FUJIFILM

I&I–Imaging & Information

# Annual Report 2005

# I&I–Imaging & Information

**FUJIFILM will constantly strive to develop superior technologies and to continue to cultivate an imaging and information culture. As a global company fully trusted by both customers and society itself, we aim to make innovative use of the most advanced technologies to create beautiful images and wide-ranging information and provide the imaging, information, and document solutions that will best meet the increasingly sophisticated needs of the world community.**

**Contents**



*Cover: Historic Sanctuary of Machu Picchu  Photographed by Masaharu Uemura*

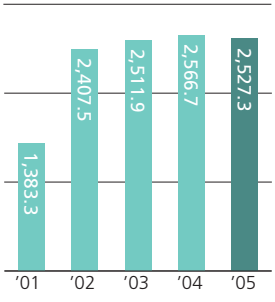
# Financial Highlights

Fuji Photo Film Co., Ltd. and Subsidiaries

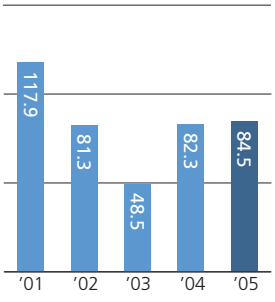
| | Year ended March 31 | | | |
|---|---|---|---|---|
| | **2005** | 2004 | 2003 | **2005** |
| | (Millions of yen, except per share figures) | | | (Thousands of U.S. dollars, except per share figures) *(Note 1)* |
| Revenue | **¥2,527,374** | ¥2,566,725 | ¥2,511,921 | **$23,620,318** |
| Operating income | **164,442** | 184,900 | 164,400 | **1,536,841** |
| Income before income taxes | **162,346** | 164,948 | 120,513 | **1,517,252** |
| Net income | **84,500** | 82,317 | 48,579 | **789,720** |
| Per share of common stock (¥/$): | | | | |
| Net income (Note 2) | **¥ 164.78** | ¥ 160.38 | ¥ 94.51 | **$ 1.54** |
| Cash dividends | **25.00** | 25.00 | 25.00 | **0.23** |
| Research and development expenses | **¥ 168,017** | ¥ 173,323 | ¥ 159,119 | **$ 1,570,253** |
| Capital expenditure | **157,420** | 160,740 | 127,319 | **1,471,215** |
| Depreciation (Note 3) | **130,360** | 124,634 | 126,695 | **1,218,318** |
| Total assets at year-end | **2,983,457** | 3,023,509 | 2,958,317 | **27,882,776** |
| Total shareholders' equity at year-end | **1,849,102** | 1,749,882 | 1,680,611 | **17,281,327** |
| Number of employees at year-end | **75,638** | 73,164 | 72,633 | |

Notes: 1. U.S. dollar amounts presented are translated from yen, for convenience only, at the rate of ¥107=US$1, the exchange rate prevailing on March 31, 2005.
2. The computation of net income per share is based on the average number of shares outstanding during each year.
3. Figures for depreciation do not include depreciation expense for rental equipment handled by the Document Solutions segment.

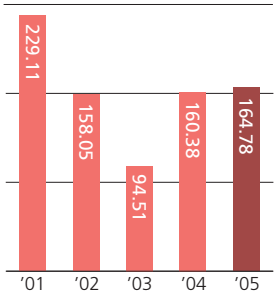
**Revenue** (Billions of yen)




**Net Income** (Billions of yen)




**Net Income per Share of Common Stock** (Yen)



**Shigetaka Komori, President and Chief Executive Officer**

During the fiscal year under review (April 1, 2004, to March 31, 2005), the global economy showed a general trend of recovery during the first half of the year, owing to such factors as increased personal consumption in the United States and in China and other Asian countries as well as robust corporate capital investment. In the latter half of the year, however, surging crude oil prices began affecting the global economy, quickly spurring fears of an economic slowdown. In Europe, economic conditions were sluggish, owing to the combined effects of rising oil prices and the appreciation of the euro. In Japan, despite a trend of increase in private-sector capital investment and expectations of an escape from deflationary trends, the continued slackness of employment conditions and a slight weakening of exports kept the pace of economic recovery slow.

Amid these conditions, Fujifilm's consolidated revenue benefited from increased sales of flat panel display materials due to abundant demand for such materials as well as the general strength of sales of digital color multifunction devices and office-use printers in the Document Solutions field. However, revenue was negatively affected by a decrease in demand for color films in Japan, North America, and Europe; a rapid deceleration of growth in demand for digital cameras, particularly in Japan and North America; a drop in prices of recording media due to intensifying competition; the progressive appreciation of the yen against the U.S. dollar; and other factors. As a result, the Company's consolidated revenue declined 1.5%, to ¥2,527.3 billion ($23,620 million), compared with the previous fiscal year. Domestic revenue amounted to ¥1,311.8 billion ($12,261 million), down 1.8%, while overseas revenue totaled ¥1,215.5 billion ($11,359 million), down 1.2%.

The Company worked to reduce the cost of sales and operating expenses through such measures as those to improve manufacturing efficiency and to reevaluate and optimize procurement processes. However, a rise in raw materials costs boosted the cost of sales, while temporary expenses were incurred in connection with various structural reform measures. Reflecting these overall factors as well as a one-time gain on the transfer of the substitutional portion of Fuji Xerox's employee pension fund liabilities, operating income was restrained to ¥164.4 billion ($1,537 million), down 11.1%.

Income before income taxes amounted to ¥162.3 billion ($1,517 million), down 1.6%, reflecting a ¥17.9 billion improvement in the balance of nonoperating income and expenses due to such factors as a shift from negative to

positive figures in foreign exchange gains (losses) recognized on the settlement and translation of foreign-currency-denominated receivables and a decrease in interest expense accompanying the Company's efforts to reduce external borrowings. A drop in the effective corporate income tax rate and other factors supported a rise in net income, which reached ¥84.5 billion ($790 million), up 2.7%.

The effective currency exchange rates for the U.S. dollar and the euro against the yen during the year were ¥108 and ¥135, respectively.

To offer investment opportunities to a greater number of people and further increase the market liquidity of its shares, Fujifilm reduced the trading unit size from 1,000 shares to 100 shares, effective as of September 1, 2004. In addition, aiming to augment the efficiency of its capital structure, the Company undertook its first share buy-back program during the period from February 1, 2005, through March 18, 2005. The program entailed the use of approximately ¥15.0 billion ($140 million) to purchase approximately four million shares on the open market.

## Toward the Goals of VISION75

The Fujifilm Group is implementing various measures to attain the goals of the VISION75 medium-term management plan, which is designed to realize a new surge of business growth. In line with VISION75's fundamental strategies—"building new growth strategies," "implementing comprehensive structural reforms at all management levels," and "enhancing consolidated management"—Fujifilm is working to further expand its growth businesses and create new businesses by proactively taking such measures as those to strengthen its R&D capabilities and pursue M&A transactions and strategic alliances with third parties. Moreover, the Company is implementing a variety of structural reforms, including those related to its domestic marketing and distribution systems for its Imaging Solutions operations.

*For more information on VISION75, please refer to the feature article (pages 4 and 5).

## Toward Sustainable Development

Since its founding, Fujifilm has proactively implemented numerous environmental protection programs in line with a corporate philosophy that emphasizes environmental consciousness and conservation. Based on the Fujifilm Group Green Policy medium-term environmental policy, we have conducted numerous activities designed to maintain high levels of "environmental quality" in our products, services, and corporate activities. Through efforts centered on the CSR Division, which was established in April 2004, Fujifilm is undertaking a growing number of corporate social responsibility (CSR) activities associated with environmental protection goals as well as compliance and risk management objectives. Fujifilm will strive to ensure its operations reflect a balanced consideration of issues from environmental, economic, and social perspectives. In this way, the Company is seeking to realize its own sustained development while contributing to the "sustainable development" of the earth and global society.

## To All Those Who Have Supported Fujifilm

To improve its capabilities for flexibly and quickly responding to future changes in its operating environment, the Fujifilm Group is concertedly working to attain its VISION75 objectives and thereby further strengthen its management base and competitiveness and augment corporate value.

In conclusion, I would like to express my sincere appreciation to Fujifilm's shareholders, customers, and business partners along with my hope for their continued support and encouragement.

July 2005

Shigetaka Komori
President and Chief Executive Officer

# The VISION75 Medium-Term Management Plan—Fiscal 2005 Review

**Fujifilm's VISION75 medium-term management plan articulates three fundamental strategies: "building new growth strategies," "implementing comprehensive structural reforms at all management levels," and "enhancing consolidated management." We are now implementing diverse measures aimed at attaining these objectives. This section of the annual report will present an overview of the measures taken during the fiscal year under review to achieve the first two objectives—"building new growth strategies" and "implementing comprehensive structural reforms at all management levels."**

## Building New Growth Strategies

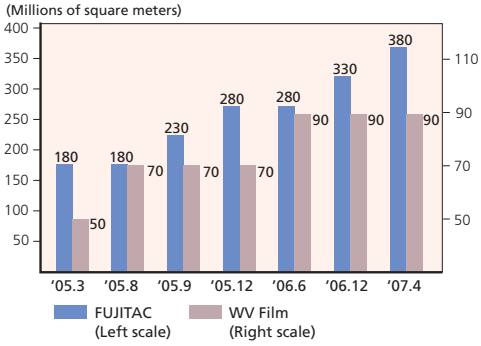
Aiming to further expand its growth businesses and to create new businesses to support the future, the Company is proactively making capital and R&D investments while also undertaking diverse M&A transactions.

### Making Capital and R&D Investments

#### Augmenting Flat Panel Display (FPD) Materials Manufacturing Capacity

To respond to the surging expansion of markets for LCD televisions and other FPDs, Fujifilm has been accelerating the pace of expansion of its FUJITAC and WV Film manufacturing capacities, particularly of FUJIFILM Opto Materials Co., Ltd. Moreover, a recently established domestic manufacturing subsidiary, Kumamoto Prefecture based FUJIFILM Kyushu Co., Ltd., has begun the first stage of its facilities construction plan, which involves the creation of two FUJITAC manufacturing lines. We intend to continue proactively making the investments needed to further expand our FPD material businesses.

■ FPD Materials Annual Manufacturing Capacity




#### Constructing the Advanced Core Technology Laboratory

Fujifilm has begun constructing a new research facility based in Kanagawa Prefecture in Japan, the Advanced Core Technology Laboratory, scheduled for completion by March 2006. This facility will enable the physical consolidation of three corporate laboratories engaged in horizontally integrated Companywide basic research programs and will synergistically integrate expertise from various fields to create innovative new technologies. In the future, the scope of the Advanced Core Technology Laboratory's operations will be broadened to include research involving the technologies obtained from such Group companies as Fuji Xerox and FUJINON CORPORATION as well as technologies obtained through corporate alliances, corporate-academic alliances, and M&A transactions. In this way, the new laboratory is projected to constitute a core facility for R&D programs that promote innovation throughout the Fujifilm Group.

▲ Artist's concept of the Advanced Core Technology Laboratory

### M&A Transactions

#### Expanding Global Semiconductor-Related Processing Materials Operations

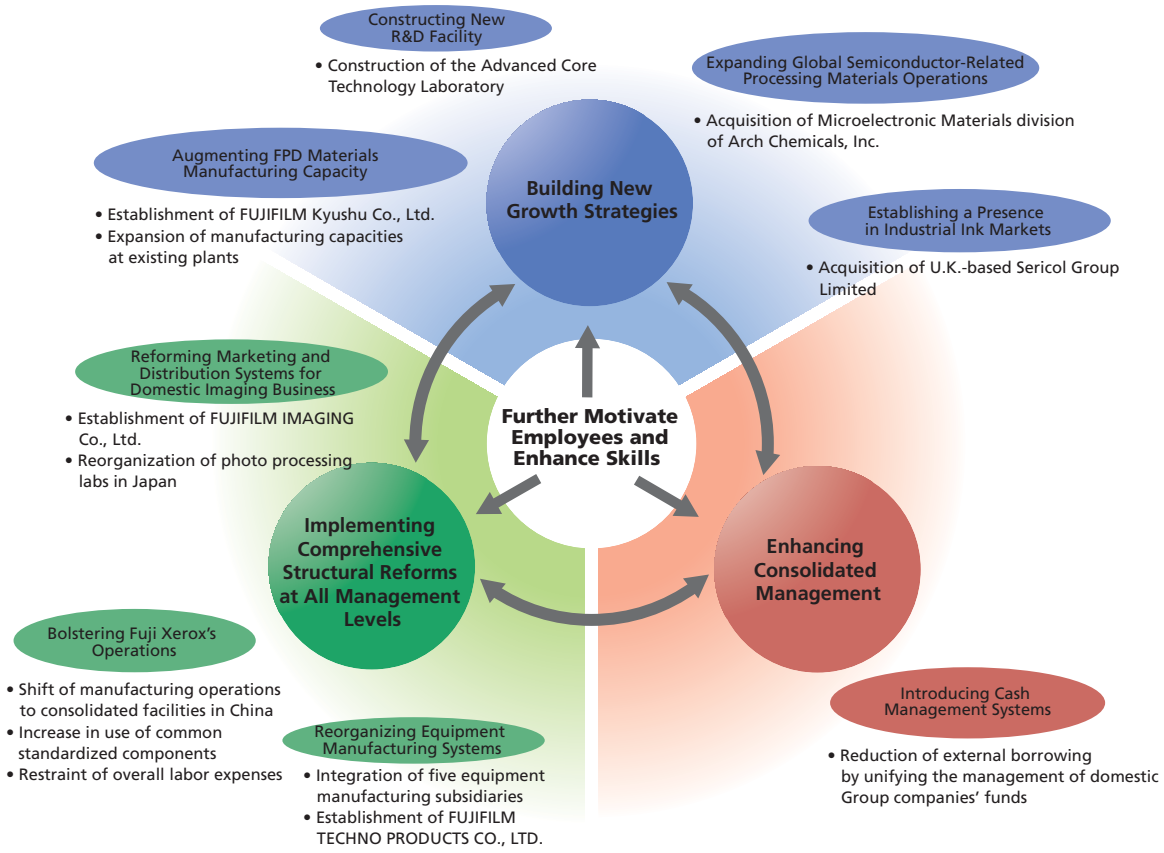
Having previously supplied companies in Japan, elsewhere in East Asia, and Oceania with such light-sensitive materials as photoresists for semiconductor manufacturing applications, Fujifilm reinforced its semiconductor processing materials business with the November 2004 acquisition of the Microelectronic Materials division of U.S.-based Arch Chemicals, Inc., which includes units handling R&D, manufacturing, and marketing operations for semiconductor-related chemical products. As a result of the acquisition, Fujifilm has become able to integrate marketing units in North America and Europe and undertake global business expansion.

#### Establishing a Presence in Industrial Ink Markets

In February 2005, Fujifilm acquired U.K.-based Sericol Group Limited, which has a leading share of the global markets for screen printing inks and industrial ink-jet inks. The acquisition transformed Sericol Group companies in 17 countries into wholly owned subsidiaries of Fujifilm. FUJIFILM Sericol UK Limited and the other acquired companies have started operations. While Fujifilm has been providing products and services for commercial-, publishing-, and newspaper-related printing applications, the acquisition of Sericol will enable the Company to further expand its graphic arts business by extending its operations into such fields as screen printing, package printing, and other industrial printing fields that are expected to sustain steady demand growth in the future.


▶ FUJIFILM Sericol UK Limited is responsible for a portion of graphic arts operations.

■ Fundamental Strategies of the VISION75 Medium-Term Management Plan and Principal Activities in Fiscal 2005




## Implementing Comprehensive Structural Reforms at All Management Levels

After thoroughly reevaluating the role of each Group company, Fujifilm is working to reorganize the companies and upgrade each company's functional capabilities and operational efficiency.

### Reforming Marketing and Distribution Systems for Domestic Imaging Business

On October 1, 2004, the Company established FUJIFILM IMAGING Co., Ltd., which has unified a variety of domestic imaging-related marketing operations that were previously dispersed among numerous Group companies. Fujifilm was also able to shift four major photographic product distributors' domestic marketing operations for Fujifilm Group products to FUJIFILM IMAGING. These reforms of our marketing and distribution systems for the domestic imaging business are greatly reducing marketing and distribution costs, boosting domestic distribution efficiency, and strengthening marketing and service systems.

### Bolstering Fuji Xerox's Operations

Fuji Xerox is progressively shifting its multifunction device and copy machine manufacturing operations to facilities in China. This shift is helping to consolidate its facilities for manufacturing multifunction devices, copy machines, and printers, thereby reducing manufacturing expenses and improving overall manufacturing efficiency. It is also facilitating the use of standardized components that can be utilized in multiple products and greatly reducing procurement costs. From April 1, 2004, Fuji Xerox has shifted from an internal company operation to a business group operation while simultaneously effecting a large reduction in the number of departments within the company, thereby streamlining its organizational structure. To increase its personnel cost productivity, Fuji Xerox is resolutely proceeding with a comprehensive program of personnel cost reform measures, including the introduction of an early retirement system and reevaluation of the current pension and retirement systems.

### Reorganizing Equipment Manufacturing Systems

On April 1, 2005, Fujifilm merged five Group companies engaged in the manufacture of such products as Frontier digital minilabs and FCR (Fuji Computed Radiography) medical imaging and diagnosis products. In addition to combining the manufacturing technologies and other strengths of its predecessor companies with the goal of strengthening its manufacturing capabilities, the merged company, FUJIFILM TECHNO PRODUCTS CO., LTD., is seeking to improve its cost-competitiveness by unifying procurement operations and consolidating various corporate functions.

# Medical Imaging Systems That Augment the Accuracy and Efficiency of Diagnoses

**Fujifilm first became involved in medical business by supplying X-ray film. In the 1980s, the Company was the first to succeed in digitizing X-ray images and thereby pioneered the field of computed radiography. During the more than two decades since then, we have continuously developed new technologies that have enabled us to retain our leading position in the field of medical imaging. In recent years, we have also developed SYNAPSE and other systems that use such networks as LANs and the Internet to facilitate the efficient management and utilization of medical images. By integrating sophisticated image processing technologies with networks, Fujifilm has supported progress in image-based diagnosis. In this way, we are helping improve the quality and efficiency of medical care and making important contributions to better human health.**

## Increasing Digitization of Medical Imaging for Diagnoses

With the 1983 launch of the FCR (Fuji Computed Radiography), Fujifilm became the first company in the world to manufacture a film-free diagnostic system using X-ray images. Since then, the Company has accumulated new technologies and market information that have enabled it to develop a powerful lineup of FCR products, introduce those products in a great number of medical facilities throughout the world, and maintain the top share of the global market. Because it leverages our unique Image Intelligence™ image processing technology to create extremely clear images, the FCR line has earned very high evaluations among users.

## Endoscopes Offering Overwhelmingly Superior Image Quality

Fujifilm has proactively moved forward with the digitization of endoscopes, developing the world's first digital endoscope in 1984 and marketing the world's first fully digital electronic video endoscopy system, Sapientia, in 2004. High image quality is crucial for endoscope-based diagnosis, which seeks to identify signs of disease in the form of subtle changes in tissue coloring and shape. Because Sapientia is a fully digital system, it offers overwhelmingly superior image quality that enables outstanding lesion-discovery capabilities.

**FCR PROFECT CS**

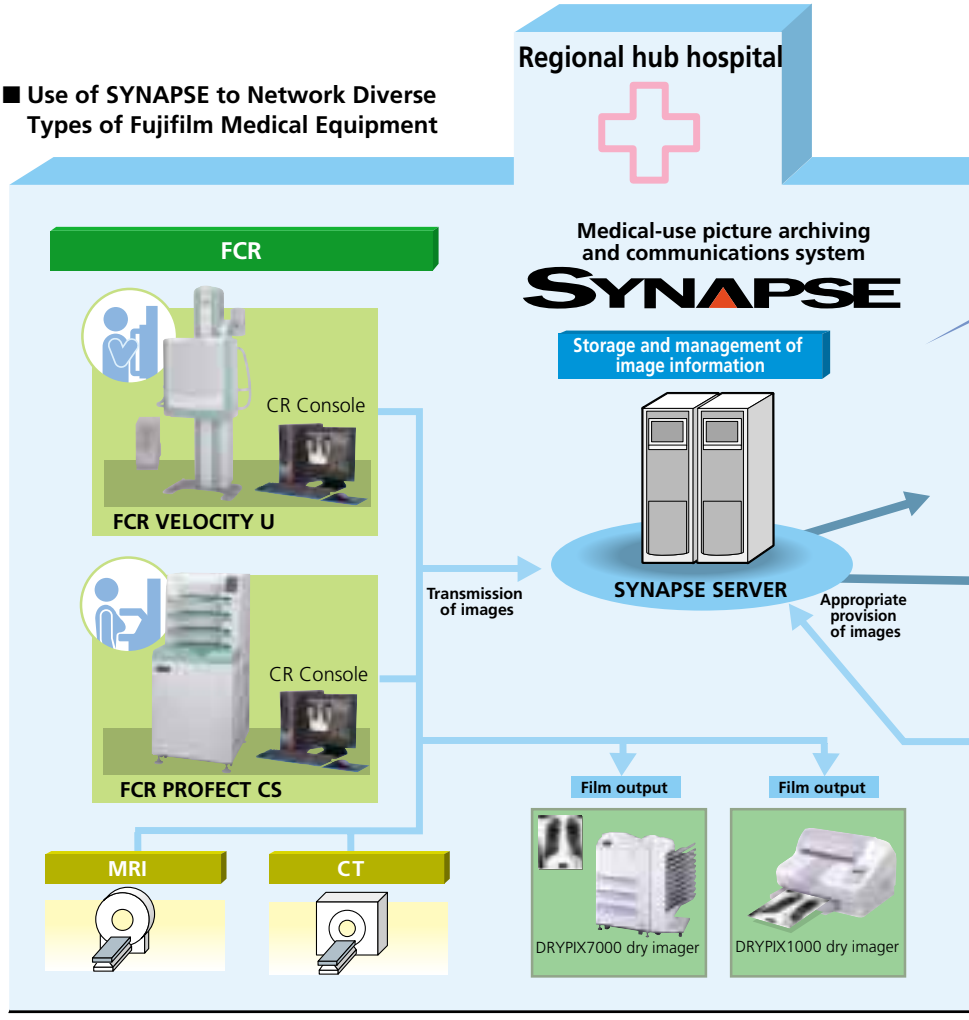
The top model of the FCR line, the FCR PROFECT CS is the optimal unit for the early detection of breast cancer with digital X-ray mammography imaging. It is differentiated from competing products by its ability to clearly display all parts of the breast, including those that were previously difficult to display.

**Applying Image Intelligence™ Sophisticated Image Processing Technology to the Medical Imaging Business**

Most recent diagnostic image — Previous diagnostic image — Highlighted change between previous and most recent images

The Image Intelligence™ image processing technology featured by Frontier series digital minilabs is also incorporated in such products as those in the FCR and Sapientia lines. By enabling functions that include highlighting the difference between new and old images of the same patient and those for automatically optimizing images, this technology is helping improve the accuracy and efficiency of diagnoses.

