ\$70 million.. On the other hand, this information was deleted from the report materials that were given to President Mr. AA of FX.

Judging by these circumstances, it is possible that Deputy President Mr. y and Executive Vice President Mr. w of FX ventured to conceal information at their instruction, and that a proper report was not submitted.

⁽³⁾ Concealment by Deputy President Mr. y and Executive Vice President Mr. w of FX, and Others(i) July 2015 audit

- (iii) Therefore, it is considered that Deputy President Mr. y and Executive Vice President Mr. w of FX adopted the stance of concealing negative information regarding APO and not providing correct information to FX President Mr. AA and XC, and that Executive General Manager Mr. R of APO being placed under the control of Deputy President Mr. y and Executive Vice President Mr. w of FX was one of the reasons for the delay in discovering the Matter.
- (4) Insufficient Resources at APO's Internal Audit Department and Physical Distance between Singapore and Oceania

The Accounting Department at FXNZ takes primary responsibility for properly handling accounting matters. Furthermore, it is expected that the Internal Audit Department at FXNZ will conduct internal audits through self-audits and fix any accounting irregularities that it discovers.

However, in reality neither department functioned, and FXNZ never corrected any accounting irregularities itself. In such a case, APO's Internal Audit Department fills the secondary function of monitoring FXNZ so that no inappropriate acts are performed with respect to accounting. The Internal Audit Department assumes the role of conducting regular audits on the overseas sales subsidiaries under APO's management.

The result was that the initial discovery of accounting issues regarding DSGs by APO's Internal Audit Department was during the internal audit conducted in September 2009, and they were not able to discover them until that point. In addition, during the subsequent period until the internal whistleblowing e-mail in July 2015, APO's Internal Audit Department was unable to discover ongoing accounting issues regarding MSAs.

The Committee infers that the reasons for this are as follows.

First, as the regional headquarters of FX in the Asia and Oceania region, APO manages many subsidiaries in Indonesia, South Korea, Malaysia, Myanmar, Cambodia, Thailand and elsewhere, and APO's Internal Audit Department is responsible for auditing all the companies under its management in this region. However, APO's Internal Audit Department is staffed only by two individuals, one manager and one general staff member. Furthermore, there was frequent personnel turnover at APO between April 2009 and March 2015, with the management position and general staff position each changing three times.

In this type of situation, APO's Internal Audit Department was hardly able to conduct audits of all the overseas sales subsidiaries each year, and they were essentially conducting audits of only a handful of companies picked up each year. The status of audits that were actually conducted by APO's Internal Audit Department in 2009 and onward is shown below.

OpCos	2009	2010	2011	2012	2013	2014	2015	2016
FXA			V		V			
FXNZ	٧							
FXTW	٧							
FXK			٧					
FXTH	٧							
FXP		٧						
FXML								
FXS								
FXV	٧							
FXHK		V						
- FXCPS (Sh)								
FXCL	٧	√ (GZ)						
FXAP		√ (SGSC)						
FXPC-HQ		V						
FXPC-BR		√ (KR)	√ (СН)			FXPC/PC(A)		
(Australia, Sing	gapore, Koi	rea, Taiwan,	Malaysia)					
FXMM								
FSO								
ALC 📘								
ANZ Hub								

Extracted from OPCO Audited Insite

Meanwhile, FXA and FXNZ in particular are physically separated from Singapore by a significant distance, making it difficult for APO's Internal Audit Department to travel there to conduct audits.

Although issues were actually raised concerning FXNZ in 2009, no audit was conducted until 2014, and even then, the focus of the audit was not put on MSAs.

Ms. t resigned from APO's Internal Audit Department in 2014, and according to an exit interview with her, one reason for her resignation was that she was overburdened with job responsibilities.

The Committee considers that despite being responsible for performing audits on overseas sales subsidiaries, including FXA and FXNZ, APO's Internal Audit Department lacked personnel relative to the number of those companies and was therefore unable to conduct annual audits, that in the case of FXA and FXNZ especially, it took some time to discover the issues of accounting irregularity because those offices are located so far away from Singapore, and that those could be some of the reasons why the issues continued from 2009 until 2015.

2. Measures to Prevent Recurrence

In order to prevent recurrence, the entire FX Group must change the attitudes of officers and employees regarding how to view appropriate accounting practices and audits, change attitudes regarding the achievement of budgets, and review the subsidiary management structure. While the preceding points will be discussed in Chapter 12, other than those, the Committee considers that the following points are especially important as measures to prevent recurrence for APO specifically.

 Increase Authority, Provide More Personnel, and Secure Independence at APO's Internal Audit Department

More personnel need to be allocated to APO's Internal Audit Department in proportion to the burden of its operations, given that one of the reasons for the delayed discovery of issues at FXNZ in the Matter was the shorthanded staff of only two people positioned there relative to the scope of work that they were supposed to cover.

Despite the fact that APO's Internal Audit Department had already indicated the problems at FXNZ regarding the Matter in 2009, in practice the system had been structured so that the Internal Audit Department was unable to report to the Executive General Manager of APO without permission from the Senior General Manager of APO's Finance Department. This was one of the reasons that an appropriate measure was not taken at the time. Therefore, the independence of APO's Internal Audit Department needs to be secured, the practice of giving direct reports to the Executive General Manager of APO in accordance with the Internal Audit Policy needs to be firmly established at a minimum, and if there are any de-facto required customary business practices left over, such as obtaining permission from and consulting with the Senior General Manager of APO's Finance Department before reporting to the Executive General Manager of APO's Finance Department before reporting to the Executive General Manager of APO, those practices should be abolished.

(2) System Reexamination at APO's Finance Department

The existence of both a section responsible for accounting and another section responsible for managing the budget and results at overseas subsidiaries within APO's Finance Department might be one of the reasons why appropriate accounting treatment was impaired. Thus, the Committee considers that the system needs to be reexamined, such as by splitting the accounting and budget management divisions.

Chapter 7 Issues at FX

1. Unique Issues at FX

The Committee conducted a survey, etc. and obtained information to the effect that sales in relation to transactions with customers were recorded early to facilitate achieving sales targets in several transactions executed at multiple FX departments. As examples of methods of recording sales early, the Committee received responses such as the method in which, before the customer's official approval procedures were complete and when the order is mostly expected, by agreement with the end customer an order is obtained from a wholesales company and sales are recorded at that time, the method in which, before installation at the customer, deliveries are made and installed internally and then sales are recorded, and the method in which documents are collected before inspection and then sales are recorded.

With respect to responses having identifiable information, the Committee carried out information sharing with FH to the extent necessary. In addition, for individual answers that were considered to be particularly important, certain investigations were carried out with the cooperation of FH. As a result of those investigations, the Committee received a report stating that the investigation showed no issues that affect the financial results for the current period.

Meanwhile, respondents raised issues that include unreasonable budgets being prepared at their responsible departments, and pressure to achieve fiscal year-end, quarterly, and monthly targets.

The Committee expects further improvements in the future from FH and FX so that this pressure does not lead to inappropriate accounting practices.

2. Why Inappropriate Accounting Practice Could Not Be Prevented

(1) Introduction (relationship with APO and FXAP)

FX has Asian Pacific Operations (APO) as the division that manages the Asia Pacific region. APO is a division of the FX organization that oversees sales subsidiaries in the Asia Pacific region, such as FXA and FXNZ. The departments within APO consist of the Finance Department, the Sales Planning Department, the Marketing Department, the Human Resources Department, the Customer Support Department, the Information Systems Department, and the Supply Chain Management Center.

Meanwhile, FXAP is a subsidiary of FX that has sales subsidiaries in the Asia Pacific region, such as FXA and FXNZ, as subsidiaries. FXAP's organizational structure is identical to APO's, and it also consists of the Finance Department, the Sales Planning Department, the Marketing Department, the Human Resources Department, the Customer Support Department, the Information Systems Department, and the Supply Chain Management Center.

APO's head (Executive General Manager of Asia Pacific Operations) holds dual positions, as a Corporate Vice President of FX and President of FXAP. Similarly, the heads of the Finance Department, the Sales Planning Department, the Marketing Department, the Human Resources Department, the Customer Support Department, the Information Systems Department, and the Supply Chain Management Center within APO also respectively serve as the heads of the Finance Department, the Sales Planning Department, the Marketing Department, the Human Resources Department, the Sales Planning Department, the Marketing Department, the Human Resources Department, the Sales Planning Department, the Marketing Department, the Human Resources Department, the Sales Planning Department, the Information Systems Department, the Human Resources Department, the Customer Support Department, the Information Systems Department, and the Supply Chain Management Center of FXAP.

In other words, although there is a fundamental difference between APO that is a sales headquarters within FX, and FXAP that is an overseas subsidiary of FX, there is considerable overlap in the roles and personnel of both. Therefore, it cannot be ruled out that this constitutes a vague organizational structure, in which it cannot be ascertained whether a given internal decision or the execution of that business is being performed by APO, which is an organ of FX, or by its overseas subsidiary FXAP.

(2) Inadequate management system on FXAP and APO

(i) The maintenance and operation of the subsidiary management rules for the management of FXAP and the internal rules for APO at FX are unclear.

As stated above, FXAP is a FX subsidiary, but FX has not prepared any management rules regarding FXAP's activities. On the other hand, APO is an organization that exists within FX, and one would expect the decision-making regarding APO to follow certain approval rules within FX.

Some important events occurred with respect to the Matter, including: (a) latent risks were discovered in the MSAs at FXNZ based on a whistleblower letter and email in July and September 2015, and (b) a management restructuring plan at FXNZ was developed mainly because of the risks in the MSAs executed in July and August 2016.

In the Matter, there is no record at FXAP that shows any measures to address risks were considered based on internal rules, even though there were the risks concerning itself and its subsidiaries. On the other hand, the Committee believes that approval procedures at FX were deemed unnecessary according to the approval rules regarding these events at APO. So, it is difficult to say that the above-mentioned rules at FXAP and APO were functioning adequately.

(ii) Furthermore, on the topic of decision-making at FXAP, FXAP does not produce or retain minutes of discussions at management bodies (e.g., the board of directors). As a result, the FX side cannot sufficiently verify what kind of discussions have taken place within FXAP. (iii) On the other hand, according to an interview with Mr. R (the former Executive General Manager of APO), in the circumstances of the Matter concerning FX, when giving reports to FX regarding APO at the time, although reports were traditionally supposed to be directed to President Mr. AA of FX, reports were actually given to Executive Vice President Mr. w of FX at Mr. w's direction. When considering how such rules were administered, it is evident that clear written rules were not in place regarding whom APO should report to at FX, and that actual operation was not based on such rules.

So, when an important decision was made at APO in the Matter, Mr. R (the former Executive General Manager of APO) effectively took up the matter directly with Deputy President Mr. y and the top management at FX, including Executive Vice President Mr. w of FX, and effectively obtained approval within FX by obtaining their agreements. A decision-making process relied on personal relationships with insufficient transparency was accepted.

Furthermore, the Business Planning Department of FX's Corporate Finance Department was in charge of APO's financial results management, but its management was only on financial results, and it was not overall control of APO. Management and supervision of APO by the Corporate Finance Department was not expected under this system.

(3) Inadequate management system at each subsidiary under APO's management

(i) There are no clear written subsidiary management rules at FX regarding the direct management of subsidiaries under APO's management. There is a set of rules called the Communication Matrix between FXAP and the subsidiaries under APO's management, but the Matrix does not stipulate provisions about the relationship with FX. Thus, there were no clear rules calling for direct communication with or reporting to FX, even when an important matter arose at a subsidiary under APO's management.

Furthermore, according to interviews with Chairman Mr. HH and President Mr. AA of FX, it seems that it was customary to obtain the approval of the President of FX when replacing the presidents of subsidiaries under FXAP's management. However, this is not an explicit rule, so there remain doubts about its effectiveness as a management and supervision system.

In fact, according to an interview with President Mr. AA and Deputy President Mr. y of FX, the management of subsidiaries under APO's management was basically left to APO. The Committee surmises that this reality is related to the historical background of both FXA and FXNZ being corporations that were transferred from XC, but that cannot be a reason to justify that there were inadequacies in FX's management system for subsidiaries under APO's management.

- (ii) Furthermore, communications between FX and the subsidiaries under APO's management were basically conducted through APO, and according to an interview with Mr. GG, the Team Manager of Accounting Services at the Consolidation Accounting Group in the Corporate Finance Department of FX, APO had made a strong request that employees at FX headquarters be sure to go through APO when communicating with subsidiaries under APO's management. While this type of operation may have a certain efficiency in that APO is the centralized point of contact for subsidiaries under its management, if it becomes rooted as an overly rigid operation, it will have the effect of interfering with FX flexibly gathering information from subsidiaries under APO's management.
- (4) Inadequate management system for information sharing between FX and APO and subsidiaries under APO's management
 - (i) According to FX's Business Report (for the fiscal year ended March 2016; references to the Business Report below refer to the same report; note that a summary of FX's internal control system is mentioned in Chapter 2), one of the provisions under the "System to Ensure Fair Business Practices at the Corporate Conglomerate Comprising the Company and its Parent Company and Subsidiaries" states that "A system will be built that compels subsidiaries to report to the company regarding important decisions and information regarding financial conditions or management at subsidiaries."

