June 13, 2017

FOR IMMEDIATE RELEASE

TOKYU CORPORATION
Representative: Hirofumi Nomoto, President
& Representative Director
(Code: No. 9005, Tokyo Stock Exchange First Section)
Contact: Katsumi Oda, Senior Manager,
Accounting & IR Division
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Notice of Investigation Report of a Third-Party Committee and Corrections to Results, etc. at a Consolidated Subsidiary

Tokyu Corporation (hereinafter "the Company") announces that on June 13, 2017, Nagano Tokyu Department Store Co., Ltd. (9829, JASDAQ), a consolidated subsidiary, announced the Notice of Investigation Report of a Third-Party Committee and the Company's Reaction and the Notice on Submission of a Summary of Financial Statements for the First Quarter of the Fiscal Year Ending January 31, 2018, Corrections to a Summary of Financial Statements, etc. for a Previous Fiscal Year, and Submission of Correction Reports for a Security Report for a Previous Fiscal Year, etc., which are attached to this notice.

As described in the Notice of Postponement of a Consolidated Subsidiary's Announcement of Results for the First Quarter of the Fiscal Year Ending January 31, 2018 announced on May 22, 2017, there are no changes to the consolidated results in the fiscal year ended March 31, 2017 and the consolidated forecast for the fiscal year ending March 31, 2018 announced on May 12, 2017.

We apologize sincerely to our shareholders, investors, and other stakeholders for any inconvenience and concern caused.

(Attachment)

- Notice of the Investigation Report of a Third-Party Committee and the Company's Reaction
- Notice on Submission of a Summary of Financial Statements for the First Quarter of the Fiscal Year Ending January 31, 2018, Corrections to a Summary of Financial Statements, etc. for a Previous Fiscal Year, and Submission of Correction Reports for a Security Report for a Previous Fiscal Year, etc.

(Announced on June 13, 2017 by Nagano Tokyu Department Store Co., Ltd.)

June 13, 2017

FOR IMMEDIATE RELEASE

Nagano Tokyu Department Store
Representative: Hajime Kusuno, President & Representative Director
(Code: No. 9829, Tokyo Stock Exchange JASDAQ)
Contact: Kenichi Negishi, Managing Director, Chief Director of Operations
(Telephone: 026-226-8181)

Notice of Investigation Report of a Third-Party Committee and the Company's Reaction

Nagano Tokyu Department Store (the "Company") announces that it has decided to launch the initiatives below in reaction to an investigation report of a third-party committee that was submitted on June 13, 2017.

As described in the Notice of Postponement of the Announcement of Financial Results for the First Quarter of the Fiscal Year Ending January 31, 2018 dated May 22, 2017, the Company discovered that one of its employees (the "Employee") had been wrongfully taking some of the department store's merchandise, comprising precious metals, and reselling it to a third party (the "Incident"). The Company then established a third-party committee consisting of independent experts with no stake in the Company (the "Third-Party Committee"), which has been investigating the Incident.

The Company posts an amount equivalent to its claim against the Employee that has resulted from the Incident, 24 million yen, as the provision of allowance for doubtful accounts in extraordinary losses in the first quarter of the fiscal year ending January 31, 2018. The Company also posts 10 million yen—its claim against the Employee resulting from the Incident, 18 million yen, minus an estimated recoverable amount of 8 million yen—as the provision of allowance for doubtful accounts in extraordinary losses in the fiscal year ended January 31, 2017. (For further information, please refer to the Notice on Submission of a Summary of Financial Statements for the First Quarter of the Fiscal Year Ending January 31, 2018, Corrections to a Summary of Financial Statements, etc. for a Previous Fiscal Year, and Submission of Correction Reports for a Security Report for a Previous Fiscal Year, etc., which were published on June 13, 2017.)

The Company apologizes sincerely for the inconvenience and concern caused by the Incident to its customers, shareholders, and other stakeholders and the concerns held by them. All of the Company's officers and employees will strive together to recover their trust. We hope we can rely on the continued understanding and support of all of our stakeholders.

1. Investigation report of the Third-Party Committee

Please refer to the attachment.

2. Initiatives

Based on the investigation report of the Third-Party Committee, the Company has decided to launch initiatives including the following: (1) strengthening the management system, including the system for controlling the removal of items that can be easily exchanged for money, (2) a review of the management of the World Jewelry & Watch Fair, (3) a review of the management of accounts for out-of-store sales, and (4) thorough compliance with Company-wide business operation rules. The Company will make Company-wide efforts to strengthen its management system, thereby preventing similar incidents.

The Company will receive recommendations for preventing similar incidents separately from the Third-Party Committee and will disclose additional initiatives based on the recommendations.

3. Remuneration cuts for officers

(1) Remuneration cuts for directors

President & Representative Director Hajime Kusuno

10% cut in monthly remuneration for one month

Managing Director & Chief Director of Operations Kenichi Negishi

10% cut in monthly remuneration for one month

Director & Chief Director of Sales Motoshi Kobayashi

10% cut in monthly remuneration for one month

(2) Voluntary return of remuneration by an audit and supervisory committee member

Director & Full-time Audit and Supervisory Committee Member

Toshiharu Kubota

Return of 10% of monthly remuneration for one month

The Employee was dismissed under the bylaw on June 13. Strict internal disciplinary action will be taken against the superior, etc. of the Employee. The Company has undertaken procedures for a criminal complaint against the Employee.

(Attachment) Investigation Report of the Third-Party Committee

June 13, 2017

Nagano Tokyu Department Store Co., Ltd.

Investigation Report

Third-Party Committee
Chairperson Eiji Ueda
Member Seiichiro Ishii
Member Mahito Ogawa

It has been found that a person (the "Subject") in charge of the customer center of Nagano Tokyu Department Store Co., Ltd. (the "Department Store") made illegal deals (the "Series of Deals")—pretending to sell goods to customers properly by processing slips, and then taking the goods out of the store and selling them to buyers other than the customers—at the World Jewelry & Watch Fair (the "Fair") organized by the Department Store. The Company therefore established a fair and independent Third-Party Committee to investigate the Series of Deals, the causes of the deals, the financial impact of the deals, and initiatives to prevent similar incidents, among other matters. The Third-Party Committee hereby reports the results of its investigation on June 13, 2017.

This investigation report is based on the materials obtained as shown below and interviews with the Subject, the relevant officers and employees of the Department Store, and the persons in charge at the vendor. This is no more than a report on the results of the abovementioned investigation. The Third-Party Committee has not directly interviewed the buyers of the goods or investigated them. The examination of initiatives associated with internal control to prevent similar incidents has not been concluded.

Section 1. Investigation method and scope of investigation

1. This Committee was officially established on May 15, 2017, and discussed how to investigate the Incident. As a result, the Committee determined an investigation method. Once it was established, it received a report providing an outline of the Incident and the results of an in-house investigation undertaken by the Department Store. The Committee also received the following materials that the Department Store collected:

- Human resources ledger information on the Subject and officers
- Organization chart of the Department Store
- The Company's rulebook
- Information on transactions (Series of Deals, uncollected data)

- Slips for transactions (credit sales slips, particulars of purchases, orders)
- Report on the status of the collection of outstanding receivables
- Accounting statements (list of electronic journals)
- Contracts with the vendor and credit card companies
- Chart describing the in-house accounting system
- Results of interviews of relevant employees in an internal investigation
- Leaflets

2. Based on the materials, the Committee has decided to conduct the following:
- Interviews of the Subject by the Committee
- Interviews of the directors of the Department Store by the Committee
- Interviews of the relevant employees (employees related to the Incident, relevant staff members of the accounting department) by the Committee
- Interviews of related persons at the vendor and other related persons by the Committee
- Interviews of buyers of goods by the Committee
- Survey of all the employees of the Department Store
- Investigation and analysis of relevant PCs and e-mails

The Committee has investigated e-mails from FY2015 (February 1, 2015) and electronic files related to the Subject, the superiors of the Subject, and three colleagues of the Subject, but has not found any data related to the Incident. The Department Store did not have a system where instructions on transactions were given by e-mail or transactions were confirmed by e-mail.

3. Scope of the investigation

The Series of Deals that is being investigated involves a number of names, and the relationships between the facts involved are very complicated. There are a number of people and facts that need to be investigated. This report only describes the facts related to the Deals, the causes of the Deals, and the financial impact of the Deals. Initiatives related to internal control to prevent similar incidents, among other matters, will be reported separately.

(1) Sales method at the Fair, facts related to the Deals
(2) In the Series of Deals, the Subject pretended to sell goods to customers properly by processing slips, and then taking the goods out of the store and selling them to buyers other than the customers. Did the Subject intend not to pay for the goods? Was the Series of Deals a criminal act?
(3) In the Series of Deals, the names that were used as the names of the buyers when payments were claimed to be made were different from the names used when the goods were claimed to be sold on credit. Who were the actual buyers?

(4) Suppose the Series of Deals includes sales that should be eliminated as fraudulent sales. What should the criteria be for determining fraudulent sales? What is the impact of fraudulent sales?
(5) In the Series of Deals, the names of employees that were not actually the persons in charge of the Deals are used as the names of the persons in charge. Did the Series of Deals consist of organized fraudulent transactions?
(6) Overall picture of the Fair (Are there any transactions similar to the Series of Deals? Are there any fraudulent acts similar to the Incident?)

Section 2. The Department Store and the Subject

1. The Department Store

The Department Store was established in 1958, and it was relocated to a site in front of Nagano station more than 50 years ago. It is a regional department store primarily targeting customers in the northeastern part of Nagano Prefecture. Nagano Tokyu Department Store has Kita Nagano Shopping Center Co., Ltd., which operates mainly in the Yoshida region of Nagano, as a subsidiary, and constitutes the Nagano Tokyu Department Store Group with the subsidiary.

2. The Subject

The Subject joined Nagano Tokyu Department Store in April 1987 and was temporarily transferred to Nagano Tokyu Life Co., Ltd. (working in the out-of-store sales division) in July 1992. In January 2000, the Subject joined Kita Nagano Shopping Center Co., Ltd. In June 2006, the Subject returned to the Department Store. In February 2015, the Subject worked (as a manager) in the customer center in the sales control division.

Sales of 2 million yen or more were recorded at the Fair every year. It is said internally that the out-of-store sales division gained some customers through the Fair, and sales of jewelry items have been recorded.

3. Vendor

The vendor is KK Tokyu-Time. As a Tokyu Group company, Tokyu-Time has stores in the Department Store and facilities of Tokyu Department Store and Tokyu Plaza, among other facilities. Tokyu-Time sells luxury watches and jewelry goods. It has permanent watch maintenance rooms. At the Fair, the employees of the Department Store require a removal slip to remove goods from the venue. Staff members of Tokyu-Time perform part of the tasks of the Department Store. When the sales procedures are completed, Tokyu-Time staff members prepare credit sale slips following instructions from the person in charge.