■ **Use of SYNAPSE to Network Diverse Types of Fujifilm Medical Equipment**



## Medical Information Systems Centered on the SYNAPSE Picture Archiving and Communications System

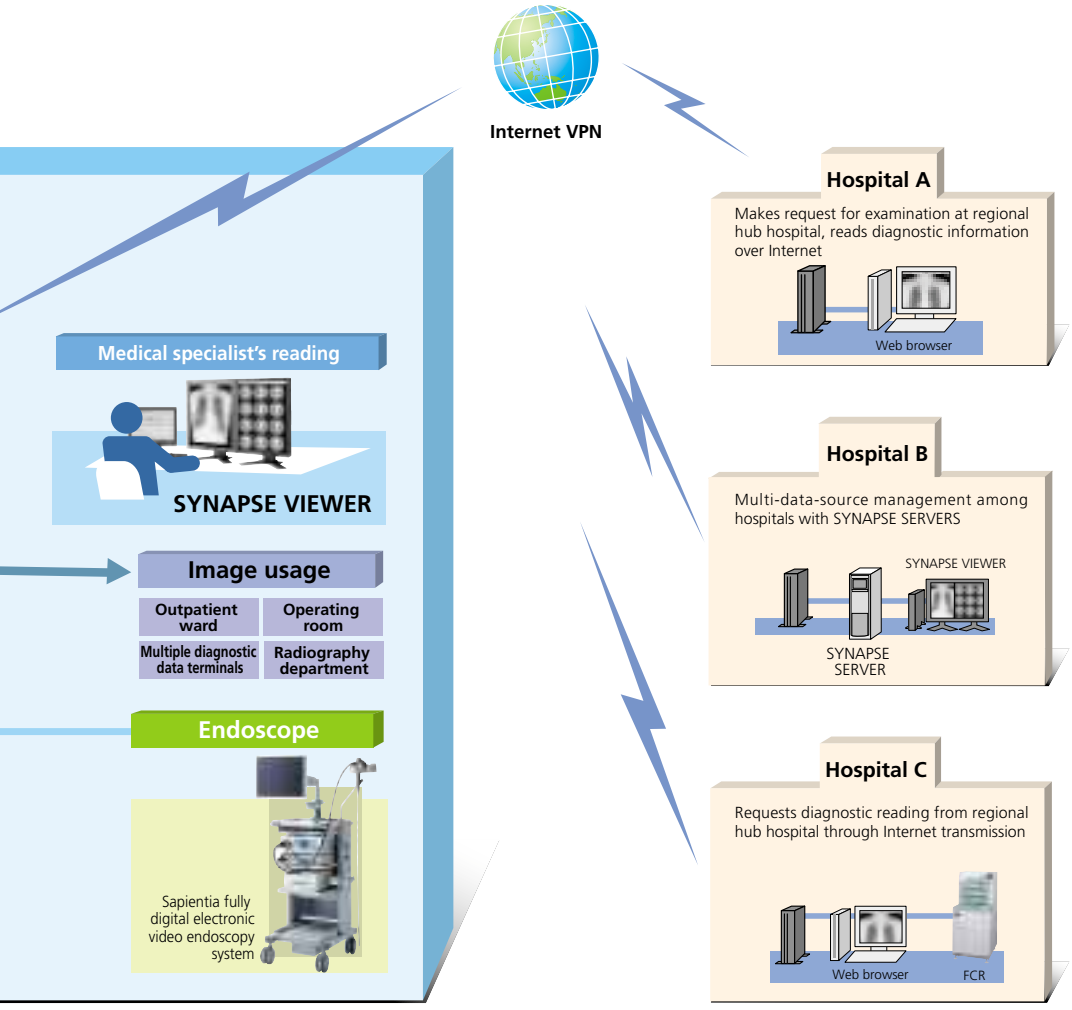
The growing use of IT in medical facilities has drawn increasing attention to picture archiving and communications systems (PACS) that enable the digitization, integration, management, and storage of various image information. Following the development of its next-generation PACS—SYNAPSE—in the United States, the top country with respect to the creation of medical image networks, Fujifilm has been successfully marketing the system, which has so far been installed in more than 140 facilities in Japan and approximately 500 facilities worldwide.

### What are PACS?

PACS are systems that enable the management of huge volumes of image information from diverse types of diagnostic equipment, and they allow information to be accessed from both inside and outside hospitals. Besides allowing the networking of image information within hospitals, PACS can use the Internet to create regional networks of numerous medical facilities. In the near future, it is expected that the use of PACS will greatly increase throughout the world.

### Superiority of the SYNAPSE

- High-quality image display based on sophisticated digital image processing technologies
- Quick access to even high-quality images from anywhere due to the use of advanced image compression technologies
- Sustained up-to-date performance and functionality through installation of the latest software into existing hardware
- Innovative system design and maintenance service, which prevent system breakdowns before they happen and ensure stable operation




## Future Trends in Medical Imaging Business

The digitization of medical images and use of medical information networks are expected to become increasingly common in the future. The creation of networks that include small, medium-sized, and large hospitals as well as clinics is helping promote the sharing and consolidated management of medical information, and this is projected to greatly increase medical support involving multiple facilities. In the medical imaging field, which is expected to continue growing, Fujifilm is drawing on the highly advanced image-processing technologies it has accumulated over many years to further increase the added value of such diagnostic products as those in the FCR line and endoscope line. At the same time, we are seeking to expand our business related to such new-generation medical network systems as the SYNAPSE and the C@Rna*, whose development was completed in April 2005.

* C@Rna is a network service based on high-speed circuits that link data centers with nearby hospitals and other nearby medical facilities to enable more efficient operations in medical facilities as well as the creation of local medical networks. This service is being launched progressively in Japan.

# Business Segments

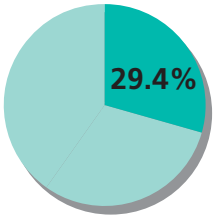
**Since it was established to initiate the domestic manufacture of photographic film in Japan, Fujifilm has expanded its operations in the Imaging & Information (I&I) field. Using advanced digital technologies, network technologies, image processing technologies, and other technologies, the Fujifilm Group has expanded from its original field of silver-halide photographic films into diverse new business fields, such as medical imaging systems, graphic arts systems, flat panel display materials, recording media, and copy machines.**

FUJIFILM DIGITAL IMAGING FDi

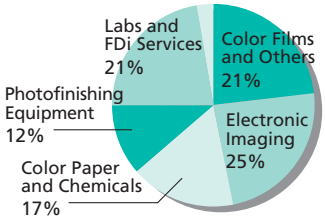
## Imaging Solutions

Color films, digital cameras, photofinishing equipment, and color paper, chemicals, and services for photofinishing

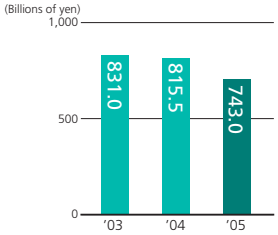
Proportion of Revenue from Imaging Solutions Segment



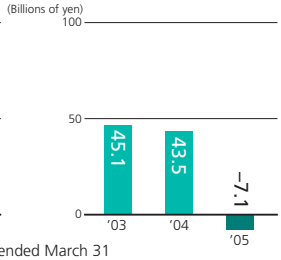

Breakdown of Revenue




Revenue



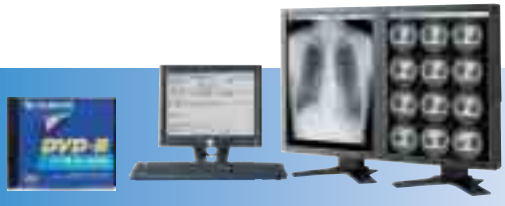

Operating Income (Loss)



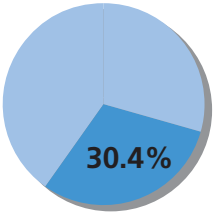

Year ended March 31

## Information Solutions

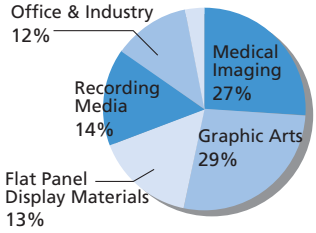
System devices for graphic arts, medical imaging, and information systems, flat panel display materials, and recording media



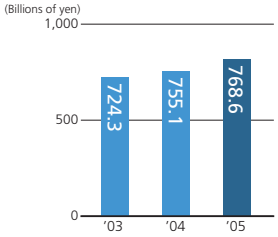
Proportion of Revenue from Information Solutions Segment



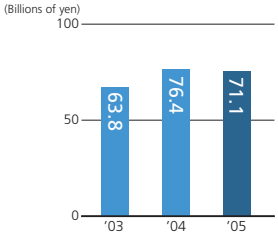

Breakdown of Revenue




Revenue




Operating Income

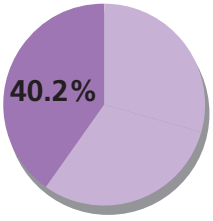



Year ended March 31

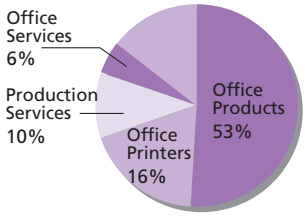
## Document Solutions

Office copiers/multifunction printers (MFPs), printers, production systems and services, paper, consumables, and office services

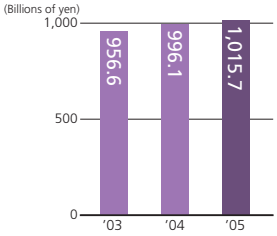
Proportion of Revenue from Document Solutions Segment



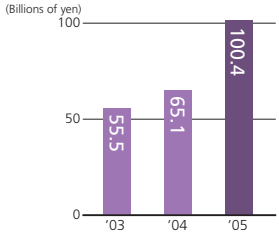

Breakdown of Revenue




Revenue



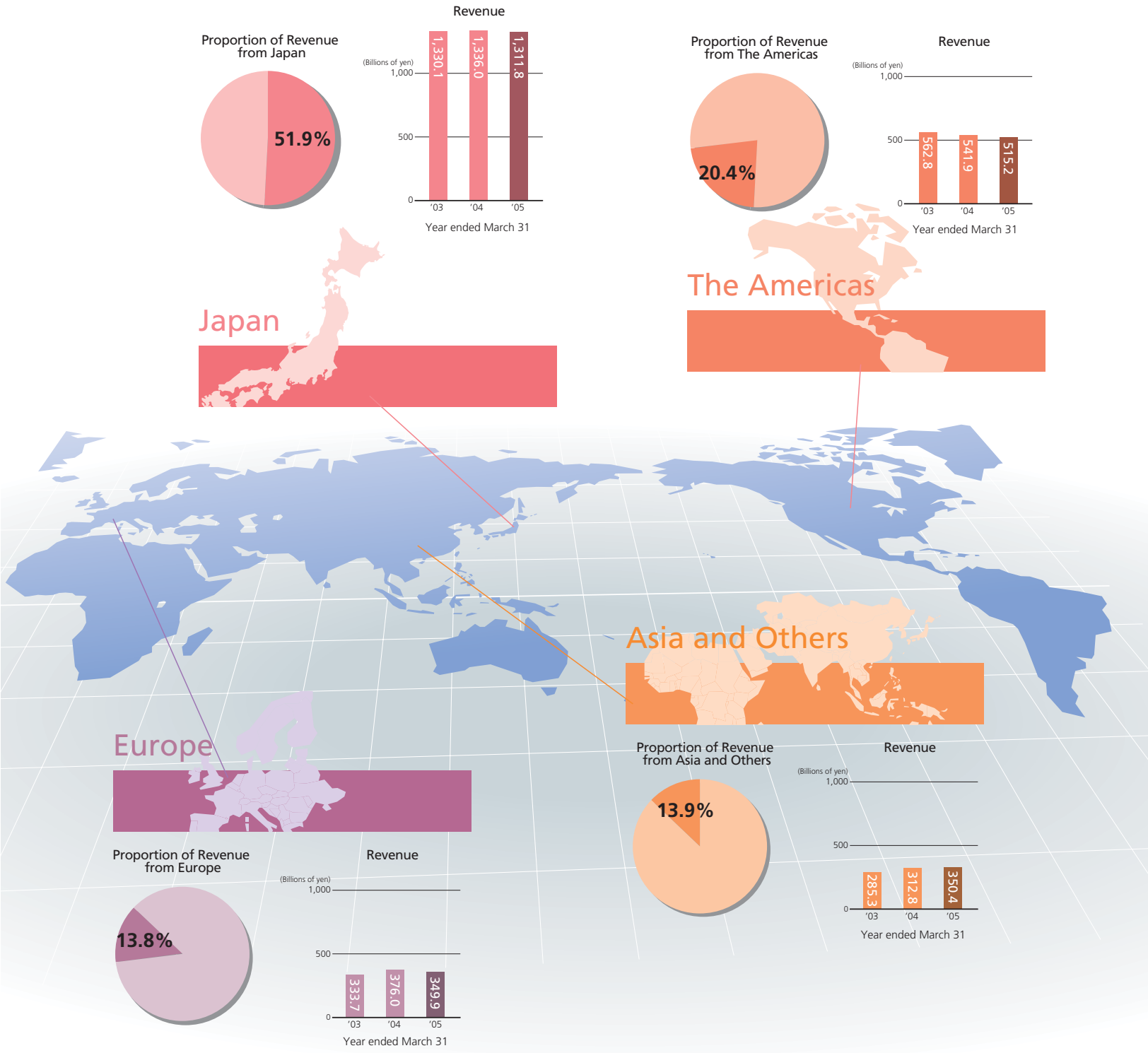

Operating Income




Year ended March 31

# Geographic Information

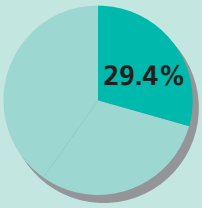
**Since the latter half of the 1960s, Fujifilm has considerably expanded its exports to countries throughout the world and built a tripolar global manufacturing network concentrated in Japan, North America, and Europe. The Company is also endeavoring to bolster its marketing and manufacturing capabilities in China, which is realizing tremendous economic growth.**



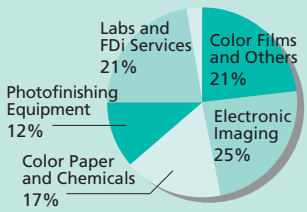
# Imaging Solutions

**Sales in this segment were negatively affected by declining demand for color films as well as a slump in digital camera sales in the North American market. Moreover, a high share of this segment's sales is via U.S.-dollar-denominated transactions, causing the appreciation of the yen relative to the dollar to have a large impact. As a result, consolidated revenue in the segment amounted to ¥743.0 billion, down 8.9% from the previous fiscal year. Segment profitability was depressed by such factors as temporary expenses associated with the restructuring of distribution operations in Japan and large rises in the prices of silver and other important raw materials.**

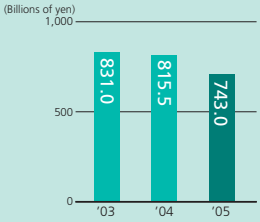
Proportion of Revenue from Imaging Solutions Segment



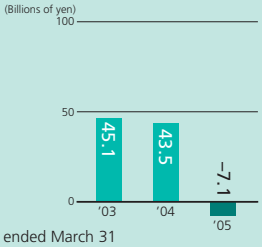

Breakdown of Revenue




Revenue




Operating Income (Loss)




Year ended March 31

The Imaging Solutions segment includes color films, digital cameras, photofinishing equipment, and color paper, chemicals and services for photofinishing.

FinePix F10

FinePix S3 Pro

FinePix Z1

## Color Paper, Chemicals, and Photofinishing Equipment

Fujifilm is taking strategically emphasized measures to compensate for the declines in silver-halide film use and related demand for prints by increasing opportunities for creating digital photo prints. In the fiscal year under review, installations of Frontier series digital minilabs proceeded smoothly in North America and other regions, and the convenience of "Print at Retail" (digital camera prints created at retail outlets) was further enhanced with the December 2004 launch of the Frontier 570, which has both super-high-speed processing capabilities and high-level efficiency, enabling it to process a memory-chip load in only 2 minutes and 28 seconds*. We also strengthened our marketing campaigns in Japan by using TV commercials to encourage greater awareness of "Print at Retail" and its superiority, using catchphrases that emphasize the simplicity, high quality, and non-fading characteristics of our prints.

* This figure represents the time required from the start of printing through the creation of 24 4R-size prints.

Frontier 570

## Electronic Imaging

The rapid diffusion of digital cameras has led to slowing growth in the digital camera market, and intensifying competition in that market has been depressing selling prices. In the harsh operating environment created by such trends, Fujifilm proactively worked to market FinePix digital cameras incorporating such unique Fujifilm Group technologies as FUJINON lenses and Super CCDs.

The Company continued creating digital camera innovations during the fiscal year under review, as reflected in such moves as the launch of a new category of camera—the grip-type E series—and the announcement of the full-flat-body FinePix Z1. The FinePix S3 Pro digital SLR camera incorporates the Company's unique Super CCD SR II and has been highly evaluated both in Japan and overseas. Moreover, the FinePix F10 was launched in March 2005 in Japan. This digital camera

offers a maximum sensitivity of ISO 1600, and its initial sales were strong. In the field of optical electronic components, the expanding market diffusion of high-image-quality camera phones led to higher demand by phone makers for increased supplies of Fujifilm's megapixel camera modules, and sales of such modules rose smoothly. Regarding xD-Picture Card™ series products, the Company responded to demand for greater storage volume by launching the xD-Picture Card M1GB.

## Color Films and Others

Fujifilm worked to expand sales of QuickSnap Smart Flash one-time-use recyclable cameras and other new products that make the most of the special advantages offered by silver-halide, light-sensitive materials. However, the growing worldwide use of digital cameras is reducing demand for color film, and this is having an impact on Fujifilm's performance. Amid these conditions, we worked to reduce marketing and distribution costs through various measures to restructure our Imaging Solutions business—such as the reorganization of domestic photofinishing laboratory operations and the establishment of FUJIFILM IMAGING to unify domestic marketing operations for most Imaging Solutions products. We also strengthened marketing systems for the QuickSnap, which has maintained a high level of popularity in North America. At the same time, we are seeking to sustain our global sales volume by proactively promoting sales growth in certain areas of Asia, Russia, and other emerging markets.

NATURA S

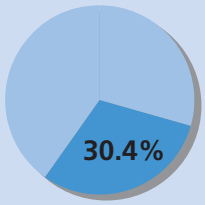
QuickSnap Smart Flash

NATURA 1600

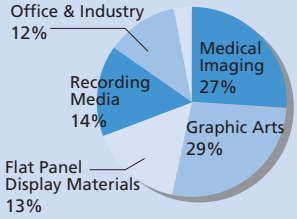
# Information Solutions

**Such factors as a fall in mid-range, server-use, data storage tape prices depressed sales of recording media. However, this and other negative factors were offset by the increasingly larger sizes of LCD computer monitors and notebook PC displays as well as the growing scale of the market for LCD televisions, which led to considerable growth in sales of flat panel display (FPD) materials. Consequently, consolidated revenue in this segment grew 1.8%, to ¥768.6 billion, compared with the previous fiscal year.**

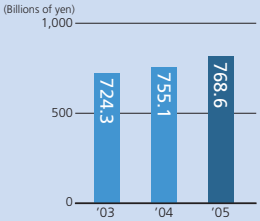
Proportion of Revenue from Information Solutions Segment



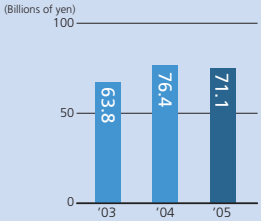

Breakdown of Revenue




Revenue




Operating Income




Year ended March 31

The Information Solutions segment includes system devices for graphic arts, medical imaging, and information systems, flat panel display materials and recording media.

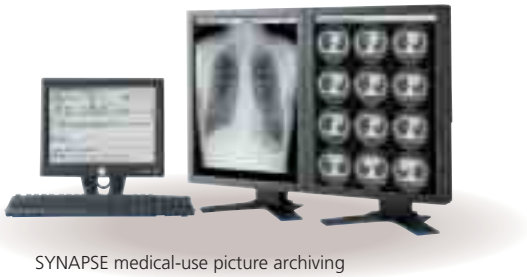
## Flat Panel Display Materials

The increasingly larger sizes of LCD computer monitors and notebook PC displays and the growing scale of the market for LCD televisions have supported continued rapid growth in the sales of such Fujifilm FPD materials as FUJITAC and WV Film—net sales of these products grew approximately 40% in comparison with the previous fiscal year. Besides proceeding with measures to augment manufacturing capacity at the factory of FUJIFILM Opto Materials and the parent company's Odawara factory, the Company acquired property in Kumamoto Prefecture on which it established an additional manufacturing subsidiary, FUJIFILM Kyushu Co., Ltd., which has begun constructing a FUJITAC manufacturing plant scheduled to begin operating in December 2006. All these measures will boost production capacity for FUJITAC and WV Film—raising annual FUJITAC capacity from 180 million m² to 380 million m² by April 2007 and elevating annual WV Film capacity from 50 million m² to 90 million m² by June 2006.

## Medical Imaging

Digitization helped maintain steady sales of such products as the FCR line of digital X-ray diagnostic systems, DRYPIX dry imagers, dry imaging films, and other related products. The progressive increase in use of information networks, particularly in Europe, North America, and Japan, sustained steady progress in installations of SYNAPSE medical-use picture archiving and communications systems.

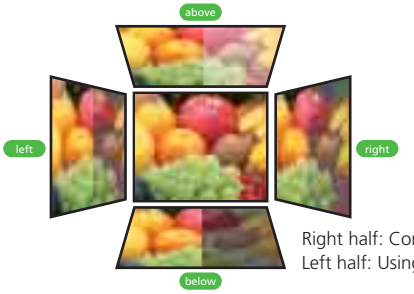
FUJINON continued to supply diverse distinctive endoscope products, such as the ultrasmall-diameter Transnasal Endoscope and the Double-Balloon method Electronic Enteroscopy System, which were highly evaluated in their respective markets. Measures were also taken to strengthen endoscope marketing operations, including the augmentation of marketing staff focused on large hospitals in Japan and the establishment of marketing bases in East European markets, where we previously could not fully respond to local needs. As a result of such measures, double-digit growth rates were achieved in endoscope sales in comparison with the previous fiscal year.