However, due to some causes including irregularities under the management system at APO and its subsidiaries as mentioned above, it is observed that even important information was not being shared between FX and APO or the subsidiaries under APO's management. For example, according to materials obtained by the Committee and the results of interviews with related persons, the Committee has found facts such as the following.

(a) FXNZ obtained written opinions from Accounting Firm 1-2 in October 2009 and from Accounting Firm 2-2 in November 2009. The conclusion of both written opinions was that it was reasonable to record lease contracts as capital leases. However, each opinion's conclusion that it was reasonable to record lease contracts as capital leases was only in regard to lease contracts based on the standard MSA contract newly provided by FXNZ to the audit firms when the written opinions were obtained, and both opinions stated that contracts that wording had been added or revised from the standard contract should be judged on a case-by-case basis.

However, according to an interview with FC Mr. T of APO, he only sent those reports to FX's Corporate Finance Department when the investigation was conducted by SFO (in September 2016).

Furthermore, a document from an anonymous sender indicating the over-stated recording of revenue at FXA was sent to XC in May 2015, and again in July 2015, a person named Tony Night sent an e-mail to directors and others at FX indicating, among other issues, the over-stating of revenue and recording of revenue without the installation of equipment at FXNZ. FC Mr. T of APO has also stated that the persons responsible for responding to that document and e-mail must have been aware of the existence of the aforementioned written opinions from Accounting Firm 1-2 and Accounting Firm 2-2.

Consequently, it is possible that the information in the written opinions from Accounting Firm 1-2 and Accounting Firm 2-2 was not shared with FX headquarters in a timely fashion.

- (b) COO Mr. FF of FXNZ examined scenarios for making CFO Mr. B of FXNZ resign, and he requested that Accounting Firm 4 produce a report on accounting functions to provide evidence to underpin the reasons for the resignation. The report by Accounting Firm 4 contained a number of harsh findings about FXNZ's accounting functions, including that it had not assembled accounting evidence that could be presented to APO as risks and lacked functions that could balance the aggressive sales mindset, that it relied on fiscal year-end compliance audits and performed insufficient monitoring of the status of compliance with accounting policies during the fiscal year, and that errors had occurred in the financial results due to the irregular application of accounting standards for the recording of inventory and sales, and the like. However, because the production of this report was requested by FXNZ in order to dismiss CFO Mr. B of FXNZ, it was never submitted to APO. The findings of Accounting Firm 4 in this report were mentioned in the Fraud Letter by the audit firm in March 2017.
- (c) Information concerning the report by Accounting Firm 1-2 (dated September 9, 2015) that raised concerns in advance of the financial results (e.g., long-term receivables, unclear adjustments) also was not shared with anyone besides Mr. B, the CFO of FXNZ at the time. This report was discovered by Mr. K, who assumed the post of CFO of FXNZ in February 2016, and who reported it to FXAP and FX.
- (ii) Thus, despite there even being reports by outside organizations that discovered concerns about accounting at FXNZ, there is a situation where they were not promptly shared with FX. The Committee therefore believes that this was one cause behind the delay in the discovery of the inappropriate accounting by FX in the Matter.

(5) Insufficient Transparency in FX Company Rules regarding APO

(i) According to FX's Business Report, one of the provisions under the "system for ensuring that the execution of duties by directors complies with laws, regulations, and the articles of incorporation" states that "Compliance with laws, regulations, and the articles of incorporation will be secured through the establishment of rules regarding compliance with laws, regulations and the articles of incorporation, and rules regarding board of directors, and through the execution of duties by directors in adherence to those rules".

However, as noted above (in Chapter 7, section 2(2)), sufficient rules for the management of FXAP were not maintained at FX. Neither were there clear rules on the reporting line from FXAP to FX. In addition, one would expect that matters concerning APO, which was part of FX's organization, would be governed by the approval rules, but the Committee could not find that such rules were complied with. So, the Committee believes that obscure company procedures were followed without a clear understanding as to whether FXAP needed to make a decision or whether APO needed to make one in the Matter.

For example, the Committee finds that in reality important decision-making at APO was approved within FX by way of Mr. R (the former Executive General Manager of APO) directly contacting Deputy President Mr. y and Executive Vice President Mr. w of FX and obtaining their acknowledgement. This can be explained by the fact that both Deputy President Mr. y and Executive Vice President Mr. w of FX had previously worked as managers at APO, but it cannot be denied that important decision-making was carried out at APO through communications based on the personal relationships between Mr. R (the former Executive General Manager of APO), Deputy President Mr. y and Executive Vice President Mr. w of FX. Of course, it seems that President Mr. AA of FX was reported to as necessary during important decision-making at APO, but in any event this procedure was not based on an explicit rule.

Thus, the transparency of procedures within FX regarding important decision-making at APO is extremely low.

(ii) For instance, the Committee could not find in the meeting minutes any record of deliberation taking place at the FX board of directors or the FX Corporate Executive Committee regarding the handling of a reserve in the amount of about NZ\$38 million in FXNZ's financial results for the fiscal year ended March 2016.

In interviews, Mr. DD, the Group Manager of the Consolidation Accounting Group at the Corporate Finance Department of FX, and Mr. GG, the Team Manager of Accounting Services at the Consolidation Accounting Group in the Corporate Finance Department, stated that Mr. R (the former Executive General Manager of FXAP) first received approval of this handling of the reserve from Deputy President Mr. y and Executive Vice President Mr. w of FX, and that General Manager Mr. BB of FX's Corporate Finance Department also agreed to it. Therefore, matters such as the appropriateness of the aforementioned handling of the reserve were never debated again.

- (iii) While this method of decision-making at APO, FXAP, and subsidiaries under the management of APO may promote swift decision-making at APO, FXAP, and subsidiaries under the management of APO in certain respects, carrying out these opaque procedures results in inviting the negative effect of related departments within FX being unable to objectively verify the pros and cons of the details and procedures of such decision-making.
- (6) Tendency of Concealment by Deputy President Mr. y and Executive Vice President Mr. w of FX and Others
 - (i) There was a tendency of concealment regarding reporting of information, in that some of the top management at FX, including Deputy President Mr. y and Executive Vice President Mr. w of FX, were reluctant to report information that would have a negative impact on business. For example, according to materials obtained by the Committee and the results of interviews with Mr. R (the former Executive General Manager of APO), CFO Mr. CC of APO, and FC Mr. T of APO, the Committee has found facts such as the following.
 - (a) A document from an anonymous sender indicating the over-stated recording of revenue at FXA was sent to XC in May 2015. Moreover, in July 2015, a person named Tony Night sent an e-mail to directors and others at FX indicating, among other issues, the over-stating of revenue and recording of revenue without the installation of equipment at FXNZ.

In response, FX and FXAP conducted a special audit of FXNZ and FXA in July 2015. The Committee obtained multiple statements that, at a meeting held in Shanghai on August 10, 2015 at which the content of a report to President Mr. AA of FX was discussed, Deputy President Mr. y and Executive Vice President Mr. w of FX instructed FC Mr. T of APO to write in the first place that there is no problem. Furthermore, the Committee obtained multiple statements that, in Tokyo on August 19, 2015, instructions were given that it be stated that "no cases of overstated revenue were found" in the report to President Mr. AA of FX, and that Executive Vice President Mr. w instructed that any mention of Counterparty 1 be deleted from the report. After going through this process, the report to President Mr. AA of FX, "FXNZ Business Trip Report (Audit Report)" dated August 19, 2015, stated that there were no serious problems in regard to the Matter.

After receiving this result, on August 20, 2015 FX reported respectively to both the person called Tony Night and XC that serious problems had not been discovered.

Thus, there is a possibility that the instructions of Deputy President Mr. y and Executive Vice President Mr. w of FX caused the plain facts uncovered in the investigation to not be accurately reported to Chairman Mr. HH and President Mr. AA of FX.

(b) After receiving the report by Mr. K, "FXNZ Accounting Review (Reporting Materials for the Chairman and President)" dated February 12, 2016, a report from FXAP to President Mr. AA of FX, "FXA/FXNZ Audit Risk and Responses" (dated February 26, 2016) was prepared, and a report was made based on that.

However, the aforementioned report was revised at the instruction of Deputy President Mr. y and Executive Vice President Mr. w of FX until it reached its final version, and there is the possibility that the facts were no longer reported accurately during the process of reporting to the Chairman and President of FX, such as by not including the audit risk concerning the Macro Adjustment.

(c) In May 2016, the Internal Audit and Analysis Department and the Corporate Finance Department of FX conducted an internal audit of FXNZ. The results of that audit were reported to President Mr. AA of FX on June 23, 2016.

However, during that audit, the Internal Audit and Analysis Department of FX was requested by General Manager Mr. BB of FX's Corporate Finance Department to exclude past facts, such as the details of previous transactions, from the subject of the audit (see "Instructions Received by the Internal Audit and Analysis Department from Officers, etc. during Audit and Reporting Activities" dated April 27, 2017).

In addition, an e-mail sent by CFO Mr. CC of APO to General Manager Mr. BB of FX's Corporate Finance Department on April 27, 2016 contained the following statements regarding the conduct of the audit.

"I wonder if this matter is done with the knowledge of the Corporate Finance Department of the Head Office or Mr. w, Executive Vice President. Or, is this something that the Internal Audit and Analysis Department doing on its own? To be frank, if we were to start looking into contracts dating back to the time of the former President Mr. A and former CFO Mr. B, there will be problems. That's why things were put to stop last October and now we're trying to get rid of the responsible parties. I am confused as to the reason and the background for once again auditing NZ at this time and therefore struggling to handle the situation." Although the true intent of this e-mail is unclear, because problems would be uncovered if contracts from previous years were audited, it is possible that it was the intention of Mr. w, Executive Vice President, and Mr. BB, General Manager of FX's Corporate Finance Department to have FX Corporate Finance Department ask FX Internal Audit and Analysis to exclude previous years from the scope of the audit.

(d) On July 22, 2016, President Mr. AA of FX, Deputy President Mr. y of FX, Executive Vice President Mr. w of FX, and General Manager Mr. BB of FX's Corporate Finance Department, Mr. R (the former Executive General Manager of APO), and CFO Mr. CC of APO held a private meeting regarding a restructuring plan for FXNZ. Mr. R (the former Executive General Manager of APO) and CFO Mr. CC of APO reexamined the restructuring measures based on instructions given by President Mr. AA of FX at the private meeting on July 22, 2016. Then, they analyzed contract data regarding the future losses due to past MSAs, which is a factor behind the loss-making structure, and calculated that future losses due to MSAs would be NZ\$70 million.

Mr. R (the former Executive General Manager of APO) and CFO Mr. CC of APO compiled the restructuring measures for FXNZ that they had reexamined, reported them to Executive Vice President Mr. w of FX on August 23, 2016, and also reported them to Deputy President Mr. y of FX on the same date.

However, on August 25, 2016, Deputy President Mr. y of FX instructed that the slide showing that legacy losses from the MSAs would be NZ\$70 million, and also the breakdown of those losses, be deleted from the materials for the report to the President.

The fact that the amount of future losses due to MSAs could be up to NZ\$70 million was reported orally to President Mr. AA of FX. However, although President Mr. AA of FX was aware of NZ\$70 million as a business risk at FXNZ, the Committee did not find evidence sufficient to recognize that he was aware that it required a loss charge in terms of its accounting.

(e) In September 2016, FC Mr. T of APO sent an e-mail to Mr. GG, the Team Manager of Accounting Services at the Consolidation Accounting Group in the Corporate Finance Department of FX, stating that if the written opinion that FXNZ acquired from Accounting Firm 1-2 in October 2009 and the written opinion that FXNZ acquired from Accounting Firm 2-2 in November 2009 were presented to the audit firm, it was possible that all contracts would be checked, and that the application of lease accounting (capital lease treatment) would be rejected, so they should not be presented to the audit firm. This e-mail was also forwarded to Mr. DD, the Group Manager of the Consolidation Accounting Group at the Corporate Finance Department of FX.

Although the Committee was unable to ascertain how this e-mail was subsequently shared among officers of FX, it is possible that APO or FX's Corporate Finance Department had a negative posture towards undergoing a proper audit by the audit firm.

(f) The news report about FXNZ and the reputation damage from rumors and the like were reported at the Internal Audit and Analysis Department's regular meeting with President Mr. AA of FX that was held on October 28, 2016, and according to the record in the minutes of the Internal Audit and Analysis Department, President Mr. AA of FX made statements such as the following.

"People involved in a problem conceal the problem. Mr. R says there's no problem. The Corporate Finance Department says there is no problem. Mr. w says there's no problem. They tell me that it's a complicated issue and so I might not understand, but there's no problem. Mr. y says the same thing. That causes doubt. I therefore spoke with the Chairman, and I told him that this is bad. I also reported to the shareholders."