Section 3. Outline of the Series of Deals

I. Beginning of the Series of Deals and motives

The Subject once worked in the out-of-store sales division and sold jewelry goods properly at the Fair. Around 2009, the Subject planned to obtain funds temporarily at the Fair using the period from purchase to payment. The Subject bought goods and sold them to other buyers. The value of the transactions was initially low, around 200,000 yen. As the Subject paid for the purchases, the amounts of purchases gradually increased.

Taking advantage of his/her position as an employee, the Subject used the names of relatives and acquaintances without their permission and prepared Credit Sale Slip 5s (“Credit Sale Slips”) stating the relatives and acquaintances as buyers. The Subject pretended to have sold the goods and actually bought the goods. The Subject then sold the goods to other buyers to obtain money temporarily.

When the purchases were paid for, the Subject prepared Purchase Slip 5s (“Purchase Slips”) and paid for the purchases using RCC accounts in the names of relatives and acquaintances.

The number of names of buyers used by the Subject increased, and the Subject used the names of other employees as the names of the persons in charge so that transactions would be distributed to different employees and the Subject would not stand out internally. The Subject conducted a number of transactions, and the value of the transactions increased.

The Subject is believed to have conducted the Series of Deals to use the money obtained for living expenses (including school expenses for a child entering university and mortgage payments) and to make up for payments that the Subject had made for customers to take responsibility for transaction problems at the Subject’s workplace.

II. Value of transactions

The transactions that the Subject is believed to have conducted are shown in the table below. The values of transactions have been calculated based on the statements made by the Subject, slips prepared by the Subject, slips of employees whose names were used by the Subject, and removal slips at the vendor.

To check whether there were any transactions similar to the Series of Deals other than the abovementioned transactions, the Third-Party Committee looked for the buyers of certain brand-name watches sold at the Department Store in 2016 using copies of warranty certificates held by the vendor. In 2016, the Department Store sold 242 watches, and except for the products sold by the Subject, the buyers and the persons that made payments (including relatives) were identical. The Committee has therefore determined that there were no transactions conducted by the Subject other than the abovementioned transactions, and that there were no transactions at the Company that were similar to the Series of Deals.

(Yen, tax included)

	Sales	Amount not posted	Payments received	Amount receivable
2014	10,623,955	0	10,623,955	0
2015	21,720,250	0	21,720,250	0
2016	79,825,610	0	60,773,727	19,051,883
2017 (up to April)	28,170,990	5,331,420	1,458,000	32,044,410
			Total	51,096,293

III. Outline of the Series of Deals

1. Products

The products bought and sold in the Incident were luxury watches of more than one brand.

2. Names of buyers entered on Credit Sale Slips

Credit Sale Slips were prepared for the products sold at the Fair. The name of the buyer is stated on the Credit Sale Slip. Many of the names of buyers are the names of relatives of the Subject, companies operated by relatives of the Subject, and acquaintances of the Subject. After the Incident was detected, the Department Store found that the names on the Credit Sale Slips included the names of buyers whose existence has not been confirmed.

Of those buyers, none actually bought any watches through the Subject. No one whose name was used as the name of a buyer was informed or agreed on the use of their name in advance.

3. Names of persons who made payments

When payments were made for products bought at the Fair, Purchase Slips were created. When out-of-store accounts or RCC accounts were used, order forms (“Orders”) were created.

In transactions for which payments to the Department Store were made in cash, the name of the buyer on the Purchase Slip and the name of the buyer on the Credit Sale Slip is identical. However, when out-of-store accounts or RCC accounts were used, a different name is entered on the Purchase Slip in some transactions. In a number of transactions, a different name was used for payment.

4. Names of persons in charge on Credit Sale Slips, etc.

Until 2016, the Subject used the names of employees that the Subject was acquainted with as the names of the persons in charge, saying that the Subject made sales to the acquaintances, in many transactions where the Subject removed products from the vendor, sold them on credit, and then paid for them. In 2017, the Subject used the names of other employees without their permission in certain transactions.

Because the transactions were conducted by a number of employees, the Department Store was not able to discover that the Subject had conducted large amounts of transactions.

Section 4. Overview of the Fair and sales at the Fair

I. Overview of the Fair

1. General description of the Fair

The Fair has been held by the Nagano Tokyu Department Group for more than 40 years. When an event with a major ad campaign is held, employees are permitted to remove goods and sell them. The Fair is a Company-wide campaign run by the Department Store to promote sales of jewelry and watches.

Until 2016, the Fair was held once a year from August to October. In 2017, the Fair is being held throughout the year.

During the period of the Fair, there is a large event space in the store in the Department Store, and certain items are treated as items sold at the Fair even if they are sold in a selling space outside the store. Employees remove goods from the store to sell them. The Fair is a Company-wide sales promotion event.

2. Goods sold at the Fair

The goods sold at the Fair are jewelry items and watches. Although the word “world” is included in the Fair’s name, domestic goods are also sold there.

The Fair is the Department Store’s most important sales promotion campaign. With the cooperation of manufacturers and vendors, rare goods that are usually difficult to buy in the store are sold. There are also goods that are produced specially for the Fair.

3. Employees, etc. involved

All officers, employees, and part-timers of the Department Store and its subsidiary and staff members of business partners with stores in the Department Store are involved. The Fair is a Company-wide event.

The employees involved include not only employees of the out-of-store sales division and the sales division in the store, but also employees who are not directly involved in face-to-face selling in the store, such as employees engaged in office work and work related to facilities and employees of the mail-order division.

4. Sales

Sales at the Fair account for just over 3% of total annual sales at the Department Store and around 60% of sales of jewelry goods at the Department Store.

Sales during the Fair are around 0.6 billion yen annually (excluding tax), and 15% to 25% of them are accounted for by sales of watches. The remaining amount is sales of other jewelry goods.

The Fair is a very important event for the Department Store.

5. Sales on credit

In principle, the Department Store sells goods for cash or accepts credit cards in the store. During the Fair, however, employees are generally allowed to sell goods on credit.

Employees who remove and sell goods during the Fair use a Credit Sale Slip for every transaction, and sales for which a Credit Sale Slip is used are divided into two categories: sales on credit, for which payment is made by December, the deadline for payment for the Fair, and sales for which payment is made in cash or with a credit card when the purchase is confirmed.

Around 25% of sales of watches at the Fair are paid for in December. Considering payments that are collected after the deadline, we can say that around 30% of sales are effectively sales on credit.

Despite the name Credit Sale Slip, a larger percent of sales of goods that employees remove and sell using a Credit Sale Slip at the Fair are accounted for by sales for which payment is made in cash or with a credit card at the time of purchase.

We have found that Credit Sale Slips are created at the Fair not for sales on credit but for accounting reasons at the Department Store (calculation of incentives).

II. Sales method at the Fair

Merchandizing management and credit management have been relaxed for promoting sales by employees at the Fair. The following steps have been taken:

1. Removing and selling

In principle, the Department Store sells goods in the store, and it is not permitted to remove goods from the store to sell them. At the Fair, however, while an event is held in the store, employees, etc. are allowed to remove goods from the store to promote sales. Employees are encouraged to take goods to customers for sales (negotiations) like staff members in charge of out-of-store sales.

At the Fair, all officers working for the Department Store and its subsidiary and employees (regular employees, temporary employees, and part-timers) of the Department Store are involved. Business partners of the Department also cooperate. Full-time employees employed by other companies who are called sales partners can be registered as salespersons at the Fair.

Employees of the Department Store are requested to sell goods to acquaintances, customers and relatives using their personal connections, and are allowed to remove goods from the store and sell them at customers’ locations.

Employees use vendor removal slips when removing goods. The Department Store had not prepared any slips of its own, such as a merchandise transfer slip, but began creating a merchandise transfer slip in May 2017.

2. Approval of sales on credit

In principle, as mentioned above, the Department Store sells goods in cash or accepts credit cards. Sales on credit are usually approved at the out-of-store division only. Other employees are not allowed to sell goods on credit. If goods are sold to customers who do not have an out-of-store sales account, temporary accounts need to be opened, and the approval of the head of the out-of-store sales division is needed. At the Fair, however, no approval of supervisors is needed.

3. Credit limit

The out-of-store division of the Department Store sets a credit limit for each out-of-store sales account. Sales exceeding credit limits require the approval of the head of the out-of-store sales division. At the Fair, however, employees who remove goods can make decisions on credit, and no credit limits are set in advance.

4. Extension of the deadline for payment

In principle, the Department Store sells goods or accepts credit cards at the store except for sales on credit at the out-of-store sales division. The deadline for payment and the payment method usually need to be determined when sales are registered.

At the Fair, credit management is relaxed. When a sale is registered, a Credit Sale Slip is created, and only the goods to be sold and their amount are confirmed. The deadline for payment and the payment method are allowed to be confirmed through negotiations after the sale. If the Fair is held from August to October, extending the deadline for payment until December 31 of the same year is approved.

If the buyer pays for the purchase between the registration of the sale (creation of the Credit Sale Slip) and the deadline for payment, no particulars of the purchase or invoice will be sent from the accounting division of the Department Store, etc. No request will be made for payment either.

If the buyer uses a credit card at the Fair, the buyer can postpone the payment until the date of the credit card payment. The buyer can choose a card payment method (payment in installments or payment from a bonus).

5. Sales price

At the Fair, goods, especially big-ticket items, can be sold at a discount upon obtaining approval of vendors. The buyer can obtain a considerable benefit from the discount and credit card reward points.

III. Sales targets and incentives

1. Sales targets

(1) All officers, employees, part-timers, and sales partners (employees employed by companies other than the Department Store and its subsidiary) who work at the Department Store and its subsidiary are involved in the Fair. Sales targets are set for employees working at the Department Store and its subsidiary. No sales targets are set for part-timers or sales partners working at the Department Store.

(2) Sales targets are set for employees of the Department Store in accordance with their posts and duties. All employees are requested to participate as far as possible.

(3) Sales targets are set for the entire Company, individual employees, and each department and team.

(i) Sales targets at the Department Store are no more than targets, and are not minimum goals or obligations. Even if employees fail to achieve their sales targets, there are no direct penalties. Failure does not directly affect their personnel evaluation.

(ii) The Fair, however, is an especially important sales promotion event at the Department Store. All employees must effectively participate in the Fair. They are repeatedly requested by their supervisors and the sales division to participate in the Fair and achieve their sales targets.

Each employee's sales at the Fair are disclosed in a table as a daily report in an in-house system that employees at the Company can access.

(4) The Department Store emphasizes its employees' achievement of the sales targets and their participation rate. The Department Store appears to have emphatically called on all employees to participate in the Fair (participation of 100%).

(5) Employees feel strong, implicit pressure to participate and achieve their sales targets. As described below, the Third-Party Committee surveyed all employees. In response to question (ii) of the survey about employees' sense of burden related to the sales targets, 87.92% of employees said that they "feel a sense of burden."

2. Incentives

(1) The person responsible for the sale of a product at the Fair receives 3% of the proceeds of the sale as an incentive.