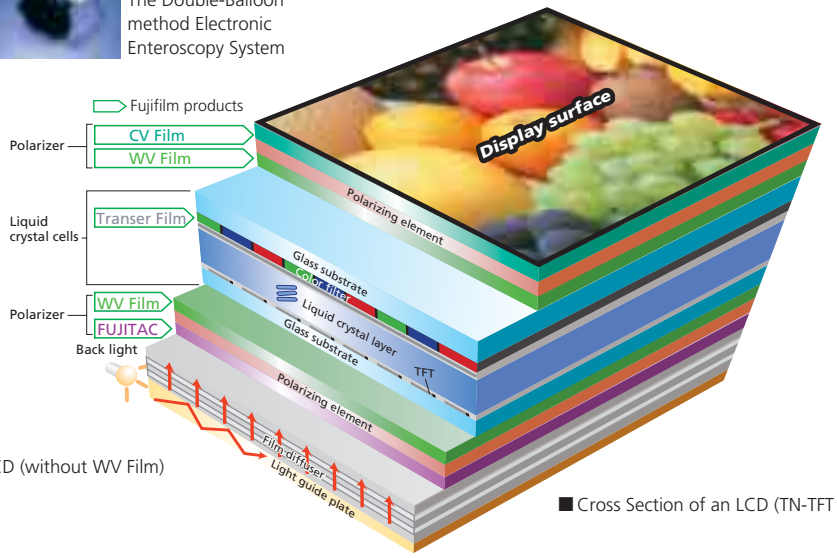
SYNAPSE medical-use picture archiving and communications system

The Double-Balloon method Electronic Enteroscopy System

■ Effect of WV Film on Viewing an LCD Screen Image




Right half: Conventional LCD (without WV Film)
Left half: Using WV Film




■ Cross Section of an LCD (TN-TFT LCD)

## Graphic Arts

The use of computer-to-plate (CTP) printing systems has been rising throughout the world—with the aggregate market shares of all manufacturers' CTP systems exceeding 60% in Europe and North America and 40% in Japan—and this trend supported a rise in sales of Fujifilm CTP plates. Fujifilm projects further growth in CTP plate markets and is proceeding with measures aimed at strengthening its CTP plate manufacturing systems and ensuring its capabilities for stable and timely supplies of CTP plate products. During the fiscal year under review, the Company began operating additional manufacturing lines capable of producing CTP plates and continued boosting the capacity of its quadripolar manufacturing system, comprising facilities in the United States, the Netherlands, China, and Japan. As an additional means of broadening the scope of its graphic arts operations, in February 2005, the Company acquired U.K.-based Sericol Group Limited, which is one of the world's top manufacturers of screen printing inks and industrial inkjet-use UV inks and has strong positions in the markets for products related to screen, industrial products, and packaging printing.

Luxel V-6 CTP

## Recording Media

In the mid-range data storage media market, which is an important part of the data media market, continued demand growth supported an increase in the sales volume, but intensifying competition among manufacturers caused sharp falls in selling prices and kept the operating environment harsh. Amid these conditions, Fujifilm more than doubled its sales volume of DVD media products. In the high-end enterprise data storage media market, demand increased for data cartridge products used for the IBM TotalStorage®* Enterprise Tape Drive 3592, particularly overseas, and the Company started supplying Fujifilm-brand products of that type during the fiscal year under review.

* TotalStorage is a registered trademark of IBM Corporation in the United States and other countries.


DVD-R

## Office & Industry

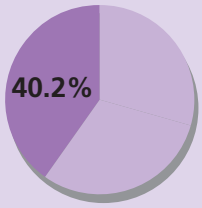
In the field of optical lens products, which is one of the main sectors of office & industry operations, the growing diffusion and functionality of camera phones enabled a steady rise in the sales of megapixel lens units for such phones, which Fujifilm manufactures based on its strong technologies for molding plastic and glass lenses. Sales of TV camera lenses also grew, reflecting a rise in demand associated with the 2004 Olympic Games held in Athens.

FUJINON DIGI POWER 101 zoom lens

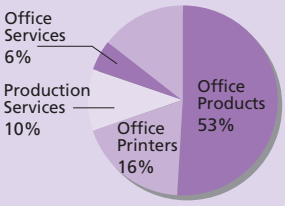
# Document Solutions

**Strong domestic sales of digital color multifunction devices, expansion of laser printer supply volumes centered on overseas markets, and other factors helped boost consolidated revenue in this segment to ¥1,015.7 billion, up 2.0% from the previous fiscal year. Operating income for the segment includes a one-time gain on the transfer of the substitutional portion of Fuji Xerox's employee pension plan fund liabilities.**

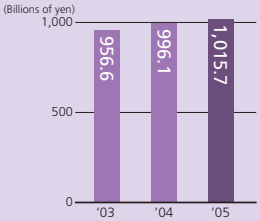
Proportion of Revenue from Document Solutions Segment



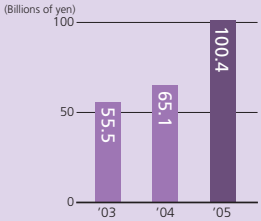

Breakdown of Revenue




Revenue




Operating Income




Year ended March 31

Fuji Xerox, a consolidated subsidiary, engages in Document Solutions operations encompassing office copiers/multifunction printers (MFPs), printers, production systems and services, paper, consumables, and office services.

## Office Products

Regarding color multifunction devices, strong sales growth centered on Japan, other Asian countries, and Oceania supported a smooth worldwide rise in sales volume compared with the previous fiscal year. In Japan, continued strong sales were recorded of products in the DocuCentre Color line. Launched in January 2005, the top product in that line—the DocuCentre C6550 I—has helped better meet needs for high-quality, high-speed operation. Responding to a rise in demand for strengthened document security and integrated document management capabilities, Fuji Xerox launched the ApeosPort C6550 I high-speed color multifunction device, which can integrate the operation of document systems for handling paper-based information and the operation of companies' mission-critical systems, and accelerated the transition from monochrome to color multifunction devices. Monochrome digital multifunction devices remained in demand, and Fuji Xerox renewed and upgraded its product lineup of these devices in all segments, from low- to high-speed models.

## Office Printers

In office printer operations, higher overseas sales of both monochrome and color products were recorded, and OEM exports of medium-speed monochrome laser printers to North America and Europe were particularly strong, owing to high customer evaluation of the products' functionality and prices. Sales of color printers to North America and Europe surged by approximately 200% from the previous fiscal year, largely reflecting a significant increase in sales of popularly priced, high-image-quality laser printers designed to meet small office and home office (SOHO) needs.

DocuPrint C2426

ApeosPort C6550 I

## Production Services

The sales volume of color on-demand printing systems exported to North America and Europe rose greatly, reflecting the expansion of digital printing markets. Moreover, the leading-edge Xerox iGen3 Digital Production Press was launched in June 2004, and initial sales of this product were strong, owing to such factors as the large-scale installment of this product by Sumitomo Mitsui Card Co., Ltd., for use in its industry-leading initiative to print full-color personalized cardholder statements. In addition, four Executive Print Innovation Center "epicenters" were established—in Sydney, Singapore, Shanghai, and Tokyo. Fuji Xerox has started using these facilities to build highly profitable next-generation digital outputting business models and expand the digital printing market.

THE DOCUMENT COMPANY
FUJI XEROX

▲ epicenter (Tokyo)

## Office Services

Fuji Xerox steadily expanded its domestic document outsourcing business, which includes document digitization services and comprehensive document outsourcing services that provide solutions for all types of document flow issues. Fuji Xerox also enjoyed strong performance in the marketing of "beat" services, which provide Internet network environments for small and medium-sized enterprises and businesses, and in the marketing of household registry document administration systems to local governments currently undergoing reorganization under an ongoing nationwide campaign that presents numerous marketing opportunities.

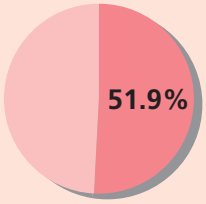
## Outlook for Fiscal 2006

Document Solutions' markets hold the potential for additional expansion associated with the implementation of the e-Document Act, issued in April 2005 in Japan, and the Personal Information Protection Act issued in Japan as well as with the trend toward strengthening corporate governance by increasing the documentation of internal control processes. Fuji Xerox will adopt strategies designed to make the most of these business opportunities. In fiscal 2005, Fuji Xerox began implementing a management reform program aimed at increasing its cost-competitiveness, marketing capabilities, technological capabilities, and organizational competitiveness, and plans call for continuing this program during fiscal 2006 to further bolster Fuji Xerox's overall strength.

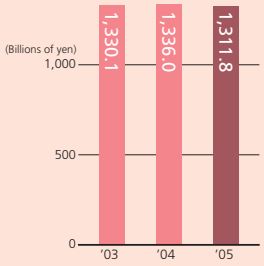
Xerox iGen3 Digital Production Press

# Japan

Proportion of Revenue from Japan




Revenue




Year ended March 31

**Review**

Despite robust sales of flat panel display materials and digital color multifunction devices, a decrease in demand for color films caused consolidated revenue to decline 1.8%, to ¥1,311.8 billion.

## FUJINON CORPORATION—The Start of a New Era

In October 2004, Fuji Photo Optical Co., Ltd., changed its corporate name to FUJINON CORPORATION. The company markets a wide range of products bearing the FUJINON brand name—including digital camera lenses, TV camera lenses, endoscopes, and large binocular lenses for astronomical applications—that are highly evaluated by users throughout the world. The corporate name change enables FUJINON to unify its corporate and brand names. This is expected to help FUJINON further augment its brand power and more effectively develop high-value-added products in line with its goal of becoming the world's leading manufacturer of optical equipment.

▲ Superlative lens optics technologies are utilized to provide high-quality lens products.

## Photo Imaging Expo 2005

Fujifilm created an exhibit with the theme "The Power of Real Photos" at Asia's largest photo-related exposition, Photo Imaging Expo 2005, which was held in Tokyo in March 2005. The exhibit presented displays and demonstrations of digital cameras and other consumer products as well as how Frontier digital minilabs can provide prints in less than five minutes. Aiming to accentuate the value and enjoyment of photography, the exhibit also presented a large area of wall space covered with lots of beautiful photographs. The Photo Imaging Expo event is a combination of four photo-related exhibitions that were previously held separately. During the four days of the event, it was visited by more than 100,000 people, including consumers, business users, and other people associated with the photo industry.


▲ The "Print at Retail" exhibit demonstrated total solutions for picture-taking (input), picture-making (output), and picture-filing (record).

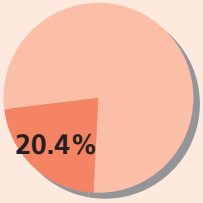
## Special Sponsor of the Pink Ribbon Smile Walk

As Fujifilm is closely involved with the diagnosis of breast cancer, through its marketing of FCR PROFECT CS high-image-quality digital mammography systems, medical-use films, and other products, it is a supporter of the Pink Ribbon campaign programs aimed at improving awareness of breast cancer and thereby promoting its early discovery. As a part of this support, the Company became a special sponsor of the Pink Ribbon Smile Walk programs, which were the main events of the Pink Ribbon Festivals held in 2003 and 2004. Approximately 5,500 people participated in the Pink Ribbon Smile Walk programs held in Tokyo and Kobe, and a portion of the fees collected from these participants was donated to the Japan Fund for Breast Cancer.

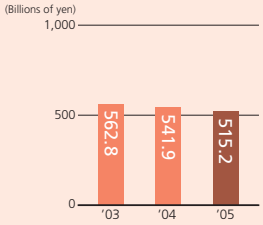
▲ Participants in the Pink Ribbon Smile Walk programs help to attract greater attention to the importance of early detection of breast cancer.

# The Americas

Proportion of Revenue from The Americas




Revenue




Year ended March 31

**Review**

Sales of color paper and laser printers were strong, but sales of color films decreased. This, along with the impact of intensifying price competition in digital camera markets and a drop in demand for graphic arts films owing to the progressive shift to CTP systems, resulted in a 4.9% decrease in consolidated revenue, to ¥515.2 billion.

▼ The Fujifilm booth at PMA2005 presented beautiful images and demonstrations that emphasized the corporate theme of "Leading Imaging Solutions."


## PMA2005

At PMA2005, held in Orlando, Florida, in February 2005, Fujifilm organized an exhibit with the theme "Fujifilm Leading Imaging Solutions," featuring a main-stage presentation of new digital camera products such as the FinePix F10 and FinePix Z1 and a live demonstration of the "Prints in Minutes" service offered by Frontier 570 digital minilabs. The entire exhibit was designed to emphasize that Fujifilm is continuing to provide advanced imaging solutions along the "capture-store-print-share" continuum. The exhibit also included an autograph session with Richard "Goose" Gossage and Edward "Whitey" Ford—both former star players for the New York Yankees professional baseball team, of which Fujifilm is a sponsor. By autographing their own portraits printed with Fujicolor paper, Mr. Gossage and Mr. Ford brought pleasure to many baseball fans and other visitors to the show.

▲ Long lines formed day after day at the star players' autograph sessions.

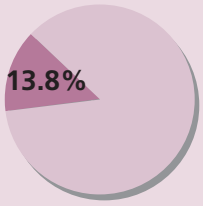
## Factory Expansion for FUJIFILM Microdisks U.S.A., Inc.

The growing data storage needs of government entities, companies, and hospitals are increasing demand for server-use backup tapes capable of holding large volumes of data. In response, U.S.-based recording media manufacturing unit FUJIFILM Microdisks U.S.A. has expanded the floor space of its factory by 5,500m² and greatly augmented its manufacturing capacity. By ensuring capabilities for providing products in line with customer needs in North America, the expansion has further strengthened Fujifilm's position in the region's data media market.

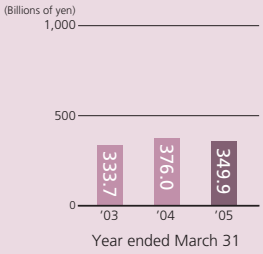
▲ The expanded factory of FUJIFILM Microdisks U.S.A. now has greater recording media manufacturing capacity.

# Europe

Proportion of Revenue from Europe




Revenue




**Review**

Although sales of digital minilabs and laser printers were firm, lower sales of digital cameras and color films led to a 6.9% fall in consolidated revenue, to ¥349.9 billion.

## drupa 2004

The world's largest printing exhibition, drupa, is held once every four years in Düsseldorf, Germany. With the overall theme of "IMAGING ADVANTAGE WITH FUJIFILM," Fujifilm's booth at drupa 2004 offered exhibitions and demonstrations in line with customer requests in the expanding CTP printing market. Attracting particular attention were the Luxel V-6 CTP violet-laser platesetter and the processless CTP new-generation plates, which do not require any processing after exposure. These products effectively demonstrated that Fujifilm offers products that are highly innovative and offer superior performance.


◀ The Fujifilm booth's three-dimensional layout attracted many of the approximately 390,000 people from 122 countries who visited drupa 2004.

## FDi Expansion in Europe

As augmenting the volume of "Print at Retail" (digital camera prints created at retail outlets) is a key strategic goal, Fujifilm has been implementing campaigns to promote such prints in countries throughout the world. In Europe, the Company is seeking to respond to the rapid growth in demand for digital camera prints by proactively establishing FDi (Fujifilm Digital Imaging) shops providing digital camera printing services as well as Internet order-taking. These campaigns and shops have supported steady increases in the share of "Print at Retail" out of total prints. Additional efforts to promote the use of order-taking terminals at shops along with an Internet order-taking system are expected to help further accelerate the expansion of "Print at Retail" in Europe.

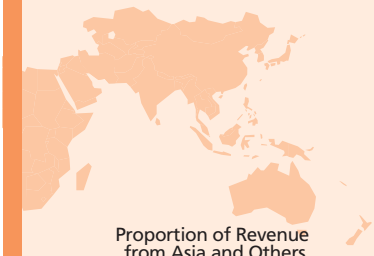

A digital print shop proudly displays the FDi sign. ▶ Fujifilm is promoting the installation of convenient and easy-to-use print-order-taking terminals in FDi shops throughout Europe.

▲ An exhibition room replete with photographs of star players attracted a large number of visitors on each day of the FIFA 100 Exhibition.

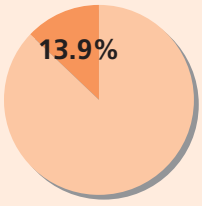
## The FIFA 100 Photo Exhibition

The Fédération Internationale de Football Association (FIFA) has organized diverse events to celebrate the 100th anniversary of its founding, and Fujifilm is an official sponsor of one of these ongoing events, The FIFA 100, a photo exhibition held initially in Paris (May 2004) and then London (June 2004). Plans call for the exhibition to be held in 15 major cities around the world, culminating in a session in June 2006 in Berlin, where the final match of 2006 FIFA World Cup Germany™ will be held. When the exhibition was in Tokyo, during September and October of 2004, the collection of photographs of 119 top players selected by Brazilian star Pelé attracted a large number of people to the exhibit.

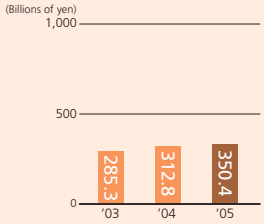
# Asia and Others



Proportion of Revenue from Asia and Others




Revenue




Year ended March 31

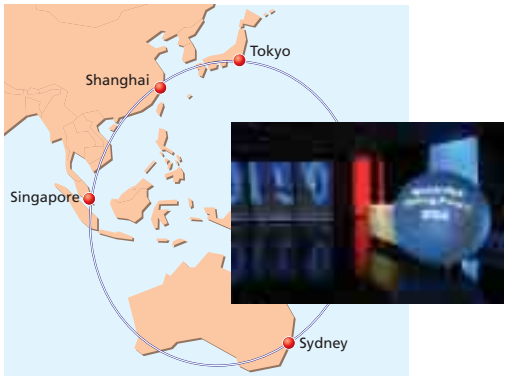
**Review**

Growing demand supported a large rise in digital camera sales, and strong sales were recorded of digital minilabs, color paper, and digital color multifunction devices. As a result, consolidated revenue grew to ¥350.4 billion, an increase of 12.1%.

## Establishing "epicenters" in the Asia-Pacific Region

Fuji Xerox has established Executive Print Innovation Center "epicenters" at its four main hubs in the Asia-Pacific region—Sydney, Singapore, Shanghai, and Tokyo. Based on a new concept not found in conventional showrooms, these epicenters perform marketing promotion functions for digital printing products and systems. The epicenters are playing an important role in supporting Fuji Xerox's production services operations by serving as state-of-the-art venues for the provision of the latest technologies, services, and solutions as well as by undertaking collaborative efforts with customers to offer solutions to their diverse needs.

▼ Fuji Xerox "epicenters" in the Asia-Pacific region




By helping Fuji Xerox strengthen its support for its customers' printing business operations in each principal area of the Asia-Pacific region, the epicenters are making a considerable contribution to the development and expansion of its customers' business operations.

▲ The new factory of FUJINON TIANJIN OPTICAL CO., LTD.

## FUJINON Constructs New Factory in Tianjin, China

As the Fujifilm Group's central unit in optical device business, FUJINON is creating a new factory in Tianjin as a means of augmenting its capabilities for responding to the surging demand for optical devices that has accompanied the rapid increase in sales of camera phones and other digital consumer goods. The factory's first building, with 10,000m² of floor space, has already been completed, the construction of its second building is currently under way, and plans call for constructing a third building in the near future. The new factory will greatly boost FUJINON's manufacturing capacity for camera phone lens units and other optical devices and facilitate the creation of mass-manufacturing systems for the high-performance, high-quality FUJINON lenses that the market is avidly seeking.

## LED Billboard in Beijing, China

In advance of the 2008 Olympic games to be held in Beijing, Fujifilm has won the sponsorship rights for a newly built large LED billboard that began operating in the plaza in front of Beijing's main railway station in February 2005. Using Beijing's largest outdoor screen (8.3m x 12.8m), the sign displays news broadcasts from 6 A.M. through 11 P.M., attracting the attention of many of the tremendous number of people who pass through the station plaza area each day. Because the FUJIFILM logo is permanently displayed on the upper frame portion and the Company's commercial video messages are interspersed among news broadcasts, the billboard is expected to help greatly strengthen Fujifilm's brand image in China.


▲ The Fujifilm-sponsored LED billboard in the plaza in front of Beijing Station has been attracting great attention.

**Maintaining high levels of environment friendliness throughout the Fujifilm Group's operations is a key objective of the Group's corporate social responsibility (CSR) policy. To minimize environmental burden while promoting business expansion, Fujifilm has established the Fujifilm Group Green Policy and begun implementing various Groupwide programs based on that policy. Fujifilm is also making efforts to disclose information on its environmental protection programs and to deepen its two-way communications with stakeholders.**

## Measures Based on the Fujifilm Group Green Policy

FUJIFILM group Green Policy

Fujifilm is striving to sustain outstanding CSR performance by arranging for each Group company to implement additional CSR initiatives with respect to the environment, the economy, and society. In line with this goal, the Group is promoting the development of business operations, products, and services characterized by high levels of "environmental quality;" the raising of stakeholder satisfaction levels; and the making of contributions to "sustainable development."

## Increasing Eco-Efficiency

Fujifilm defines eco-efficiency as being the value of its consolidated revenue divided by the value of the environmental burden created by its operations. This indicator is an important index used in efforts to seek a balance of growth in revenue (an indicator of corporate growth) and in environmental burden. This balanced growth is considered to be a principal element of "sustainable development." For the following six types of environmental burden, Fujifilm is aiming to attain eco-efficiency levels in fiscal 2011 that are twice the levels of those in fiscal 2001.

$$\text{Eco-Efficiency} = \frac{\text{Revenue}}{\text{Value of Environmental Burden}}$$

**Six Types of Environmental Burden**

1. Greenhouse gas emissions
2. Natural resource use
3. Volatile organic compound (VOC) emissions into the atmosphere
4. Packaging material use
5. Waste generation
6. Water use

## Reducing Environmental Burden and Preventing Pollution

### Reducing Greenhouse Gas Emissions to Help Prevent Global Warming

The implementation of the Kyoto Protocol has attracted additional attention to the reduction of greenhouse gases. By fiscal 2011, Fujifilm seeks to have reduced its energy consumption and $CO_2$ emissions per unit of output* of its principal chemical product manufacturing factories and domestic Group companies to 10% and 20%, respectively, below the levels in fiscal 1991. Fujifilm has converted from the use of heavy oils to natural gas at its four principal factories and other manufacturing facilities, resulting in a large reduction in greenhouse gas emissions for a given amount of energy consumption. Similar conversions are also being planned for a growing number of other Fujifilm facilities, including those of Fujifilm Group companies.

▲ A gas turbine electric power generation unit installed at the Ashigara Factory, one of Fujifilm's principal domestic factories

■ Facility Conversions to Natural Gas Use

| | | |
|---|---|---|
| Ashigara Factory (Kanagawa) | April 2004: | Natural gas pipeline constructed in cooperation with Fuji Xerox, which has a factory in the same district, and initiation of natural gas use |
| Odawara Factory (Kanagawa) | April 2003: | Initiation of natural gas use |
| | January 2004: | Completion of a new utility building and complete conversion to natural gas fueled equipment |
| Fujinomiya Factory (Shizuoka) | February 2003: | Initiation of natural gas use |
| Yoshida-Minami Factory (Shizuoka) | 2007: | Scheduled initiation of natural gas use |
| Asaka Facilities (Saitama) | January 2004: | Complete shift to the use of natural gas as fuel for compact steam boilers |

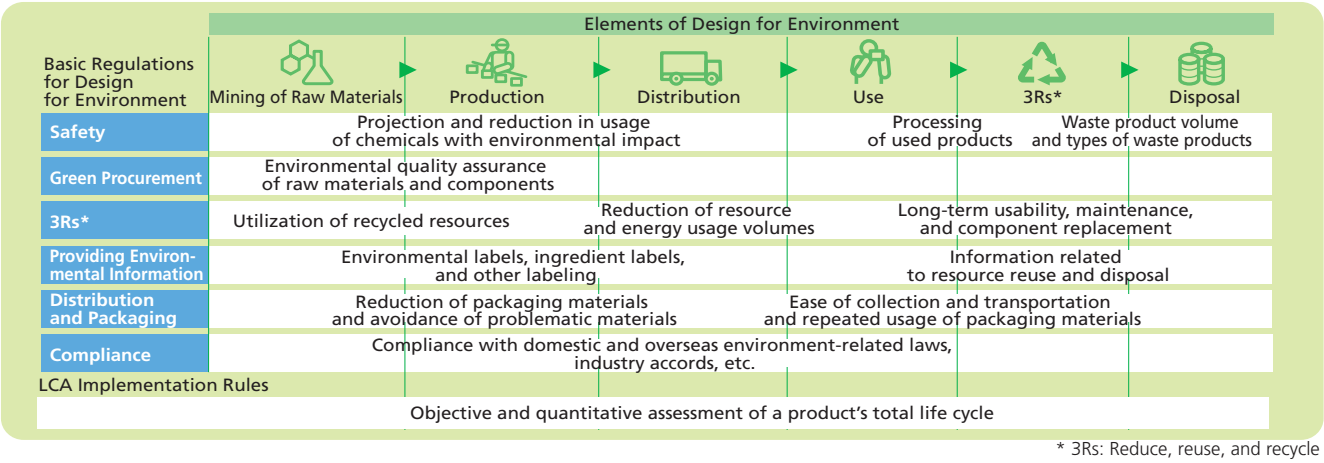
* Energy consumption and $CO_2$ emissions per unit of output: These indices represent consumption and emission levels divided by manufacturing volume. The lower the indices, the greater the manufacturing efficiency and lower the environmental burden.