- (g) In October 2016, a UK research company requested a comment on the NBR article from FH. When FH-CC checked with FX's Corporate Communications Department about how they should respond, Deputy President Mr. y of FX only explained to President Mr. WW of FH that the over-stated revenue and accounting irregularities like those in the NBR article were not factual, and that efforts were made such prohibiting MSAs as a general rule since September 2015, and he did not explain the risks at FXNZ.
- (h) On October 7, 2016, a meeting was held among three people from Accounting Firm 2 and five people from FX (including General Manager Mr. z of the Legal Department; Mr. DD, the Group Manager of the Consolidation Accounting Group at the Corporate Finance Department; and Mr. GG, the Team Manager of Accounting Services at the Consolidation Accounting Group in the Corporate Finance Department). At this meeting, FX reported to Accounting Firm 2 that the over-stating of revenue and accounting risks at FXNZ to Accounting Firm 2. The results of this meeting were e-mailed by Mr. GG, the Team Manager of Accounting Group in the Corporate Finance Team Manager of Accounting Firm 2. The results of this meeting were e-mailed by Mr. GG, the Team Manager of Accounting Services at the Consolidation Accounting Group in the Corporate Finance Department, to General Manager Mr. BB of FX's Corporate Finance Department, who acknowledged the content of the report.

(i) In an interview with the Internal Audit and Analysis Department of FX, it was stated that Executive Vice President Mr. w of FX has made statements such as the following to the Internal Audit and Analysis Department of FX.

January 20, 2017

When FX's Internal Audit and Analysis Department staff reported to Executive Vice President Mr. w on the situation after the audit in December 2016, he told them:

"We are trying to achieve a soft landing so do not rock the boat. We need to think of a way to conclude this Matter or we risk getting the audit division involved and losing the trust of FX management."

February 20, 2017

When FX's Internal Audit and Analysis Department staff tried to report on the FXNZ matter to General Manager Mr. TT of FX's General Affairs Department, he told them:

"I am handling the numbers myself with Corporate Finance, so don't make too many moves."

March 10, 2017

When FX's Internal Audit and Analysis Department staff mentioned the details reported at the corporate auditor meeting on March 7, 2017, he told them:

"The Internal Audit and Analysis Department staff are on an executive side, so reporting those types of cases will be a betrayal of management."

According to Mr. w, Executive Vice President of FX, the intention behind these statements was that he was concerned about information becoming mixed up at the stage when the numbers were not fixed.

- (ii) Thus, some of FX's top management, including Deputy President Mr. y and Executive Vice President Mr. w of FX, had opportunities to know about latent risks at FXNZ, but they did not make proper information disclosures to the people who should have received them, including Chairman Mr. HH, President Mr. AA or the Corporate Auditors of FX, FH, or the audit firm.
- (7) Inadequate Reporting to Chairman Mr. HH and President Mr. AA of FX
 - (i) President Mr. AA of FX ordered the Internal Audit and Analysis Department to conduct the internal audit in May 2016, and ordered the continuous investigation from December 2016 onwards, but the actual situation regarding the accounting risks of the Matter could not be grasped.

As stated above, the reason for this might be that only Deputy President Mr. y and Executive

Vice President Mr. w of FX, Mr. R (the former Executive General Manager of APO), and General Manager Mr. BB of FX's Corporate Finance Department, among others, shared important information regarding FXNZ's issues concerning the Matter, and were trying to address the issues within themselves. Therefore, important information about latent risks regarding FXNZ was not quickly reported to Chairman Mr. HH and President Mr. AA of FX.

- (ii) The Committee surmises that the personal connections between Deputy President Mr. y and Executive Vice President Mr. w of FX, both of whom previously worked as managers at APO, and Mr. R (the former Executive General Manager of APO), or the personal relationships of the members of the board of directors might affect the cause of the issue, but the real cause is unclear. In any event, it is possible that the inadequate reporting to FX's top management, including Chairman Mr. HH and President Mr. AA, could have led to FX's delayed response to the issues concerning the Matter.
- (8) Oversight Function by the Board of Directors Was Inadequate
 - (i) The Companies Act expects the board of directors to perform an oversight function of the execution of work by each director. However, as stated above, the Committee found no record of deliberation at FX's board of directors regarding the Matter (nor any record of deliberation at FX's Corporate Executive Committee, as stated above), and the board of directors' oversight did not function properly. Therefore, this could be why FX was unable to detect early or prevent the inappropriate accounting practice of the Matter.
 - (ii) As discussed above, it is possible that there was a lack of appropriate information sharing with the Board of Directors because some members of FX's management tried to handle matters in secret, which might be a cause of the Matter. Therefore, circumstances may have been such that the directors who were not involved in the Matter could not have knowledge of the true nature of the Matter and thus there was no opportunity to begin monitoring activities through the Board. At a minimum, however, there existed the following facts regarding the Matter that could have been easily discovered, and it cannot be said that there was no opportunity whatsoever for directors to harbor doubts about FXNZ's management, and accounting practices, and commence monitoring activities through the Board of Directors.
 - (a) In May 2015, an unknown source sent XC a document showing the over-statement of revenue at FXA. In July 2015, a person called Tony Night sent FX's Board of Directors an email citing issues such as FXNZ's over-stating of revenue and improper recognition before machine installation.

(b) FXNZ recognized NZ\$38 million reserve for the fiscal year ended March 31, 2016.

- (c) In a September 2016 article, NBR reported that FXNZ faced significant losses.
- (9) Audit Function by Corporate Auditors Was Inadequate
 - (i)The Companies Act expects corporate auditors to perform a checking function over the directors' execution of work. However, the Committee could not confirm that the corporate auditors had carried out early and appropriate audit activities regarding the inappropriate accounting practice of the Matter, and consequently the corporate auditors' audits did not function properly.
 - (ii) As for FX's audit system, the full-time corporate auditors of FX and FX's domestic subsidiaries share information at the All-FX Board of Corporate Auditors Meetings that are held once every few months. However, this sharing of information does not happen between FX and its overseas subsidiaries. Therefore, a system that allows FX's corporate auditors to obtain information from overseas subsidiaries is not being adequately maintained, which may be one of the issues.
 - (iii) As there was insufficient information sharing within FX regarding the Matter, circumstances may have been such that FX could not get a picture of the true nature of the Matter and there was no trigger for starting audit activities. However, FX's Corporate Auditor Mr. PP at least received a report on the results of an audit by FX with respect to the email from Tony Night in July 2015. Additionally, in light of the facts discussed above in (8)(ii)(b) (accounting treatment using a reserve in the fiscal year ended March 31, 2016) and (c) (the NBR article), it cannot be said that there was no opportunity, as a Corporate Auditor, to harbor doubts about FXNZ's management and its accounting practices, and start internal audit activities. In spite of this, however, it seems that FX's Corporate Auditors only commenced activities regarding the Matter in earnest following a report on the Matter at the regular meeting with FH's Audit & Supervisory Board on December 20, 2016, and it is possible to point out that there was insufficient audit activities by corporate auditors.
- (10) Issues regarding Internal Audit and Analysis Department
 - (i) Two internal auditors are stationed at APO and are responsible for auditing, etc. of the overseas sales subsidiaries under APO's management, such as FXA and FXNZ, and they are basically in charge of overall audits (when the internal auditors conduct an audit of an overseas sales subsidiary, they discuss the audit planning with the Internal Audit and Analysis Department). Therefore, there is basically no mechanism for the FX Internal Audit and Analysis Department to directly conduct audits of the overseas subsidiaries.

- (ii) As for the Internal Audit and Analysis Department personnel, currently there are only three members assigned to internal audits (overseas) in the Internal Audit and Analysis Department. The Committee is inclined to have an impression that the audits conducted by these staff members of all the overseas subsidiaries may be insufficient.
- (iii) While the Internal Audit and Analysis Department is under the direct management of the President, in the Matter at hand, audits of overseas sales subsidiaries under the management of APO are conducted jointly with APO's audit team, and there are questions as to whether FX was able to independently and proactively conduct audits in accordance with its own policies. In fact, in the internal audit conducted in May 2016, it is possible that there may have not been a strictly enforced policy of having the department function independently, directly under the President, given that FX's General Manager of the Corporate Finance Department, Mr. BB, also issued requests to have past facts removed from the scope of the audit.
- (iv) In this way, the current Internal Audit and Analysis Department failing to exercise adequate audit functions from the perspective of authority, personnel, and independence, is regarded as one cause of the delay in discovery of the accounting irregularities in the Matter.
- (11) Issues regarding Corporate Finance Department
 - (i) The Committee found the following facts based on materials it obtained and interviews it conducted with Group Manager Mr. DD and Manager Mr. GG of FX's Corporate Finance Department. According to the facts, it is possible that although FX's Corporate Finance Department harbored concerns about the accounting treatment at FXNZ, it may not have examined or discussed again the appropriateness of the accounting treatment because General Manager Mr. BB of FX's Corporate Finance Department already approved the accounting treatment of FXNZ, along with FX Deputy President Mr. y and FX Executive Vice President Mr. w. FX's Corporate Finance Department was unable to go against the intention of FX's management, and there may be an internal culture where they could not independently check accounting issues.
 - (a) When the email from Tony Night was received in July 2015, FX's Corporate Finance Department was contacted immediately, and FX's General Manager of the Corporate Finance Department, Mr. BB, handled the issue as one of the people in charge.
 - (b) The report examining FXNZ's risks titled the "FXNZ/FXA Accounting Treatment Impact Report" (dated October 27, 2015) prepared by FXAP (APO Finance) was shared with FX's General Manager of the Corporate Finance Department, Mr. BB, in a timely manner.

- (c) The FXA/FXNZ Audit Risk Response Report (dated February 26, 2016) in February 2016 was also shared with FX's Corporate Finance Department by Mr. T, APO FC.
- (d) When preparing FXNZ's financial statements for the fiscal year ended March 31, 2016, Manager Mr. GG of FX's Corporate Finance Department was aware of Macro Adjustments and others and confirmed the details with Mr. T, APO FC. However, because the accounting treatment for provisions had already been approved by FX Deputy President Mr. y, FX Executive Vice President Mr. w, and FX General Manager of the Corporate Finance Department Mr. BB, they had no choice but to process the provisions as is.
- (e) Group Manager Mr. DD of FX's Corporate Finance Department participated in two audits of FXNZ by FX's Internal Audit and Analysis Department (conducted in May and December of 2016).
- (ii) According to the interviews with Group Manager Mr. DD and Manager Mr. GG of FX's Corporate Finance Department, the framework was structured so that FX's Corporate Finance Department was unable to view the individual figures of subsidiaries under FXAP, and if it was necessary to do so they had to contact FXAP. This framework may have made it impossible for FX's Corporate Finance Department to carry out timely collection of information on FXNZ'S accounting treatment and other issues.
- (iii) For these reasons, FX's Corporate Finance Department was unable to independently investigate and improve the appropriateness of accounting treatment at subsidiaries under FXAP, despite being aware of the potential risks at FXNZ.
- (iv) As pointed out in Chapters 3 through 6, an accounting department is traditionally supposed to serve the functions of ensuring appropriate accounting treatment and act as a check-and-balance function for a company, using its specialized accounting knowledge. This Committee cannot deny that FX's Corporate Finance Department's failure to perform the appropriate check-and-balance function because it was also responsible for financial performance management may have affected the above-mentioned circumstances. This point needs to be examined from the organizational viewpoint.
- (12) Sales-Centric Corporate Culture

In the interviews conducted by the Committee, many individuals stated that FX's internal plan was to increase sales in the Asia and Oceania regions at all event, even though domestic sales in Japan were stagnating, and that the local bases of operation were aware of difficult sales targets being set for them as a result. According to surveys conducted by the Committee, employees in Japan reported instances of strong pressure being applied with respect to sales results. This report did not relate to FXNZ, but is regarded as potentially giving insight into the corporate culture throughout FX.

This kind of sales-centric corporate culture abhors falls in sales, and it is possible that it may have viewed appropriate accounting practices as relatively unimportant.

(13) Insufficient Awareness of Compliance

As already discussed, the tendency of concealment by some members at FX's upper management was one of the causes of the Matter, and it cannot be denied that they failed to make appropriate reports of the facts and risks in a timely manner. Therefore, FXNZ's accounting risks were not appropriately reported to FX's Board of Directors and Corporate Auditors at an early stage. This shows the lack of importance they placed to the internal control systems as outlined in the Companies Act. Additionally, there was interference by other officers and employees when the Internal Audit and Analysis Department conducted audits, which may have resulted in inadequate investigation activities.

The Committee cannot deny the possibility that the insufficient awareness of compliance at FX led to the delayed discovery of or contributed to the inappropriate accounting practice of the Matter.

3. Measures to Prevent Recurrence (Reform Measures)

(1) Rebuilding Subsidiary Management System

The Committee believes that the rebuilding of thorough and clear rules that establish a management system for overseas subsidiaries is a pressing issue for FX. Ideally, the rules should include comprehensive provisions for general management, including the responsible divisions at FX, who to contact at the overseas subsidiaries, a command system, the personnel structure of the overseas subsidiaries, a reporting system, and ways for sharing information.

