

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 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 Committed Payments	The minimum monthly usage charge stipulated in an agreement. Even if the actual usage is significantly below the target volume, loss can be avoided to 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 Settlements	When FXNZ wins a customer from a competitor, the payment FXNZ makes 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 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 Adjustments	An accounting practice that records revenue higher than the actual revenue 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 Payments	Minimum lease payments
(Contract) Rollover(s)	Transition from an MSA or GCSA, which has a contract term of several 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)
CA	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)

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.)

[Tentative English translation for information purpose only]

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 Report 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 Sato	Attorney-at-law (City-Yuwa Partners)
Member	Koji Nishimura	Attorney-at-law (Matsuo & Kosugi)

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

Company	Cumulative 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 the 75 people in the table below including those for whom data was received from the internal investigation committee.

Company	Cumulative 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 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.

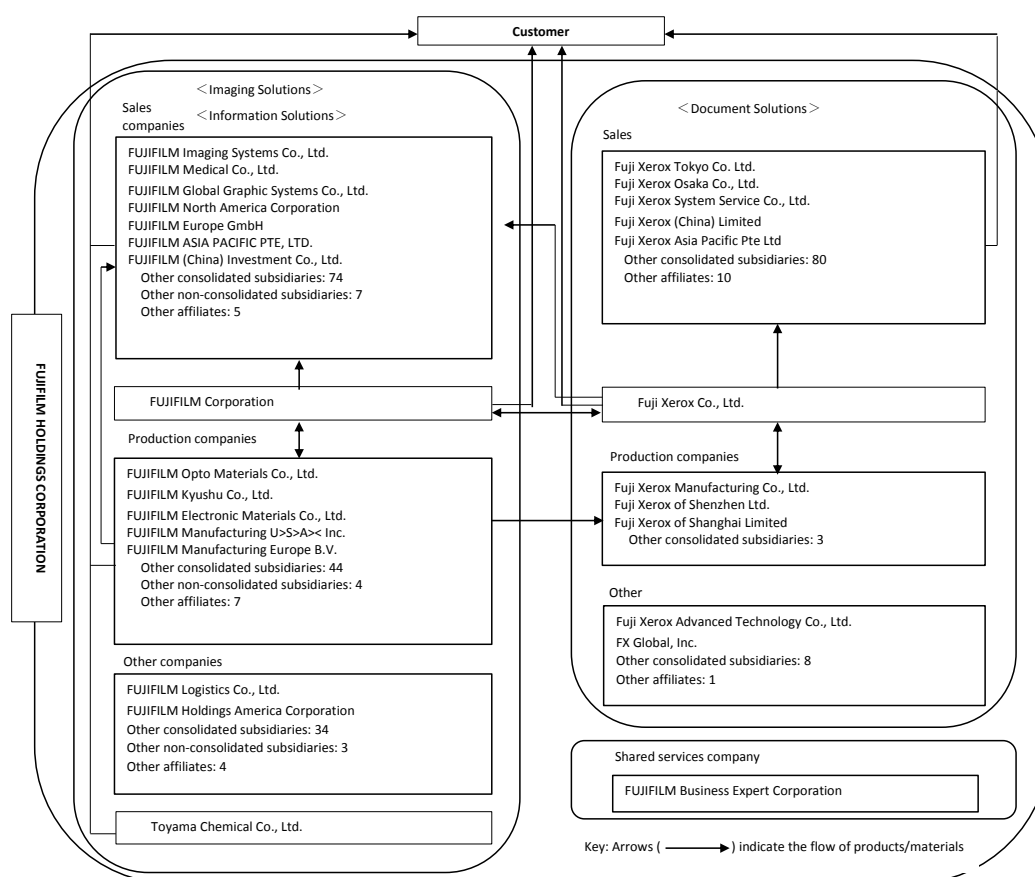
Chapter 2 Company Overview

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.