## Design for Environment

### Ensuring Products Meet Environmental Quality Standards

To enable the design of environment-friendly products based on uniform standards, Fujifilm has established its "Basic Regulations for Design That Takes the Environment into Consideration," which, as of April 2003, are being applied to all new products. The design rules include various requirements—such as the submission and review of Environmental Quality Information Sheets—that must be met before new products are merchandised.

In addition, the Company has introduced a life-cycle assessment (LCA) system that considers products' environmental burden during all life-cycle stages in objective and quantitative terms. Environmental quality must be measured and approved for each life-cycle stage—from product planning and research and development to manufacturing, marketing, distribution, use, and disposal—before any new product can be commercialized. The EcoLeaf Environmental Label is also based on an LCA system, and the Company is proactively working to have a growing number of Fujifilm products authorized to bear this label.




* 3Rs: Reduce, reuse, and recycle

## Social Contribution Activities

### Aid for Regions Affected by Earthquakes and Tsunami

As a part of efforts to promote recovery from the damage caused by the large Sumatra Earthquake and associated tsunami, Fujifilm worked through Fuji Photo Film (Thailand) Ltd. to supply Thailand's police with a QuickGene-800 system capable of automatically and quickly extracting DNA with a high level of purity. This system was provided to facilitate the use of DNA in accurately identifying tsunami victims. In addition, to assist relief efforts in the wake of the Niigata Chuetsu Earthquake, FUJIFILM MEDICAL CO., LTD., dispatched a vehicle outfitted with such equipment as an FCR (Fuji Computed Radiography) digital X-ray diagnostic system to visit hospitals in the affected region.

▲ Disaster relief vehicle

▼ QuickGene-800

## Environmental Protection Activities

### Fuji Xerox Begins Shipping Wood Chips from the Trees It Planted in New Zealand

To help prevent natural resource depletion, Fuji Xerox and Fuji Xerox Office Supply Co., Ltd., have drafted their Plan for Augmenting Environment-Friendly Pulp Usage, which sets the goal of maintaining 50% wastepaper pulp content in its copy/printer paper products while meeting the other 50% of its raw material requirement with "plantation tree pulp" and "certified forest pulp" by 2010.

Seeking to directly create the paper raw materials they require, the two companies in 1996 obtained a shareholding in Southland Plantation Forest Company of New Zealand Limited (SPFL), a company based in Invercargill, New Zealand, that specializes in tree plantations. In March 2005, when it became possible to begin harvesting the eucalyptus plantations planted by SPFL, the harvested trees were locally converted into wood chips, and 12,000 tons of those wood chips were shipped from Bluff Harbour. The harvested portions of SPFL's tree plantations are now being replanted.

▲ SPFL's Happy Valley eucalyptus tree plantation

## Outside Evaluations of Fujifilm's CSR Programs

Fujifilm's proactive implementation of CSR programs designed to promote sustainable development has been highly evaluated by parties outside the Company.

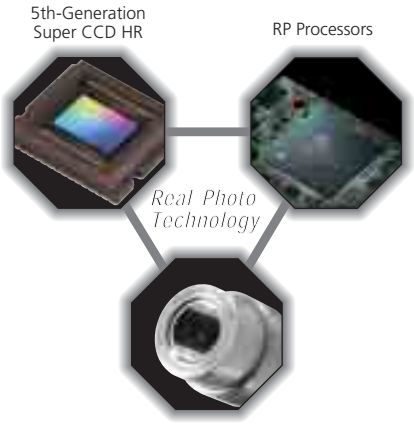
- Inclusion in the Dow Jones Sustainability Indexes 2005
- Inclusion in the FTSE4Good Global Index
- *Fujifilm Sustainability Report's* receipt of the Excellent Environmental Report Award at the 8th Environmental Communication Awards ceremony
- Receipt by Fuji Xerox copy machines and other products of Energy Conservation Awards for six consecutive years at the Green Product Development Awards ceremonies

# Research and Development

**To provide new customer solutions that match customer needs in its principal business fields of imaging, information, and document solutions, Fujifilm constantly works to increase the sophistication and broaden the applications of its unique technologies and know-how. The Company is also proactively engaged in R&D activities aimed at developing additional technologies that meet needs related to digital products and networks.**

**Incorporated in the digital camera that is No. 1 in sensitivity*—the FinePix F10**

## Real Photo Technology




Two CCDs, one for photograpy and another precision focus-use CCD to FUJINON lens

Fujifilm has developed Real Photo Technology that integrates three types of technologies: high-precision, high-performance FUJINON lenses; 5th-Generation Super CCD HR sensors with high resolution, ultrahigh sensitivity, and high signal-to-noise ratios; and RP (Real Photo) Processors with advanced image-processing technology and new noise-reduction technology. As the Real Photo Technology incorporated in the FinePix F10 offers a maximum sensitivity of ISO 1600, it can be used in combination with high-speed shutters to overcome such challenges as eliminating blurring due to camera shake and subject movement and enabling photographs to be taken in dark locations without flash illumination. Playing a large role in enabling the creation of photographs with unprecedented levels of clarity and vividness, this Real Photo Technology has been incorporated in the FinePix Z1, which has an ultrathin, fully flat body.

* No. 1 in sensitivity with regard to compact digital cameras with 6.3 million effective pixels or more as of February 15, 2005, according to a survey by Fujifilm.

**A world first in autofocus systems**

## Precision Focus

FUJINON DIGI POWER 101 incorporating the Precision Focus System

In cooperation with NHK, FUJINON has developed the world's first autofocus system for broadcast-use Hi-Vision lenses. This system uses a contrast-based autofocus method that involves finding the focus setting that maximizes contrast with respect to photographed objects. Incorporating two CCDs, one for photograpy and another precision focus-use CCD to ensure the continuous maintenance of sharp focus, the system can easily set and confirm optimal focus settings even for Hi-Vision photography involving relatively low levels of focal depth and smaller ratios of focused to nonfocused regions compared with conventional photography. The system's superior capabilities in maintaining sharp focus on moving objects make it particularly valuable in sports photography.

**A new business field that leverages polymer thin film technologies**

## QuickGene-810 Automated Nucleic Acid Isolation System

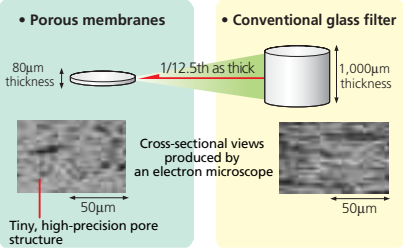
Fujifilm has employed its advanced polymer thin film technologies to create porous membranes that are used as filters in the QuickGene-810, the first commercial product capable of the automated isolation of nucleic acids (DNA and RNA), which previously had to be performed by hand.

The structure of these porous membranes is created by making microscopic holes in 80µm thick photographic film materials. The ability of the precision pores to selectively filter nucleic acids enables the isolation of high-purity nucleic acids in short periods of time. This technology is also enabling the creation of nucleic acid isolation equipment that is relatively compact and inexpensive.

QuickGene-810

Because nucleic acid isolation is a crucial process in genetic research and gene-based diagnostic work, Fujifilm expects the QuickGene-810 to greatly facilitate the expansion of the Company's operations in the life science field.

■ **Comparison of filter pores in porous membranes and conventional glass filters**




**A new type of light source for optical communications**

## VCSEL

Having previously used its exclusive semiconductor laser technology to develop VCSELs (Vertical-Cavity Surface-Emitting Lasers), Fuji Xerox has recently created new semiconductor VCSELs that offer high and stable light output levels and are the world's first lasers of their type to be configured in arrays of simultaneously operating lasers. Making use of the characteristic suitability of VCSELs for creating two-dimensional arrays of illuminant, the company succeeded in creating array bundles of small-diameter VCSEL light-emitting points that operate simultaneously.

VCSEL

Because their powerful 40mW output is more than 10 times greater than previous models, they can be used for transmitting Hi-Vision signals and other broadband video signals through space, so that users need not waste time setting up electrical cables or optical fibers. They also have a broad range of applications related to optical sensors required for high-speed, high-precision communications.

# Corporate Governance

**Recognizing that a corporation's main mission is to increase corporate value, Fujifilm has been giving top priority to measures aimed at increasing its own corporate value by strengthening and broadening its corporate governance systems, and it has steadily proceeded with the implementation of these measures.**

## Basic Policy Regarding Corporate Governance

In 1998, Fujifilm introduced an executive officer system with the goal of expediting operational execution. The board of directors is positioned as "the body for determining basic management policies and strategies as well as for supervising the execution of business affairs," while the executive officers are responsible for the execution of business affairs in accordance with the basic policies and strategies adopted by the board of directors. The methods used by executive officers to implement particularly important items are considered at management council meetings. To further clarify the mission and responsibilities of directors and executive officers, the Company has assigned one-year terms in office. Currently, the Company has 16 directors and 31 executive officers, including 16 executive officers who also serve as directors.

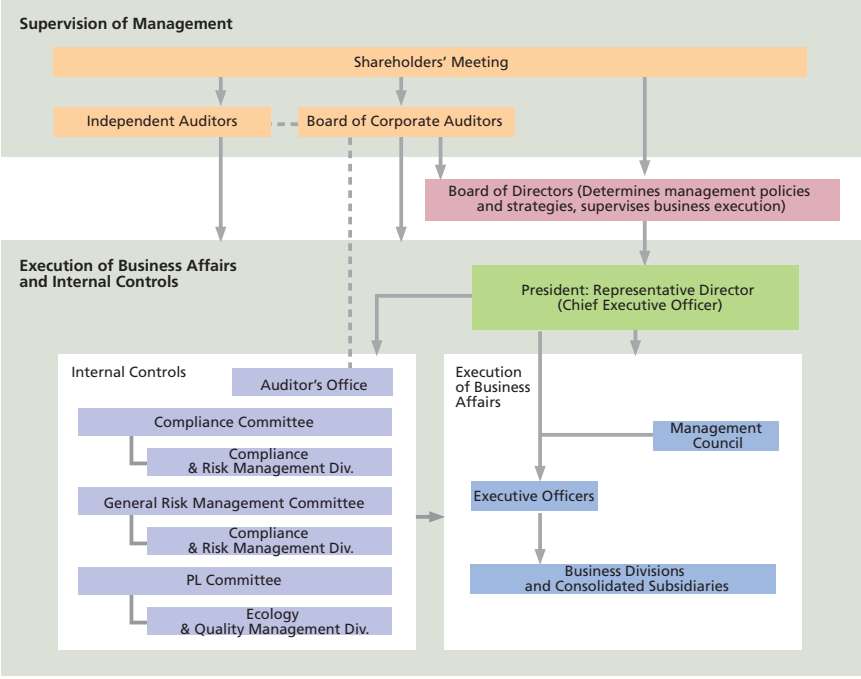
Fujifilm has a board of corporate auditors with four members, two of whom are external corporate auditors. All auditors attend meetings of the board of directors, and the standing statutory auditors also attend every ordinary management council meeting. As an independent body with key roles and responsibilities in Fujifilm's corporate governance system, the auditors audit the entire range of the directors' performance of their duties based on an audit plan and in accordance with the audit policies and standards determined by the board of corporate auditors.

In addition, the Auditor's Office, which is independent from departments responsible for the execution of business affairs, serves as an internal auditing unit. It examines each department's operational processes and other items and verifies that they are appropriate.

## CSR Promotion, Risk Management, and Internal Control Systems

To sustain outstanding CSR activities in line with its basic management principles, Fujifilm is working to promote compliance and risk management in an integrated manner and strengthen and expand its CSR activities. The Company's CSR systems and programs center on the CSR Division, which was established in April 2004.

■ Fujifilm's Supervision of Management Systems and Internal Control Mechanisms




### • Risk Management Systems

Fujifilm maintains two committees that broadly coordinate risk management activities throughout the Company—the General Risk Management Committee and the PL (Product Liability) Committee. The CSR Division's Compliance & Risk Management Division serves as the secretariat for the General Risk Management Committee, which helps manage risks by delegating responsibilities to diverse specialized permanent subcommittees. Regarding product liability management, the CSR Division's Ecology and Quality Management Division serves as the secretariat for the PL Committee, which establishes Companywide policies and makes decisions on fundamental issues associated with the promotion of those activities.

### • Internal Control Systems

Recognizing that compliance systems are crucial prerequisites of efficient and sound corporate management activities, Fujifilm has compiled its fundamental principles regarding compliance in its business activities in the Fujifilm Group Charter for Good Corporate Behavior. Based on this charter, principal Group companies in Japan and overseas have drafted their own employee conduct codes and are duly working to ensure compliance with those codes.

Fujifilm has also established a Compliance Committee chaired by the Company's president. This committee and the Compliance & Risk Management Division, which serves as the committee's secretariat, comprise the principal hub of programs for maintaining and increasing the rigor of legal and ethical compliance standards throughout the Group's operations.

Recognizing that it is important to build and operate internal control systems for appropriately preparing reports on financial information and other matters as well as disclosing such reports in a timely manner, Fujifilm is striving to further expand and strengthen its internal systems related to these tasks.

# Board of Directors, Executive Officers, and Corporate Auditors

(As of June 29, 2005)

## Board of Directors

*President and Chief Executive Officer, Representative Director*
**Shigetaka Komori**

*Chief Technical Officer, Representative Director*
**Nobuyuki Hayashi**

*Chief Financial Officer, Director*
**Toshio Takahashi**

*Chief Quality Officer, Director*
**Shigenori Moriuchi**

*Director*
**Hidenobu Fukunaga**
**Hisatoyo Kato**
**Atsushi Yoneda**
**Tadashi Sasaki**
**Hiroshi Hara**
**Shinpei Ikenoue**
**Kohtaro Nakamura**
**Keiichi Inuzuka**
**Nobuhira Takagi**
**Koji Kamiyama**
**Tsutomu Sugisaki**
**Noboru Sasaki**

## Executive Officers

*President and Chief Executive Officer*
**Shigetaka Komori**

*Executive Vice Presidents*
**Nobuyuki Hayashi**
**Toshio Takahashi**

*Senior Vice Presidents*
**Shigenori Moriuchi**
**Hidenobu Fukunaga**
**Hisatoyo Kato**
**Atsushi Yoneda**

*Corporate Vice Presidents*
**Tadashi Sasaki**
**Hiroshi Hara**
**Shinpei Ikenoue**
**Kohtaro Nakamura**
**Keiichi Inuzuka**
**Nobuhira Takagi**
**Koji Kamiyama**
**Tsutomu Sugisaki**
**Noboru Sasaki**
**Hideyuki Hayashi**
**Yasutomo Maeda**
**Hisamasa Abe**
**Akio Mitsui**
**Shigehisa Shimizu**
**Yuzo Toda**
**Nobuyuki Watabe**
**Kozo Sato**
**Yasushi Miyaoka**
**Hidefumi Sera**
**Masahiro Kosaka**
**Tadashi Ogawa**
**Taizo Mori**
**Yoshiyuki Uchiyama**
**Shigehiro Nakajima**

*Fellows*
**Shunji Takada**
**Shingo Ishimaru**
**Yukio Shinagawa**
**Kouichi Tamai**

## Corporate Auditors

**Yoshihiro Akaishi**
**Masahiro Miki**
**Akiro Kojima**
**Kiichiro Furusawa**

# Financial Section

## Results of Operations

### Revenue

During the fiscal year ended March 31, 2005, the positive effects on performance of such factors as the addition of new companies to the Fujifilm Group and a rise in sales volume were offset by such factors as changes in the product mix, decreases in selling prices, and changes in currency exchange rates. As a result, consolidated revenue declined 1.5%, or ¥39.4 billion, from the previous fiscal year, to ¥2,527.3 billion. Domestic revenue slipped 1.8%, to ¥1,311.8 billion, and overseas revenue decreased 1.2%, to ¥1,215.5 billion. The effective currency exchange rates were ¥108=US$1, a ¥5 appreciation of the yen compared with the previous fiscal year, and ¥135=1 euro, a ¥3 depreciation of the yen.

### Operating Income

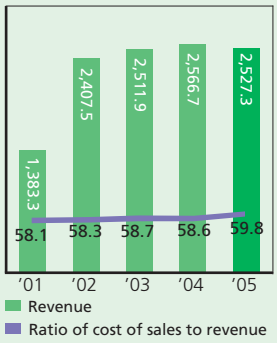
SG&A expenses increased 8.9%, or ¥62.7 billion, to ¥767.3 billion, reflecting such factors as temporary expenses associated with structural reform measures. In addition, upon completion of the transfer of plan assets to the government, the Company recognized a settlement loss and a reduction in net periodic pension cost related to derecognition of previously accrued salary progression. As a result, the SG&A expense ratio amounted to 30.4%. R&D expenses decreased 3.1%, or ¥5.3 billion, to ¥168.0 billion, causing the R&D expense ratio to decline 0.1 percentage point, to 6.6%.

Operating income was positively affected by temporary income, due to the transfer of the substitutional portion of Fuji Xerox's employee pension fund liabilities as well as factors that reduced the cost of sales, such as improvements in manufacturing efficiency and the reevaluation and optimization of procurement processes. However, cost increases due to rises in the prices of such raw materials as silver and aluminum combined with temporary expenses related to structural reforms to reduce operating income 11.1%, or ¥20.5 billion, to ¥164.4 billion.

### Income before Income Taxes

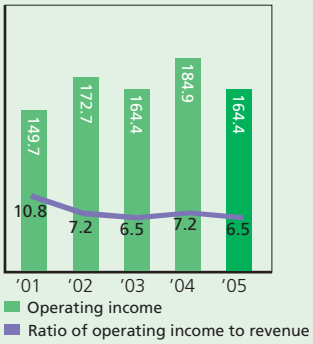
Nonoperating expenses decreased 89.5%, or ¥17.9 billion, to an expense of ¥2.1 billion. Reflecting changes in the foreign exchange settlement account and in the valuation of foreign currency assets at the fiscal year-end, foreign exchange gains (losses), net, improved ¥6.6 billion, to a gain of ¥1.8 billion, and interest and dividend income grew ¥1.9 billion, to ¥6.1 billion. Income before income taxes declined 1.6%, or ¥2.6 billion, to ¥162.3 billion.

**Revenue and Ratio of Cost of Sales to Revenue**
(Billions of yen, %)

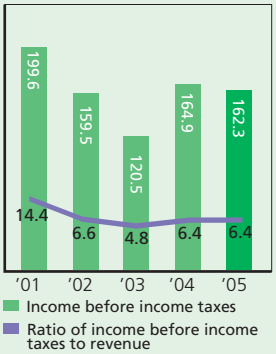



Year ended March 31

**Operating Income and Ratio of Operating Income to Revenue**
(Billions of yen, %)




**Income before Income Taxes and Ratio of Income before Income Taxes to Revenue**
(Billions of yen, %)



### Net Income

Income taxes decreased 11.6%, or ¥8.5 billion, to ¥63.8 billion. The effective tax rate decreased from 43.8% in the previous fiscal year to 39.4% in the fiscal year under review. The statutory tax rate for the fiscal year was 40.6%, but the effective rate was decreased by such factors as tax reductions associated with R&D credits. Minority interests, mainly attributed to Fuji Xerox Co., Ltd. and its subsidiaries, increased ¥4.8 billion, to ¥18.1 billion. Equity in net earnings of affiliated companies increased ¥1.1 billion, to ¥4.1 billion. Net income rose 2.7%, or ¥2.2 billion, to ¥84.5 billion, and net income per share grew to ¥164.78, from ¥160.38.

## Segment Information

### Imaging Solutions

Consolidated revenue in this segment fell 8.9%, or ¥72.5 billion, to ¥743.0 billion. In view of declining demand for color films, the Company worked to expand sales of products associated with digital technologies. However, segment sales were depressed by a combination of factors, including the intensification of competition, which depressed selling prices, and the high share of products sold at dollar-denominated prices, which accentuated the impact of yen appreciation on sales. Segment operating income decreased ¥50.6 billion, to a loss of ¥7.1 billion. While this drop reflected such special factors as rises in the prices of silver and other important raw materials and temporary expenses related to restructuring, it resulted mainly from a slump in digital camera sales in North America during the latter half of the fiscal year.

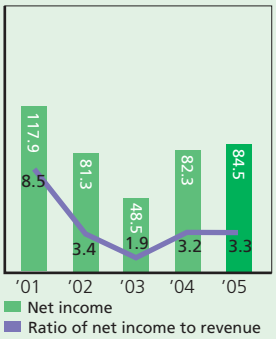
### Information Solutions

Consolidated revenue in this segment rose 1.8%, or ¥13.5 billion, to ¥768.6 billion. Such factors as a fall in the prices of mid-range, server-use data storage tapes depressed sales of recording media. However, this was offset by such factors as the increasingly larger sizes of LCD computer monitors and notebook PC displays and the growing scale of the market for LCD televisions, which led to considerable growth in the sales of flat panel display materials. Segment operating income decreased 6.9%, or ¥5.3 billion, to ¥71.1 billion, reflecting such factors as the drop in data storage tape prices as well as large rises in the prices of aluminum and other important raw materials for manufacturing printing plates and an increase in depreciation expenses owing to the expansion of manufacturing facilities.

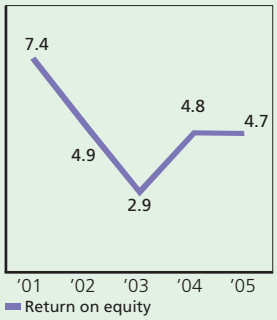
### Document Solutions

Consolidated revenue in this segment grew 2.0%, or ¥19.6 billion, to ¥1,015.7 billion, reflecting strong domestic sales of digital color multifunction devices, an expansion of office printer supply volumes centered on overseas markets, and other factors. Along with such special factors as the recording of a gain on the transfer of the substitutional portion of Fuji Xerox's employee pension fund liabilities and expenses related to restructuring measures, segment operating income was affected by a drop in the cost of sales, including processing expenses, and the increasing use of common and standardized components due to the shift of manufacturing operations to China. Consequently, segment operating income surged 54.2%, or ¥35.3 billion, to ¥100.4 billion.