All officers, employees, and part-timers working for the Department Store or its subsidiary as well as registered full-time sales partners who are employed by companies other than the Department Store and its subsidiary are eligible to receive incentives at the Fair.

(2) The amount of the incentive is calculated based on the aggregate of sales recorded on Credit Sale Slips. Sales need to be recorded on Credit Sale Slips for incentives to be provided.

Incentives are given to those responsible for sales. They may give gifts in return to buyers of big-ticket items, and they do not seem to keep all of the incentives given to them.

IV. Responsibility to collect receivables related to sales at the Fair

As described above, merchandise management and credit are relaxed at the Fair. Meanwhile, employees are responsible for accounts receivable, including the collection of receivables, for the sale they have made and there have been no major problems related to the collection of receivables.

Since the Fair uses employees' personal connections, the Department Store considers that the collection of accounts receivable makes better progress if employees are responsible for it.

As described above, if the Fair is held from August to October, postponing the deadline for payment until as late as December 31 is approved. In this case, a week before December 31, the accounting division distributes forms including the particulars of purchases to the persons responsible for sales to remind them to collect the receivables.

If the collection of an account receivable is delayed for a month, the Department Store asks the person responsible for the sale to submit a report on the status of the collection of outstanding receivables.

V. Risk associated with the collection of receivables at the Fair

1. Of sales at the Fair, sales for which Credit Sale Slips were used (including sales for which payment was made immediately after the registration of the sale) amounted to 650 million yen.

   Sales on credit at the Fair for which payment was not made by December 31, the deadline for payment, accounted for approximately 4% of all sales on credit until 2015. Delinquent receivables at the Fair cannot be said to account for a large percentage of sales on credit.

   In 2016, when the series of irregular transactions occurred, the percentage of delinquent receivables was high, at 7.9%. According to reports on the status of the collection of outstanding receivables for the Fair in 2016 (submitted in January 2017), however, of 53 status reports, 38 reports were related to the Series of Deals. Only 15 reports on outstanding receivables were about normal transactions, and the delinquency charges for these normal transactions stood at a total of just 10,747,488 yen.

   Judging from this fact, in 2016, the ratio of delinquent receivables related to the Fair did not rise, and the risk associated with the collection of receivables did not increase significantly.

   There have been no major problems in the collection of accounts receivable related to the Fair. Although there were certain delinquent receivables that were not paid by December 31, they were collected without legal means for collection partly due to the efforts to collect receivables made by the employees responsible for the receivables. Delinquent receivables did not become a major problem at the Company.

2. At the Fair, it is assumed that if employees of the Department Store remove goods, they use their personal connections or sell goods on credit to customers whom they know by sight. Selling goods to strangers is not assumed.

   Since employees sell goods to acquaintances and business partners whom they know and relatives, and are responsible for the collection of receivables, they are believed to choose buyers that are financially trustworthy to a large extent.

   At the Fair, transactions with a low risk of delinquent receivables or a low risk associated with the collection of receivables seem to be assumed.

   Although sales targets are set for employees at the Fair, the targets are not minimum goals or obligations, and employees are not requested at all to sell goods to high risk buyers in order to achieve their targets. This is consistent with the assumption above.

VI. Handling of delinquent receivables

1. As described above, employees are responsible for the receivables associated with goods that they have sold at the Fair, including collection. Every year, around one week before December 31, the deadline for payment, the accounting division gives statements of accounts receivable, which are rectangular slips of paper, to persons who have sold goods to remind them to collect the receivables.
2. If the collection of receivables is delayed by a month, the Department Store asks the person in charge to submit a report on the status of the collection of outstanding receivables. Information on the buyer (name, address), the name of the person in charge, and the accounts receivable (outstanding receivables) are stated in the report. The person in charge needs to report the status of delinquent receivables and the steps to be taken. The general manager of the department to which the person in charge belongs and the head of the out-of-store sales division enter their remarks. After the report is submitted, it is read by the department head, the division head, and the president.
3. The Fair is a system of promoting sales by relaxing merchandise management and credit management. Sales targets are set for employees, and they are given incentives in accordance with the sales they make. Employees remove goods from the store and sell them using their own personal connections. After a sale is confirmed, credit is permitted, allowing the buyer to pay the price by the end of the year.

   In this system, the person in charge of the sale is responsible for collecting the receivables. If delinquent receivables occur, the person in charge is required to report the reason for the delinquency. In this way, the system intends to prevent the number of buyers from increasing without limit and to avoid major risks in the collection of receivables.

   As a result, the system of the Fair has been maintained for almost 40 years without any major problems. This is considered to be a reason for the lack of action associated with the relaxation of asset management and credit management at the Fair.

Section 5. Sales processing at the Fair

I. Merchandise management at the Fair (contractual relationship)

1. The goods sold at the Fair are jewelry and watches. The Department Store purchases the goods from Tokyu-Time, which has a store within the store of the Department Store.

Many department stores enter into purchase upon sale agreements with vendors with which the department stores conduct transactions continually. The name of the agreement between the Department Store and the vendor at the Fair is simply “the agreement,” but the agreement is basically a purchase upon sale agreement.

2. Under the purchase upon sale agreement, a product is deemed to be purchased by a department store when it is sold to a customer at a store within the department store. The item is owned and managed by the vendor (tenant) until it is sold to a customer.

   At the Fair, goods that are removed by employees, etc. of the Department Store are goods in the vendor’s stock that are owned and managed by the vendor.

II. Removal slip

1. If an employee removes goods, they fill out a removal slip prepared by the vendor, remove the goods from the store, and sell them to customers in the customers’ locations (conduct negotiations).

   The removal slip is prepared by the person in charge at the vendor. It includes items such as the reason for removal, the name of the person removing the goods, the date of removal, the period of removal, the barcode number, the model number, the name of the brand-name product, the quantity, the sales price, and remarks. The employee of the Department Store who will sell the goods needs to sign their name.

   The removal slip specifies the period of removal. The period of removal specified on many of the removal slips disclosed in this investigation is about one week. In the removal/return field, the date of removal and the date of return are entered.

   In the remarks field of the removal slip, the name of the brand of the product removed is entered, and the specific form and color of the product is described. Almost all of the products removed in the Series of Deals were watches.

   In the removal/return field, in addition to the date of removal and the date of return, the name of the buyer who is ultimately determined is written by hand. The number of the Credit Sale Slip is entered in the remarks field, notes field, etc.

2. Removal and return

The number of products removed at a time varies from two products to ten. We assume that the person who removes the products removes a smaller number of products if they know the customers’ tastes or orders.

We also assume that in the Series of Deals, the Subject removed a larger number of products to pretend to remove goods to sell them in the usual manner.

The goods removed for which removal slips are created are returned to the vendor, whether the sale is confirmed or not. For a product whose sale is confirmed, the vendor enters the date of sale and the name of the customer, among other information, on the guarantee form. The vendor adjusts the strap and other parts and conducts an operational check, and then hands the product to the person who has sold it.

3. Merchandise transfer slip not created

Since the vendor and the Department Store have entered into a purchase upon sale agreement, the product removed by the employee was a product of the vendor. At the Department Store, therefore, no merchandise transfer slips were used until April 2017.

The goods that employees of the Department Store, etc. removed at the Fair were goods in the vendor's stock that were owned and managed by the vendor. When employees of the Department Store, etc. removed watches and other products from the vendor's store, removal slips were created for the vendor. They are not deemed to have removed goods from the Department Store.

At the Fair, therefore, removal slips were created for the vendor, but no merchandise transfer slips, which were prepared for the transfer of merchandise in the Department Store, were created.

We assume that the Department Store did not think that it needed to create any merchandise transfer slips because the goods that the employees of the Department Store removed from the vendor were owned and managed by the vendor until they were sold to customers under the abovementioned purchase upon sale agreement.

Both the Department Store and the vendor are Tokyu Group companies, and the vendor has a permanent store within the Department Store. Although they are different companies, they have a close operational relationship. Given inquiries from the Department Store, removal slips were able to be obtained easily. We assume that the Department Store did not think that any inconvenience would be caused by not having any merchandise transfer slips.

As a result, employees of the Department Store, etc. who removed goods from the vendor were allowed to keep the vendor's goods themselves.

The goods that employees of the Department Store, etc. removed from the vendor, which were goods in the vendor's stock, were under the management of the Department Store. It is not reasonable to allow individuals to manage the removed goods. Merchandise transfer slips were not used only because of the purchase upon sale agreement, which made the ownership of the goods unclear. That was a problem.

III. Sales slip (Credit Sale Slip) at the Fair

1. Sales registration at the Fair (creation of Credit Sale Slips)

The employees of the Department Store, etc. that remove goods from the vendor using a removal slip at the Fair sell them (conduct negotiations) at customers' locations. All the goods removed are returned to the vendor, whether the sale is confirmed or not.

For a product whose sale has been confirmed, a Credit Sale Slip is created by the vendor. The slip includes information such as the slip number, the date of issue, the address, contact information, and name of the buyer, the product name, the item number, the sales price (consumption tax), information on the product including the size, case, and name, the name of the person in charge, the name of the team to which the person in charge belongs, and the code of the person in charge. The person in charge enters his/her signature in the signature space.

The Credit Sale Slip is prepared in quintuplicate, and the copies are distributed to the person in charge, the accounting division, the vendor, the customer, and the team.

When the sale of a product (watch) is confirmed, the vendor adjusts the strap and conducts an operational check. The vendor then enters the date of sale and the name of the customer, among other information, on the guarantee form. The product and the Credit Sale Slip are handed over to the person in charge of the sale, and the product is then handed over to the buyer.

The Credit Sale Slip is for accounting at the Department Store. Since information on the product such as the product name, the item number, the size, the case, and the name needs to be entered, the slip is usually prepared by the vendor.

When the Credit Sale Slip is prepared, the sale is registered at the Department Store. Under the purchase upon sale agreement, the product is transferred from the vendor to the Department Store and is sold to the buyer. At that time, the vendor has an account receivable from the Department Store. The Department Store has an account receivable from the buyer.

2. Creation of the Credit Sale Slip

The Credit Sale Slip, as the name suggests, should be created when a product is sold on credit. At the Fair, the Credit Sale Slip is used for calculating incentives for employees, etc. as mentioned above. The Credit Sale Slip has two roles: the posting of sales and a basis for the calculation of incentives.

When employees removed goods to sell at the Fair, some purchases were paid for in cash or with a credit card when the purchase was determined. In those cases, as well, Credit Sale Slips were created.

In this way, the Credit Sale Slip was needed for recording sales, but its name did not necessarily indicate its use.

The Department Store stopped using Credit Sale Slips in May 2017.

3. “Delivery” space on the Credit Sale Slip

The Credit Sale Slip has a “delivery” space. At the Fair, unlike for sales at the store, the delivery of a product and slip processing did not occur at the same time. The Credit Sale Slip was created to record sales after the employee, etc. of the Department Store removed goods, and the sale was determined.