(2) Strengthening of Objectivity and Transparency in Company Procedures

Clear rules need to be established at FX that lay out the exact procedures to be followed for making important decisions at overseas subsidiaries. At a minimum, it is undesirable to leave the custom or administration method in which the head of the APO or presidents of overseas subsidiaries speak directly to some of FX's management team to get an approval, and by doing so, a de facto consensus is obtained inside FX. In a decision-making process like this, people in or outside the company cannot verify the appropriateness of the decision-making details or procedures, and it therefore may not be possible to prevent an illegal or inappropriate decision.

(3) Fully Functioning Internal Audit and Analysis Department and Strengthened Authority

The Internal Audit and Analysis Department should have a robust organizational system and be granted authority as an audit department under the direct supervision of the President. The activities of the Internal Audit and Analysis Department should also be publicized within the company to garner active support internally, and the internal environment and officers' and employees' awareness need to be reformed so that the Internal Audit and Analysis Department can fully perform its capabilities. Furthermore, audit results from the Internal Audit and Analysis Department should be shared with not only President, but from the perspective of sharing information, FX should also examine an option of building and operating a system for sharing information whenever appropriate with corporate auditors or the board of corporate auditors.

(4) Strengthening of Checking Function of the Corporate Finance Department

Traditionally, an accounting department is supposed to serve the functions of securing appropriateness and implementing the check-and-balance function regarding the accounting treatments of a company by using its expert accounting knowledge, but at FX, the Comprehensive Planning Group of the Corporate Finance Department is in charge of managing the budget and results of overseas subsidiaries, and the focus is more likely to be on the management and achievement of results rather than the management of proper accounting treatments or demonstrating the supervisory function. There is room to rethink the allocation of roles under this kind of organization.

As an organizational system, FX's Corporate Finance Department could not directly share figures or information about each subsidiary's accounting treatments under APO's management, and in practice APO had to be contacted each time the necessity arises. If FX's Corporate Finance Department is going to secure the appropriateness of accounting practices and implementing the check-and-balance function over the subsidiaries, then a system needs to be built that will enable flexible and unified management of the figures or data of each subsidiary under APO's management, even if there are merits to a unified information sharing system that goes through APO.

(5) Invigoration of the Board of Directors and Corporate Auditors

Under the Companies Act, the board of directors and corporate auditors play the central role as the organs monitoring the execution of duties by directors. At FX, these organs cannot be said to have been functioning sufficiently. As a "system for directors and employees, etc. of the Company and its subsidiaries to report to corporate auditors and system for other reports to the Company's corporate auditors" FX's Business Report states to the effect that "directors and key employees report facts that pose a risk of causing significant damage to the Company, as well as fraud, or breaches of laws, regulations, or the articles of incorporation to the Company's corporate auditors" and "directors, corporate auditors, and key employees of subsidiaries, and persons receiving reports from such persons, report facts that pose a risk of causing significant damage to such subsidiary or the Company, as well as fraud, or breaches of laws, regulations, or the articles of incorporation, to the Company's corporate auditors."

Going forward, an approach is needed that will invigorate the activities undertaken by the board of directors and the corporate auditors by ensuring greater awareness among officers and employees.

(6) Information sharing that leverages a whistleblower system

Whistleblower systems are discussed below (Chapter 9), but of the whistleblower information known within the FX Group, only major matters, such as disciplinary matters or matters that pose a significant risk to business operations, were reported to FH. The judgment as to the importance of each matter was left to the discretion of the FX Group, and if information was arbitrarily concealed on the FX side, it would be difficult for FH to use the whistleblower system to actively discover/know of, and respond to, the matter. Therefore, FH should re-examine how systems should be operated in the FX Group and how whistleblower information in the FX Group should be shared with FH, such as structuring it so that whistleblowers can contact FH directly.

That said, the email from Tony Night in July 2015 did not utilize any whistleblower systems of FXNZ, APO, FF, or the FX Group, and the whistleblowing was carried out by sending emails directly to FX's management and related persons at XC.

This may have been because Tony Night did not know of the existence of these whistleblowing systems, or because Tony Night intentionally avoided using the whistleblowing systems due to doubts as to the trustworthiness or effectiveness, etc. of such systems.

It is possible that the whistleblower system was inadequately publicized to potential users of the system in July 2015, and that there are issues concerning whether the system is user friendly. (The whistleblower system is addressed again in Chapter 9.) FX should therefore consider measures for educating employees regarding the outline, etc. of the whistleblower system so that it becomes a fully functioning system.

Chapter 8 Issues at FH

1. Why Inappropriate Accounting Practice Could Not Be Prevented

(1) Inadequate Subsidiary Management System

- (i) According to FH's Business Report (for the fiscal year ended March 31, 2016; references to the Business Report below refer to the same report; note that FH's internal control system is as summarized in Chapter 2), there is a statement to the effect that "as a holding company, FH supervises the execution of business by its subsidiaries from the perspective of a shareholder, while also conducting uniformly, efficiently, and appropriately business which is common throughout the Group, and striving to maximize the corporate value of the FH Group" as one of the "Systems to Ensure Proper Operations in Our Group." In reality, however, it is possible that an adequate management system may not have been maintained and operated to manage FX.
- (ii) Firstly, FH has the "Fujifilm Group: Approval Rules for the Execution of Key Operations" as its rules for managing subsidiaries such as FF, but these rules do not apply to FX and FX's subsidiaries and affiliate companies.

Additionally, the standards for presenting matters to FH's Board of Directors are of course structured so that they require compliance by FX, but according to an interview with FH Director and General Manager of Corporate Planning Division Mr. UU, since the thresholds prescribed in the standards for presenting matters to FH's Board of Directors are high, FX rarely presents agenda proposals.

- (2) Structure for Monitoring FX
 - (i) Firstly, by having FH's officers attend meetings of the Board of Directors in the role of directors and corporate auditors of FX, presumably there was the expectation that they would fulfill a certain monitoring function. Out of the 12 directors that comprise FX's Board of Directors, three are from FH (or FF): Mr. VV, Mr. WW, and Mr. cc. The other directors are either full-time at FX or from XC. Also, Mr. ZZ is appointed as a corporate auditor from FH. Moreover, out of FX's Corporate Vice Presidents, only Mr. cc is from FH (or FF).

Presumably monitoring of FX's management conditions through the discussion of items for resolution and reporting at FX's Board of Directors had a certain effect. However, this was limited to matters presented to the Board of Directors, and its contribution to the early discovery of risk matters such as the Matter might be limited.

FH is FX's parent company, and it holds 75% of FX's shares. As a structure for managing the subsidiary, there is room to consider whether more directors and corporate vice presidents should have been sent.

- (ii) FX has an Officer Nomination and Compensation Committee, and two of the four members are Mr. VV and Mr. WW from FF. However, according to an interview with FH General Manager of Corporate Planning Division Mr. UU, it seems that in reality the Officer Nomination and Compensation Committee accepted personnel proposals from FX as-is, and there are doubts as to whether it functioned adequately to monitor the execution of FX's individual operations.
- (3) Inadequate Audit System in the Audit Function
 - (i) According to FH's Business Report, there is a statement to the effect that "FH has implemented a structure to enable FH's corporate auditors and their staff to regularly audit FH and its subsidiaries, in an effort to ensure the appropriateness of business" as one of the "Systems to Ensure Proper Operations in Our Group."

However, it is difficult to say that this kind of audit system was sufficiently established at FH.

- (ii) FH's corporate auditors performed audits of FX Head Office twice a year and 10-20 affiliated subsidiaries every year based on an audit plan, but it is debatable whether this level of auditing was sufficient. Further, there were only three support staff (including one assistant) in addition to the four FH corporate auditors in FH's Internal Audit Division. Therefore, it is possible that the auditing of the FX Group by corporate auditors was not functioning adequately.
- (iii) According to an interview with FH's General Manager of Internal Audit Division Mr. SS, the role of FH's Internal Audit Division centered on audits of FF. In relation to FX audits, it is not active, operating only to the extent of being an contact point for FF audit and FX audit information sharing, and with respect to FX audits, it left things to the FX Audit Department, which exceeded FX's capacity in terms of personnel numbers and systems. In fact, FH's Internal Audit Division audited FX only once a year in a special audit. Also when viewing the organization and system of FH's Internal Audit Division, the eight members of FH's Internal Audit Division one General Manager of Internal Audit Division, four persons in charge of internal audits, three Audit & Supervisory Board Member staff (including one assistant) all serve concurrently in FF's Internal Audit Division. It seems very likely that this kind of organization and system of the FH Internal Audit Division was not sufficient for adequate auditing of FX.
- (4) Inadequate Information Sharing Systems
 - (i) According to FH's Business Report, there are statements to the effect that "by regularly receiving reports regarding resolution matters and report matters of the boards of directors of

key FH subsidiaries, and requesting reports on other matters as necessary, FH manages and supervises the important operational executions in the FH Group" and to the effect that "FH proactively promotes the use of IT for the FH Group's operations, and strives to constantly improve the accuracy and efficiency of operational executions" as "Systems to Ensure Proper Operations in Our Group."

However, the reality seems to indicate that it was difficult for FH to obtain important information about the FX Group.

- (ii) As stated above, by FH's officers attending meetings of FX's Board of Directors as FX directors, presumably it was possible for there to be a certain amount of management and monitoring of the execution of important operations. However, it cannot be denied that it was insufficient as a system for collecting information on risk issues such as the Matter.
- (iii) With respect also to the Audit Department's information sharing system, regular meetings of the FH Audit & Supervisory Board Members and the FX Corporate Auditors (with the FH General Manager of Internal Audit Department and the General Manager of the Internal Audit and Analysis Department of FX also in attendance) were held only about three times per year. It is difficult to believe that there was sufficient sharing of information about audits between the companies.
- (iv) The General Manager, Corporate Finance Department of FX, gives a financial performance report to FH concerning FX's financial performance once each month as a regular monthly meeting to report on accounts, but no other information is shared.
- (v) FX and FH/FF carry out mutual personnel exchanges, and it is conceivable that they try to achieve routine information sharing. However, as mentioned below, according to an interview with FH General Manager of Corporate Planning Division Mr. UU, FX views XC as the parent company, and FX thus takes a somewhat passive stance on personnel exchanges with FH (or FF). According to the results of this interview, while at the staff level there are personnel exchanges in the engineering departments, there are almost no personnel exchanges to be seen other than that.
- (vi) It is presumable that a factor stemming from FX's background, from its establishment to the present day, as mentioned below, are one of the reasons why information sharing between FH and FX cannot be said to be adequate, but in any event, no adequate system has been built and

managed at FH in order to share FX's information, and it cannot be denied that this point very likely delayed the discovery of the inappropriate accounting practice in the Matter.

- (5) Insufficient Information was Collected through Investigation Activities
 - (i)This also relates to "(4) Inadequate information sharing systems" above, but there is room to consider whether FH's investigation activities with respect to the Matter were adequate. According to the materials obtained by the Committee and interviews, in summary, FH's understanding and its activities to gather material information concerning the Matter are as follows.
 - (a) FH-CC received a request for a comment regarding the NBR report from a UK research company on October 11, 2016. FH-CC therefore asked FX's Corporate Communications Department about the truth of the Matter and for a proposed response.
 - In response to this on October 13, 2016, Mr. y, Deputy President Mr. y of FX, reported to Mr. WW, President and Chief Operating Officer of FH Mr. WW as outlined below.
 - The over-stated revenue and accounting irregularities indicated in the NBR report were not factual.
 - There had been an e-mail from a person named Tony Night in July 2015, but thereafter MSAs had been strictly managed.
 - Accounting Firm 1's opinion in 2009 must be confirmed for safety's sake.
 - Activities to increase the health of the company will continue in the future.
 - (b) On December 5, 2016, the FH Internal Audit Division reported the following matters to Mr. WW, President and Chief Operating Officer Mr. WW of FH regarding the information it had obtained from Accounting Firm 2.
 - Evaluations of performance financial results from a sales-centric mindset had normalized inappropriate operations.
 - Transactions without guaranteed collection of MSA's minimum charges are occurring.
 - (c) On December 21, 2016 there was a report from the FX Internal Audit and Analysis Department to FH's General Manager of Internal Audit Division Mr. SS regarding the follow-up audit of FXNZ. the FH Internal Audit Division was not satisfied with the report and presented further questions to the Internal Audit and Analysis Department of FX. On December 26, 2016, the Internal Audit and Analysis Department of FX responded verbally to the FH Internal Audit Division regarding the additional questions presented by the FH Internal Audit Division on December 21, 2016.