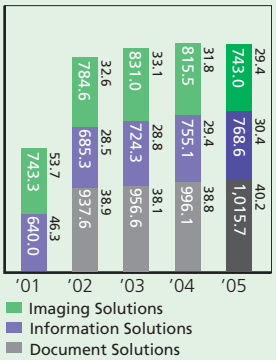
**Net Income and Ratio of Net Income to Revenue**
(Billions of yen, %)




**Return on Equity**
(%)




**Segment Revenue and Component Ratio**
(Billions of yen, %)



| Year ended March 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| | | (Millions of yen) | |
| ***Imaging Solutions*** | | | |
| Revenue: | | | |
| External customers | **¥ 742,993** | ¥ 815,527 | ¥830,990 |
| Intersegment | **306** | 1,030 | 447 |
| Total | **743,299** | 816,557 | 831,437 |
| Operating income (loss) | **(7,101)** | 43,475 | 45,077 |
| Operating margin | **(1.0)%** | 5.3% | 5.4% |
| ***Information Solutions*** | | | |
| Revenue: | | | |
| External customers | **¥ 768,680** | ¥ 755,159 | ¥724,299 |
| Intersegment | **4,414** | 4,878 | 5,046 |
| Total | **773,094** | 760,037 | 729,345 |
| Operating income | **71,089** | 76,380 | 63,830 |
| Operating margin | **9.2%** | 10.0% | 8.8% |
| ***Document Solutions*** | | | |
| Revenue: | | | |
| External customers | **¥1,015,701** | ¥ 996,039 | ¥956,632 |
| Intersegment | **13,560** | 12,557 | 11,588 |
| Total | **1,029,261** | 1,008,596 | 968,220 |
| Operating income | **100,407** | 65,121 | 55,492 |
| Operating margin | **9.8%** | 6.5% | 5.7% |

Notes: 1. The effects of Fuji Xerox's employee pension system reform, including the transfer of the substitutional portion of employee pension fund liabilities in the fiscal year ended March 31, 2005, are included in the Document Solutions segment's operating income for the fiscal year ended March 31, 2005. The effects of the liquidation of Fuji Photo Film's employee pension plan in the fiscal year ended March 31, 2003, are included in the Imaging Solutions and Information Solutions segments' operating income for the fiscal year ended March 31, 2003.

2. From the fiscal year ended March 31, 2005, the interest income and expense items associated with a portion of lease transactions were reclassified from nonoperating income and expense items to revenue and cost of sales items, respectively. As a result, figures for the Document Solutions segment from the fiscal year ended March 31, 2002, through the fiscal year ended March 31, 2004, have been restated.

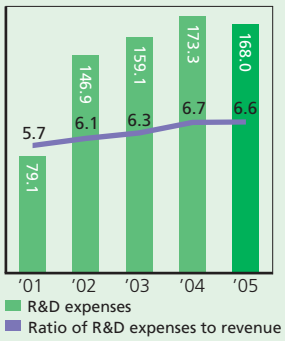
**Research & Development Activities**

To provide new solutions that match user needs in the imaging, information, and document fields, Fujifilm is working to further develop and utilize the unique technologies and know-how it has cultivated in the photographic film field while also proactively conducting R&D related to new digital and networking technologies.

During the fiscal year under review, R&D expenses declined 3.1%, or ¥5.3 billion, to ¥168.0 billion, and the R&D expense ratio decreased 0.1 percentage point, to 6.6%. By business segment, R&D expenses amounted to ¥41.9 billion in Imaging Solutions, down 4.4%; ¥54.4 billion in Information Solutions, up 19.6%; and ¥71.7 billion in Document Solutions, down 14.7%.

**R&D Expenses and Ratio of R&D Expenses to Revenue**

(Billions of yen, %)



## Financial Position

### Assets, Liabilities, and Shareholders' Equity

Total assets at the end of the fiscal year amounted to ¥2,983.4 billion, down ¥40.1 billion, or 1.3%, from the previous fiscal year-end. Total liabilities fell ¥151.5 billion, or 13.0%, to ¥1,018.4 billion, and shareholders' equity increased ¥99.2 billion, or 5.7%, to ¥1,849.1 billion. As a result, the liquidity ratio decreased 11.1 percentage points, to 187.1%. The debt ratio fell 11.8 percentage points, to 55.1%, and the equity ratio rose 4.1 percentage points, to 62.0%. Thus, the Company maintained the stability of both its asset liquidity and its asset structure.

### Capital Expenditure and Depreciation

Capital expenditure during the fiscal year decreased 2.1%, or ¥3.3 billion, to ¥157.4 billion. In the field of flat panel display materials, Fujifilm worked to increase the manufacturing capacity of FUJIFILM Opto Materials Co., Ltd., which operates the Group's principal existing flat panel display material manufacturing facilities, and other existing factories. At the same time, the Company acquired property in Kumamoto Prefecture on which it began constructing an additional factory.

Total depreciation (excluding depreciation of rental equipment in the Documents Solutions segment) increased 4.6%, or ¥5.8 billion, to ¥130.4 billion.

## Cash Flow Analysis

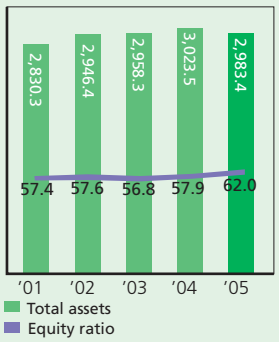
Net cash provided by operating activities amounted to ¥219.4 billion, down ¥108.0 billion. This reflected the effect of a drop in notes and accounts payable, which more than offset the effect of such factors as a decrease in notes and accounts receivable and increases in accrued income taxes and other liabilities.

Net cash used in investing activities totaled ¥312.4 billion, up ¥105.2 billion. Primary applications of cash used in investing activities included ¥150.9 billion used for purchases of property, plant, and equipment, ¥85.3 billion used for purchases of marketable and investment securities, and ¥33.1 billion used for purchases of software. These items were partially offset by ¥40.7 billion in proceeds from sales and maturities of marketable and investment securities. In addition, ¥58.0 billion was used for acquisitions of businesses and minority interests, net of cash acquired.

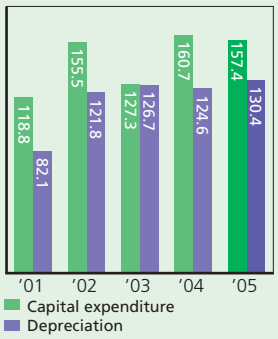
Net cash used in financing activities totaled ¥83.4 billion, up ¥19.9 billion. This largely reflected repayments of long-term debt and a decrease in short-term debt as well as purchases of stock for treasury, net. Cash dividends paid by the parent company amounted to ¥12.8 billion, approximately the same level as in the previous fiscal year.

As a result of these factors and the effect of exchange rates on cash and cash equivalents, cash and cash equivalents at the end of the fiscal year under review amounted to ¥288.2 billion, down ¥173.6 billion from the previous fiscal year-end.

**Total Assets and Equity Ratio**
(Billions of yen, %)

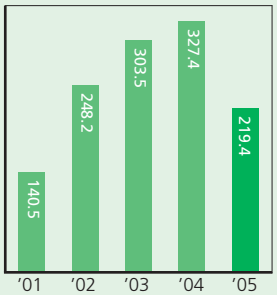



**Capital Expenditure and Depreciation**
(Billions of yen)




(Figures do not include depreciation expense on rental equipment handled by the Document Solutions segment.)

**Net Cash Provided by Operating Activities**
(Billions of yen)



## Dividends

Fujifilm's basic policy regarding the distribution of profits is to provide shareholders with stable dividends as well as to maintain sufficient internal reserves to strengthen the management foundation, permitting it to support an aggressive expansion of its business activities while being prepared for sudden changes in the business environment.

In line with this fundamental policy, the Company has set cash dividends applicable to the fiscal year at ¥25 per share.

## Business-Related and Other Risks

The following types of risk have the potential for affecting the Fujifilm Group's financial condition and business performance. Text referring to the future is written from the perspective of the end of the fiscal year under review.

***(1) Impact of Economic and Exchange Rate Trends on Performance***

Fujifilm provides products and services in diverse markets throughout the world, and the share of consolidated sales accounted for by overseas sales was approximately 48% in the fiscal year under review. There is a possibility that performance will be greatly affected by economic conditions throughout the world and particularly by currency exchange rates.

To reduce the impact of currency exchange rates on performance, Fujifilm undertakes hedging measures, primarily using forward exchange contracts for the U.S. dollar and the euro, but currency exchange fluctuations, depending on their degree, still could have an impact on performance.

***(2) Competition in Markets***

Fujifilm provides diverse digital-related products and services—including digital cameras and other consumer products as well as such commercial use products as those for medical, graphic arts, and office applications—and, in recent years, the rising and broadening use of digital and networking technologies has led to a sustained rise in the share of digital products and services. In these business fields, although business volume is expanding, the intensification of competition with electronic equipment manufacturers and other companies is leading to falls in the selling prices of products during short periods of time and are also shortening product life cycles. By affecting sales, increasing R&D costs, and exerting other effects, these trends have the potential for reducing profitability. In the future, Fujifilm will continually work to develop products incorporating new technologies and to support the sales of such products with marketing activities, and the success or failure of these activities is expected to have an influence on performance.

***(3) Patents and Other Intellectual Property***

Fujifilm has diverse patents, know-how, and other intellectual property that enable competitive benefits, but such future events as the expiration of patents and emergence of replacement technologies may make it difficult to maintain competitive superiority.

In the wide range of business fields with which Fujifilm is associated, there are numerous companies with sophisticated and complex technologies, and the number of these technologies is rising rapidly. Developing Fujifilm's business operations sometimes may require the use of other companies' patents, know-how, and other intellectual property, and when negotiations for the use of such intellectual property are not successful there is a potential for performance to be affected. In addition, Fujifilm is developing its business while constantly taking care not to infringe on the intellectual property of other companies, but it must be recognized that in reality it is difficult to completely eliminate the risk of becoming involved with litigation. If Fujifilm becomes involved with litigation, not only litigation costs would arise but also the potential for compensatory payment costs that could have an influence on performance.

***(4) Public Regulations***

In the regions where Fujifilm is developing its operations, diverse government regulations exist that apply to Fujifilm's operations, such as business and investment permits as well as limits and regulations related to imports and exports. Moreover, Fujifilm is subject to commercial, fair trade, patent, consumer protection, tax, foreign exchange administration, environmental, and other laws and regulations.

If Fujifilm were not to strictly comply with one of these laws or regulations, it could be subject to fines. Moreover, it is possible that these laws and regulations might be tightened or greatly changed, and in such cases it is impossible to deny the possibility that Fujifilm's activities could be limited or that Fujifilm might have to bear greater costs to attain compliance or respond to the changes. Accordingly, these laws and regulations have the potential for affecting Fujifilm's performance.

***(5) Manufacturing Operations***

As Fujifilm engages in manufacturing operations throughout the world, it is possible that provision of Fujifilm's products could be halted by earthquakes or other natural disasters, the discontinuation of the manufacture of raw materials and components, the bankruptcy of suppliers, terrorist activities, wars, labor strikes, major disease outbreaks, and other factors that cause disorder. It is also possible that a rapid rise in the price of raw materials could affect Fujifilm's performance.

Fujifilm manufactures its products in conformance with rigorous quality control standards, but the possibility of defective products does exist. If Fujifilm were to have to respond to such an event by undertaking product recalls or other actions, Fujifilm's performance might be affected.

***(6) Structural Reforms***

Fujifilm is proceeding with structural reform measures that involve the manufacturing, marketing, and service activities of Group companies and mergers of Group companies, and it intends to continue such measures with the goal of striving to increase management efficiency. Depending on the degree of progress in structural reforms, it is possible that Fujifilm might bear additional costs that would affect its performance.

## Forward-Looking Statements

This document contains projections of performance and other projections that were made based on information currently available and are subject to change due to various potential risks and uncertainties. Accordingly, if events do not correspond to some of the many assumptions made by the Company to provide a basis for the projections, actual performance may be considerably different from projected performance.

# Ten-Year Summary

Fuji Photo Film Co., Ltd. and Subsidiaries

| | Year ended March 31 | | | | |
|---|---|---|---|---|---|
| | **2005** | 2004 | 2003 | 2002 | 2001 |
| | (Millions of yen, except per share figures) | | | | |
| Results for the year: | | | | | |
| Revenue: | | | | | |
| Domestic | **¥1,311,893** | ¥1,336,015 | ¥1,330,119 | ¥1,355,192 | ¥ 656,059 |
| Overseas | **1,215,481** | 1,230,710 | 1,181,802 | 1,052,325 | 727,310 |
| Total | **¥2,527,374** | ¥2,566,725 | ¥2,511,921 | ¥2,407,517 | ¥1,383,369 |
| Cost of sales | **1,510,681** | 1,503,843 | 1,474,551 | 1,403,571 | 803,460 |
| Operating expenses: | | | | | |
| Selling, general and administrative | **767,363** | 704,659 | 765,987 | 684,370 | 351,033 |
| Research and development | **168,017** | 173,323 | 159,119 | 146,881 | 79,144 |
| Subsidy related to transfer of the substitutional portion of employee pension fund liabilities | **(83,129)** | — | (52,136) | — | — |
| Operating income | **164,442** | 184,900 | 164,400 | 172,695 | 149,732 |
| Interest and dividend income | **6,080** | 4,246 | 3,909 | 5,577 | 8,180 |
| Interest expense | **(4,668)** | (5,459) | (6,674) | (9,289) | (11,093) |
| Income before income taxes | **162,346** | 164,948 | 120,513 | 159,549 | 199,661 |
| Income before minority interests and equity in net earnings of affiliated companies | **98,457** | 92,659 | 60,230 | 88,696 | 113,126 |
| Net income | **84,500** | 82,317 | 48,579 | 81,331 | 117,900 |
| Capital expenditure | **¥ 157,420** | ¥ 160,740 | ¥ 127,319 | ¥ 155,525 | ¥ 118,786 |
| Depreciation (Note 1) | **130,360** | 124,634 | 126,695 | 121,777 | 82,063 |
| Net cash provided by operating activities | **219,361** | 327,358 | 303,500 | 248,185 | 140,454 |
| Per share of common stock (¥/$): | | | | | |
| Net income (Note 2) | **¥ 164.78** | ¥ 160.38 | ¥ 94.51 | ¥ 158.05 | ¥ 229.11 |
| Cash dividends (Note 3) | **25.00** | 25.00 | 25.00 | 25.00 | 22.50 |
| Shareholders' equity (Note 4) | **¥ 3,630.67** | ¥ 3,409.80 | ¥ 3,274.17 | ¥ 3,300.45 | ¥ 3,157.55 |
| Stock price at year-end | **3,920** | 3,310 | 3,640 | 4,170 | 4,640 |
| PER (Price-to-Earnings Ratio) | **23.79** | 20.64 | 38.51 | 26.38 | 20.25 |
| PBR (Price-to-Book Value Ratio) | **1.08** | 0.97 | 1.11 | 1.26 | 1.47 |
| Year-end financial position: | | | | | |
| Total assets | **¥2,983,457** | ¥3,023,509 | ¥2,958,317 | ¥2,946,362 | ¥2,830,313 |
| Long-term debt | **96,040** | 116,823 | 124,404 | 137,446 | 81,246 |
| Total shareholders' equity | **1,849,102** | 1,749,882 | 1,680,611 | 1,698,063 | 1,624,856 |
| Average number of shares outstanding (in thousands) | **512,801** | 513,252 | 514,011 | 514,583 | 514,603 |
| Number of employees | **75,638** | 73,164 | 72,633 | 72,569 | 70,722 |

See notes on page 33.

| Year ended March 31 | | | | | |
|---|---|---|---|---|---|
| 2000 | 1999 | 1998 | 1997 | 1996 | **2005** |
| (Millions of yen, except per share figures) | | | | | (Thousands of U.S. dollars, except per share figures) *(Note 5)* |
| ¥ 635,588 | ¥ 618,719 | ¥ 636,755 | ¥ 645,559 | ¥ 609,521 | **$12,260,682** |
| 713,253 | 768,307 | 694,861 | 567,406 | 439,075 | **11,359,636** |
| ¥1,348,841 | ¥1,387,026 | ¥1,331,616 | ¥1,212,965 | ¥1,048,596 | **$23,620,318** |
| 774,757 | 779,985 | 735,953 | 681,030 | 595,553 | **14,118,514** |
| 344,424 | 356,967 | 338,920 | 291,315 | 246,409 | **7,171,617** |
| 81,725 | 84,740 | 81,043 | 75,924 | 73,194 | **1,570,253** |
| — | — | — | — | — | **(776,907)** |
| 147,935 | 165,334 | 175,700 | 164,696 | 133,440 | **1,536,841** |
| 6,975 | 11,298 | 10,479 | 10,247 | 13,989 | **56,822** |
| (9,957) | (11,994) | (11,524) | (11,705) | (11,573) | **(43,626)** |
| 137,405 | 138,591 | 162,756 | 161,693 | 132,599 | **1,517,252** |
| 74,763 | 69,169 | 78,044 | 76,205 | 65,613 | **920,159** |
| 84,895 | 74,709 | 91,280 | 85,349 | 72,870 | **789,720** |
| ¥ 91,313 | ¥ 115,536 | ¥ 112,800 | ¥ 97,315 | ¥ 75,393 | **$ 1,471,215** |
| 82,770 | 83,377 | 77,818 | 73,761 | 68,547 | **1,218,318** |
| 212,306 | 157,159 | 147,000 | 151,736 | 147,636 | **2,050,103** |
| ¥ 164.97 | ¥ 145.17 | ¥ 177.38 | ¥ 165.85 | ¥ 141.60 | **$ 1.54** |
| 22.50 | 22.50 | 22.50 | 22.00 | 21.00 | **0.23** |
| ¥ 3,060.68 | ¥ 2,893.82 | ¥ 2,842.91 | ¥ 2,684.52 | ¥ 2,540.93 | **$ 33.93** |
| 4,520 | 4,480 | 4,960 | 4,070 | 3,060 | **36.64** |
| 27.40 | 30.86 | 27.96 | 24.54 | 21.61 | |
| 1.48 | 1.55 | 1.74 | 1.52 | 1.20 | |
| ¥2,235,812 | ¥2,165,695 | ¥2,173,989 | ¥2,038,382 | ¥1,942,509 | **$27,882,776** |
| 20,897 | 47,363 | 53,113 | 47,036 | 63,919 | **897,570** |
| 1,575,065 | 1,489,194 | 1,463,014 | 1,381,458 | 1,307,594 | **17,281,327** |
| 514,612 | 514,615 | 514,610 | 514,607 | 514,616 | |
| 37,151 | 37,551 | 36,580 | 33,154 | 29,903 | |

Notes:

1. Figures for depreciation do not include depreciation expense for rental equipment handled by the Document Solutions segment.
2. The computation of net income per share is based on the average number of shares outstanding during each period.
3. Cash dividends per share represent the amount declared per share for the respective period.
4. The computation of shareholders' equity per share is based on the number of shares outstanding at the end of each period.
5. U.S. dollar amounts presented are translated from yen, for convenience only, at the rate of ¥107=US$1, the exchange rate prevailing on March 31, 2005.
6. At the end of March 2001, Fujifilm acquired an additional 25% of the outstanding shares of Fuji Xerox Co., Ltd., bringing its total shareholding to 75%. As a result, Fuji Xerox became a consolidated subsidiary of Fujifilm. In the financial statements for the Fujifilm Group for the year ended March 31, 2001, the balance sheet of Fuji Xerox was consolidated and the consolidated statements of income were accounted for by the equity method, with an ownership interest of 50% as in prior years. From the year ended March 31, 2002, the consolidated statements of income of Fuji Xerox were consolidated in the income statements.
7. From the fiscal year ended March 31, 2005, the interest income and expense items associated with a portion of lease transactions were reclassified from nonoperating income and expense items to revenue and cost of sales items, respectively. As a result, figures from the fiscal year ended March 31, 2002, through the fiscal year ended March 31, 2004, have been restated.