When a copy of the Credit Sale Slip was given to the buyer, the procedure for posting sales had already finished at the Department Store. As a result, the buyer did not have any time to enter their signature in the “delivery” space of the Credit Sale Slip prepared by the person in charge at the vendor.

In this investigation, we obtained 91 Credit Sale Slips and the same number of Purchase Slips at the Fair at random (the slips are dated September 30, 2016 or October 31, 2016, when the recording of sales was concentrated), and we checked the “delivery” space on the Credit Sale Slips related to the Series of Deals. We have found that many Credit Sale Slips have no signature of the buyer in the “delivery” space. Some Credit Sale Slips have a signature as an exception, but many of them have the signature of the person in charge.

The Credit Sale Slips for the transactions of the Subject in 2017 have the name of the buyer in their “delivery” space, but the handwriting is almost identical to that of the person who prepared the Credit Sale Slips. We assume that the name of the buyer was entered by the person in charge at the vendor.

IV. Name of the person who paid for the Series of Deals

1. Payment procedure at the Department Store

As described above, at the Fair, the payment timing and payment method do not have to be determined when the sale is registered (the Credit Sale Slip is created). Usually, payment is allowed to be made by December 31 of the year when the Fair is held.

At the Fair, as described above, when payment is made for the purchase, a Purchase Slip, which is called a paying-in slip internally, is created. If an out-of-store account or an RCC account is used, as described above, an Order is prepared.

2. Payment using the Purchase Slip

At the Fair, a Purchase Slip (Purchase Slip 5) is created for payment. The Purchase Slip is called a paying-in slip internally.

The Purchase Slip includes information such as the slip number, the date of issue, the address, contact information, and name of the buyer, the Credit Sale Slip number, the product name, the item number, the sales price (consumption tax), the name of the person in charge, the name of the team of the person in charge, and the code of the person in charge. The person in charge enters his/her signature in the signature space.

The Purchase Slip is prepared in quintuplicate, and the copies are distributed to the person in charge, the accounting division, the vendor, the customer, and the team.

When the Purchase Slip is prepared, payment is made in cash or by credit card. The Department Store eliminates the account receivable.

When a Purchase Slip is used for payment, the accounting division checks the Credit Sale Slip number, the product name, the item number, the sales price (consumption tax), and the name of the person in charge. If there are no problems, the accounting division performs the payment procedure.

3. Use of an RCC account (use of the Order for payment)

(1) Royal Customer Card (RCC) accounts are accounts exclusively for out-of-store sales customers of the Department Store. The RCC is a credit card that can be used only at the Department Store and its subsidiary.

The RCC holder can pay with an RCC credit card or by entering the account number when the employee of the out-of-store sales division visits the customer and receives orders or receives orders by phone.

(2) If a credit sale statement is used, an Order is submitted and payment is made from the RCC account. In an out-of-store sales transaction, an Order or a delivery slip is submitted.

The Order includes information such as the slip number, the date of issue, the address and contact information of the buyer, the account number (out-of-store sales code, RCC account number, other card number), the product name, the item number, and the sales price. In addition, in the space for information on the person in charge, the department, name, and extension number of the person in charge are entered, among other information.

When an RCC account is used for payment, checking the product name, the item number, the sales price, the name of the person in charge, and the RCC account number is emphasized. When the information and the Purchase Slip are submitted to the accounting division, the payment procedure is performed without any accounting problems.

The accounting division does not have any information against which to check the name of the buyer stated on the Credit Sale Slip. Thus, even if the name of the RCC account and the name of the buyer on the Credit Sale Slip are different, the payment procedure is performed without any problems.

4. Accounting procedure for payment and checking the name

(1) At the Fair, the accounting division receives a Purchase Slip to process the payment for a purchase. The information checked with the accounting procedure can be checked against information included in the electronic journals. However, only the slip number of the Purchase Slip, the slip number of the Credit Sale Slip, the code of the person in charge, and the sales price are included, and the name of the buyer is not checked.

The accounting division appears to assume that there is no problem if the slip number of the Purchase Slip, the slip number of the Credit Sale Slip, the code of the person in charge, and the sales price match with information in the journals, and does not appear to place emphasis on checking the name of the buyer because the division receives a large number of slips every day.

(2) This procedure seems to be approved because the name of the buyer can change in out-of-store transactions for economic reasons on the part of the buyer and for accounting reasons. At the Fair,

jewelry items, which are relatively high-priced, are sold, and some goods are bought as gifts for relatives. Names of elderly people are sometimes used as cardholders. Meanwhile, it is unlikely that anyone will pay the debt of anyone else with whom they have no relationship at all. This seems to be another reason that has made the accounting division believe that there are no particular problems.

Since the name of the buyer on the Credit Sale Slip and the name of the buyer on the Purchase Slip can differ, the payment procedure at the accounting division is completed even if there is a difference in the name of the buyer as long as there is no problem with the slip number and the price, etc. on the Purchase Slip.

As a result, in the accounting procedure for payment, the name of the buyer on the Purchase Slip was not checked, and payment using someone else's name was not able to be blocked.

At the Department Store, it was relatively easy to pay using a buyer's name that differed from that on the Credit Sale Slip.

5. Possibility of detection

Wasn't the Department Store able to discover that the names of buyers whose existence cannot be confirmed were included in the Series of Deals?

At the Fair, employees were encouraged to remove goods to sell them using their personal connections. Customers were assumed to be people that employees were acquainted with, and it was difficult to imagine that there would be fictitious buyers when the subsequent payment procedure was taken into consideration. We believe that the existence of individual buyers is not doubted when employees decide to sell goods and submit credit sale slips at a company that conducts transactions with a large number of customers, like a department store.

We can therefore say that it is very difficult to detect any fictitious names of buyers when credit sale slips are created unless there are special circumstances (e.g. the person in charge of accounting happens to be acquainted with, or live in the same neighborhood as, a buyer on a slip).

V. Reality of the Fair (results of a survey)

1. Questionnaire

To learn about the reality of the Fair, the Third-Party Committee conducted a survey of 207 employees of the Department Store (one of them is a temporarily transferred employee; the Subject is not included). The respondents gave their names on the survey.

A questionnaire was distributed on May 19, 2017, and the respondents were asked to return it to the office of the Third-Party Committee by May 22. All of the 207 employees (100%) returned the questionnaire (four of them did not give their names).

The questionnaire had ten questions: (i) the sales targets set for each employee for the jewelry &

watch fairs, (ii) the sense of burden that each employee feels regarding the sales targets, (iii) whether the respondent has heard about any employee transferring sales to anyone else in order for them to achieve their targets, (iv) whether the respondent has received sales from anyone else to achieve their targets or has transferred sales to anyone else to help them achieve their targets, (v) whether anyone has registered sales using the name of the respondent without the respondent's permission, (vi) whether respondents who said "Yes" to question (iv) or question (v) have discovered sales for which the buyers are not known, (vii) whether there are any transactions in which the buyer is not determined when Credit Sale Slip 5 is created, (viii) whether there are any transactions in which the buyer on Credit Sale Slip 5 and the buyer on Purchase Slip 5 differ, (ix) what the respondent's views are regarding the change in the number of jewelry & watch fairs from once a year to a few times a year, and (x) any comments about the fairs.

2. Answers to the questionnaire

In response to question (i) about the sales targets set at the jewelry & watch fairs, 49.28% of the respondents said "Too high," and 40.58% said "High." Thus, around 90% of the employees said that the sales targets are high. In response to question (ii) about the sense of burden felt by the employees in relation to the sales targets, 87.92% of the respondents said, "I feel a sense of burden."

In response to questions (iii) and (iv) about transferring sales to help achieve sales targets, about half, 48.79%, said that they had heard about transfers. The percentage of the respondents who said that they had transferred or acquired sales through transfer stood at 27.05%. We assume that the sales were transferred secretly. The difference between the ratio of the respondents who have heard about the transfers of sales and the ratio of the respondents who have been involved in transfer of sales indicates that many employees seemingly believe that it is not good to transfer sales.

In response to question (v), whether anyone has ever registered sales using the name of the respondent without the respondent's permission, as in the Incident, 91.79% of the respondents said, "No," which indicates that the fraudulent method used in the Incident is rarely used. Of those who said, "Yes" to the question above, 25.42% said that there are sales for which the buyer is not known. We assume that the percentage of fraudulent transactions is high because some employees are involved (the names of some employees are used) in the Series of Deals.

In response to question (vii), whether there are any transactions in which the buyer is not determined when Credit Sale Slip 5 is created, 98.55% of the respondents said, "No." Overall, the employees believed that the buyer is usually determined when the slip is created.

In response to question (viii), whether there are any transactions in which the buyer on Credit Sale Slip 5 and the buyer on Purchase Slip 5 differ, 98.55% of the respondent said, "No." A change in the name of the buyer between the times of the creation of the two slips seems to be considered unusual.

In response to question (ix) about the respondents' views on the increase in the annual number of jewelry & watch fairs, 38.65% of the respondents said "Good," 24.64% said "I don't know," 22.71%

said “I don’t mind,” and 12.56% said “Bad.” There was no obvious bias.

Among other comments about the jewelry & watch fairs, dissatisfaction at having to pay out of their own pocket when the sales targets are not achieved was expressed by eight respondents. Other comments included “Does transferring sales matter?”, “The incentives are known to customers and should be abolished,” “The rates of incentives for employees of the out-of-store sales division should be lowered,” “Now that the fairs are held year after year, the rules have become ambiguous.”

3. Evaluation of the responses in the survey

Overall, the results of the survey show that employees feel a sense of burden due to the high sales targets that they have to achieve at the jewelry and watch fairs. In addition, the existence of transfers of sales seems to be no small reason for the Series of Deals. The involvement of other employees was necessary for the continuation of the Series of Deals, and the pressure on employees to achieve the sales targets, which were announced internally, was used for the cooperation of other employees.

We believe that if the burden of sales targets and the related pressure on the employees had been smaller and if transfers of sales had been strictly controlled, the fraudulent transactions would not have had gone this far.

4. Results of interviews and other investigations

The Third-Party Committee interviewed 25 employees and three officers of the Department Store and a person in charge at the vendor whose names were used as the names of persons in charge in the Series of Deals. Some of them talked about the pressure to achieve the sales targets.

We asked the employees about the causes of the pressure. They said that at present, they are not requested by the Company to achieve sales targets as quotas. However, because sales targets were also set by team, some supervisors ask their team to achieve the team’s target. The employees said that in recent years, they have not been required to achieve sales targets as quotas and are not pressurized intentionally as they were before.

There are two causes of the pressure that that the employees are feeling: (i) A table of sales by person at the Fair is posted in a daily report, and the employees are forced to look at their performance, and (ii) The employees understand that the Fair is a very important event for the Company in terms of promoting sales, and they feel that they have to participate in the Fair and cooperate. This can be said to be loyalty to the Company, but we think that there is a slightly distorted awareness.