- (d) On March 3, 2017, FX President Mr. AA and FX Deputy President Mr. y reported the following points to Mr. VV, FH Chairman, Mr. VV and Mr. WW, FH President and Chief Operating Officer Mr. WW.
 - The estimated impact on FX's P&L was around ¥3 billion, and it planned to offset the losses via gains on the sale of real estate held by FX Taiwan.
 - They had replaced FXNZ's former president.
- (ii) In this way, although FH properly carried out operations to collect information from FX, FH relied on the information reported by FX and it did not commence its own investigation. With respect to this point, as stated in Chapter 7 (Issues at FX), FX was not adequately sharing information about the situation with FH. Also, while the fact that FH relied on trustful relations between parent and subsidiary company cannot itself be criticized, the Matter involves inappropriate accounting practices, which by nature are hidden, so naturally it is difficult to clarify the truth of the matter. That being the case, it would be true that there were occasions when FH should have started its own, independent investigation, and this point, combined with the preceding paragraph ((4) Inadequate Information Sharing Systems), presumably is one of the factors that caused a delay in discovery of the inappropriate accounting practice in the Matter.
- (6) Relationship with FX's Shareholder XC
 - (i) FX was established as the sales company for Xerox copiers, initially with Japan as its sales territory, through establishing a joint venture between Fuji Photo Film Co., Ltd. (currently FH) and XC in February 1962 with each company investing 50%. Subsequently, FX successfully improved its operating results, expanded its activities to the manufacture and sale of products, and its territory grew to include China and South-East Asia, in addition to Japan. Currently, the business is structured so that FX manufactures Xerox products with technology licensed from XC, sells these products to XC, and XC sells these products all over the world.

With this background, Fuji Photo Film Co., Ltd. (currently FH) acquired an additional 25% of FX's outstanding shares, increasing the shareholding in that company to 75% and transformed that company into a consolidated subsidiary (note that FH changed its trade name from Fuji Photo Film Co., Ltd. to its current trade name as of October 1, 2006).

(ii) In the meantime, each sales subsidiary under FXAP that is under investigation in the Matter were XC's sales subsidiaries in New Zealand, Australia, Malaysia, and Singapore. These subsidiaries were transferred to FX pursuant to an agreement between FX and XC to expand FX's sales territories internationally outside of Japan, and were originally under the management of XC as its sales subsidiaries. FXAU and FXNZ with which the Matter is concerned were also entities transferred to FX from XC under such circumstances.

Perhaps due to such background, according to the interview with FX's Chairman Mr. HH, each of these sales companies under FXAP conducts their business operations in the XC style in some respects, and in some cases has a stronger relationship with XC than FX.

(iii) Additionally, due to the fact that FX was established as XC's sales company in Japan, the content of its business, operating methods, and governance relied on XC's methods, and to the fact that it still uses XC's technology to manufacture and sell products, it seems that the influence of XC – which holds a 25% stake – is significant. For example, according to FH General Manager of Corporate Planning Division Mr. UU, FX continues to view XC as it were its parent company in some respects.

In other words, while FH is FX's parent company with a 75% stake in FX, it is inferred that FH's minority shareholder XC is assumed to continue to have influence on FX in excess of its shareholding ratio. On the other hand, it cannot be denied that there is a tendency at FX of wanting to do the minimum necessary in terms of management, approvals, and reports with respect to FH, which holds a 75% stake.

(iv) This historical background between FH and XC and the relationship between FH and FX have not necessarily found to be the direct causes of the inappropriate accounting practice in the Matter. However, at the very least these may provide the background for inadequate management, supervision, and obtaining of information by FX and FXAP with respect to each subsidiary under FXAP as discussed in the preceding chapter and this chapter, and for FX's reluctance to share information with FH (or FF), and it would seem the possibility that these factors may have indirectly hampered the sharing of information between FH and FX and adequate and substantial management of subsidiaries by FX that could have prevented the Matter is undeniable.

2. Measures to Prevent Recurrence (Reform Measures)

(1) Rebuilding Subsidiary Management System

FH needs to put in place a subsidiary management system that also applies to FX. It should also, as necessary, revise the rules for presenting matters to the Board of Directors and other related rules, and consider implementing a system to involve FH in decision-making at FX above a certain level.

In additional to building these kinds of systems, FH needs to supervise the operational execution by FX on a day-to-day basis and share information by taking measures such as positioning necessary personnel in FX's Board of Directors and corporate Vice President .

(2) Strengthening of Audit System Functions

Firstly, many of FH's corporate auditors also serve as corporate auditors of FF, and the Committee believes that there is a physical limit to the audit activities that can be performed for FX. The Committee believes that it may be necessary to consider a system that makes it physically possible to audit FF and audit FX. We also think that it is worth considering appointing a dedicated corporate auditor at FH to appropriately manage and oversee audits of FF and audits of FX.

Additionally, the Committee believes that there is a physical limit that makes it difficult for FH's Internal Audit Department to carry out adequate audit activities. In other words, as set forth above (1(3)(iii) of this chapter), the eight members of FH's Internal Audit Department all also concurrently serve in FF's Internal Audit Division. However, such a system may not allow adequate audits of FX to be performed. Normally, it would be necessary for FH's Internal Audit Division to create a system and rules enabling them to audit FX on a day-to-day basis, but the Committee surmises that at present there are physical limits on performing audits of FX. Therefore, it would be beneficial to consider appointing dedicated FX audit personnel or, alternatively, appoint dedicated FH audit personnel. At the very least it is desirable to put in place an organization that includes enough personnel to audit FX.

FH also needs to consider sharing audit-related information, such as by holding liaison meetings between the FH's Internal Audit Department and FX's Internal Audit and Analysis Department. Further, in order for the FH Group to efficiently perform audits, FH needs to consider putting in place a system allowing for more integrated audit activities, such as partially integrating the functions of the FH Internal Audit Department and FX's Internal Audit and Analysis Department or the exchange of personnel.

(3) Information Collection and Sharing that Utilizes Whistleblower System

According to FH's Business Report, there is a statement to the effect that "by establishing contact points ("Helpline") both inside and outside the Group for consulting, communicating, and whistleblowing in relation to the FUJIFILM Group Code of Conduct, the Company and its subsidiaries shall endeavor to detect violations early, and shall handle such matters appropriately" as one of the "Systems to Ensure Proper Operations in Our Group."

Whistleblowing systems are discussed in detail in the following chapter (Chapter 9), but in the Matter, the details of the whistleblower reports at FXNZ, FXAU, and various sales subsidiary under FXAP were not automatically shared with FX, much less FH, which can be cited as an issue with the system. Accordingly, the state of the whistleblowing system in the FH Group, as well as how whistleblower information is shared at FH with the FX Group should be reexamined. Further, for the whistleblowing system to function adequately, providing education, etc. to employees regarding the outline of the system should be considered. These points are as discussed in paragraph 3(6) of Chapter 7.

Chapter 9 Implementation of Whistleblower System and Monitoring Its Operation

1. Implementation Status of Whistleblower System at Each FH Group Company

(1) Implementation Status of Compliance System in the FH Group

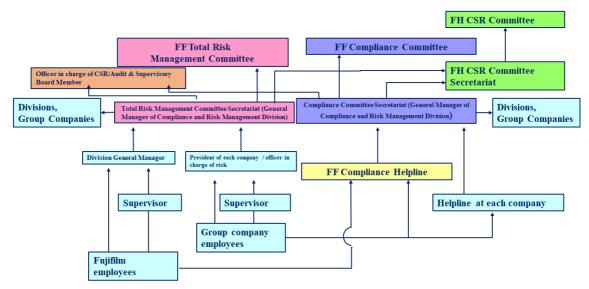
In 1999 FH called attention to the promotion of corporate compliance, and as a basic policy for the conduct of activities by the corporate group that consists of FH and its subsidiaries (the "FH Group"), in addition to establishing the Fujifilm Group "Charter for Good Corporate Behavior" FH established the "Fujifilm Group Code of Conduct" for the purpose of making sure that activities and actions are taken in accordance with that Charter and in line with laws and regulations and social ethics.

Furthermore, with the purpose of improving and maintaining legal compliance and ethics throughout the FH Group's corporate activities, FH established the FH CSR Committee and a department devoted to the promotion of compliance that endeavors to spread and improve compliance consciousness throughout the FH Group.

FH does not have its own whistleblower helpline.

(2) In April 2004 FF established the Compliance and Risk Management Division (the "CP&RM Division") as a dedicated organization, and since risk reporting and compliance are two sides of the same coin, such as where risk reporting matters lead to compliance matters, FF's CP&RM Division concurrently serves as the secretariat for both the Compliance Committee and the Total Risk Management Committee.

The whistleblower system at FF is as shown in the diagram below. As mentioned above, contact points ("Helpline") for receiving requests, notifications, and reports of findings and concerns related to the Fujifilm Group Code of Conduct, Fujifilm Group Charter for Corporate Behavior and other compliance matters have been established, and it is structured in collaboration with FH.



FF Group Consultation Flow Chart (Risk and Compliance Matters)

(Extracted from materials provided by FH)

Whistleblowing policies & procedures are as follows.

It is possible for an FH employee or an employee of an FH Group company (an "FH Employee, etc.") to consult the FF Compliance Helpline, which is an outside organization, and the Helpline will report the matter to the secretariat that is under the control of the General Manager of FF CP&RM Division (the "CP&RM GM"). That secretariat is the secretariat of the Total Risk Management Committee that has jurisdiction over risk matters coupled with the secretariat of the Compliance Committee that has jurisdiction over disciplinary matters, and depending on the matter it will report the matter to the relevant committee. In response to a report, in addition to investigating and giving remedial instructions and the like, where necessary, to related departments and group companies while taking into consideration the details of the whistleblower report and requests, etc. by FH employees, the aforementioned secretariat confirms the progress of investigations, proposes improvement measures, and alerts other companies and other departments. Also, in addition to reporting risk matters immediately and regularly (once a month) to the officers in charge of CSR, Corporate Auditors, Head of Internal Audit Division (the audit division that is under the direct control of the FH President), the aforementioned secretariat reports immediately and regularly (one time per quarter) to the FH CSR Committee Secretariat.

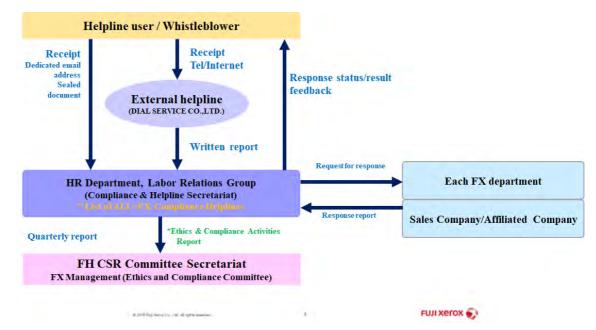
In addition to FF's CP&RM Division concurrently being the secretariat for the Compliance Committee and the Total Risk Management Committee as set forth above, the same person is concurrently the general manager of FF CSR and FH Corporate Planning CSR group, so close cooperation is possible in compliance and risk management within the FH Group. Furthermore, measures are in place to ensure that a whistleblower will suffer no disadvantage due to making a report (Article 13 of the Rules for Operating the Compliance Helpline System), and feedback regarding measures taken with respect to a reported matter is given to whistleblowers who reveal their names (Article 12 of said Rules).

It is also possible for FH Employees, etc. to directly consult with an immediate superior, a department or division manager in the company to which the employee, etc. belongs, the president of each company, and the officer in charge of risk at the relevant company (the "Manager, etc."), and even in such a case, there may be cases where the Manager, etc. makes a report to the aforementioned secretariat.

(3) Implementation Status of Whistleblower Systems at FX and FX-affiliated Companies (All-FX)

In the FX Group, the "All-FX Risk Management Rules", which apply to all FX Group companies both within and outside of Japan (collectively called "All-FX"), were established on June 1, 2002. Those rules define risk as "an event that if materialized would have the possibility of causing an impact that is contrary to the achievement of management objectives" (Article 4.1), and they provide for organizations and roles for carrying out planning, implementation, inspections, rectifications, and the like of risk management in All-FX and each company of the FX Group and a system for sharing information among related institutions, etc.

Furthermore, On April 20, 2004, the FX Group established the "ALL-FX Compliance Helpline Guidelines" and implemented the FX Group's own whistleblower system, the "Compliance Helpline", separate from the FH Group (see diagram below).



(extracted from materials prepared by the FX Human Resources Department, Employee Relations Group)

- (4) The consultation process is as follows: If a person directly or through an external helpline contacts the Compliance & Helpline Secretariat that comprises the All-FX Compliance Helplines (the operating department is the FX HR Department, Labor Relations Group), that Secretariat, based on its investigatory authority, requests a response from FX's departments, sales subsidiaries and affiliated companies and receives a report on that, and if an act in violation of compliance or the like is confirmed, the Secretariat makes a report to the officer in charge of ethics, etc., and specifically, a report is made to the FH CSR Committee Secretariat and the FX Chairman and FX President, and to the persons in charge of All-FX risk management, etc. Also, if an organizational response is required for a specific risk matter, the ALL-FX Risk Countermeasures Study Committee, which is a temporary organ that assists ALL-FX risk management committee bodies, may be established, and a CSR meeting may be convened.
- (5) Implementation Status of Whistleblower Systems at FXNZ and APO
 - (i) FX has issued directions to implement whistleblower systems within the FX Group from 2006. In response to this, implementation of a whistleblower system went forward in the Asia Pacific region under the management of APO, including FXNZ, and currently a whistleblower system is operative in international FX subsidiaries other than FX Myanmar and FX Cambodia (as of April 21, 2017).
 - (ii) FXNZ implemented its whistleblowing policy (titled "WHISTLEBLOWING POLICY") (revised as of March 25, 2009). The Whistleblowing Policy sets forth the title name and position of the employee to contact, and as a specific contact point, employees were all made aware of the phone number of the New Zealand government's Employment Relations Infoline. The policy was revised again as of August 8, 2016, and the contact point for FXNZ was changed to Accounting Firm 4. This is how the policy continues to operate currently.
 - (iii) Although FXAP has put in place a whistleblower system covering its own employees (please see "WHISTLE BLOWING - POLICY & PROCEDURE" dated January 1, 2009), it has not had a contact point for employees, etc. of its overseas subsidiaries.