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

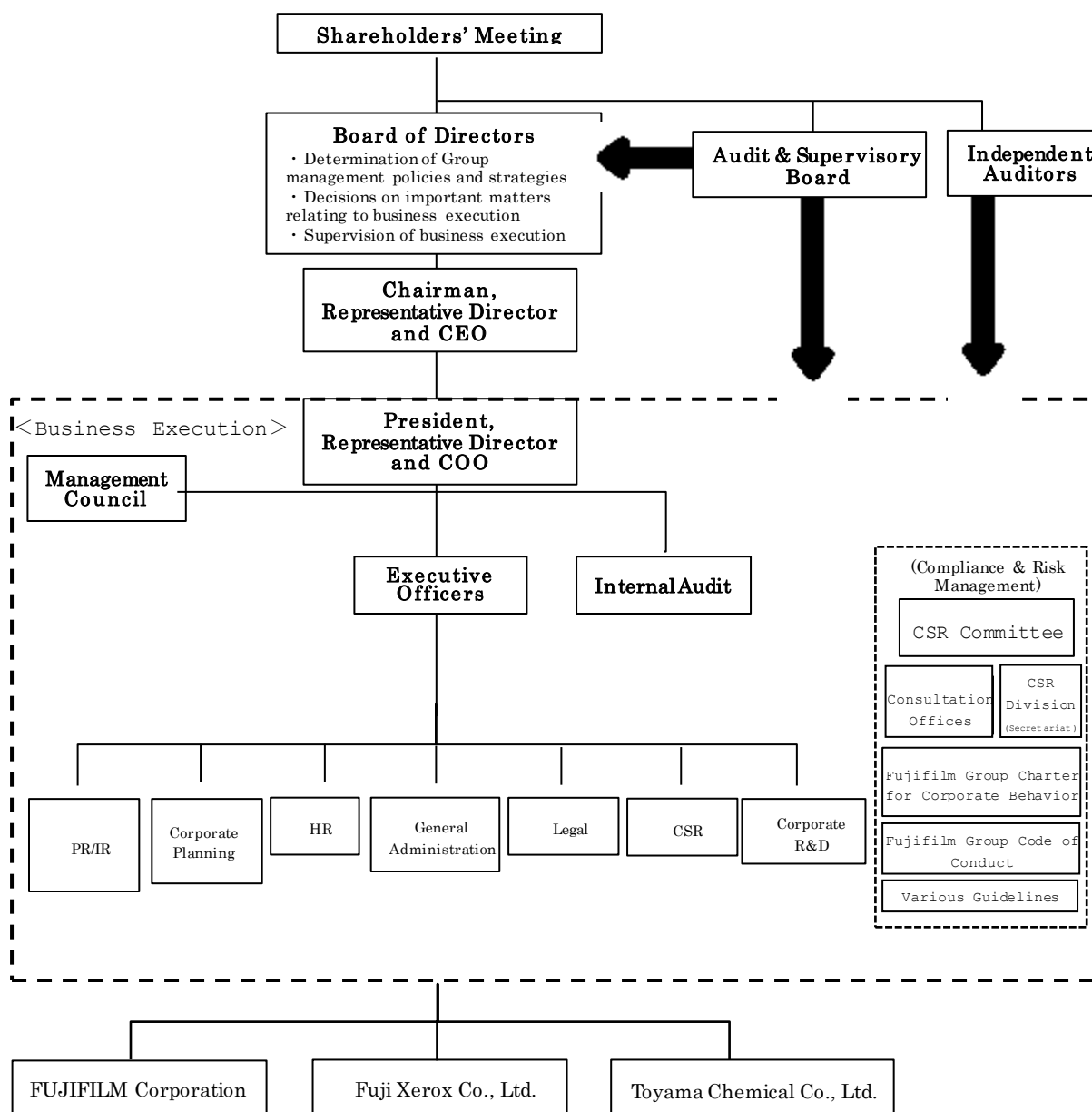


(From FH’s “120th Term Securities Report”, “Business Organization Chart”, page 6)

(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)

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).

Unit: Million New Zealand dollars

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

* 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 customers' premise will be limited to the amount for which usage has been confirmed. The Committee believe that, as a result, the inflated amount of lease receivables that occurred due to each factor on the left has been comprehensively revised.
Residual Values	Revenue overstated due to inflated Residual Values (the estimated sale price for leased assets when the contract expires).	
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.	
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.

Unit: Million New Zealand dollars

	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)

(iii)

Reversal of 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.

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.

Unit: Million New Zealand dollars

	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)

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	<p>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</p> <ul style="list-style-type: none"> 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. <p>and</p> <ul style="list-style-type: none"> 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. <p>Capital leases are further categorized into the three following types.</p> <ul style="list-style-type: none"> • 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.

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.

	<ul style="list-style-type: none"> • 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 transactions, 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.

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

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).

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 leased asset.

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 × 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 ending March 31, 2017 (about NZ\$28 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.

Unit: million AUD

	End of the Fiscal Year Ended March 31, 2016
Revision of accounting treatment of lease transactions	(31)
(i) Revision of items managed under R&O spreadsheet	(60)
(ii) Other revised items	(57)
(iii) 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)

*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 was provided 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 Department determined that the opinions did not address the issue identified by APO's Internal Audit Department 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 reinstated direct 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 NZ\$27 million (¥2.4 billion) and FXA revenue would decline by AU\$27 million (¥2.6bn).