The tables of sales by person for 2014 through 2016 that the Third-Party Committee received include each employee’s sales and achievement rates. The participation rate of all employees is stated outside the table, and there is a statement that says, “100% participation by employees (excluding employees taking leave and sales partners).”

The sales division appears to have requested that the employees participate in the Fair and take the lead. We assume that to achieve 100%, office workers who are unable to think of any potential buyers have to buy or ask relatives to buy goods.

The 91 Credit Sale Slips and 91 Purchase Slips for the Fair that were submitted for this investigation include information on transactions that appear to be purchases by employees themselves and by their relatives.

In the interviews in this investigation, some employees said that they did not want to buy goods themselves. Employees' sense of dislike of unavoidable purchases made by themselves at the Fair may lead to pressure.

Section 6. The Series of Deals and buyers

I. Peculiarities of the Series of Deals

The following problems exist related to the buyers in the Series of Deals:

(1) Names of buyers on Credit Sale Slips

Many of the names of buyers included on Credit Sale Slips in the Series of Deals are the names of relatives of the Subject, companies run by relatives of the Subject, and acquaintances of the Subject. The names of buyers in the deals from FY2016 that were investigated by the Department Store after the Incident was uncovered include the names of buyers whose existence cannot be confirmed.

(2) Names of persons who paid

At the Fair, when payment is made for a purchase, a Purchase Slip is created. When an out-of-store account or an RCC account is used, an Order is prepared.

When payment to the Department Store was made in cash, the buyer on the Purchase Slip was the same as that on the Credit Sale Slip. However, in some deals for which out-of-store sales accounts or RCC accounts were used, the name of the buyer was different on the Purchase Slip. In a considerable number of deals, the name of the person who paid was different.

II. Buyer on the Credit Sale Slip in the Series of Deals

1. At the beginning of the Series of Deals, the Subject bought a product and sold it to someone else to get money temporarily, using the period from the purchase until the payment at the Fair.

   To continue the deals, the Subject, using his/her position as an employee, pretended to sell products by creating Credit Sale Slips on which the Subject used the names of relatives and acquaintances without their permission as the names of buyers and actually sold the products to other persons. The Subject repeated these transactions to obtain money temporarily. The number of names of buyers used gradually increased. The Subject used the names of other employees as the names of persons in charge of transactions to distribute the transactions and maintain a low profile in the Company. In this way, the Subject conducted a number of transactions and gradually expanded the value of the transactions.

2. No buyers stated on the Credit Sale Slips bought goods through the Subject. The Subject did not contact any persons whose names were used as the names of buyers in advance, and did not obtain their approval for the use of their names. The Subject merely used the names of others as the names of the buyers on the Credit Sale Slips without their permission.

   In the Third-Party Committee’s investigation, the Subject said that the names of the buyers on the Credit Sale Slips were names used solely for conducting the Series of Deals.

   The names of the buyers on the Credit Sale Slips in the Series of Deals are not the names of actual buyers, but names used solely for deals, like aliases.

III. Buyer on the Purchase Slip in the Series of Deals

1. Different names of buyers

In the Series of Deals, when payment to the Department Store was made in cash, the names of the buyers on almost all the Credit Sale Slips were the same as the names of the buyers on the Purchase Slips (the names of the persons who paid).

However, in a considerable number of deals for which out-of-store sales accounts or RCC accounts were used, the names of the buyers entered on the Purchase Slips were different, and the names of the persons who paid were also different.

2. Names of buyers on Purchase Slips

Unlike the names on the Credit Sale Slips, the names of the buyers used when payment was made were used for using out-of-store sales accounts or RCC accounts, and the buyers exist.

The buyers are primarily relatives of the Subject, companies run by relatives of the Subject, and acquaintances, including former classmates. From FY2016, the number of persons with whom the Subject was personally acquainted increased. An RCC account in the name of the mother of the Subject has been used. The use of the RCC account in the name of the mother can be seen as a purchase by the Subject.

We have found a few Purchase Slips created in FY2016 that have a different buyer name from that on the Credit Sale Slip.

We have also found a considerable number of cases where the buyer on the Credit Sale Slip is the same as the buyer on the Purchase Slip, but the name of the person making the payment has changed in the payment procedure for using an out-of-store sales account or an RCC account.

3. Payment

Until FY2015, lump-sum payments were made in many of the transactions where RCC accounts were used. In FY2016, however, payments in installments and payments from bonuses increased.

In these cases, credit card companies sent credit card statements every month to the holders of

RCC accounts, and the Subject promised the holders of RCC accounts that the Subject would pay the amounts of money needed for the card payment process.

For using names as buyer names on the Purchase Slips, customer information, including RCC account numbers, is needed. In an interview with the Subject, the Third-Party Committee asked how the Subject obtained the information. The Subject said, “I informed in advance the person whose name I used as a buyer name of the use of the name and promised that I would deposit the amount charged to the RCC account before the withdrawal of the amount. I then sought the consent of the holder of the account regarding the use of the account.” The Subject appears to have used certain accounts without informing the holders of the use of the accounts, and complaints have been received.

RCC account numbers are managed not by the Department Store but by the credit card company. The Subject asked account holders to tell the Subject the account numbers.

4. Buyer name on the Purchase Slip (different buyer names on Credit Sale Slip and Purchase Slip)

However, none of the stated buyers actually bought goods through the Subject. The RCC accounts were used only as a means of payment.

With regard to the differences between the names on the Purchase Slips and those on the Credit Sale Slips, the Subject said that the names were used only as a means of settlement, and that the buyers on the Purchase Slips were not actual buyers.

The buyers stated on the Purchase Slips in the Series of Deals are not actual buyers. They are mere names or formalities.

IV. Buyers in the Series of Deals (use of names)

1. Actual buyers in the Series of Deals

If the name of the buyer on the slip is the name of a person other than the actual buyer or an alias as described above, the question is who the actual buyer is.

(1) The Series of Deals started as personal transactions of the Subject due to personal reasons. At least until the Fair in FY2015, the Subject continued to pay for all purchases. Until that time, no significant changes were observed in the transactions conducted by the Subject.

No matter whether the Subject used other persons’ names or aliases, it is obvious that the Subject conducted transactions and intended to pay for the purchases. It is also obvious that the Subject raised funds separately to pay for the purchases and continued to pay the Department Store.

Generally speaking, employees may use the names of relatives and companies run by relatives to buy goods, and those transactions in themselves are not considered to be illicit transactions.

(2) Based on the consideration above, we have no choice but to assume that the buyers in the Series

of Deals are basically the Subject.

2. Explanation of the Subject

As stated above, in an interview with the Third-Party Committee, the Subject said the following about the differences between the buyers on the Credit Sale Slips and the buyers on the Purchase Slips, or the differences between the names of the persons who paid for the purchases and the names of the buyers on the Credit Sale Slips:

(i) The buyers on the Credit Sale Slips are not actual buyers. The Subject did not contact the buyers on the slips before using their names, or obtain the approval of the buyers. The buyer names were used merely as a means of making the Series of Deals.

(ii) Concerning the difference of the buyers on the Purchase Slips from the buyers on the Credit Sale Slips, the names were used merely as a means of settlement. The buyers on the Purchase Slips are not actual buyers.

The buyer names on the Credit Sale Slips and Purchase Slips are not the names of actual buyers. They are merely names or formalities.

3. Conclusion

Based on the discussion above, the Third-Party Committee has determined that regardless of the use of the names of people other than actual buyers, sales should not be eliminated immediately as sales from illicit transactions comparable to criminal acts, as described below, as far as the Subject intended to pay for the purchases and had the ability to pay for the purchases.

Whether the names stated on the abovementioned slips were the names of actual persons or not does not matter. The Subject used other persons' names or aliases merely as a means of buying goods. The buyers in all of those transactions are considered to be the Subject.

V. Actual changes in buyers

1. Issue

(1) As stated above, at the Fair, employees etc. of the Department Store remove goods from the store and sell them. When a sale is confirmed, a Credit Sale Slip is created for the product. When a Credit Sale Slip is created, the Department Store considers that the sale to the customer is confirmed and posts the sale. The product should move from the vendor to the Department Store and then to the customer.

However, in a considerable number of deals where out-of-store sales accounts or RCC accounts were used in the Series of Deals, a different name was used on the Purchase Slip, and the name of the person who paid for the purchase changed.

At the Fair, there is a long period of time between the registration of a sale and the settlement, and we suspected and examined the possibility of changes in actual buyers in normal transactions for business reasons.

(2) The suspicion above is an issue related to the question of when sales are posted and economic benefits are realized in accounting at the Fair.

Although a sale is supposed to be confirmed when a Credit Sale Slip is created, the buyer name on the Credit Sale Slip is different from that on the Purchase Slip in some deals. Generally speaking, changes in the buyer name are classified into the following categories:

(i) The buyer actually changes.

(ii) The buyer names on the Credit Sale Slip and the Purchase Slip are not actual buyer names but are used merely for the deal, and the actual buyer does not change.

(3) If the buyer actually changes as described in (i) above, a question arises as to when the buyer is determined in the credit sale at the Fair. Is the buyer determined not when the sale is registered on the Credit Sale Slip but only after payment is made on the Purchase Slip?

If the buyer stated on the Credit Sale Slip can be changed easily, the Credit Sale Slip, regardless of the name, is actually only a merchandise transfer slip in terms of its economic meaning.

2. Assumed cases of actual changes in buyers

The Third-Party Committee has considered whether it should understand that the buyer actually changes when the name of the person paying for the purchase changes as described above.

(1) The Third-Party Committee assumes that the buyer name changes at the payment stage in the following cases: (a) The employee removes a product, the buyer is determined, and a Credit Sale Slip is created. After that, the buyer refuses to buy the product and returns it, and (b) The buyer receives a product but does not pay for it by the due date.

(2) If the buyer refuses to buy a product that the employee has removed and returns it as described in (1) (a), the employee in charge of the sale is usually expected to treat the product as a returned product that is unsold and dispose of the Credit Sale Slip. However, if the employee thinks that the product may be sold to another buyer during the Fair, he may look for another buyer and keep the Credit Sale Slip. If another buyer is determined, the Credit Sale Slip should be cancelled. In fact, however, even if the Credit Sale Slip is not cancelled, payment can be made using a Purchase Slip with a different buyer name. We therefore assume that there are cases where the Credit Sale Slip is left as it is.

If the employee wants to record sales to achieve his sales target, we assume that the employee makes the payment, making himself or his relative a buyer.

If the buyer does not make the payment by the due date as mentioned in (1) (b), we wonder whether there are any cases where the employee in charge himself or his relative makes the payment on behalf of the buyer in the report to the Company (payment procedure) because the employee in charge is responsible for the collection of receivables.

(3) In the case of (1) (b), the name of a third person is used for a provisional payment on behalf of

the buyer. Although the name of the person who makes the payment has changed, the actual buyer has not changed.

Thus, in the case of (1) (b), considering the creation of a Credit Sale Slip as the posting of a sale does not pose any problems. The question of whether or not a sale is made when a Credit Sale Slip is created arises only in the case of (1) (a).