# Consolidated Balance Sheets

Fuji Photo Film Co., Ltd. and Subsidiaries

| Assets | March 31 2005 | March 31 2004 | 2005 |
|---|---|---|---|
| | (Millions of yen) | | (Thousands of U.S. dollars) *(Note 3)* |
| Current assets: | | | |
| Cash and cash equivalents | **¥ 288,157** | ¥ 461,764 | **$ 2,693,056** |
| Marketable securities (Note 4) | **65,729** | 33,906 | **614,290** |
| Notes and accounts receivable (Note 5): | | | |
| Trade and finance | **516,228** | 525,889 | **4,824,561** |
| Affiliated companies | **31,514** | 24,417 | **294,523** |
| Allowance for doubtful receivables | **(14,517)** | (14,470) | **(135,673)** |
| Inventories (Note 6) | **371,365** | 348,309 | **3,470,701** |
| Deferred income taxes (Note 11) | **88,795** | 82,276 | **829,860** |
| Prepaid expenses and other | **25,997** | 28,557 | **242,963** |
| Total current assets | **1,373,268** | 1,490,648 | **12,834,281** |
| Investments and long-term receivables: | | | |
| Investments in and advances to affiliated companies (Note 7) | **46,563** | 43,985 | **435,168** |
| Investment securities (Note 4) | **279,895** | 261,022 | **2,615,841** |
| Long-term finance and other receivables (Note 5) | **97,029** | 99,363 | **906,813** |
| Allowance for doubtful receivables | **(4,946)** | (7,677) | **(46,224)** |
| | **418,541** | 396,693 | **3,911,598** |
| Property, plant and equipment: | | | |
| Land | **74,915** | 69,664 | **700,140** |
| Buildings | **570,140** | 549,747 | **5,328,411** |
| Machinery and equipment (Note 9) | **1,596,768** | 1,538,884 | **14,923,065** |
| Construction in progress | **49,002** | 35,559 | **457,963** |
| | **2,290,825** | 2,193,854 | **21,409,579** |
| Less accumulated depreciation | **(1,543,613)** | (1,488,705) | **(14,426,289)** |
| | **747,212** | 705,149 | **6,983,290** |
| Other assets: | | | |
| Goodwill, net (Notes 8 and 16) | **227,775** | 214,649 | **2,128,738** |
| Other intangible assets, net (Notes 8,10 and 16) | **48,851** | 35,732 | **456,552** |
| Deferred income taxes (Note 11) | **47,750** | 81,870 | **446,262** |
| Other | **120,060** | 98,768 | **1,122,055** |
| | **444,436** | 431,019 | **4,153,607** |
| Total assets | **¥2,983,457** | ¥3,023,509 | **$27,882,776** |

See notes to consolidated financial statements.

| Liabilities and shareholders' equity | March 31 2005 | 2004 | 2005 |
|---|---|---|---|
| | (Millions of yen) | | (Thousands of U.S. dollars) *(Note 3)* |
| Current liabilities: | | | |
| Short-term debt (Note 9) | **¥ 123,592** | ¥ 143,265 | **$ 1,155,065** |
| Notes and accounts payable: | | | |
| Trade | **274,260** | 287,691 | **2,563,178** |
| Construction | **47,846** | 41,339 | **447,159** |
| Affiliated companies | **10,035** | 11,649 | **93,785** |
| Accrued income taxes (Note 11) | **31,193** | 42,626 | **291,523** |
| Accrued liabilities | **192,809** | 172,426 | **1,801,953** |
| Other current liabilities (Note 11) | **54,365** | 53,090 | **508,085** |
| Total current liabilities | **734,100** | 752,086 | **6,860,748** |
| Long-term debt (Notes 9 and 15) | **96,040** | 116,823 | **897,570** |
| Accrued pension and severance costs (Note 10) | **105,084** | 216,135 | **982,093** |
| Deferred income taxes (Note 11) | **48,224** | 42,555 | **450,692** |
| Customers' guarantee deposits and other (Note 7) | **34,941** | 42,303 | **326,551** |
| Minority interests in subsidiaries | **115,966** | 103,725 | **1,083,795** |
| Commitments and contingent liabilities (Note 14) | | | |
| Shareholders' equity (Note 12): | | | |
| Common stock, without par value: | | | |
| Authorized: 800,000,000 shares | | | |
| Issued: 514,625,728 shares | **40,363** | 40,363 | **377,224** |
| Additional paid-in capital | **68,135** | 68,135 | **636,776** |
| Retained earnings | **1,794,385** | 1,722,692 | **16,769,953** |
| Accumulated other comprehensive income (loss) (Note 13) | **(33,525)** | (76,121) | **(313,318)** |
| Treasury stock, at cost (5,325,736 shares in 2005; 1,433,628 shares in 2004) | **(20,256)** | (5,187) | **(189,308)** |
| Total shareholders' equity | **1,849,102** | 1,749,882 | **17,281,327** |
| Total liabilities and shareholders' equity | **¥2,983,457** | ¥3,023,509 | **$27,882,776** |

# Consolidated Statements of Income

Fuji Photo Film Co., Ltd. and Subsidiaries

| | Year ended March 31 | | | |
|---|---|---|---|---|
| | **2005** | 2004 | 2003 | **2005** |
| | (Millions of yen) | | | (Thousands of U.S. dollars) *(Note 3)* |
| Revenue: | | | | |
| Sales | **¥2,172,003** | ¥2,212,387 | ¥2,164,535 | **$20,299,093** |
| Rentals | **355,371** | 354,338 | 347,386 | **3,321,225** |
| | **2,527,374** | 2,566,725 | 2,511,921 | **23,620,318** |
| Cost of sales: | | | | |
| Sales | **1,365,601** | 1,364,537 | 1,339,562 | **12,762,626** |
| Rentals | **145,080** | 139,306 | 134,989 | **1,355,888** |
| | **1,510,681** | 1,503,843 | 1,474,551 | **14,118,514** |
| Gross profit | **1,016,693** | 1,062,882 | 1,037,370 | **9,501,804** |
| Operating expenses: | | | | |
| Selling, general and administrative (Note 10) | **767,363** | 704,659 | 765,987 | **7,171,617** |
| Research and development | **168,017** | 173,323 | 159,119 | **1,570,253** |
| Subsidy related to transfer of substitutional portion of employee pension fund liabilities (Note 10) | **(83,129)** | — | (52,136) | **(776,907)** |
| Operating income | **164,442** | 184,900 | 164,400 | **1,536,841** |
| Other income (expenses): | | | | |
| Interest and dividend income | **6,080** | 4,246 | 3,909 | **56,822** |
| Interest expense | **(4,668)** | (5,459) | (6,674) | **(43,626)** |
| Foreign exchange gains (losses), net | **1,862** | (4,835) | (7,275) | **17,402** |
| Decline in value of investment securities (Note 4) | **(304)** | (466) | (17,038) | **(2,841)** |
| Other, net | **(5,066)** | (13,438) | (16,809) | **(47,346)** |
| | **(2,096)** | (19,952) | (43,887) | **(19,589)** |
| Income before income taxes | **162,346** | 164,948 | 120,513 | **1,517,252** |
| Income taxes (Note 11): | | | | |
| Current | **55,083** | 70,657 | 62,020 | **514,794** |
| Deferred | **8,806** | 1,632 | (1,737) | **82,299** |
| | **63,889** | 72,289 | 60,283 | **597,093** |
| Income before minority interests and equity in net earnings of affiliated companies | **98,457** | 92,659 | 60,230 | **920,159** |
| Minority interests | **(18,103)** | (13,289) | (12,835) | **(169,187)** |
| Equity in net earnings of affiliated companies | **4,146** | 2,947 | 1,184 | **38,748** |
| Net income | **¥ 84,500** | ¥ 82,317 | ¥ 48,579 | **$ 789,720** |
| | | (Yen) | | (U.S. dollars) *(Note 3)* |
| Amounts per share of common stock: | | | | |
| Net income | **¥ 164.78** | ¥ 160.38 | ¥ 94.51 | **$ 1.54** |
| Cash dividends declared | **25.00** | 25.00 | 25.00 | **0.23** |

See notes to consolidated financial statements.

# Consolidated Statements of Changes in Shareholders' Equity

Fuji Photo Film Co., Ltd. and Subsidiaries

| | Common stock | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income (loss) | Treasury stock | Total shareholders' equity |
|---|---|---|---|---|---|---|
| | | | (Millions of yen) | | | |
| **Balance at March 31, 2002** | ¥ 40,363 | ¥ 68,135 | ¥ 1,618,270 | ¥ (28,133) | ¥ (572) | ¥ 1,698,063 |
| Comprehensive income: | | | | | | |
| Net income | — | — | 48,579 | — | — | 48,579 |
| Net decrease in unrealized gains on securities | — | — | — | (251) | — | (251) |
| Foreign currency translation adjustments | — | — | — | (28,615) | — | (28,615) |
| Minimum pension liability adjustments | — | — | — | (16,423) | — | (16,423) |
| Change in net unrealized gains (losses) on derivatives | — | — | — | (65) | — | (65) |
| Net comprehensive income | | | | | | 3,225 |
| Purchases of stock for treasury | — | — | — | — | (4,293) | (4,293) |
| Cash dividends applicable to earnings of the year | — | — | (12,846) | — | — | (12,846) |
| Change of fiscal year-end of certain subsidiaries | — | — | (782) | (2,756) | — | (3,538) |
| **Balance at March 31, 2003** | 40,363 | 68,135 | 1,653,221 | (76,243) | (4,865) | 1,680,611 |
| Comprehensive income: | | | | | | |
| Net income | — | — | 82,317 | — | — | 82,317 |
| Net increase in unrealized gains on securities | — | — | — | 21,028 | — | 21,028 |
| Foreign currency translation adjustments | — | — | — | (34,379) | — | (34,379) |
| Minimum pension liability adjustments | — | — | — | 13,573 | — | 13,573 |
| Change in net unrealized gains (losses) on derivatives | — | — | — | (100) | — | (100) |
| Net comprehensive income | | | | | | 82,439 |
| Purchases of stock for treasury | — | — | — | — | (521) | (521) |
| Sales of stock from treasury | — | — | (13) | — | 199 | 186 |
| Cash dividends applicable to earnings of the year | — | — | (12,833) | — | — | (12,833) |
| **Balance at March 31, 2004** | 40,363 | 68,135 | 1,722,692 | (76,121) | (5,187) | 1,749,882 |
| Comprehensive income: | | | | | | |
| Net income | **—** | **—** | **84,500** | **—** | **—** | **84,500** |
| Net increase in unrealized gains on securities | **—** | **—** | **—** | **2,948** | **—** | **2,948** |
| Foreign currency translation adjustments | **—** | **—** | **—** | **12,669** | **—** | **12,669** |
| Minimum pension liability adjustments | **—** | **—** | **—** | **26,801** | **—** | **26,801** |
| Change in net unrealized gains (losses) on derivatives | **—** | **—** | **—** | **178** | **—** | **178** |
| Net comprehensive income | | | | | | **127,096** |
| Purchases of stock for treasury | **—** | **—** | **—** | **—** | **(15,370)** | **(15,370)** |
| Sales of stock from treasury | **—** | **—** | **(25)** | **—** | **301** | **276** |
| Cash dividends applicable to earnings of the year | **—** | **—** | **(12,782)** | **—** | **—** | **(12,782)** |
| **Balance at March 31, 2005** | **¥ 40,363** | **¥ 68,135** | **¥ 1,794,385** | **¥ (33,525)** | **¥ (20,256)** | **¥ 1,849,102** |
| | | | (Thousands of U.S. dollars) *(Note 3)* | | | |
| **Balance at March 31, 2004** | $377,224 | $636,776 | $16,099,925 | $(711,411) | $ (48,476) | $16,354,038 |
| Comprehensive income: | | | | | | |
| Net income | **—** | **—** | **789,720** | **—** | **—** | **789,720** |
| Net increase in unrealized gains on securities | **—** | **—** | **—** | **27,551** | **—** | **27,551** |
| Foreign currency translation adjustments | **—** | **—** | **—** | **118,402** | **—** | **118,402** |
| Minimum pension liability adjustments | **—** | **—** | **—** | **250,477** | **—** | **250,477** |
| Change in net unrealized gains (losses) on derivatives | **—** | | **—** | **1,663** | **—** | **1,663** |
| Net comprehensive income | | | | | | **1,187,813** |
| Purchases of stock for treasury | **—** | **—** | **—** | **—** | **(143,645)** | **(143,645)** |
| Sales of stock from treasury | **—** | **—** | **(234)** | **—** | **2,813** | **2,579** |
| Cash dividends applicable to earnings of the year | **—** | **—** | **(119,458)** | **—** | **—** | **(119,458)** |
| **Balance at March 31, 2005** | **$377,224** | **$636,776** | **$16,769,953** | **$(313,318)** | **$(189,308)** | **$17,281,327** |

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Fuji Photo Film Co., Ltd. and Subsidiaries

| | Year ended March 31 | | | |
|---|---|---|---|---|
| | **2005** | 2004 | 2003 | **2005** |
| | (Millions of yen) | | | (Thousands of U.S. dollars) *(Note 3)* |
| **Operating activities** | | | | |
| Net income | **¥ 84,500** | ¥ 82,317 | ¥ 48,579 | **$ 789,720** |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | **182,286** | 172,622 | 173,986 | **1,703,607** |
| Decline in value of investment securities | **304** | 466 | 17,038 | **2,841** |
| Deferred income taxes | **8,806** | 1,632 | (1,737) | **82,299** |
| Minority interests | **18,103** | 13,289 | 12,835 | **169,187** |
| Equity in net earnings of affiliated companies, less dividends received | **(2,031)** | (667) | (944) | **(18,981)** |
| Subsidy related to transfer of substitutional portion of employee pension fund liabilities | **(83,129)** | — | (52,136) | **(776,907)** |
| Changes in operating assets and liabilities: | | | | |
| Notes and accounts receivable | **19,593** | (20,519) | (95) | **183,112** |
| Inventories | **(5,964)** | 174 | 12,771 | **(55,738)** |
| Notes and accounts payable—trade | **(23,320)** | 19,719 | 16,819 | **(217,944)** |
| Accrued income taxes and other liabilities | **20,869** | 40,481 | 50,987 | **195,037** |
| Other | **(656)** | 17,844 | 25,397 | **(6,130)** |
| Net cash provided by operating activities | **219,361** | 327,358 | 303,500 | **2,050,103** |
| **Investing activities** | | | | |
| Purchases of property, plant and equipment | **(150,915)** | (160,070) | (122,624) | **(1,410,421)** |
| Purchases of software | **(33,050)** | (37,367) | (37,553) | **(308,879)** |
| Proceeds from sales and maturities of marketable and investment securities | **40,733** | 46,672 | 33,058 | **380,682** |
| Purchases of marketable and investment securities | **(85,287)** | (16,634) | (23,656) | **(797,075)** |
| (Increase) decrease in investments in and advances to affiliated companies | **(1,156)** | 1,702 | (6,361) | **(10,803)** |
| Acquisitions of businesses and minority interests, net of cash acquired | **(58,010)** | (21,901) | (33,486) | **(542,150)** |
| Other | **(24,716)** | (19,588) | (11,306) | **(230,990)** |
| Net cash used in investing activities | **(312,401)** | (207,186) | (201,928) | **(2,919,636)** |
| **Financing activities** | | | | |
| Proceeds from long-term debt | **1,940** | 6,604 | 16,055 | **18,131** |
| Repayments of long-term debt | **(19,085)** | (25,787) | (28,708) | **(178,364)** |
| Decrease in short-term debt, net | **(31,042)** | (27,615) | (29,902) | **(290,112)** |
| Cash dividends paid | **(12,831)** | (12,833) | (12,861) | **(119,916)** |
| Cash dividends paid to minority interests | **(7,091)** | (3,550) | (4,579) | **(66,271)** |
| Purchases of stock for treasury, net | **(15,297)** | (335) | (4,257) | **(142,963)** |
| Net cash used in financing activities | **(83,406)** | (63,516) | (64,252) | **(779,495)** |
| Effect of exchange rate changes on cash and cash equivalents | **2,839** | (5,022) | (4,780) | **26,533** |
| Net increase (decrease) in cash and cash equivalents | **(173,607)** | 51,634 | 32,540 | **(1,622,495)** |
| Change of fiscal year-end of certain subsidiaries | **—** | — | (4,311) | **—** |
| Cash and cash equivalents at beginning of year | **461,764** | 410,130 | 381,901 | **4,315,551** |
| Cash and cash equivalents at end of year | **¥288,157** | ¥461,764 | ¥410,130 | **$2,693,056** |
| **Supplemental disclosures of cash flow information** | | | | |
| Cash paid for: | | | | |
| Interest | **¥ 6,838** | ¥ 7,301 | ¥ 9,353 | **$ 63,907** |
| Income taxes | **69,460** | 44,949 | 73,621 | **649,159** |

See notes to consolidated financial statements.

## 1. Nature of Operations

Fuji Photo Film Co., Ltd. (the "Company") is a multinational manufacturer of photographic products, with an involvement in imaging, information and document solutions. The Company and its subsidiaries operate throughout the world, generating approximately 48% of its worldwide revenue outside Japan, predominantly in North America and Europe. The Company's principal manufacturing operations are located in Japan, the United States of America, Brazil, Germany, the Netherlands, Singapore and China.

## 2. Summary of Significant Accounting Policies

The Company and its domestic subsidiaries maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan. The Company's foreign subsidiaries maintain their records and prepare their financial statements in conformity with the conventions of their countries of domicile. Certain reclassifications and adjustments have been incorporated in the consolidated financial statements to conform them to accounting principles generally accepted in the United States of America. These adjustments have not been recorded in the Company's statutory books of account.

Significant accounting policies, after reflecting the adjustments referred to above, are summarized as follows:

***Principles of Consolidation and Accounting for Investments in Affiliated Companies***

The consolidated financial statements include the accounts of the Company and all entities that the Company directly or indirectly controls. All significant intercompany transactions and accounts have been eliminated. During the year ended March 31, 2003, certain foreign subsidiaries that had used a February 28 year-end changed their fiscal year-end from February 28 to March 31 in order to conform to the Company's fiscal year-end. The net loss of ¥782 million and net changes in other comprehensive income (loss) of ¥2,756 million for the one-month period ended March 31, 2002 were directly debited to retained earnings and other comprehensive income (loss), respectively.

The Company's investments in affiliated companies (20% to 50% owned companies), in which the ability to exercise significant influence exists, are accounted for by the equity method. Consolidated net income includes the Company's equity in the current net earnings or losses of such companies after the elimination of unrealized intercompany profits.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

***Foreign Currency Translations***

The Company's foreign subsidiaries generally use the local currency as their functional currency. Accordingly, assets and liabilities are translated into the reporting currency using exchange rates in effect at the balance sheet date and income and expenses are translated using average exchange rates prevailing during the year. Adjustments resulting from this translation process are accumulated in other comprehensive income (loss), a separate component of shareholders' equity.

Assets and liabilities denominated in currencies other than the functional currency are remeasured into the functional currency using exchange rates in effect at the respective balance sheet dates with the resulting gains or losses included in operations.

***Cash Equivalents***

The Company considers all highly liquid investments which are readily convertible into cash and that have maturities of three months or less, on the date of purchase, to be cash equivalents.

***Marketable Securities and Investment Securities***

The Company has designated their marketable securities and investment securities as available-for-sale, which are carried at their fair value with changes in unrealized gains or losses reported in other comprehensive income (loss), net of applicable taxes. The Company records an impairment loss to earnings when a decline in value of the marketable security is deemed to be other-than-temporary. In determining whether such a decline is other-than-temporary, the Company evaluates various factors including the length of time, the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the investee as well as the Company's intent and ability to retain the investment for a period of time sufficient to allow any expected recovery in fair value. The cost of securities sold is based on the average-cost method. Dividends on available-for-sale securities are included in "Interest and dividend income" in other income (expenses).

***Allowance for Doubtful Receivables***

Allowances for doubtful trade, finance and other receivables are determined based on a combination of historical experience, aging analysis and any specific known troubled accounts.

***Inventories***

Inventories are valued at the lower of cost or market with cost being determined principally by the moving-average method. Periodically, the Company reviews inventories for obsolete, slow-moving or excess amounts and, if required, provides an allowance to recognize their estimated net realizable values.

***Property, Plant and Equipment and Depreciation***

Property, plant and equipment is carried at cost, less accumulated depreciation computed primarily by the declining-balance method and, for certain foreign subsidiaries, by the straight-line method. Estimated useful lives for buildings are primarily 15 to 50 years and for machinery and equipment are 2 to 15 years.

Machinery and equipment includes machines rented to customers under operating leases with a cost and accumulated depreciation of ¥85,029 million ($794,664 thousand) and ¥52,488 million ($490,542 thousand) as of March 31, 2005 and ¥82,993 million and ¥58,487 million as of March 31, 2004, respectively.

***Goodwill and Other Intangible Assets***

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired. Other intangible assets principally consist of costs allocated to technology-based intangibles, customer-related intangibles and long-term product supply agreements.

Under Statement of Financial Accounting Standards Board ("SFAS") No. 142, "Goodwill and Other Intangible Assets," goodwill and other indefinite lived intangible assets are no longer amortized but are tested annually, as of January 1, for impairment. Impairment tests are performed principally based on present value techniques of estimated future cash flows on each reporting unit. The discount rate used is based on the reporting unit's weighted average cost of capital. In addition to the annual impairment test, an interim test for goodwill impairment will be performed when events occur or circumstances indicate that the carrying value may not be recoverable. Intangible assets having other than those with an indefinite life are amortized on a straight-line basis over their estimated useful lives.

***Capitalized Software Costs***

The Company capitalizes certain software development costs in accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The Company also follows accounting guidelines as specified in SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." Capitalized costs are amortized on a straight-line basis over the estimated useful lives of the software. As of March 31, 2005 and 2004, aggregate capitalized software costs amounted to ¥99,465 million ($929,579 thousand) and ¥89,728 million, respectively, net of accumulated amortization of ¥52,961 million ($494,963 thousand) and ¥59,140 million, respectively, which included capitalized software to be sold of ¥9,753 million ($91,150 thousand) and ¥10,045 million, respectively, net of accumulated amortization of ¥9,991 million ($93,374 thousand) and ¥12,011 million, respectively. Capitalized software costs are included in other assets.

***Impairment of Long-Lived Assets***

The Company reviews long-lived assets, excluding goodwill and other intangible assets not being amortized, for impairment whenever events or changes in business circumstances indicate the carrying amount of the assets may not be fully recoverable. If an evaluation is required, the estimated future undiscounted cash flows associated with the assets would be compared to the assets' carrying amount to determine if a write-down is required. If this evaluation indicates that the assets will not be recoverable, the carrying value of the assets would be reduced to their estimated fair value.

Long-lived assets to be disposed of by sale are evaluated at the lower of carrying amount or fair value less cost to sell.

***Revenue Recognition***

The Company recognizes revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when it has persuasive evidence of an arrangement, the products or services have been provided to customers, the sales price is fixed or determinable, and collectibility is reasonably assured.

The above conditions are generally met when products are delivered to customers for product sales, services are performed or at the inception of leases for revenue from sales-type leases. Associated interest income on sales-type leases is recognized using the effective interest method with the allocation based on the net investment in outstanding leases and is included in revenue. Rentals from operating leases are recognized as earned over the respective lease terms. Certain sales incentives are deducted from revenue.

The Company sells certain products and services under bundled contract agreements which contain multiple deliverable elements as defined in Emerging Issues Task Force ("EITF") 00-21, "Revenue Arrangements with Multiple Deliverables." The Company has recognized revenue from the sale of such products upon delivery and acceptance by customers and such services upon customers' usage. The adoption of EITF 00-21 was not significant to the operating results and financial position of the Company.

***Product Warranties***

The Company provides product warranties for certain of its products. These warranties generally extend for periods of one year from the date of sale. A liability for expected warranty costs and additional service actions is accrued at the time that the related revenue is recognized. In estimating the warranty liability, historical experience is considered.

***Shipping and Handling Costs***

Shipping and handling costs of ¥60,511 million ($565,523 thousand), ¥56,914 million and ¥51,683 million for the years ended March 31, 2005, 2004 and 2003, respectively, are included in selling, general and administrative expenses in the consolidated statements of income.

***Advertising Costs***

Advertising costs are expensed as incurred and included in selling, general and administrative expenses. Advertising expenses amounted to ¥47,561 million ($444,495 thousand), ¥45,421 million and ¥52,356 million for the years ended March 31, 2005, 2004 and 2003, respectively.

***Income Taxes***

Income taxes have been provided using the liability method in accordance with SFAS No. 109, "Accounting for Income Taxes."

Deferred tax assets and liabilities are determined based on the differences between the financial reporting and the tax bases of assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse. A valuation allowance is recognized to reduce the deferred tax assets to the amount that is considered more likely than not to be realized.

***Derivative Financial Instruments***

The Company recognizes all derivative financial instruments, such as interest rate swaps, cross currency interest rate swaps, forward foreign exchange contracts and currency swaps, in the consolidated financial statements at fair value regardless of the purpose or intent for holding the instrument. Generally, changes in fair values of derivatives accounted for as fair value hedges are recorded in income along with the portions of the changes in the fair values of the hedged items that relate to the hedged risks. Changes in fair values of derivatives accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in other comprehensive income, net of deferred taxes. Changes in fair values of derivatives, which are not designated or qualified as hedges, are reported in income.

***Net Income Per Share***

The amounts per share of net income are based on the weighted average number of shares of common stock outstanding during the year.

***Reclassification***

Certain reclassifications to prior years' consolidated financial statements and related footnote amounts have been made to conform with the presentation in the current year.

***New Accounting Standards***

In November 2003, the EITF reached a consensus on EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF 03-1 established additional disclosure requirements for investments in loss position under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." In March 2004, the EITF also reached a consensus on accounting guidance on other-than-temporary impairments and its application to debt and equity securities investments. The Financial Accounting Standards Board ("FASB") issued FASB Staff Position EITF 03-1-1 in September 2004 which delayed the effective date of the recognition and measurement provisions of EITF 03-1. The adoption of EITF 03-1 is not expected to have a material effect on the Company's results of operations and financial position.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs—an amendment of ARB No. 43, Chapter 4." SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight and rehandling costs be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, SFAS 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005 and is required to be adopted by the Company in the fiscal year beginning April 1, 2006. The Company is currently evaluating the effect that the adoption of SFAS No. 151 will have on its results of operations and financial condition but does not expect SFAS No. 151 to have a material impact.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets—an amendment of APB Opinion No. 29." SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21 (b) of APB Opinion No. 29, "Accounting for Nonmonetary Transactions," and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for the fiscal periods beginning after June 15, 2005 and is required to be adopted by the Company in the first year beginning April 1, 2006. The Company is currently evaluating the effect that the adoption of SFAS No. 153 will have on its results of operations and financial condition but does not expect it to have a material impact.