If a whistleblower reported something at an FX overseas subsidiary under APO umbrella, including FXNZ, the details would be reported to the MQO of APO (General Affairs Division), and if the report involved human resources, a report would also go to APO HR (Human Resources Division). Whether the details of a whistleblower communication at each company would be reported to APO was ultimately at the discretion of each company's MD, and there were differences in how the system was operated at each company. Mr. A's case resulted in a change in the system so that from May 2016 reports regarding the MD of any company would

go directly to the MQO of APO, etc. without going through each MD.

Because the whistleblower systems operating in each of the FX overseas sales subsidiaries are basically systems that are operated independently by the relevant subsidiary, they do not share whistleblower system rules and operations between companies, and because there are no clear basic rules and standards for reporting to APO, as it is, they are self-contained in each of the overseas subsidiaries under the APO umbrella and they do not form a coordinated system under APO. Accordingly, APO is moving forward with work to establish uniform operational guidelines in 2017 that aim to clarify the rules for escalation to APO of whistleblower reports that are made at each company.

- (iv) Depending on the importance of the details of the whistleblower report as understood by APO, the matter will be further reported to FX. In the reporting guidelines concerning risk management, the level of importance for determining whether a report is required is divided into five categories, with level 1 being the lowest, and level 5 being the highest; level 4 and above are matters to be reported.
 - * Criteria for level 4: Matters that will have an accounting impact in excess of one billion yen; matters involving death, a suspension of business for a week or more, long-term environmental pollution, etc.

In addition to it being fundamentally the decision of the APO's President as to whether to report to FX, if in light of the criteria set forth above it is clear that a report to FX is required, there are cases in which a report to FX will be made immediately without waiting for the president's decision. At FX the point of contact for reports from APO is the FX General Affairs Department Risk Management Group for reports from APO's MQO, and the General Manager of Corporate Human Resources Department for reports form APO's HR.

2. Operation Status of Whistleblower System at Each FH Group Company

(1) Operation Status, etc. of Whistleblower System at each FH Group Company

A whistleblower system is in operation at the FH Group in accordance with the rules, etc. discussed earlier. In addition to the handling of all types of matters, there is information sharing by the FX Group through regular reports such as the Ethics and Compliance Activities Report and the Risk Management Activities Report from FX.

The number of whistleblower reports in the FX Group from FY2010 to FY2015 is as follows; it can be said that the whistleblower system is in relatively wide use.

- FY2010: ** reports FY2011: ** reports
- FY2012: ** reports

 FY2013:
 ** reports

 FY2014:
 ** reports

 FY2015:
 ** reports

However, since the FH Group Helpline is not made available in the FX Group, there are no cases of a report from the FX Group. Also, in the same vein, a mechanism for escalation of whistleblower reports from the FX Group to FH has not been put in place yet.

(2) Operation Status of Whistleblower System in the FX Group

There is a whistleblower system in operation in the FX Group in accordance with the rules, etc. discussed earlier, and as mentioned in (1) above, there is information sharing by means of regular reports, etc. to the FH Group.

The number of whistleblower reports through the All-FX Compliance Helpline from FY2010 to FY2015 is as follows; it can be said that the whistleblower system is in relatively wide use.

- FY2010: ** reports
- FY2011: ** reports
- FY2012: ** reports
- FY2013: ** reports
- FY2014: ** reports
- FY2015: ** reports

The Committee notes that, for example, for only the three months from October 1 through December 31, 2016 there was a total of ** cases of use of the All-FX Compliance Helpline. Of those, excluding ** cases (cases to which a response was impossible due to anonymity and a lack of required information, inquiries concerning the method of use, and matters not subject to helpline use), there were ** cases for which there was a concrete response.

On the other hand, the Committee considers, from the provisions of the rules, that the All-FX Compliance Helpline includes FX's international subsidiaries, etc. as users (Article 3(3) of the "ALL-FX Compliance Helpline Operational Rules"), but it is actually premised on use by FX and its Japanese subsidiaries, and there have been no cases of an FX international subsidiary, etc. directly contacting the helpline. Additionally, the Committee could not find any signs that indicated thorough utilization of the system, such as making all employees aware of the actual existence of the All-FX Compliance Helpline, and in substance, presumably, the FX whistleblower system was actually operated in a way that restricts its use to FX and its domestic affiliated companies.

Further, as discussed above, a structure has not been put in place yet for matters reported by whistleblowers at each international subsidiary under FXAP to be escalated to whistleblower reports to APO or from APO to FX.

Of the risks ascertained by the company, certain events are defined as being a crisis in Article 4.4 of the ALL-FX Risk Management Rules (according to that provision, a crisis is defined as an event such as an accident, disaster, or misconduct that will actually and clearly place at risk the company's assets, business, value, or the life, body, or property of a related person and that is considered to require an urgent response), and if a whistleblower report concerns this kind of situation, the person in charge of risk at each company is supposed to make an entry about such a matter in the FX internal database called the "Crisis Prompt Reporting System". However, since it is up to each person whether to make an entry into that system, there are certain limitations on understanding whistleblower report details using that database.

(3) Operation Status of Whistleblower System at FXNZ

** reports regarding FXNZ were confirmed for the period from September 2015 to February 2017, but there was no record of use of the whistleblower system prior to that. Taking into account facts such as that FXNZ's policy with respect to the aforementioned whistleblower reports did not provide a specific contact for receiving reports, it is possible that, as of July 2015, education of potential users about the whistleblower system was insufficient, and there may have been issues as to the ease of use of the system.

The whistleblower email in the name of Tony Night in July 2015 did not use the FXNA, APO, or FX Group whistleblower systems.

In light of the fact that the email was sent to multiple recipients with addresses that would not be known unless one were involved with the company, the Committee surmises that it was sent by someone in the FX Group.

The Committee considers that the person using the name Tony Night may have intentionally avoided using the whistleblower systems because they either did not know the existence of the FXNZ or FX Group whistleblower systems, or had doubts about the trustworthiness or effectiveness of the whistleblower systems, or for other reasons.

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Chapter 10 Audit by the Accounting Auditor

In conjunction with the term of office of FH's accounting auditor expiring at the close of the ordinary general shareholders' meeting held on June 29, 2016 (the term of office under the Companies Act is one year), FH considered the number of continuous audit years, etc., and decided to change the accounting auditor. At the end of the fiscal year ended March 2017, FH switched from Accounting Firm 1-1, with which the predecessor accounting auditor was affiliated, to Accounting Firm 2-1. In conjunction with the change of the accounting auditor at the parent company, FF and FX, subsidiaries of FH, also changed the accounting auditor at the same time following the request of FH.

FH is a listed company and undergoes an accounting audit by a certified public accountant required in the Financial Instruments and Exchange Act (the audit is governed by US GAAP) as well as an audit by an accounting auditor based on the Companies Act. FF and FX (including their domestic sales subsidiaries and other subsidiaries) are non-listed subsidiaries, and they undergo audits by an accounting auditor required in the Companies Act. Other overseas subsidiaries undergo audits by overseas auditors in each of the countries where the subsidiaries are located by the same member firm as the accounting auditor of the parent company, the Accounting Firm 1 global member firm in the case of Accounting Firm 1-1, and the Accounting Firm 2 network firm in the case of Accounting Firm 2-1. According to Accounting Standards Committee Statement No. 600 "Group Audits" published by the Japanese Institute of Certified Public Accountants (the "Group Audits"), an accounting auditor should be treated as an "other auditor" under the audit system, even if the auditor is an overseas accounting auditors affiliated with the same member firm, etc.

1. Status of Audits by Predecessor Accounting Auditor

Accounting Firm 1-1, the predecessor accounting auditor, conducted an audit of FH's consolidated financial statements for the fiscal period ended March 2016, and also conducted an audit of subsidiaries FF and FX, and their domestic sales subsidiaries and other subsidiaries (the "FH Group Audits").

In order to understand the status of audits, the Committee first confirmed the audit system for the FH Group Audits, in other words, the makeup of the audit team that engaged in auditing, the number of years of continuous involvement, and the investigative circumstances of the existence of vested interests. Next, the Committee confirmed that the audit plans for each company pertaining to FH Group audits stated matters required by audit standards, such as, as an outline of the audit, the audit criteria and scope of coverage, the basic approach of the audit, the risk identification and evaluation flow, treatment of risks requiring special consideration, and other priority audit items, the basic approach, etc. and audit team organization and annual audit schedule for audits of consolidated

financial statements and internal control audits, communications with Corporate Auditors, and the audit firm's quality control system.

Also, in order to grasp an outline of the audit results after audit implementation, the Committee examined the contents of the various reports such as the explanation of audit results. The Committee confirmed the handling of risks requiring special consideration, other priority audit items, unmodified misrepresentations, the organization and audit performance of the audit team, communications, etc. with Corporate Auditors, and the implementation of department and head office examinations of individual matters during the audit period.

2. Status of Audits by Other Auditors Used by Predecessor Accounting Auditor

In the group of FX subsidiaries in the Matter, there is FXAP, which is a regional headquarters company under the FX umbrella, and moreover, under FXAP there are each country's sales subsidiaries such as FXNZ and FXA. In preparing consolidated financial statements, the financial statements of sales subsidiaries such as FXNZ are first consolidated at FXAP, then those are further consolidated with FX by bringing in domestic sales subsidiaries and FX China, etc., and finally FH is included in the group's consolidated financial statement.

Other than the companies for which Accounting Firm 1-1 took direct charge of audits as accounting auditor, the auditors of overseas subsidiaries (in other words, the group of overseas sales subsidiaries such as FXAP, FXNZ, FXA, and FX China) were the Accounting Firm 1 offices located in each country, which belong to Accounting Firm 1 and are Accounting Firm 1-1's global member firms, and which conduct audits as other auditors.

If work concerning financial information of some units required for an audit of the FH consolidated financial statement is delegated to the other auditors, it is necessary to implement required procedures in accordance with the aforementioned Group Audits. When understanding and evaluating, etc. audit capabilities, etc. of the relevant unit's auditor in the case that the other auditor belongs to the same member firm, since as a member of the same firm, the other auditor follows common quality control and monitoring policies and procedures and common audit methods, it is possible to use a limited procedure for the evaluation, which differs from the procedure that ordinarily is used, and the predecessor accounting auditor understands and evaluates the other auditors' audit capabilities, etc. in conformance with that procedure. Also, the Committee confirmed that audit instructions given to other auditors and the receipt of audit result answers and evaluations of their appropriateness are conducted in conformance with the Group Audit provisions.

Furthermore, the FXNZ financial statements that are at issue in the Matter are not covered by the FH Group audit from the March 2012 period to the March 2015 period because by measure of the materiality threshold (normally based on percentage weightings of a number of financial values, etc.), they were not found to have audit materiality. However, as part of the APO sub-consolidated

audit rotation, a review for important items was implemented for the March 2016 period, while during the audit period FXAP was subject entirely to a full scope audit.

The Committee notes that the other auditor (Accounting Firm 1-2) separately conducted a statutory audit of FXNZ based on domestic law as required in the country where it is located.

3. Status of Audits by Successor Accounting Auditor

Accounting Firm 2-1, the successor accounting auditor, conducted an audit of FH's consolidated financial statement for the fiscal period ended March 2017 (April 1, 2016 to March 31, 2017), an audit of subsidiaries FF and FX, and their domestic sales subsidiaries and other subsidiaries, and in other words an FH Group Audit. It also submitted an independent auditor quarterly review report for the consolidated financial statement up until the third quarter (December 2016).

At this stage of this Investigation by the Committee, Accounting Firm 2-1 is still conducting audit procedures for the period ended March 2017.

The Committee confirmed the audit system for the FH Group Audits, in other words, the makeup of the audit team that engaged in auditing, the number of years of continuous involvement, and the investigative results of the existence of vested interests. The Committee confirmed that the audit plans for each company pertaining to the FH Group are revised by adding appropriate amendments corresponding to newly discovered audit risks, that points thought to be necessary when preparing audit plans are stated, and that matters required by audit standards are stated.