3. Consideration based on the questionnaire survey

In the survey conducted by the Third-Party Committee, in response to question (vii), whether there are transactions in which the buyer is not determined when Credit Sale Slip 5 is created, 98.55% of the respondents said, “No.” We can assume that the buyer is determined when the Credit Sale Slip is created.

In response to question (viii), whether there are any transactions in which the buyer on Credit Sale Slip 5 and the buyer on Purchase Slip 5 are different, 98.55% of the respondents said, “No.” We can assume that the buyer name rarely changes from the creation of the Credit Sale Slip through payment using the Purchase Slip, and that differences in the buyer between the slips should be considered as aberrations.

The Third-Party Committee conducted a survey of buyers of a certain brand-name watch at the Department Store in FY2016 using copies of guarantee forms kept by the vendor. As stated above, the buyers and the persons who paid (including relatives) are identical expect for the products sold by the Subject. There are no differences between the buyers and the persons who made payment. We have confirmed that the buyers did not change after the Credit Sale Slips were created.

The Third-Party Committee assumed that the buyers changed in the case described in (1) (a) above. However, the results of the questionnaire survey and of the examination of slips have revealed that the buyers rarely changed.

4. Conclusion

Any changes in buyer names after the creation of Credit Sale Slips, when payment is made, in deals other than the Series of Deals were limited and exceptional. We do not consider that there were any incidents that had a significant impact on the timing of the posting of sales at the Department Store.

We can say that at the Fair, sales are confirmed and economic benefits are realized when Credit Sale Slips are created. Regarding the time of the creation of the Credit Sale Slip as the time of the posting of the sale, as ever, does not pose any problems.

Section 7. Use of other persons’ names as names of persons in charge on Credit Sale Slips

I. Use of names as those of persons in charge

1. At the Fair, the name of the person in charge of the sale, the team number, and the code of the

person in charge are stated, and the signature is entered on the removal slip, which is created when the person in charge removes goods from the vendor, the Credit Sale Slip for a credit sale, the Purchase Slip for payment, and the Order for the use of an RCC account.

2. Names of employees used

The names of several employees, including employees who had left the Department Store, were used on Credit Sale Slips from early on in the Series of Deals. The Third-Party Committee has confirmed that they were used from around 2014.

The number of persons whose names were used on Credit Sale Slips has been rising year after year.

3. Changes in the procedure for using names

In the Incident, in many cases of using other persons' names, the Subject approached employees with whom the Subject was acquainted and obtained their agreement to use their names as the names of the persons in charge in the Series of Deals, saying that the Subject would transfer the sales to them. In 2017, the Subject used other employees' names without obtaining their agreement.

4. As the Subject used other employees' names, deals at the Department Store appeared to be distributed to a number of persons in charge. The Department Store was thus unable to discover that the Subject had conducted transactions worth large amounts of money in the Incident.

II. Background of the use of other persons' names and problems involved

1. As the Subject bought goods repeatedly at the Fair, sales increased. The Subject was afraid that the sales would stand out in the Company in comparison with the Subject's earlier sales, and that the risk of the Series of Deals being found by the Company would increase. The Subject therefore used other employees' names as the names of the persons in charge of sales on Credit Sale Slips and Purchase Slips.

The Subject used name lending to cover up the increase in sales.

2. Employees of the Department Store may have cooperated actively with the Subject in the belief that obtaining sales through transfer from the Subject was good for them because some employees struggled to achieve their sales targets at the Fair or because each employee's sales at the Fair were published in the daily reports.

The name lending meant transferring sales at the Fair, disguising performance, and avoiding a psychological burden by pretending to achieve sales targets.

3. The question is whether the employees whose names were used by the Subject actually cooperated in the Series of Deals. To discover the answer, the Third-Party Committee interviewed the people involved.

III. How the names of persons in charge of the sale on the Credit Sale Slip etc. were lent.

1. The Third-Party Committee interviewed 25 employees and one director of the Department Store whose names were used as the names of persons in charge of the sale in the Series of Deals. The committee found that the name lending could be classified into two categories: (i) the Subject offered to use the names of other persons, who accepted the offer (name lending), and (ii) the Subject used other persons' names as the names of persons in charge of the sale without their consent (use of names without consent).

2. Name lending with consent

(1) The Subject asked other employees who had business relationships with the Subject to lend their names to the Subject as the names of persons in charge. The Subject promised to collect the receivables and gained the consent of a few employees regarding name lending.

Through the interviews, the Third-Party Committee gained the impression that the Subject approached employees whose ability to sell jewelry goods was weak and who were likely to accept the Subject's offer to transfer sales to them from among employees who were likely to trust the Subject based mainly on business relationships.

As described above, a few employees, including former employees, agreed to lend their names as the names of persons in charge on the Credit Sale Slip from early on. More employees subsequently lent their names.

(2) We have found that the Subject made statements to the persons who agreed to lend their names that caused them to trust the Subject, such as "I know a collector of expensive watches who wants to order rare products that I have difficulty obtaining."

The Subject told other employees that they had not achieved their sales targets and said, "Do you want to record some sales? I have already achieved my sales targets. I will give the sales to you if you like," and "I do not want to stand out, or I will be transferred to the out-of-store sales division, and I would not like that." In addition, the Subject promised, "I will collect the receivables myself," and the employees trusted the Subject and accepted the offer.

(3) The Third-Party Committee asked, "Didn't you think it was abnormal to give sales to others at the Fair, where incentives are given?" The people involved all seem to have believed that they would receive only the sales data to be reported to the Company, and that the incentives would of course be returned to the Subject. They seemed to find it strange during this investigation, after the Incident was revealed, but they do not seem to have had any strong reaction of strangeness when the Incident occurred.

Many employees pointed out that the Subject achieved strong sales performance at the Fair. As a result, when the Subject offered to give them sales, they trusted the Subject, considering that the

Subject had sufficient business connections to give sales to others.

Some employees had difficulty achieving their sales targets and accepted the Subject's offer relatively enthusiastically, grateful for the offer.

Many other employees were skeptical about the Subject's offer, thinking that it was too good to be true. However, they were not able to clearly reject the offer and accepted it as if it were imposed, or gave their silent approval.

The Third-Party Committee believes that many employees rejected offers of sales by the Subject. The committee has not been able to identify the employees who rejected offers, however, and it is not known how many employees rejected offers.

(4) Employees who agreed to lend their names seem to have been told the names of customers (including customers that did not exist) by the Subject, and seem to have believed that the sale was an actual sale.

The Third-Party Committee was not able to confirm, through its interviews, anyone who was clearly aware of the Subject's intention to sell goods to anyone else or the fact of the Subject's sales of goods to anyone else.

3. Unauthorized use of names as those of persons in charge

(1) Some employees whose names were used on Credit Sale Slips were approached by the Subject and agreed to the use of their names. From 2016, however, the names of some employees were used on Credit Sale Slips by the Subject without their consent, although they had refused the use of their names.

In 2017, there were many cases where the Subject created Credit Sale Slips using the names of other employees without asking for their consent in advance and without their knowledge of the use of their names. The Subject informed those employees of the use of their names after the Credit Sale Slips were created.

Some employees refused the use of their names as the names of persons in charge, but the Subject used their names without their consent. Other employees were not informed in advance of the use of their names at all by the Subject, but the Subject used their names without their consent.

(2) As described above, the Subject seems to have approached employees who were likely to accept the Subject's offer to transfer sales to them. From around 2016, the Subject was not able to continue the transactions without expanding the scope of using the name of other employees.

However, many employees appear to have refused to lend their names because the Subject's offer was unexpected. It was unexpected because it did not appear to be normal to give sales to others despite sales targets being set for each employee at the Fair and the person in charge on the Credit Sale Slip being responsible for the collection of the receivables.

We assume that the Subject, who needed to continue the Series of Deals, had to give up the idea of gaining prior consent and reported the use of the names after their use.

IV. Matters related to the lending and unauthorized use of names as the names of persons in charge

1. Names used for removing goods

(1) Name lending with consent

In many cases, employees who consented to the use of their names on Credit Sale Slips cooperated in removing goods from the vendor and handed the goods over to the Subject.

The employees went to the vendor to remove the goods, following the instructions of the Subject, and entered their signatures on the removal slips as the persons in charge. The name of each employee who agreed to lend their name was subsequently entered on the removal slip and the Credit Sale Slip.

In 2015, the names of persons who agreed to lend their names were used more often for removing goods from the vendor than the name of the Subject. Subsequently, however, the number of cases where names were used without consent increased.

(2) Unauthorized use of names as those of the persons in charge

As a matter of course, when the Subject used the names of other employees without their consent (and reported the use later), the Subject removed goods from the vendor.

From 2016, name lending was refused more often, and the number of cases of removing goods using the Subject's name increased. In 2017, the name of the Subject was used in almost all cases of removing goods.

In many cases, the name of the person in charge when goods were removed differed from the name of the person in charge when the Credit Sale Slip was created. We assume that in many of those cases—not to say all of those cases due to lack of evidence—the names were used without prior consent.

2. Credit Sale Slip, Purchase Slip

(1) Name lending with consent

Many of the employees who consented to name lending for the Credit Sale Slip in the Series of Deals received a copy of the Credit Sale Slip as the person in charge of the sale from the Subject.

The Purchase Slips are also kept by the teams to which the employees belong, and the employees can view the slips at any time.

(2) Unauthorized use of names as those of persons in charge

As a matter of course, when the Subject used the names of other employees without their consent (and reported the use later), the Subject removed goods from the vendor.

In most of those cases, the Subject did not receive the Credit Sale Slip or the Purchase Slip. The employees whose names were used without their consent were not aware of the deals at all.

However, of the employees whose names were used without their consent as the names of persons in charge of sales, which were posted, some employees were surprised to find transactions that they did not know about in the daily reports disclosed in the in-house system, and asked the Subject to cancel the transactions.

Some employees who found out about the use of their names as the names of persons in charge in after-the-fact reports strongly requested the vendor to delete their names. We have confirmed that in some of those cases, the Subject requested that the vendor change the name of the person in charge to someone else’s name.

As a result, in some cases, the Subject requested that the vendor replace the name of the person in charge that was used without consent with someone else’s name, which was also used without the consent of that person, and the sale was registered separately.

3. Incentives

(1) At the Fair, all employees are given sales targets in accordance with their positions and duties, and incentives in accordance with their sales. Incentives are given not only to regular employees but also to salespeople from business partners, and to part-timers.

(2) In the Series of Deals, the incentives from the Company were to be given to the persons in charge in cases where name lending and the use of names without consent were involved. In most of those cases, the persons involved understood that the incentives belonged to the Subject, and the persons whose names were used as those of persons in charge gave the incentives given to them to the Subject.

Some persons kept part of the incentives given to them, but those incentives have already been returned to the Company.

4. Reporting delays in payment

At the Fair, if the payment of receivables is delayed, the submission of a report on the status of the collection of outstanding receivables is requested. The persons who agreed to lend their names submitted status reports in accordance with the instructions of the Subject.