**3. U.S. Dollar Amounts**

Solely for the convenience of the reader and as a matter of arithmetical computation only, the 2005 amounts in the consolidated financial statements have been translated from Japanese yen into U.S. dollars at the rate of ¥107=U.S.$1.00, the exchange rate prevailing on March 31, 2005. The translation should not be construed as a representation that Japanese yen could be converted into U.S. dollars at this or any other rate.

## 4. Investments in Debt and Equity Securities

The cost, gross unrealized gains, gross unrealized losses and estimated fair value of the available-for-sale securities by major security type at March 31, 2005 and 2004 are summarized as follows:

| | 2005 | | | |
|---|---|---|---|---|
| | Cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| | (Millions of yen) | | | |
| Marketable securities: | | | | |
| Government debt securities | **¥ 5,000** | **¥ —** | **¥ 0** | **¥ 5,000** |
| Corporate debt securities | **60,569** | **246** | **86** | **60,729** |
| | **¥ 65,569** | **¥ 246** | **¥ 86** | **¥ 65,729** |
| Investment securities: | | | | |
| Government debt securities | **¥ 37,728** | **¥ 75** | **¥ —** | **¥ 37,803** |
| Corporate debt securities | **82,549** | **473** | **415** | **82,607** |
| Equity securities | **77,687** | **47,085** | **284** | **124,488** |
| | **¥197,964** | **¥47,633** | **¥699** | **¥244,898** |

| | 2004 | | | |
|---|---|---|---|---|
| | Cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| | (Millions of yen) | | | |
| Marketable securities: | | | | |
| Corporate debt securities | ¥ 33,931 | ¥ 26 | ¥ 51 | ¥ 33,906 |
| | ¥ 33,931 | ¥ 26 | ¥ 51 | ¥ 33,906 |
| Investment securities: | | | | |
| Government debt securities | ¥ 2,699 | ¥ 39 | ¥ — | ¥ 2,738 |
| Corporate debt securities | 129,684 | 924 | 517 | 130,091 |
| Equity securities | 49,898 | 44,002 | 150 | 93,750 |
| | ¥182,281 | ¥44,965 | ¥667 | ¥226,579 |

| | 2005 | | | |
|---|---|---|---|---|
| | Cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| | (Thousands of U.S. dollars) | | | |
| Marketable securities: | | | | |
| Government debt securities | **$ 46,729** | **$ —** | **$ 0** | **$ 46,729** |
| Corporate debt securities | **566,065** | **2,299** | **803** | **567,561** |
| | **$ 612,794** | **$ 2,299** | **$ 803** | **$ 614,290** |
| Investment securities: | | | | |
| Government debt securities | **$ 352,598** | **$ 701** | **$ —** | **$ 353,299** |
| Corporate debt securities | **771,486** | **4,421** | **3,879** | **772,028** |
| Equity securities | **726,047** | **440,046** | **2,654** | **1,163,439** |
| | **$1,850,131** | **$445,168** | **$6,533** | **$2,288,766** |

Gross realized losses of available-for-sale securities, which include losses on decline in value considered as other-than-temporary, for the years ended March 31, 2005, 2004 and 2003 were ¥322 million ($3,009 thousand), ¥473 million and ¥17,769 million, respectively. Gross realized gains on sales of available-for-sale securities for each of the three years in the period ended March 31, 2005 were insignificant.

Net unrealized holding gains on available-for-sale securities, net of the related taxes, increased by ¥2,948 million ($27,551 thousand) and ¥21,028 million for the years ended March 31, 2005 and 2004, respectively, and decreased by ¥251 million for the year ended March 31, 2003.

The cost and estimated fair value of debt securities at March 31, 2005, by contractual maturity, are shown below. The actual maturities may differ from the contractual maturities because the issuers of the debt securities may have the right to prepay the obligations without penalties.

| | Cost | Estimated fair value | Cost | Estimated fair value |
|---|---|---|---|---|
| | (Millions of yen) | | (Thousands of U.S. dollars) | |
| Due in one year or less | **¥ 65,569** | **¥ 65,729** | **$ 612,794** | **$ 614,290** |
| Due after one year through five years | **113,153** | **113,381** | **1,057,505** | **1,059,636** |
| Due after five years through ten years | **476** | **484** | **4,448** | **4,523** |
| Due after ten years | **6,648** | **6,545** | **62,131** | **61,168** |
| | **¥185,846** | **¥186,139** | **$1,736,878** | **$1,739,617** |

At March 31, 2005, substantially all of the available-for-sale securities with unrealized losses had been in a continuous unrealized loss position for less than 12 months.

The aggregate cost of non-marketable equity securities accounted for under the cost method totaled ¥34,997 million ($327,075 thousand) and ¥34,443 million at March 31, 2005 and 2004, respectively. Investments with an aggregate cost of ¥29,997 million ($280,346 thousand) were not evaluated for impairment because (a) the Company did not estimate the fair value of those investments as it was not practicable to estimate the fair value of the investment and (b) the Company did not identify any events or changes in circumstances that might have had significant adverse effect on the fair value of those investments.

## 5. Finance Receivables

Finance receivables are recorded on sales-type leases of the Company's printing and copying machines. The current portion of finance receivables and amounts due after one year are included in notes and accounts receivable—trade and finance and long-term finance and other receivables, respectively. These receivables generally mature over one to six years. The components of finance receivables as of March 31, 2005 and 2004 are as follows:

| | **2005** | 2004 | **2005** |
|---|---|---|---|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Gross receivables | **¥90,644** | ¥85,228 | **$847,140** |
| Unearned income | **(14,481)** | (13,520) | **(135,336)** |
| Allowance for doubtful receivables | **(2,480)** | (3,088) | **(23,178)** |
| Finance receivables, net | **¥73,683** | ¥68,620 | **$688,626** |

The future minimum lease payments to be received under sales-type leases as of March 31, 2005 are summarized as follows:

| | (Millions of yen) | (Thousands of U.S. dollars) |
|---|---|---|
| Year ending March 31: | | |
| 2006 | ¥31,497 | $294,364 |
| 2007 | 24,473 | 228,720 |
| 2008 | 18,728 | 175,028 |
| 2009 | 11,597 | 108,383 |
| 2010 | 4,017 | 37,542 |
| 2011 and thereafter | 332 | 3,103 |
| Total future minimum lease payments | ¥90,644 | $847,140 |

## 6. Inventories

Inventories at March 31, 2005 and 2004 consisted of the following:

| | **2005** | 2004 | **2005** |
|---|---|---|---|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Finished goods | **¥228,337** | ¥215,448 | **$2,133,990** |
| Work in process | **67,105** | 63,558 | **627,150** |
| Raw materials and supplies | **75,923** | 69,303 | **709,561** |
| | **¥371,365** | ¥348,309 | **$3,470,701** |

## 7. Investments in Affiliated Companies

Investments in affiliated companies accounted for by the equity method amounted to ¥44,427 million ($415,206 thousand) and ¥42,305 million at March 31, 2005 and 2004, respectively. The combined financial position and results of operations of the Company's affiliates accounted for by the equity method are summarized as follows:

| | 2005 | 2004 | 2005 |
|---|---|---|---|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Current assets | **¥124,553** | ¥126,529 | **$1,164,047** |
| Noncurrent assets | **63,806** | 67,122 | **596,317** |
| Total assets | **¥188,359** | ¥193,651 | **$1,760,364** |
| Current liabilities | **¥ 85,609** | ¥ 78,174 | **$ 800,084** |
| Long-term liabilities | **24,639** | 33,413 | **230,271** |
| Shareholders' equity | **78,111** | 82,064 | **730,009** |
| Total liabilities and shareholders' equity | **¥188,359** | ¥193,651 | **$1,760,364** |

| | 2005 | 2004 | 2003 | 2005 |
|---|---|---|---|---|
| | (Millions of yen) | | | (Thousands of U.S. dollars) |
| Revenue | **¥252,345** | ¥255,963 | ¥323,944 | **$2,358,364** |
| Net income | **3,008** | 10,197 | 703 | **28,112** |

Transactions with affiliated companies for the years ended March 31, 2005, 2004 and 2003 are summarized as follows:

| | 2005 | 2004 | 2003 | 2005 |
|---|---|---|---|---|
| | (Millions of yen) | | | (Thousands of U.S. dollars) |
| Revenue | **¥96,047** | ¥88,212 | ¥127,452 | **$897,636** |
| Purchases | **43,568** | 36,818 | 32,599 | **407,178** |
| Dividends received | **2,115** | 2,280 | 1,074 | **19,766** |

Customers' guarantee deposits received from affiliated companies amounted to ¥916 million ($8,561 thousand) and ¥1,625 million at March 31, 2005 and 2004, respectively.

## 8. Goodwill and Other Intangible Assets

The changes in goodwill by operating segment for the years ended March 31, 2005 and 2004 were as follows:

| | Imaging Solutions | Information Solutions | Document Solutions | Total |
|---|---|---|---|---|
| | (Millions of Yen) | | | |
| As of March 31, 2003 | ¥9,297 | ¥12,043 | ¥192,373 | ¥213,713 |
| Acquired | — | 2,295 | — | 2,295 |
| Impaired | — | — | — | — |
| Translation and other | (272) | (969) | (118) | (1,359) |
| As of March 31, 2004 | 9,025 | 13,369 | 192,255 | 214,649 |
| Acquired | **647** | **12,569** | **—** | **13,216** |
| Impaired | **—** | **—** | **—** | **—** |
| Translation and other | **(14)** | **(76)** | **—** | **(90)** |
| **As of March 31, 2005** | **¥9,658** | **¥25,862** | **¥192,255** | **¥227,775** |

| | Imaging Solutions | Information Solutions | Document Solutions | Total |
|---|---|---|---|---|
| | (Thousands of U.S. dollars) | | | |
| As of March 31, 2004 | $84,346 | $124,944 | $1,796,775 | $2,006,065 |
| Acquired | **6,047** | **117,467** | **—** | **123,514** |
| Impaired | **—** | **—** | **—** | **—** |
| Translation and other | **(131)** | **(710)** | **—** | **(841)** |
| **As of March 31, 2005** | **$90,262** | **$241,701** | **$1,796,775** | **$2,128,738** |

Intangible assets subject to amortization are as follows:

| | 2005 | | 2004 | | 2005 | |
|---|---|---|---|---|---|---|
| | Gross carrying amount | Accumulated amortization | Gross carrying amount | Accumulated amortization | Gross carrying amount | Accumulated amortization |
| | (Millions of Yen) | | | | (Thousands of U.S. dollars) | |
| Technology-based | **¥ 30,900** | **¥12,867** | ¥23,187 | ¥ 8,936 | **$ 288,785** | **$120,252** |
| Customer-related | **17,510** | **2,313** | 1,825 | 462 | **163,645** | **21,617** |
| Product supply agreements | **47,166** | **40,453** | 46,419 | 35,171 | **440,804** | **378,065** |
| Other | **13,908** | **5,621** | 11,679 | 4,982 | **129,981** | **52,533** |
| | **¥109,484** | **¥61,254** | ¥83,110 | ¥49,551 | **$1,023,215** | **$572,467** |

The difference between the above amounts disclosed and the amounts of other intangible assets on the balance sheet at March 31, 2005 and 2004 include intangible assets of ¥621 million ($5,804 thousand) and ¥2,173 million, respectively, associated with the Company's defined benefit pension plans which were recorded in accordance with SFAS No. 87, "Employers' Accounting for Pensions."

The weighted-average amortization period for technology-based intangibles, customer-related intangibles and product supply agreements are 8 years, 5 years and 10 years, respectively. The aggregate amortization expense for intangible assets for the years ended March 31, 2005, 2004 and 2003 were ¥10,939 million ($102,234 thousand), ¥8,807 million and ¥9,018 million, respectively.

The estimated aggregate amortization expense for intangible assets subject to amortization for the next five years is as follows:

| | (Millions of yen) | (Thousands of U.S. dollars) |
|---|---|---|
| Year ending March 31: | | |
| 2006 | ¥12,794 | $119,570 |
| 2007 | 9,879 | 92,327 |
| 2008 | 7,496 | 70,056 |
| 2009 | 7,074 | 66,112 |
| 2010 | 2,894 | 27,047 |

## 9. Short-Term and Long-Term Debt

Short-term debt consisted of the following:

| | 2005 | 2004 | 2005 |
|---|---|---|---|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Borrowings from banks | **¥ 61,669** | ¥105,508 | **$ 576,345** |
| Commercial paper | **39,555** | 17,707 | **369,673** |
| Notes payable | **—** | 5,067 | **—** |
| Current portion of long-term debt | **22,368** | 14,983 | **209,047** |
| | **¥123,592** | ¥143,265 | **$1,155,065** |

The weighted-average interest rates per annum on bank borrowings, commercial paper and notes payable outstanding at March 31, 2005 and 2004 were 1.82% and 2.22%, respectively. Short-term debt is principally unsecured.

Long-term debt at March 31, 2005 and 2004 consisted of the following:

| | 2005 | 2004 | 2005 |
|---|---|---|---|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Loans, principally from banks and insurance companies, due 2006 to 2012, with interest rates ranging from 0.545% to 8.5% at March 31, 2005 and due 2005 to 2012, with interest rates ranging from 0.545% to 8.5% at March 31, 2004: | | | |
| Secured | **¥ 3,379** | ¥ 4,286 | **$ 31,579** |
| Unsecured | **59,129** | 63,759 | **552,608** |
| Medium-term notes payable in Japanese yen, due 2006, with fixed and floating interest rates ranging from 0.36% to 1.99% at March 31, 2005 and due 2005 to 2013, with fixed and floating interest rates ranging from 0.20% to 2.24% at March 31, 2004 | **8,800** | 18,264 | **82,243** |
| Unsecured bonds: | | | |
| 0.6200% yen bonds, due 2007 | **3,000** | 3,000 | **28,037** |
| 0.6475% yen bonds, due 2007 | **7,500** | 7,500 | **70,093** |
| 1.6300% yen bonds, due 2008 | **5,000** | 5,000 | **46,729** |
| 1.0075% yen bonds, due 2009 | **6,100** | 6,100 | **57,009** |
| 1.0050% yen bonds, due 2009 | **2,000** | 2,000 | **18,692** |
| 1.9900% yen bonds, due 2011 | **10,000** | 10,000 | **93,458** |
| 1.5175% yen bonds, due 2012 | **3,000** | 3,000 | **28,037** |
| Other | **10,500** | 8,897 | **98,132** |
| | **118,408** | 131,806 | **1,106,617** |
| Portion due within one year | **(22,368)** | (14,983) | **(209,047)** |
| | **¥ 96,040** | ¥116,823 | **$ 897,570** |

The weighted-average interest rates of long-term loans from banks in the above table were approximately 1.8% and 1.64% at March 31, 2005 and 2004, respectively.

The aggregate annual maturities of long-term debt subsequent to March 31, 2005 are summarized as follows:

| | (Millions of yen) | (Thousands of U.S. dollars) |
|---|---|---|
| Year ending March 31: | | |
| 2006 | ¥ 22,368 | $ 209,047 |
| 2007 | 26,925 | 251,636 |
| 2008 | 9,394 | 87,794 |
| 2009 | 25,661 | 239,822 |
| 2010 | 272 | 2,542 |
| 2011 and thereafter | 33,788 | 315,776 |
| | ¥118,408 | $1,106,617 |

Certain bank loans are made under general agreements which provide that security and guarantees for present and future indebtedness may be provided upon request of the bank, and that the bank shall have the right to offset cash deposits against obligations that have become due or, in the event of default, against all obligations due to the bank. Certain of the long-term debt agreements with lenders other than banks also stipulate that the Company must provide additional security upon request of the lender.

At March 31, 2005, certain loans were secured by machinery and equipment with a net book value of ¥3,949 million ($36,907 thousand).

## 10. Pension and Severance Plans

Employees of the Company and its domestic subsidiaries who terminate their employment are entitled, under most circumstances, to lump-sum payments and/or pension payments as described below, determined by reference to their current basic rate of pay, length of service and the conditions under which termination occurs.

The Company and certain of its domestic subsidiaries have funded non-contributory defined benefit pension plans whose assets are maintained at trust banks and insurance companies, and also have a defined contribution plan. The funding policy for defined benefit plans is to make actuarially determined contributions to provide the plans with sufficient assets to meet future benefit payment requirements.

The Company and certain of its domestic subsidiaries also had two defined benefit pension plans, which had been funded in conformity with the requirements of the Welfare Pension Insurance Law of Japan. The pension plans consisted of two portions: a governmental welfare contributory portion (which would otherwise be provided by the Japanese government) and an additional non-contributory defined benefit portion. The pension benefits were determined based on years of service and compensation as stipulated in the regulations.

In March 2003, one of the defined benefit pension plans was liquidated and the obligation and related plan assets of the governmental welfare contributory portion were transferred to a governmental agency and the remaining non-contributory defined benefit portion was transferred into a defined contribution plan. Upon the liquidation, the Company recognized a settlement loss of ¥101,902 million and also recognized a reduction in net periodic pension cost related to derecognition of previously accrued salary progression of ¥26,677 million, both of which are included in selling, general and administrative expenses. In addition, the Company recognized a gain of ¥52,136 million reflecting the government subsidy arising from the difference between the obligation settled and the assets transferred to the government, determined pursuant to the government formula. In order to facilitate the liquidation of the defined benefit pension plan, certain marketable equity securities held in the employee retirement benefit trust were returned to the Company at their current fair market value of approximately ¥21,780 million and the employee retirement benefit trust was dissolved.

In January 2003, certain domestic subsidiaries included in Document Solutions obtained the approval of the Japanese government to eliminate future benefit obligations related to the governmental welfare component, or the substitutional portion, of the defined benefit pension plan, over which the Japanese government will take responsibility. The subsidiaries obtained the final approval from the Japanese government in January 2004 to be relieved of all past benefit obligations of the substitutional portion of the plans and completed the transfer of the plan assets equivalent to the substitutional portion to the government in August 2004.

In accordance with the consensus on EITF Issue No. 03-2, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities," the Company accounted for the entire separation process, upon completion of transfer of the plan assets to the government, as a single settlement transaction. As a result, the Company recognized a settlement loss of ¥76,401 million ($714,028 thousand) and also recognized a reduction in net periodic pension cost related to derecognition of previously accrued salary progression of ¥29,014 million ($271,159 thousand), both of which are included in selling, general and administrative expenses. In addition, the Company recognized a subsidy from the government of ¥83,129 million ($776,907 thousand) representing the difference between the obligation settled and the assets transferred to the government.

After the transfer to the government of the substitutional portion of the defined benefit pension plan of the domestic subsidiaries, the remaining corporate portion of the pension plan was combined with other defined benefit plans of those subsidiaries and a new defined benefit plan and a new defined contribution plan were established. Under this restructuring of pension and severance plans, the projected benefit obligation decreased by ¥41,312 million ($386,093 thousand) attributable to benefit payments and by ¥11,346 million ($106,037 thousand) for the plan amendment which was treated as negative unrecognized prior service cost. In addition, plan amendments were made for certain other subsidiaries, which decreased the projected benefits obligation by ¥217 million ($2,028 thousand).

Most foreign subsidiaries have various retirement plans, primarily defined contribution plans, covering substantially all of their employees. The funding policy for such defined contribution plans is to contribute annually an amount equal to a certain percentage of the participant's annual salary.

The aggregate cost charged to income for the Company's defined benefit and defined contribution plans discussed above amounted to ¥85,963 million ($803,393 thousand), ¥47,115 million and ¥127,228 million for the years ended March 31, 2005, 2004 and 2003, respectively.

The Company uses a measurement date of March 31 for the majority of its plans.

***Components of Net Periodic Benefit Cost***

Components of net periodic benefit cost for the years ended March 31, 2005, 2004 and 2003 are as follows:

| | 2005 | 2004 | 2003 | 2005 |
|---|---|---|---|---|
| | (Millions of yen) | | | (Thousands of U.S. dollars) |
| Components of net periodic benefit cost: | | | | |
| Service cost | **¥24,899** | ¥24,597 | ¥ 34,502 | **$232,701** |
| Interest cost | **13,670** | 16,440 | 22,791 | **127,757** |
| Expected return on plan assets | **(12,488)** | (9,884) | (16,606) | **(116,710)** |
| Recognized net actuarial loss | **7,407** | 12,134 | 12,354 | **69,224** |
| Amortization of prior service credit | **(1,380)** | (1,072) | (2,847) | **(12,897)** |
| Amortization of unrecognized net transition obligation | **150** | 481 | 721 | **1,402** |
| Derecognition of previously accrued salary progression | **(29,014)** | — | (26,677) | **(271,159)** |
| Settlement loss | **76,401** | — | 101,902 | **714,028** |
| Net periodic benefit cost | **¥79,645** | ¥42,696 | ¥126,140 | **$744,346** |

***Obligations and Fund Status***

Reconciliation of the beginning and ending balances of the benefit obligation and the fair value of the plan assets, the funded status and the amounts recognized in the consolidated balance sheets of the non-contributory and contributory defined benefit pension plans at March 31, 2005 and 2004 are outlined as follows:

| | 2005 | 2004 | 2005 |
|---|---|---|---|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Changes in benefit obligation: | | | |
| Benefit obligation at beginning of year | **¥790,529** | ¥ 736,225 | **$7,388,121** |
| Service cost | **24,899** | 24,597 | **232,701** |
| Interest cost | **13,670** | 16,440 | **127,757** |
| Plan participants' contributions | **387** | 123 | **3,617** |
| Plan amendments | **(11,563)** | — | **(108,065)** |
| Actuarial loss | **5,055** | 27,325 | **47,243** |
| Acquisitions | **9,620** | 4,011 | **89,906** |
| Benefits paid | **(59,536)** | (17,320) | **(556,411)** |
| Transfer of substitutional portion | **(185,002)** | — | **(1,728,991)** |
| Foreign currency translation | **2,171** | (872) | **20,290** |
| Benefit obligation at end of year | **590,230** | 790,529 | **5,516,168** |
| Changes in plan assets: | | | |
| Fair value of plan assets at beginning of year | **465,038** | 381,961 | **4,346,149** |
| Actual return on plan assets | **10,729** | 55,313 | **100,271** |
| Acquisitions | **10,375** | 1,195 | **96,963** |
| Employers' contributions | **49,473** | 34,925 | **462,364** |
| Plan participants' contributions | **387** | 123 | **3,617** |
| Benefits paid | **(53,948)** | (7,962) | **(504,187)** |
| Transfer of substitutional portion | **(72,859)** | — | **(680,925)** |
| Foreign currency translation | **1,559** | (517) | **14,570** |
| Fair value of plan assets at end of year | **410,754** | 465,038 | **3,838,822** |
| Funded status | **(179,476)** | (325,491) | **(1,677,346)** |
| Unrecognized net actuarial loss | **170,132** | 243,344 | **1,590,019** |
| Unrecognized prior service credit | **(22,909)** | (13,197) | **(214,103)** |
| Unrecognized net transition obligation | **1,720** | 1,870 | **16,075** |
| Net amount recognized | **¥ (30,533)** | ¥ (93,474) | **$ (285,355)** |
| Amounts recognized in the consolidated balance sheets consist of: | | | |
| Prepaid pension cost | **¥ 7,814** | ¥ — | **$ 73,028** |
| Accrued pension and severance costs | **(105,084)** | ¥(216,135) | **(982,093)** |
| Additional minimum liability adjustments: | | | |
| Intangible assets | **621** | 2,173 | **5,804** |
| Accumulated other comprehensive loss | **66,116** | 120,488 | **617,906** |
| Net amount recognized | **¥ (30,533)** | ¥ (93,474) | **$ (285,355)** |

The accumulated benefit obligation for defined benefit pension plans was ¥509,898 million ($4,765,402 thousand) and ¥677,444 million at March 31, 2005 and 2004, respectively.