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 Audit and 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 Finance Department

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 losses 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. Secondly, 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.

(1) 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 responses 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 actual 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 on business. 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-balance 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-balance 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. 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 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 addition 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

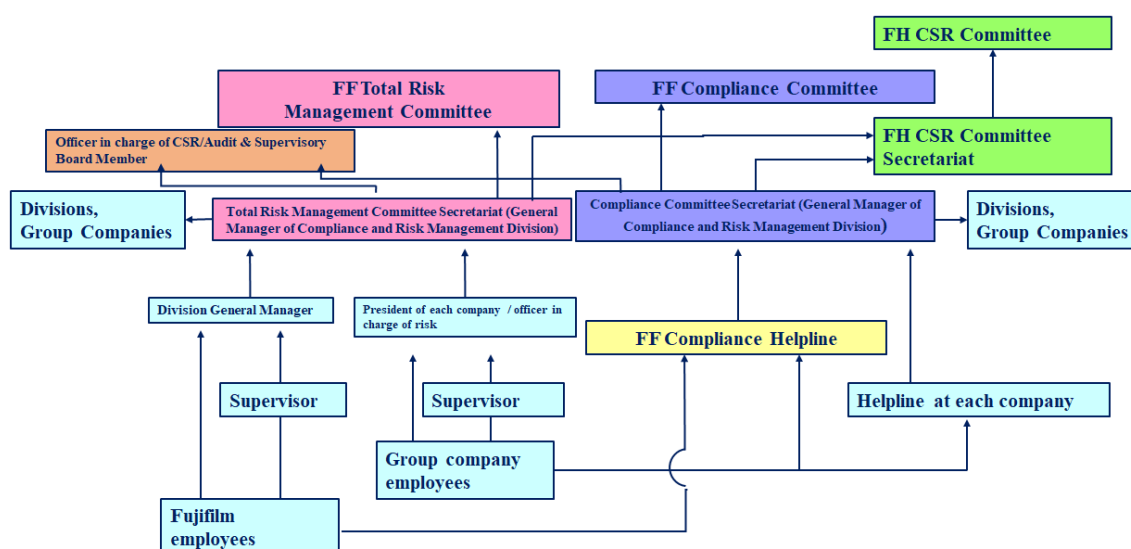
(1) Implementation Status of Compliance System in the FH Group

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.

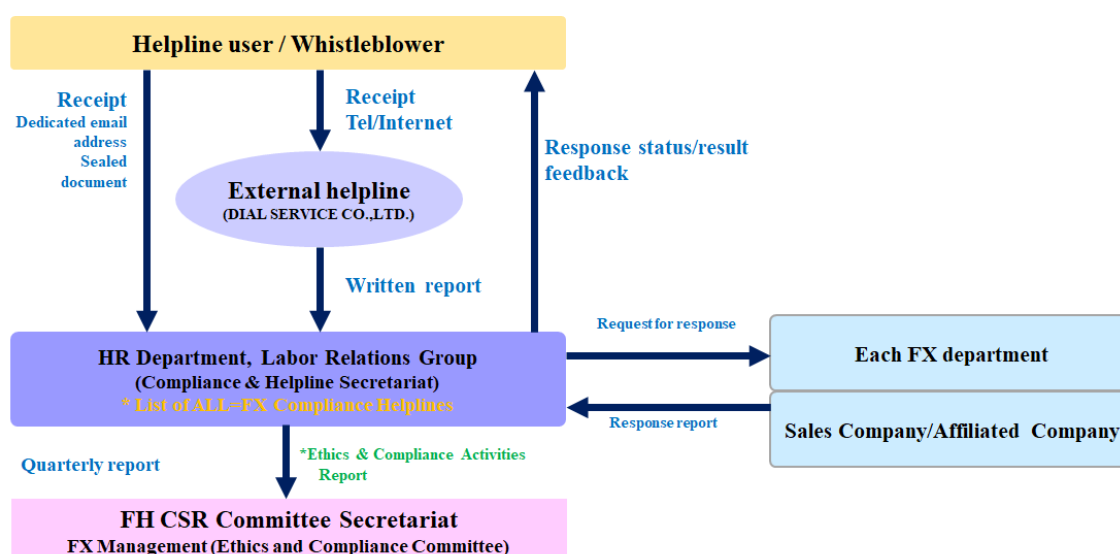
FF Group Consultation Flow Chart (Risk and Compliance Matters)



(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).



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(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 auditors affiliated 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 achieve 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 who is 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 left just 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.

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