The Subject appears to have explained to the persons who lent their names that the payment was delayed due to the circumstances of the customer. In our interviews, the persons who lent their names said that they believed what the Subject said.

5. Payment of receivables by employees whose names were used

Four employees whose names were used paid part of the receivables whose payment was delayed on behalf of the customer in the Series of Deals to take responsibility as the person in charge.

6. Employees who agreed to lend their names to become persons in charge had no knowledge of the buyer. They did not know the buyer’s contact information, including the address.

V. Actual situation of the use of names (results of the survey)

1. Answers to the questionnaire

As described above, in the survey undertaken to understand the actual situation of the Fair, the Third-Party Committee asked about the transfer of sales and name lending.

The respondents' answers to question (iii), whether the respondent had heard about any employee transferring sales to anyone else in order for them to achieve their targets, and question (iv), whether the respondent had received sales through transfer from anyone else to achieve their targets or had transferred sales to anyone else to help them achieve their targets, are summarized as follows:

About half of the respondents, 48.79%, said that they had heard about transfers of sales to achieve sales targets, and 27.05% of the respondents said that they had transferred or received sales. From these results, we assume that the sales were transferred secretly. However, the difference between the ratio of the respondents who had heard about transfers of sales and the ratio of the respondents who had been involved in transfer of sales themselves indicates that employees seem to believe that transferring sales is not good.

In response to question (v), whether anyone had ever registered sales using the respondent's name without the respondent's permission, as in the Incident, 91.79% of the respondents said "No," which indicates that the fraudulent means used in the Incident have rarely been used. In response to question (vi) for those who said "Yes" in response to the question above, whether there had been any sales for which the buyer was not known, 25.42% of the respondents said "Yes." We assume that the percentage of fictitious transactions is high because some employees were involved in the Series of Deals, including those whose names were used without their consent.

2. Evaluation of the responses

The respondents to questions (iii) and (iv) include respondents who received sales from the Subject, which may have slightly raised the percentages related to transfers of sales.

Except for the persons involved in the Series of Deals, only three persons said "Yes" in response to question (iv).

The respondents to question (v) also included respondents involved in the Series of Deals. Considering that, we can say that using other persons' names without their consent, as in the Incident, occurs very rarely.

The answers to questions (iii) and (iv) tell us that despite rumors of transfers of sales, only a small number of employees are involved in transfers of sales. We therefore understand that morals related to transfers of sales among employees at the Fair are maintained, and the Incident is an exceptional case.

VI. Responsibility of persons who cooperated in the Series of Deals

In the Series of Deals, the names of a considerable number of persons were lent as the names of persons in charge. All of them believed that they received the sales through valid transactions, and no one knew that the Subject intended to sell goods to anyone else.

However, of the persons who lent their names from early on, some were aware of differences between the name on the Credit Sale Slip, the name on the Purchase Slip, and the name of the person who paid, along with inconsistencies between the names and the Subject's purposes and circumstances that they had been informed of. Some persons voluntarily submitted reports on the status of the collection of outstanding receivables following delays in payment in transactions including name lending in FY2016.

We have not been able to determine that those persons were aware of the Subject's intention to sell goods or sales of goods to someone else, but we believe that they should have been able to be aware of the abnormality of the Subject's transactions. However, the directors, who were responsible for watching and supervising their subordinates, failed to fulfill their responsibilities and did not take steps to stop the Series of Deals. As a result, purchases of goods continued from February 2017.

Section 8. Financial impact of the Series of Deals

I. Legal assessment of the deals

1. Issue

In the Series of Deals, the Subject purchased goods with the intention of reselling them to meet temporary financial needs, using the period from the sale and purchase at the Fair until payment. To conclude the deals, the Subject used other persons' names as the names of buyers.

The Subject misused his/her position as an employee of the Department Store to conclude the deals, which is clearly a violation of discipline under the internal rules, etc. The Subject is liable for disciplinary action.

Although the deals are a violation of discipline under the internal rules of the Department Store, etc., the Subject intended to pay for the purchases, and in fact, the payment for the goods has been completed. Considering this fact, we would have to say that a denial of the existence and effect of the deals retroactively and unrestrictedly solely because of reasons found after the deals, including the Subject's subjective intention regarding making the purchases and reselling after the purchases, would be remarkably lacking in legal stability.

The question is by what criteria deals that affect the legal impact of the Series of Deals as economic activities and should be immediately removed as sales at the Department Store, if any, should be determined.

2. Form of transactions and policy for removing sales

The Series of Deals commenced in around 2009. To obtain money temporarily using the period from the purchase until payment at the Fair, the Subject purchased goods and resold them.

From the beginning, the Subject intended to buy the goods and pay for the purchases. In fact, until FY2015, the Subject prepared funds for payment and paid for the purchases, using the period from the purchase until the due date.

We understand that during a certain period, although the Subject used other people's names, the Series of Deals posed no legal problems as economic transactions.

The Third-Party Committee has decided that the sales at the Department Store must be removed from accounting if the transactions are considered illegal as fraud under the penal code.

The committee has decided that the sales should not be removed immediately as long as the Subject intended to pay for the purchases and had the capacity to pay, and as long as the use of other people's names was not illegal as fraud.

3. Criteria for removing sales

The Series of Deals increased gradually in terms of value. We assume that although the Subject intended to pay for the purchases, there was a time when the Subject became unable to pay.

From the beginning, the Subject had the strong intention to pay for the purchases. We therefore cannot find any period or criteria for removing from accounting any transactions in the Series of Deals as fraudulent transactions based on the Subject's subjective intent alone.

We need to specify criteria based on a point in time when the Series of Deals changed objectively in terms of trading and payment conditions compared with the Subject's actions at the beginning.

4. Objective conditions of the Series of Deals

Looking at the objective conditions of the Series of Deals, the value of the transactions increased year after year, but there was no significant change until 2015.

There was a change in the objective conditions of the Series of Deals from the Fair in FY2016. From that time, the following changes occurred:

(1) Value of transactions and payment

The value of the transactions in the Series of Deals increased gradually from around 2009, but until the Fair in FY2015, the number of transactions remained around 30. Until then, all the purchases in the Series of Deals were paid for.

In FY2016, however, the number of transactions increased sharply to 85, and the value of the transactions exceeded 70 million yen. The purchases were not paid for in full.

In FY2016, accounts due of 19,051,883 yen were posted. In addition, other employees paid 8,197,000 yen as persons in charge for the Subject. Therefore, substantially, the Subject's shortage of funds for payment amounted to 27,248,883 yen in FY2016.

(2) Removing goods

In the early years in the Series of Deals, the Subject used other persons' names as the names of persons in charge, primarily through name lending with their consent. The Subject promised to collect the receivables. The persons who lent their names entered their names on the removal slips and removed goods from the vendor.

From FY2016, the use of other persons' names as the names of persons in charge without their consent increased. At the same time, the Subject removed goods from the vendor in more cases. In 2017, in almost all cases, the Subject removed goods from the vendor.

When names were used without consent, the Subject did not promise the persons in charge the collection of receivables. The persons in charge did not receive Credit Sale Slips. Information on the names of products, prices of products, etc. was not disclosed.

(3) Payment method

Until FY2015, in many cases in the Series of Deals, purchases were paid for in lump sums, even when RCC accounts were used. From 2016, however, in most cases, including cases where RCC accounts were used, payment was made in installments or from a bonus. Obviously, the Subject did not have sufficient cash or funds for lump-sum payments on the due date.

Based on the above, it is evident that the Series of Deals changed qualitatively from ordinary transactions to transactions like fraud from 2016. We think that the transactions before that were ordinary transactions, and that the sales do not need to be removed from accounting.

5. Assessment of transactions in FY2016

When we examine the Series of Deals in FY2016 in detail, we can see noticeable trends. The payment percentage was obviously higher in transactions where names were lent by other employees with their consent than in transactions where names were used without consent.

In many cases, where the names of persons in charge were lent, the persons in charge went to the vendor and removed goods from the vendor. The Subject received the goods from the person in charge, and the person in charge who lent their name entered their signature on the removal slip of the vendor and on the Credit Sale Slip. The goods sold were thus identified, and the due date had to be clearly specified. We assume that this is the reason for the higher payment rate.

Moreover, in transactions where names were lent, the Department Store had the persons in charge who lent their names take responsibility for the collection of the receivables, and as a result, we assume, the persons in charge were concerned about the collection of the receivables in many cases. We also assume that when names were lent, the Subject had a strong commitment to make payment.

In transactions where names were used without consent, we have found that the persons in charge did not receive the Credit Sale Slip and did not even know what goods were sold.

In those transactions, we suspect that the Subject thought that payment might not be able to be made. We believe that the Subject did not hand over the Credit Sale Slip to the person in charge to avoid causing trouble to the person in charge as far as possible.

As described above, there was a significant difference between name lending and the use of names without consent in terms of the Subject’s attitude toward the payment of obligations and behavior. As a criterion to distinguish objectively between the two types of transactions above, we focused on whether the person who lent their name removed goods from the vendor or whether the Subject removed goods from the vendor.

We identified transactions where the Subject removed goods from the vendor as transactions where names were used without consent. We regard those transactions as fraudulent transactions that are as bad as fraud, where the Subject did not intend to pay the receivables and did not have the capacity to make payment.

In many of the name-lending transactions involving the cooperating parties described above, payment was delayed. If we remove transactions involving the cooperating parties from the name-lending transactions, the contrast between the name-lending transactions and the transactions where names were used without consent becomes clearer.

6. Assessment of transactions in FY2017

Of the Series of Deals in FY2017, sales of some transactions have been posted, while sales of other transactions have not. Anyway, in almost all of the Series of Deals in FY2017, the Subject removed goods from the vendor, and we do not see any transactions that were clearly name-lending transactions.

We should therefore regard all transactions in the Series of Deals in FY2017 as fraudulent transactions that are as bad as fraud.

II. Consideration in light of accounting standards

1. Under the accounting standards in Japan, revenue recognition based on the realization principle is required. Section 2B of the income statement principles in chapter 2 of the Corporate Accounting Principles states, “Sales shall be recognized in accordance with the realization principle and shall be limited to sales realized by the sale of goods or the rendering of services.” It is generally understood that the requirements of revenue recognition under the realization principle are the completion of the transfer of goods or the provision of services and a corresponding expected consideration. There is room for interpretation regarding the specific meaning of the expected consideration. On July 9, 2009, the Japanese Institute of Certified Public Accountants published a Research Report on Revenue Recognition in Japan (interim report): Considerations in Light of IAS 18 “Revenue” (Accounting Practice Committee Research Report No. 13). The report states, “The requirement for an expected consideration, which is understood as one of the requirements of revenue recognition under the realization principle in Japan, is considered to require a high probability of compensation being received at the time of sale” (page 32 of the report).