The principal details stated in audit plan outline are generally as follows: as the audit and quarterly review outline, it gives an outline of the risk-based audit plan, the audit plan for irregularity risk, effective and efficient implementation of integrated audits, the group audit approach, and implementation of quarterly reviews, and as the material audit points, it states risks that require special consideration and other material points. Moreover, as the audit and review system, in addition to the domestic and global systems, it states the scope of work and implementation schedule, etc. concerning the implementation of audits and reviews, and with respect to the communication plan, it describes communications, etc. with management, etc. and Corporate Auditors, etc., and finally, it describes the audit firm's quality control system.

Also, in order to grasp an outline of the status of audit implementation and their results up to the present time, the Committee examined the review results outline report, etc. from the first quarter to the third quarter. The principal details stated were the persons who engaged in the review, the review implementation circumstances, the main review procedures, important unit procedures, examination status, handover from the predecessor accounting auditor, and individual reports, etc. of unmodified items and past year items and other items for consideration.

A number of items for consideration were discovered in the course of implementing the quarterly review, but the Committee confirmed that corporation-prescribed discussions and examinations and the execution of new contracts and other points underwent upper-level examination upon submission of the quarterly review report.

The Committee examined the details set forth in the independent auditor quarterly review reports for FH's first to third quarters (the first quarter report was submitted on August 10, 2016, the second quarter report was submitted on November 8, 2016, and the third quarter report was submitted on February 10, 2017), but the conclusions of those reports are so-called unqualified conclusions, which say that in looking at all material items, there was insufficient evidence to conclude that the financial condition, financial earnings and cash flow for FH and its consolidated subsidiaries were not in accordance with US GAAP.

4. Status of Audits by Other Auditors Used by Successor Accounting Auditor

The Accounting Firm 2 firm in each country belonging to the Accounting Firm 2 network to which Accounting Firm 2-1 belongs conducted audits as an other auditor of overseas subsidiaries other than the aforementioned FH, FF, and FX and its domestic sales subsidiaries for which Accounting Firm 2-1, the parent company's accounting auditor, directly carried out audits.

The fact that it is necessary for other auditors to implement required procedures in accordance with the aforementioned "Group Audit" when work is delegated concerning financial information of some units that is required for an audit of FH's consolidated financial statement is the same as the case of Accounting Firm 1-1 as set forth above, and it is possible to use a limited procedure for the evaluation, which differs from the procedure that ordinarily is used, and the successor accounting auditor understands and evaluates the other auditors' audit capabilities, etc. in conformance with that procedure.

Also, the Committee confirmed that audit instructions given to other auditors and the receipt of audit result answers and evaluations of their appropriateness are conducted in conformance with the "Group Audit" provisions. Moreover, with respect to FX's subsidiaries, the Committee separately received an explanation from the FX audit team that it gave audit instructions and incorporated those audit results.

The Committee notes that in the Matter, FXNZ was originally placed outside the scope of the Group Audits in the audit plan because of a determination of its audit materiality (it was not subject to audit), but after an article claiming accounting irregularities was published in a local newspaper in 2016, the FX audit team additionally instructed the FXNZ audit team to conduct audit work pursuant to "specified procedures," and an audit was conducted. Furthermore, the other auditor (Accounting Firm 2-2) separately conducted a statutory audit of FXNZ based on domestic law as required in the country where it is located.

5. Occurrence of the Matter and Subsequent Handling by Each Accounting Auditor

An article was published in a New Zealand newspaper on September 22, 2016 that claimed accounting irregularities at FXNZ. The audit team at Accounting Firm 2-3 contacted the audit team at Accounting Firm 2-1, the successor accounting auditor, and it was the first time the Matter came to light. However, it is recorded that FX's and FXNZ's explanation was a false account at odds with facts in the interview conducted by the Accounting Firm 2-1 audit team with FX's Legal Department and the interview conducted by Accounting Firm 2-2 on October 31, 2016 with FXNZ's management team. Accounting Firm 2 conducted a review of the audit report prepared by the predecessor accounting auditor as well as an interim audit to continue the audit agreement, which led to planning the implementation of additional audit procedures regarding the fiscal period ended March 2016 and earlier periods. That, in turn, led to a briefing by Accounting Firm 2-2 on February 9, 2017 regarding the existence of some circumstances regarding the Matter and a report to FH's Accounting Division and the Corporate Auditors. Further, a series of conference calls were held with Accounting Firm 2-2 from February 14, 2017, during which the following points were discovered for the first time: that an internal person blew the whistle in the past, that statements were included in the results of FXNZ operations investigation conducted by another accounting firm and in the results of interviews of FXNZ conducted by a law firm suggesting the existence of the Matter, and that an investigation team was dispatched from FX to FXNZ to do an on-site investigation.

Under these circumstances, and after several requests to FXNZ, Accounting Firm 2-2 submitted a letter regarding suspicion of wrongdoing on March 21, 2017 titled "Accounting Firm 2 Fraud Letter". With that, Accounting Firm 2-1 told President of FH, the full-time Corporate auditors, General Manager of Audit Department, and the group head of accounting that there may be a material impact on FH's consolidated financial statements and that it had determined that opening a formal investigation was necessary.

The Committee believes that after this, Accounting Firm 2-1 began to consider the necessity, etc. of adding audit procedures to address new audit risks in light of the results of the investigation conducted by FH's internal investigation team and the developments yielded in the investigation conducted by the Committee.

The Committee also believes that Accounting Firm 1-1, the predecessor accounting auditor, began to consider the necessity of adding audit procedures for previous fiscal years to address the newly identified audit risks in light of these investigations, etc., in the same manner as Accounting Firm 2-1.

6. Evaluation of the Audit Results Produced by Accounting Auditor

The audits conducted by both accounting auditors before the Matter arose are stated in 1. and 3. above. However, as stated in each of the matters above, ultimately the audits conducted by the accounting auditors failed to prevent the occurrence of the issues concerning the Matter at the FH group or detect them early.

The Committee surmises, as stated in the summary of each matter above, that the following events affected this situation: that internal controls were thwarted by collusion between related parties, that fabricated audit evidence was submitted and false explanations at odds with fact were given to the accounting auditor, that there was accounting irregularity at companies outside the scope of audits that were deemed not important for audit purposes, and that the accounting auditor—an independent third party that was not authorized to directly or forcibly investigate the facts concerning outside related parties who were outside the FH group—had difficulties collecting facts, etc. as audit evidence that were at odds with the company's explanations in the course of the audits.

The purpose of this investigation was to investigate specific lease transaction issues, the existence of similar issues, and the facts at overseas sales subsidiaries, to analyze the cause of the issues, and to suggest measures to prevent recurrence. Further, because the section "Other Matters Deemed Important by the Committee" was added, the Committee considered whether it would be appropriate to include an evaluation of the appropriateness of the audits conducted by the accounting auditors. However, to evaluate the appropriateness or suitability of the results of an accounting auditor's audit of consolidated financial statements, each accounting auditor usually needs to evaluate the overall framework of the business being audited (programs and systems) regarding all the subject fiscal years, and to comprehensively and specifically investigate and evaluate retroactively the individual audit reports covering all the individual audit procedures. The Committee concluded that it would be difficult to thoroughly investigate and evaluate all these in this Investigation.

Chapter 11 Reasons Why the Inappropriate Accounting Practice Could Not Be Avoided

Our analysis of the causes of the inappropriate accounting practice in the Matter is as respectively stated in Chapter 3, Chapter 4, and Chapters 6 through 8. While the issues that occurred in New Zealand and Australia and their causes have much in common, the issues at APO (Chapter 6) are issues of a different dimension (this is shared with the issues at FX as set forth in Chapter 7), and the issues at FH (Chapter 8) can be said to be an even different issue.

Accordingly, below the Committee will first examine the issue of the "sales pressure" that is pointed out in Chapter 3, Chapter 4 and Chapter 6, and thereafter, the Committee will discuss the material issues behind the causes raised in each chapter.

1. There Was Pressure with Respect to Sales

In the interviews in this Investigation, a number of the interviewees (APO-related people) said that pressure from FX to attain business results (especially to achieve sales) was very intense. In particular, people who were involved in budget allocations and personnel evaluations at FXAP from around 2009 through 2015 uniformly made statements to the effect that with the economic decline and slowdown of growth in Japan, there were expectations from all of FX for the China and Asia region to act as a driving force to restore business performance, and the regions attracted attentions of all of FX.

If one looks at the budget formulation materials from that time, for example, in the December 2009 FX Corporate Executive Committee materials titled "FX FY2010 Budget Compilation Policy (Draft)", in the context of how to achieve growth, there is the statement, "capturing opportunities in growth regions > AP China growth strategy". In the February 2010 FX Corporate Executive Committee materials titled "FX FY2010 Budget (Draft)", on the page titled "Direction to Aim For in FY2010," as a budget formulation emphasis item, there is the statement "Driving FX consolidated earnings through growth that is greater than the GDP expansion of each country" with respect to "growth by active investments in the Asia/China market." Also, in the July 2010 FX Corporate Executive Committee materials covering the second half of 2010, it is possible to find the expression "Growth in Asia/China" as one of the second-half budget formulation themes (next to business performance turn-around: return to sales volume of 1 trillion yen "Mo iccho yaruzo!!" which has a double meaning of "Do one more time!!" and "Achieve one trillion!!" in Japanese). From the fact that growth in Asia/China was repeatedly raised as a topic at the Corporate Executive Committee and the ardor of "Mo iccho yaruzo!!" at FX, which strictly managed budgets from the first, it is not difficult to imagine that FX headquarters was placing considerably strong expectations on the officers in charge of AP at that time. Strong expectations from management tend to become strong pressure on subordinates.

Furthermore, from a survey conducted by the Committee, facts have come to light such as that excessive pressure to achieve sales is also seen at FX offices in Japan, that some business divisions are directed to come up with "pride values" (the figure to achieve with one's pride at stake), and the "pride values" were used as a tool to push staff to achieve targets toward the settlement of accounts for FY2016.

In light of the sales-centric corporate culture at FX, and given that the Committee perceived these kinds of facts through the Investigation, it is strongly surmised that setting aside Japan, at least at the sales subsidiaries under the APO umbrella, there probably was severe pressure to achieve sales coming from the FX headquarters through APO already at the time around 2009 when the lease transactions that became an issue in the Matter came to be actively carried out. Furthermore, it can be found that this strong expectation by FX management towards achieving business results was a company-wide tendency of not only the Asia region covered by APO, but the FX Group, including within Japan.

2. Causes of the Inappropriate Accounting related to the Matter at FX, FXNZ and FXA

(1) The Finance Department at APO also was Responsible for Financial Performance Management

That the APO Finance Department, in addition to having accounting and finance check functions, also performed the role of performance management, can be raised as one of the main causes of the inappropriate accounting practice carried out at FXNZ and FXA. This is said to be the FX group's traditional culture, but there were great expectations from FX headquarters for the region under APO's management to be the driver in performance recovery. Accordingly, at a time when naturally this was viewed by senior management (at the time, APO's CEO was Mr. w) as a top priority (and accordingly, as is seen in 1. above, given the strong pressure towards achieving business results), since the same person was in charge of both functions, the Committee surmises that there was a sense of crisis that measures had to be taken to achieve the goal and some way had to be found in order not to bring about an adverse impact on achieving business results, even if it is an inappropriate accounting practice. The head of APO's Finance Department at the time, Mr. v, on instructions from the head of APO, Mr. w, made the internal audit function ineffective by intervening in the internal audit reporting line and trying to give "suggestions"; it is difficult to consider that there was no relationship between his position and the pressure that was APO was subject to. Of course, Mr. v was the person responsible for ensuring that proper accounting practices were followed in formulating accurate financial statements for the firm; that he was also responsible for financial performance management is obviously not a justification for his inability to fulfil these responsibilities.

In any event, the fact that internal control restraints did not function because APO's finance department also was responsible for financial performance management functions, is one of the important causes that brought about the inappropriate accounting practice in the Matter.

(2) Corporate Culture of Concealing Information from Accounting Auditors and Stance on Accounting Audits

In interviews in the Investigation, a number of people related to this Matter, including Mr. T, Mr. CC, Mr. R (the head of APO), staffs of the FX's Corporate Finance Department, Mr. w (Executive Vice President of FX and the head of APO as Mr. R's predecessor) and Mr. y (FX Deputy President), stated that they had no awareness that the recording of sales based on a MSA that does not meet conditions as a capital lease is "accounting irregularity". When asked the reason for that, they answered, "(this process) had cleared the audit (up to the prior fiscal year)" and "since no comment was made in audits until then, I thought there was no problem". On the other hand, the Committee considers all of them understood that the MSAs that fell short of Target Volumes (particularly those that have no provision for the client to pay a Minimum Payment), though large sales are recorded at the time of lease inception, entailed risk in terms of recovering the full transaction amount from the start, and that as a result they are transactions that are sales with no substance. The Committee also considers that at least FX Deputy President Mr. y, Executive Vice President of FX Mr. w, and APO accounting member (at the time) Mr. T understood also that they do not meet the lease accounting requirements listed as assumptions in the written opinions by the two independent auditors in 2009. While understanding that (however, to what degree they understood, including accounting significance, differs for each of them, and the degree of their understanding differs slightly), they concealed that reality from and did not report it to the independent auditor that was in charge of audits, and they reasoned that if no comment was made in an audit, it had "passed the audit" (in other words, it was determined as not having any accounting issues).