2. Let us consider the sale of goods to the Subject in light of the requirements of revenue recognition. The transfer of goods requirement is considered to be met without any problems because goods were delivered to the Subject. For the expected consideration requirement to be met, the Subject needed to have the intention to pay and the capacity to pay.

   Our criterion for deciding whether or not the posting of sales in the Incident should be disallowed is whether the transaction is regarded as being as bad as fraud. We believe that considering transactions that are legally regarded as being as bad as fraud as transactions that should be removed from sales is sufficient in terms of compliance with the accounting standards.

3. With regard to the intention to pay, which is part of the expected consideration requirement, we have decided that it is appropriate to identify (a) transactions from FY2016 where the Subject is stated on the removal slip as the person in charge as transactions where the Subject did not have any intention to pay. However, we have decided that (b) of transactions where the Subject is stated on the removal slip as the person in charge, transactions for which payment by the Subject or relatives of the Subject has been confirmed should be treated as normal transactions, and that the posting of sales from the transactions should be accepted.

   As for the capacity to pay, which is the other part of the expected consideration requirement, we have decided that it is appropriate to identify, of transactions where a person other than the Subject is stated on the removal slip as the person in charge, (c) transactions for which payment was not completed when this investigation was conducted and (d) transactions for which payment was made but repayment was needed as transactions where the Subject did not have the capacity to pay.

In transactions falling under category (c), the person who removed goods was not able to be confirmed on the vendor’s removal slip, but the Subject is considered to have probably removed goods based on the circumstances, and the transactions can also be regarded as transactions falling under category (a).

III. Financial impact

1. Based on the discussion above, sales from the transactions in the Series of Deals in the table below should be removed (consumption tax is not included in the sales).

(Yen)

	FY2016	FY2017	Total
(a) Goods removed by persons involved in fraudulent transactions	32,952,100	27,990,000	60,942,100
(b) Deduction: of the transactions above, transactions where payment is completed	6,070,500	0	6,070,500
Net: (a) – (b)	26,881,600	27,990,000	54,871,600
(c) Transactions for which payment is not completed	0	1,680,750	1,680,750
(d) Transactions where repayment is needed	9,007,472	0	9,007,472
Total	35,889,072	29,670,750	65,559,822

The table below shows quarterly sales after the sales in the table above are removed.

(Yen)

Quarter	Sales
Feb. 2016 through Apr. 2016	3,936,000
May 2016 through July 2016	6,971,100
Aug. 2016 through Oct. 2016	19,456,250
Nov. 2016 through Jan. 2017	5,525,722
Feb. 2017 through Apr. 2017	29,670,750
Total	65,559,822

2. Accounting for cost of sales corresponding to the removed sales

The purchase upon sale method, where a purchase is recognized when the sale to the customer is recorded, applied to the transactions whose sales have been removed. The question is how to account for purchases upon sale recorded in the cost of sales in association with the removed sales. We consider that purchases upon sale, with which a cost of sales is recorded at the same time as the purchase, can be changed to purchases with which merchandise accounts are recorded, and the merchandise accounts recorded can be transferred to receivables to be paid by the Subject.

We consider that the receivables can be reduced when sales from products whose sales have been removed are collected from the Subject.

We believe that it is appropriate to assess the recoverability of the receivables to be paid by the Subject and post an allowance for doubtful accounts accordingly.

Section 9. Conclusion

1. The Series of Deals began as the Subject's personal transactions resulting from the Subject's personal situation. Although the Subject used other persons' names as the names of buyers, we have no choice but to conclude that the buyer in the Series of Deals was basically the Subject.
2. The Third-Party Committee has determined that sales from transactions in the Series of Deals should not be removed immediately as sales from transactions that were as illegal as criminal acts, although other persons' names were used, as long as the Subject had the intention and capacity to pay for the purchases.

   Sales from transactions should be removed through accounting at the Department Store only when the transactions were as illegal as fraud under the penal code in terms of the intention and capacity to pay.
3. With regard to the intention to pay, we have decided that it is appropriate to identify (a) transactions from FY2016 where the Subject is stated on the removal slip as the person in charge as transactions where the Subject did not have any intention to pay. However, we have decided that (b) of transactions where the Subject is stated on the removal slip as the person in charge and transactions for which payment by the Subject or relatives of the Subject has been confirmed should be treated as normal transactions, and that the posting of sales from the transactions should be accepted.

   As for the capacity to pay, which is part of the expected consideration requirement, we have decided that it is appropriate to identify, of the transactions where a person other than the Subject is stated on the removal slip as the person in charge, (c) transactions for which payment was not completed when this investigation was conducted and (d) transactions for which payment was made but repayment was required as transactions where the Subject did not have the capacity to pay.
4. In this investigation, we conducted a questionnaire survey of all employees, interviewed some of the people involved, and examined slips. As a result, after the creation of Credit Sale Slips for the Fair, we found few changes in the names of buyers when Purchase Slips were created or payment was made using RCC accounts. Although there were some transfers of sales, we did not find widespread transfers of sales among employees.

We have therefore determined that there is no need to be concerned over fraudulent transactions other than the Series of Deals or any increase in damage at the Department Store.

5. In the Series of Deals, most of the employees whose names were used were not aware of fraudulent transactions due to pressure to achieve sales targets at the Fair, the past performance of the Subject, and trust in the Subject based on the Subject's approach. We do not think that the Series of Deals consisted of organized fraudulent transactions.

6. At the Fair, employees were expected to sell goods on credit to customers that they knew by sight, using their personal connections, and transactions were assumed to have a low risk of collection. Therefore, the Department Store relaxed merchandise management and credit management to increase sales, and set long payment terms. As a result, the Fair was an effective means of increasing sales at the Department Store for a long time.

   Although the Fair was supported by employees of high moral character at the Department Store, which operates in a limited region of Nagano, the Fair suffered from institutional fatigue after many years. The employees felt a sense of burden associated with the sales targets. Management, who focused on achieving sales targets when formulating management policy, was not aware of this situation.

   As a result, the relaxation of merchandise management, credit management, and payment terms for increasing sales at the Fair was abused.

7. The Third-Party Committee believes that the Department Store needs to consider and execute initiatives to maintain the function of the Fair and prevent fraudulent transactions like the Incident, and plans to propose initiatives to prevent a recurrence of similar fraudulent transactions.

June 13, 2017

FOR IMMEDIATE RELEASE

Nagano Tokyu Department Store
Representative: Hajime Kusuno, President &
Representative Director
(Code: No. 9829, Tokyo Stock Exchange JASDAQ)
Contact: Kenichi Negishi, Managing Director,
Chief Director of Operations
(Telephone: 026-226-8181)

Notice on Submission of a Summary of Financial Statements for the First Quarter of the Fiscal Year Ending January 31, 2018, Corrections to a Summary of Financial Statements etc. for a Previous Fiscal Year, and Submission of Correction Reports for a Security Report for a Previous Fiscal Year Etc.

Nagano Tokyu Department Store (the "Company") announces that it has submitted a summary of financial statements for the first quarter of the fiscal year ending January 31, 2018 whose publication had been postponed. The Company has also disclosed corrections to the summary of financial statements etc. for the previous fiscal year and has submitted correction reports for the security report etc. for the previous fiscal year to the Kanto Local Finance Bureau.

1. Background and reason for corrections

As described in the Notice of Postponement of the Announcement of Financial Results for the First Quarter of the Fiscal Year Ending January 31, 2018 dated May 22, 2017, the Company established a Third-Party Committee consisting of independent experts with no stake in the Company to investigate the effects of the actions of a former employee of the Company who removed goods and resold them.

As described in the Notice of Investigation Report of a Third-Party Committee and the Company's Reaction, which was published on June 13, 2017, the Company has determined the effects of the former employee's actions on the Company's results based on the investigation report submitted by the Third-Party Committee. The Company has corrected the results for the previous fiscal year accordingly.

In addition to the abovementioned corrections, the Company has corrected the sales commission and loss on retirement of non-current assets, which were not corrected in the fiscal year ended January 31, 2017 because the Company determined that the corrections were insignificant.

2. Summary of quarterly financial statements submitted on June 13, 2017

First quarter of the fiscal year ending January 31, 2018 (from February 1, 2017 to April 30, 2017)

3. Summary of financial statements and summary of quarterly financial statements for a previous fiscal year corrected on June 13, 2017

(1) Summary of financial statements for the fiscal year ended January 31, 2017 (from February 1, 2016 to January 31, 2017)

(2) Summary of quarterly financial statements for the first nine months of the fiscal year ended January 31, 2017 (from February 1, 2016 to October 31, 2016)

4. Quarterly report submitted on June 13, 2017

First quarter of the 60th term (from February 1, 2017 to April 30, 2017)

5. Correction reports for a security report for a previous fiscal year, etc.

(1) Security report for the 59th term (from February 1, 2016 to January 31, 2017)

(2) Quarterly report for the third quarter of the 59th term (from August 1, 2016 to October 31, 2016)

6. Effects of corrections on results for the previous fiscal year

The effects of the corrections on the consolidated and non-consolidated results for the previous fiscal year are outlined in the attachment.

(Attachment) Effects of Corrections on Results for the Previous Fiscal Year

Consolidated financial statements (Thousand yen)

Term	Item	Before correction (A)	After correction (B)	Effect (B – A)
First nine months of fiscal year ended January 31, 2017	Net sales	14,445,200	14,414,837	(30,363)
	Operating profit	(43,584)	(47,852)	(4,268)
	Recurring profit	(71,498)	(75,766)	(4,268)
	Profit attributable to owners of parent	(358,798)	(372,356)	(13,558)
	Net assets	2,936,295	2,922,737	(13,558)
	Total assets	14,038,011	14,024,453	(13,558)
Full year of fiscal year ended January 31, 2017	Net sales	19,750,941	19,715,052	(35,889)
	Operating profit	(69,916)	(71,757)	(1,841)
	Recurring profit	(100,331)	(102,172)	(1,841)
	Profit attributable to owners of parent	(477,547)	(495,582)	(18,035)
	Net assets	2,829,713	2,811,678	(18,035)
	Total assets	13,712,872	13,706,881	(5,991)

Non-consolidated financial statements (Thousand yen)

Term	Item	Before correction (A)	After correction (B)	Effect (B – A)
First nine months of fiscal year ended January 31, 2017	Net sales	12,411,850	12,381,486	(30,363)
	Operating profit	(49,898)	(54,166)	(4,268)
	Recurring profit	(74,643)	(78,911)	(4,268)
	Net income	(339,583)	(353,141)	(13,558)
	Net assets	3,029,040	3,015,481	(13,558)
	Total assets	12,143,587	12,130,029	(13,558)
Full year of fiscal year ended January 31, 2017	Net sales	16,983,105	16,947,216	(35,889)
	Operating profit	(75,912)	(77,753)	(1,841)
	Recurring profit	(102,462)	(104,302)	(1,841)
	Net income	(449,057)	(467,092)	(18,035)
	Net assets	2,921,665	2,903,630	(18,035)
	Total assets	11,762,386	11,756,395	(5,991)