However, according to the following listed statements made in interviews with Deputy President Mr. y and Executive Vice President Mr. w, it would not be going too far to say that a unique attitude and approach towards accounting audits was prevalent throughout FX. That is to say, it cannot be denied that the culture of concealment when giving explanations to audit firms conducting accounting audits and the misunderstanding of accounting audits became an underlying cause of the inappropriate accounting in this case, and delayed the opportunity to discover and prevent inappropriate auditing.

- Even if there is a gray area in the accounting process, there is no need to actively report that to the audit firm, and it is sufficient to deal with it if it is raised in the audit;

- Even if the audit firm says that there is an audit discrepancy, it is not necessary to accept all of those findings, and it is FX's tradition that FX may say no to the auditor's findings;
- FX's approach was that it is not necessary to talk to the audit firm until the policy was decided within FX regarding (for example) to what extent reserves would be recorded (even in the case of a 'gray' accounting area that might be subject to a comment by the auditor);
- We have to try our best (a comment made to an accounting department employee who noticed that there was ¥2 billion of unrealized earnings that still have not undergone consolidated elimination in past account settlements and sought a policy for dealing with it);
- The approach was, (even if there was something that the person himself thought was 'gray' accounting) if it is not made a topic by the auditor, since it was not raised as an issue up to now, it will be sufficient if we keep quiet about it for this period and deal with it in future periods, and it's fine if we do not raise everything all at once during this period's accounting; and
- We think that an audit is for getting a seal of approval for the accounts that we submitted, and the auditor isn't doing it for free.

(3) There was Pressure from Management on APO's Internal Audit Department

That the internal audit departments in the FX group (especially APO's internal audit department) did not satisfactorily perform their expected roles also is one of the major causes of the inappropriate accounting practice in New Zealand in this case and that accounting not having been corrected for a long period of time also on the FXAP consolidated accounts. As mentioned in Chapter 6, if as of 2009 there had been a correction of direction so as not to record sales based on MSAs that do not satisfy capital lease conditions, even if it had not been possible to entirely avoid the inappropriate transactions, etc. by Mr. A in New Zealand, at least that kind of situation of the expansion of losses due to the MSA overuse probably could have been avoided to a considerable degree.

However, according to facts discovered through the Committee's investigation, the manager in 2009 of APO's internal audit department, Mr. s, apparently strongly refused to back down to Mr. v on the point that said lease recording of sales based on MSAs cannot be accepted, and because Ms. t, who took the post of manager after Mr. s was transferred to the Philippines on Mr. v's recommendation, also received "suggestion" from Mr. v to the extent that as a result a revision of the audit report was unavoidable, it can be said that APO's internal audit department at the time endeavored to fulfil its responsibilities. That being the case, there must have been all the more

pressure from the APO management at the time to the extent that those internal audit department functions were rendered ineffective.

(4) There were Shortcomings in Management System for Foreign Subsidiaries (particularly the Oceania region)

While as mentioned above there are a multiple causes and background circumstances that conceivably resulted in the inappropriate accounting practice in the Matter, it can be said that the inappropriate accounting would not have occurred at the scale of the New Zealand revised amount in the Matter and the revised amount in Australia if at the time that Mr. A was MD in New Zealand and Australia MSAs that lacked Minimum Payments clauses had not come to be made and if lease transactions in which actual volume greatly fell short of target volume had not been overly used. Accordingly, the fact that there were shortcomings in the management system for foreign subsidiaries (particularly sales subsidiaries in the Oceania region) by FX through APO also must be said to be one of the major causes in this case.

Indeed, according to interviews with those concerned, when FX purchased FXNZ and FXA from XC in November 1990, the FX management decided to place these Oceania region sales companies under the umbrella of APO and manage them in Singapore, but unlike many of the other sales subsidiaries under the APO umbrella, people sent from FX headquarters (people who have a certain understanding of Japanese corporate management) were not placed in top positions, and without making changes to management personnel and the like, FX management allowed the existing management methods that were conducted as XC group companies to be followed without change for the time being. It is said that because British Commonwealth countries such as Australia and New Zealand greatly differ from Asia in culture, religion, and racial makeup, the approach was not to bring about an adverse impact on local business (where until then business had been going well) by suddenly introducing so-called Japanese management.

Certainly, the Committee believes that there is reasonableness in maintaining management of sales aspects in order to maintain relations with the existing sales system and customers, but the Committee believes that it may have been necessary to develop FX's audit system with APO as its subject through personnel and system improvements and the like in the accounting and audit departments in order to prevent local managers from being out of control.

Furthermore, the Committee found that borrowing by FXNZ (loan volume within the group) expanded excessively in relation to its size and sales volume, and the Committee believes that this was one sign foretelling the Matter, but FX's Corporate Finance Department and APO also unthinkingly continued lending, and did not carry out any particularly detailed investigation. It can be observed that this too is a fact that indicates that the audit system did not function sufficiently.

Moreover, it can be pointed out that a fundamental problem in FXNZ is the coexistence of the sales company and the lease company, and their representative being the same person. Practically speaking the screening of transaction details by the lease company at the time of equipment sales brings to bear a certain check function, but in the Matter the representative at FXNZ is one and the same person, and as a result lease agreements that target transactions for which demand is diluted are unthinkingly continued. FX tacitly approved maintaining a system at FXNZ that easily resulted in wrongdoing notwithstanding FX, in light of the function of a lease company in business, having conducted so-called third-party lease transactions through outside lease companies that are not with FX's own group.

Management of a foreign subsidiary is an extremely difficult problem, but over 25 years have passed already since the purchase of FXNZ and FXA, so it probably can be said that the time had come when it would have been appropriate to implement some sort of policy to effectuate subsidiary control by FX while controlling any adverse impact on local business. Viewed in this way, here again the shortcomings in the management system and business system of foreign subsidiaries (particularly Oceania region sales subsidiaries) by FX group through APO must be said to be one of the major causes in this case. The Committee also notes that whereas the business size and sales volume of the sales subsidiaries that are under APO's management have grown at least several times over the time since APO was established, the size of the management department remains largely unchanged, so it is clear that there existed a problem with physical response capability.

Chapter 12 Measures to Prevent Recurrence (Proposals)

Although the Committee has already proposed various measures to prevent recurrence, in this chapter the Committee summarize below the measures to prevent recurrence that the Committee considers are especially important to propose with respect to this Matter.

1. Proposals with respect to FX

(1) Rectification of the Shortage of a Sense of Ethics and Honesty when Preparing Financial Statements

As can be judged from what has been seen up to this point, it must be said that some of FX's officers and employees would have lacked enough sense of ethics and honesty when preparing the financial statements. This shortage of a sense of ethics and honesty also gives rise to the misunderstanding with respect to accounting audits that can be seen from the culture of concealment and the "we have to try our best" statement mentioned in section 2 of Chapter 11. The Committee considers that FX's management lacked enough awareness or perspective of honesty towards the stock market and investors because FX is not a listed company. However, as a major company whose name and products are widely known around the world, FX has a responsibility to society. In addition, it indirectly participates in the stock market through disclosures in the consolidated financial statements of its parent company (FH), so it also has an impact on the investment decisions of investors. FX needs to rectify this shortage of a sense of ethics and honesty when preparing financial statements with a sense of self-awareness, and it needs to bear its share of the social responsibility to produce and disclose appropriate financial statements and fulfill the responsibility to explain them to investors.

FX requires "strength" in numbers for sales and industry market share, etc., and by applying excessive pressure on employees with the sales-centric mindset, it is possible that FX may have pushed employees into a situation in which they could not help but to adopt inappropriate accounting practices that are not ethically permitted.

In order to be a company that is trusted by society, the Committee considers that guidance and education for officers and employees is essential to realizing an open, fair, and clear corporate culture, which is the FH Group vision.

(2) Management Department Reorganization — Separation of Financial Performance Management from the Administrative Jurisdiction of the Accounting Department

As discussed in section 2 of Chapter 11, APO's Finance Department normally would be expected to act as a control function by ensuring the proper application of accounting practices with expert accounting knowledge. Having APO's Finance Department be responsible for a financial performance management function in addition to its accounting function is one cause of

the inappropriate accounting practices that occurred in the Matter. Therefore, APO's Finance Department should quickly be reorganized. Specifically, the financial performance management and accounting functions should be separated into different departments, and their respective department heads and responsible officers should be different people.

Furthermore, in interviews during our Investigation, the Committee obtained statements to the effect that the accounting department having these two functions at the same time was in line with the traditional culture of the FX Group. In fact, FX's Corporate Finance Department also contains a comprehensive planning group that is responsible for financial performance management, so FX is also in a state where accounting practices and financial performance management are conducted by the same department. As with APO, some type of systemic improvement should be considered.

(3) Securing Independence and Sufficient Staffing for Internal Audit

APO's Internal Audit Department having not functioned effectively is another cause of the inappropriate accounting in the Matter. However, as described in section 2 of Chapter 11, this is due to APO's management at the time having intervened in APO's Internal Audit Department to the point where it was rendered ineffective. The Committee understands that in the past, the internal audit department was staffed with individuals that, like Mr. s (head of APO's Internal Audit Department in 2009) would express necessary opinions to the CFO at the time. In order to restore and strengthen the audit function of the internal audit department in the FX Group (i.e., the Internal Audit Department at APO), there is an urgent need to secure the independence of the internal audit department and to secure superior personnel, including an increase in staffing.

In addition, although FX's internal audit department investigated FXNZ, it ultimately did not lead to the early discovery of the Matter. This suggests that FX may need to review its internal audit department from both a personnel and organizational perspectives.

(4) Review of the Management System for Overseas Subsidiaries (particularly the Oceania region)

As described in section 2 of Chapter 11, the Committee believes that it is difficult in some respects for Japanese companies to manage overseas subsidiaries (particularly those in Commonwealth nations in the Oceania region). This is a deep-rooted problem, and it is doubtful that it can be rapidly improved in a short period of time. However, efforts should be made to ensure that appropriate personnel are appointed as top management, and the systems and methods of subsidiary management are revised so that FX headquarters, and FH as well, can keep an eye on its overseas subsidiaries.

It is obviously necessary to still take care in the future to not have an adverse impact on local business, but a situation that is close to being out of control must not be left just because of an

excessive concern about adverse impacts on local business. A system for communication and monitoring that is sufficient to ensure management transparency and to bridge the physical distance should be constructed.

In addition, as was mentioned in section 2(4) of Chapter 11, it is possible that a business structure that operates an equipment sales company and a leasing company within the same corporate group may induce inappropriate transactions, and it is desirable to take some type of quick countermeasures regarding the current operation of each company at each overseas subsidiary under APO's management.

2. Proposals with respect to FH — Necessity of Governance of FX, Stimulating a Sense of Unity within the Group

It must be pointed out that the background of the current matter is that FH was not able to, or did not, sufficiently control FX. FH has increased its equity ratio in FX from the previous 50% to 75%, and it has still permitted FX a certain level of independence even after 2001, when it came to control FX through its capital relationship. A sense of unity like the one seen between FH and FF cannot be found between FH and FX.

For example, that is immediately obvious if one looks at both companies' websites, where one does not even get the sense that the two share a direction, let alone a sense of unity as group companies. They merely share "FUJI" in English or Japanese in part of their company names, and have posted small banners or URLs for the other company on their respective websites. Despite the fact that the parent company sets the goal of an "open, fair, and clear corporate culture" in its corporate philosophy, "open, fair, and clear" cannot be found anywhere on FX's website, and FH's slogan "Value From Innovation" also seems to never be skillfully used or introduced in any advertising or investor relations pages on FX's website. It is undeniable that feelings like the yearning for autonomous management that was desired by FX's management while caught between two major shareholders is in the background of this type of independence on the part of FX, its sales-centric mindset and the distorted view towards accounting that derives from the mindset.

However, in order to prevent problems like the current Matter from repeating, as the FH Group, the Committee believes that FH needs to seriously consider exercising more control over FX. Whatever issues may lie in the background, FX's sales-centric mindset and the distorted view towards accounting that derives from it must be corrected. There is a concern that the same problem could arise in the future unless FH skillfully takes hold of FX: FH may need to remain aware of certain points when exercising control, but the Committee considers that FH needs to provide strong guidance to ensure rotten parts of the company are removed as noted above, namely the shortage of a sense of ethics and honesty when preparing financial statements, ensuring the separation of administrative jurisdiction of the accounting department and the financial

performance management function, correcting the problem of the internal audit department and other internal controls being rendered ineffective due to interventions by management, and correcting the issue of excessive pressure to reach sales targets.

In order to realize the appropriate governance of group companies, FH needs to reconsider the proper system of management and administration functions and human resources in the organization, including at FX, and to carry out a company-wide reorganization aimed at achieving a more robust framework for compliance system and internal controls.

End