The aggregate projected benefit obligation, aggregate accumulated benefit obligation and aggregate fair value of plan assets where accumulated benefit obligations exceeded plan assets as of March 31, 2005 and 2004 were as follows:

| | **2005** | 2004 | **2005** |
|---|---|---|---|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Projected benefit obligation | **¥548,232** | ¥782,156 | **$5,123,664** |
| Accumulated benefit obligation | **476,735** | 671,160 | **4,455,467** |
| Fair value of plan assets | **372,102** | 458,570 | **3,477,589** |

***Assumptions***

The weighted-average assumptions used to determine benefit obligations at March 31, 2005 and 2004 are as follows:

| | **2005** | 2004 |
|---|---|---|
| Discount rate | **2.21%** | 2.14% |
| Rate of compensation increases | **2.09%** | 2.06% |

The weighted-average assumptions used to determine net periodic benefit cost for the years ended March 31, 2005 and 2004 are as follows:

| | **2005** | 2004 | 2003 |
|---|---|---|---|
| Discount rate | **2.14%** | 2.35% | 2.50% |
| Rate of compensation increases | **2.06%** | 2.07% | 2.50% |
| Expected long-term rate of return on plan assets | **3.15%** | 3.17% | 3.12% |

The expected long-term rate of return on plan assets is based on the long-term expected return of the plans' asset allocations and an evaluation of the historical behavior of the Company's portfolio.

***Plan Assets***

The Company's actual weighted-average asset allocations for defined benefit pension plans at March 31, 2005 and 2004 by asset category are as follows:

| Asset category | **2005** | 2004 |
|---|---|---|
| Equity securities | **36%** | 37% |
| Debt securities | **35** | 21 |
| General accounts of life insurance companies | **18** | 19 |
| Other | **11** | 23 |
| Total | **100%** | 100% |

Target allocations of plan assets for equity securities, debt securities and general accounts of life insurance companies are 44%, 40% and 14%, respectively.

The Company's investment policy for defined benefit plans is designated to provide the plans with sufficient assets to meet future benefit payment requirements. The balance of other in plan assets at March 31, 2004 was large because the Company increased asset allocations to cash and cash equivalents in order for certain subsidiaries to fund the asset transfer of the governmental welfare component of their defined benefit plan.

The Company monitors asset allocation periodically and adjusts asset allocation, if necessary in order to meet the target asset allocation. The Company's investment policy pursues diversified investments and prohibits speculative investments.

***Contribution***

The Company expects to contribute approximately ¥44,496 million ($415,850 thousand) to the defined benefit pension plan for the year ending March 31, 2006.

***Estimated Future Benefit Payments***

The expected benefit payments, which reflect estimated future service, are summarized as follows:

| | (Millions of yen) | (Thousands of U.S. dollars) |
|---|---|---|
| Year ending March 31: | | |
| 2006 | ¥ 14,320 | $ 133,832 |
| 2007 | 17,580 | 164,299 |
| 2008 | 21,724 | 203,028 |
| 2009 | 23,229 | 217,093 |
| 2010 | 24,363 | 227,692 |
| 2011 through 2015 | 129,991 | 1,214,869 |

## 11. Income Taxes

Income taxes applicable to the Company and its domestic subsidiaries comprise corporation, inhabitants' and enterprise taxes which, in the aggregate, resulted in a statutory tax rate of approximately 40.6% for the year ended March 31, 2005 and 42% for years ended March 31, 2004 and 2003. The new Japanese local tax law issued in March 2003, which was subsequently revised during the year ended March 31, 2004 and became effective on April 1, 2004, reduces the standard enterprise tax rate and, instead, levies taxes on capital and certain expenses defined in the law. The new enterprise tax law is applicable only to the Company and certain domestic subsidiaries. The net decrease in the deferred tax assets as of March 31, 2004 and 2003, due to the new combined effective tax rates of 40.6% and 40.4%, amounted to ¥3,050 million and ¥1,647 million, respectively.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2005, 2004 and 2003 differ from the statutory tax rate due to the following reasons:

| | **2005** | 2004 | 2003 |
|---|---|---|---|
| Statutory tax rates | **40.6%** | 42.0% | 42.0% |
| Increase (decrease) in income taxes resulting from: | | | |
| Expenses not deductible for tax purposes | **2.2** | 1.0 | 4.5 |
| Lower effective tax rates of other countries | **(2.8)** | (2.0) | (2.3) |
| Deferred tax liabilities on undistributed earnings | **(0.1)** | (1.0) | 1.5 |
| R&D credits | **(2.8)** | (3.1) | — |
| Net changes in valuation allowances | **2.5** | 4.0 | 1.4 |
| Reduction in net deferred tax assets due to change in tax rates | **—** | 1.2 | 1.3 |
| Other | **(0.2)** | 1.7 | 1.6 |
| Effective tax rates | **39.4%** | 43.8% | 50.0% |

Income before income taxes for the years ended March 31, 2005, 2004 and 2003 was taxed in the following jurisdictions:

| | **2005** | 2004 | 2003 | **2005** |
|---|---|---|---|---|
| | (Millions of yen) | | | (Thousands of U.S. dollars) |
| Income before income taxes: | | | | |
| Domestic | **¥138,206** | ¥127,484 | ¥ 85,560 | **$1,291,645** |
| Foreign | **24,140** | 37,464 | 34,953 | **225,607** |
| | **¥162,346** | ¥164,948 | ¥120,513 | **$1,517,252** |

The provision (benefit) for income taxes for the years ended March 31, 2005, 2004 and 2003 consisted of the following:

| | 2005 | 2004 | 2003 | 2005 |
|---|---|---|---|---|
| | (Millions of yen) | | | (Thousands of U.S. dollars) |
| Current: | | | | |
| Domestic | **¥44,119** | ¥58,225 | ¥45,757 | **$412,327** |
| Foreign | **10,964** | 12,432 | 16,263 | **102,467** |
| Total current | **55,083** | 70,657 | 62,020 | **514,794** |
| Deferred: | | | | |
| Domestic | **11,723** | 588 | 506 | **109,561** |
| Foreign | **(2,917)** | 1,044 | (2,243) | **(27,262)** |
| Total deferred | **8,806** | 1,632 | (1,737) | **82,299** |
| | **¥63,889** | ¥72,289 | ¥60,283 | **$597,093** |

The significant components of deferred tax assets and liabilities at March 31, 2005 and 2004 were as follows:

| | 2005 | 2004 | 2005 |
|---|---|---|---|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Deferred tax assets: | | | |
| Inventories | **¥ 36,668** | ¥ 34,034 | **$ 342,692** |
| Depreciation | **13,458** | 9,546 | **125,776** |
| Accrued expenses | **41,302** | 39,012 | **386,000** |
| Accrued pension and severance costs | **5,220** | 22,453 | **48,785** |
| Minimum pension liability adjustments | **26,476** | 49,148 | **247,439** |
| Accrued enterprise tax | **2,626** | 3,933 | **24,542** |
| Tax loss carryforwards | **17,476** | 8,801 | **163,327** |
| Valuation of investment securities | **2,749** | 2,955 | **25,692** |
| Allowance for doubtful receivables | **4,616** | 4,595 | **43,140** |
| Other | **26,150** | 24,236 | **244,392** |
| | **176,741** | 198,713 | **1,651,785** |
| Less valuation allowance | **(18,472)** | (14,491) | **(172,635)** |
| Total deferred tax assets | **158,269** | 184,222 | **1,479,150** |
| Deferred tax liabilities: | | | |
| Depreciation | **16,082** | 14,459 | **150,299** |
| Taxes on undistributed earnings | **9,747** | 9,314 | **91,094** |
| Valuation of available-for-sale securities | **19,076** | 18,002 | **178,280** |
| Goodwill | **10,373** | 8,101 | **96,944** |
| Other intangible assets | **5,617** | 5,250 | **52,495** |
| Other | **9,403** | 7,692 | **87,879** |
| Total deferred tax liabilities | **70,298** | 62,818 | **656,991** |
| Net deferred tax assets | **¥ 87,971** | ¥121,404 | **$ 822,159** |

The valuation allowance relates primarily to the deferred tax assets of certain subsidiaries which have net operating loss carryforwards for tax purposes. The valuation allowances increased by ¥3,981 million ($37,206 thousand), ¥6,802 million and ¥1,733 million for the years ended March 31, 2005, 2004 and 2003, respectively.

Deferred tax assets and liabilities at March 31, 2005 and 2004 are included in the consolidated balance sheets as follows:

| | 2005 | 2004 | 2005 |
|---|---|---|---|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Deferred income taxes (current assets) | **¥88,795** | ¥ 82,276 | **$829,860** |
| Deferred income taxes (other assets) | **47,750** | 81,870 | **446,262** |
| Other current liabilities | **(350)** | (187) | **(3,271)** |
| Deferred income taxes (noncurrent liabilities) | **(48,224)** | (42,555) | **(450,692)** |
| Net deferred tax assets (liabilities) | **¥87,971** | ¥121,404 | **$822,159** |

At March 31, 2005, certain subsidiaries had net operating loss carryforwards for income tax purposes of ¥45,545 million ($425,654 thousand) and of which ¥12,843 million ($120,028 thousand) will be carried forward indefinitely and ¥32,702 million ($305,626 thousand) will expire through 2025. These net operating loss carryforwards are available to offset future taxable income of the subsidiaries.

## 12. Shareholders' Equity

The Commercial Code of Japan (the "Code") provides that an amount equal to at least 10% of the amount to be disbursed as a distribution of earnings be appropriated to the legal reserve until the total of such reserve and the additional paid-in capital account equals 25% of the common stock account. The Code also provides to the extent that if the sum of the additional paid-in capital account and the legal reserve account exceeds 25% of the common stock account, then the amount of the excess (if any) is available for appropriations by resolution of the shareholders.

Retained earnings available for dividends under the Code are based on the amount presented in the Company's non-consolidated financial statements, which are prepared in accordance with accounting principles and practices generally accepted in Japan. Under the Code, the amount of retained earnings available for dividends as of March 31, 2005 amounted to ¥1,438,254 million ($13,441,626 thousand), which included the Company's legal reserve of ¥10,091 million ($94,308 thousand).

The appropriation of retained earnings for the year ended March 31, 2005, which has been reflected in the consolidated financial statements, will be proposed for approval in accordance with the Code at the general shareholders' meeting to be held on June 29, 2005, and will subsequently be recorded in the Company's statutory books of account.

## 13. Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) as reflected in the consolidated balance sheets at March 31, 2005 and 2004 is summarized as follows:

| | 2005 | 2004 | 2005 |
|---|---|---|---|
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Unrealized gains on securities | **¥ 25,808** | ¥ 22,860 | **$ 241,195** |
| Foreign currency translation adjustments | **(25,458)** | (38,127) | **(237,925)** |
| Minimum pension liability adjustments | **(33,900)** | (60,701) | **(316,822)** |
| Unrealized gains (losses) on derivatives | **25** | (153) | **234** |
| | **¥(33,525)** | ¥(76,121) | **$(313,318)** |

The related tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2005, 2004 and 2003 are as follows:

| | Before-tax amount | Tax (expense) or benefit | Net-of-tax amount |
|---|---|---|---|
| | | (Millions of yen) | |
| **2005** | | | |
| Unrealized gains on securities: | | | |
| Increase in unrealized gains on securities | **¥ 4,927** | **¥ (2,000)** | **¥ 2,927** |
| Less: reclassification adjustment for losses realized in net income | **36** | **(15)** | **21** |
| Net increase in unrealized gains | **4,963** | **(2,015)** | **2,948** |
| Foreign currency translation adjustments | **13,267** | **(598)** | **12,669** |
| Minimum pension liability adjustments | **49,422** | **(22,621)** | **26,801** |
| Unrealized gains (losses) on derivatives: | | | |
| Change in unrealized gains (losses) on derivatives | **104** | **(51)** | **53** |
| Less: reclassification adjustment for gains (losses) realized in net income | **246** | **(121)** | **125** |
| Change in net unrealized gains (losses) | **350** | **(172)** | **178** |
| | **¥ 68,002** | **¥ (25,406)** | **¥ 42,596** |
| 2004 | | | |
| Unrealized gains on securities: | | | |
| Increase in unrealized gains on securities | ¥ 37,119 | ¥ (15,778) | ¥ 21,341 |
| Less: reclassification adjustment for gains realized in net income | (540) | 227 | (313) |
| Net increase in unrealized gains | 36,579 | (15,551) | 21,028 |
| Foreign currency translation adjustments | (34,724) | 345 | (34,379) |
| Minimum pension liability adjustments | 28,050 | (14,477) | 13,573 |
| Unrealized gains (losses) on derivatives: | | | |
| Change in unrealized gains (losses) on derivatives | (1,427) | 696 | (731) |
| Less: reclassification adjustment for gains (losses) realized in net income | 1,227 | (596) | 631 |
| Change in net unrealized gains (losses) | (200) | 100 | (100) |
| | ¥ 29,705 | ¥ (29,583) | ¥ 122 |
| 2003 | | | |
| Unrealized gains on securities: | | | |
| Decrease in unrealized gains on securities | ¥ (16,857) | ¥ 7,033 | ¥ (9,824) |
| Less: reclassification adjustment for losses realized in net income | 16,506 | (6,933) | 9,573 |
| Net decrease in unrealized gains | (351) | 100 | (251) |
| Foreign currency translation adjustments | (31,575) | 204 | (31,371) |
| Minimum pension liability adjustments | (35,203) | 18,780 | (16,423) |
| Unrealized gains (losses) on derivatives: | | | |
| Change in unrealized gains (losses) on derivatives | (1,169) | 490 | (679) |
| Less: reclassification adjustment for gains (losses) realized in net income | 1,060 | (446) | 614 |
| Change in net unrealized gains (losses) | (109) | 44 | (65) |
| | ¥ (67,238) | ¥ 19,128 | ¥ (48,110) |

| | Before-tax amount | Tax (expense) or benefit | Net-of-tax amount |
|---|---|---|---|
| | | (Thousands of U.S. dollars) | |
| **2005** | | | |
| Unrealized gains on securities: | | | |
| Increase in unrealized gains on securities | **$ 46,047** | **$ (18,692)** | **$ 27,355** |
| Less: reclassification adjustment for losses realized in net income | **336** | **(140)** | **196** |
| Net increase in unrealized gains | **46,383** | **(18,832)** | **27,551** |
| Foreign currency translation adjustments | **123,991** | **(5,589)** | **118,402** |
| Minimum pension liability adjustments | **461,888** | **(211,411)** | **250,477** |
| Unrealized gains (losses) on derivatives: | | | |
| Change in unrealized gains (losses) on derivatives | **972** | **(477)** | **495** |
| Less: reclassification adjustment for gains (losses) realized in net income | **2,299** | **(1,131)** | **1,168** |
| Change in net unrealized gains (losses) | **3,271** | **(1,608)** | **1,663** |
| | **$635,533** | **$(237,440)** | **$398,093** |

## 14. Commitments and Contingent Liabilities

***Guarantees***

The Company guarantees certain indebtedness of others and other obligations. At March 31, 2005, the maximum potential amount of future payments (undiscounted) the guarantor could be required to make under the guarantee was ¥43,169 million ($403,449 thousand), of which ¥39,469 million ($368,869 thousand) were guarantees of employee mortgage loans to financial institutions. In the event of an employee's insolvency, the Company and certain of its subsidiaries will need to pay the default mortgage on behalf of the employee. Certain guarantees are secured by the employees' property in the amount of ¥39,214 million ($366,486 thousand). The term of the mortgage loan guarantees is from 2 years to 30 years. As of March 31, 2005, the carrying amount of the liability for the Company's obligations under the guarantee was insignificant.

***Lease Commitments***

The Company and its subsidiaries lease office and retail space, warehouses, offices and laboratory equipment as well as certain residential facilities for employees.

The future minimum lease payments required under operating leases which, at March 31, 2005, had initial or remaining noncancelable lease terms in excess of one year are summarized as follows:

| | (Millions of yen) | (Thousands of U.S. dollars) |
|---|---|---|
| Year ending March 31: | | |
| 2006 | ¥16,513 | $154,327 |
| 2007 | 13,353 | 124,794 |
| 2008 | 12,966 | 121,178 |
| 2009 | 10,708 | 100,075 |
| 2010 | 7,915 | 73,972 |
| 2011 and thereafter | 14,626 | 136,691 |
| Total future minimum lease payments | ¥76,081 | $711,037 |

Rental expenses under operating leases for the years ended March 31, 2005, 2004 and 2003 were ¥60,335 million ($563,879 thousand), ¥58,758 million and ¥56,060 million, respectively.

***Purchase Commitments, Other Commitments and Contingencies***

Commitments outstanding at March 31, 2005 principally for the construction and purchase of property, plant and equipment amounted to ¥62,442 million ($583,570 thousand). At March 31, 2005, the Company was contingently liable on discounted notes receivable on a full recourse basis with banks of ¥9,132 million ($85,346 thousand).

Due to the nature of its business, the Company is subject to various threatened or filed legal actions and regulatory investigations. The Company has provided the necessary accruals, if any, for environmental remediation, litigation and regulatory investigations, for which occurrence of future events is probable and the amount of loss can be reasonably estimated. In conjunction with a regulatory investigation, the Company has provided in accordance with SFAS No. 5, "Accounting for Contingencies," an accrual for the settlement at the low end of the estimated range from ¥3,472 million ($32,449 thousand) to ¥9,027 million ($84,364 thousand) of potential exposure, based upon the advice of legal counsel. Although the amount of the ultimate exposure, if any, cannot be determined at this time, the Company, based upon the advice of counsel, does not expect the final outcome of any threatened or filed suits to have a material adverse effect on the financial position and operating results of the Company.

***Product Warranties***

The Company provides a warranty for certain of its products. These warranties generally extend for a period of one year from the date of sale. The following table sets forth the changes in the Company's warranty liability balance:

| | **2005** | 2004 | 2003 | **2005** |
|---|---|---|---|---|
| | | (Millions of yen) | | (Thousands of U.S. dollars) |
| Balance, at April 1 | **¥ 7,838** | ¥ 7,402 | ¥4,944 | **$ 73,252** |
| Warranties issued during the current period | **13,426** | 13,058 | 7,329 | **125,476** |
| Settlements made during the current period | **(12,103)** | (11,075) | (2,433) | **(113,112)** |
| Change in liability for pre-existing warranties during the current period, including expirations | **(1,210)** | (1,547) | (2,438) | **(11,308)** |
| Balance, at March 31 | **¥ 7,951** | ¥ 7,838 | ¥7,402 | **$ 74,308** |

## 15. Financial Instruments

The Company operates internationally, and is exposed to market risks arising from fluctuations in foreign currencies, interest rates and certain commodity prices. The Company and certain of its subsidiaries utilize derivative financial instruments solely to reduce these risks. The Company has policies and procedures for risk management and the approval, reporting and monitoring of derivative financial instruments. The Company's policies prohibit holding or issuing derivative financial instruments for trading purposes. The following is a summary of the Company's risk management strategies and the effect of these strategies on the Company's consolidated financial statements.

***Fair Value Hedging Strategy***

Certain subsidiaries of the Company have entered into cross currency interest rate swaps for interest rate exposure and/or foreign currency exchange rate exposure management purposes. The cross currency interest rate swaps utilized by certain subsidiaries of the Company effectively modify their exposure to the interest rate risk and/or foreign currency exchange rate risk associated with the underlying debt obligation by converting the underlying debt amounts in exchange for floating rate interest payments over the life of the agreements. The notional amounts of the swaps were ¥4,466 million as of March 31, 2004. There is no transaction of fair value hedge as of March 31, 2005. Changes in the fair value of these derivatives are reported in the consolidated statements of income in the line titled "Other, net" in other income (expenses). The ineffective portion of its fair value hedges and the portion of hedging instruments which were excluded from the assessment of hedge effectiveness were not material to the financial position and operating results of the Company for the years ended March 31, 2005 and 2004, respectively.

***Cash Flow Hedging Strategy***

Certain subsidiaries of the Company have entered into forward currency exchange contracts to protect against the increase or decrease in value of forecasted intercompany purchases or export sales denominated in foreign currencies over the next year (maximum length of time is through June 2005). If the yen weakens significantly against foreign currencies (primarily the U.S. dollar), the increase in the value of future foreign currency cost or revenue is offset by gains or losses in the value of the forward exchange contract designated as a hedge. Conversely, if the yen strengthens, the decrease in the value of future foreign currency cash flow is offset by gains or losses in the value of the forward contracts.

In addition, certain subsidiaries of the Company also entered into a currency swap and cross currency interest rate swaps that effectively convert a portion of the underlying debt amounts to fixed interest rates and to the functional currencies of the subsidiaries for the next year (maximum length of time is through September 2005), thus reducing the impact of foreign currency exchange rate and interest rate changes on future income.

Changes in the fair value of those derivative instruments designated and qualifying as cash flow hedges of variability of cash flows are reported in other comprehensive income, net of applicable taxes. These amounts are reclassified into earnings in the same period and same line item as the hedged items that affect earnings. The amount of gains or losses on derivatives or portions thereof that were either ineffective as hedges or excluded from the assessment of hedge effectiveness were not material to the financial position or operating results of the Company.

As of March 31, 2005, the Company expects to reclassify ¥25 million ($234 thousand) of net gains on derivatives from accumulated other comprehensive income to earnings during the next twelve months due to actual export sales and import purchases and the payment of the underlying debt.

***Derivatives Not Designated as Hedges***

Derivatives not designated as hedges include certain interest rate swaps, cross currency interest rate swaps, and forward currency exchange contracts which have been entered into by the Company and certain of its subsidiaries. Although these derivatives are effective as hedges from an economic perspective, the Company did not designate these contracts as hedges as required in order to apply hedge accounting. As a result, the Company reported the changes in the fair value of these derivatives in the statement of income in the line titled "Other, net" in other income (expenses).

***Concentration of Credit Risk***

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, investments, trade and finance accounts receivable, and derivatives.

The Company maintains cash and cash equivalents and short-term investments with various financial institutions. These financial institutions are located throughout Japan and the Company's policy is designed to limit exposure to any one institution. The Company performs periodic evaluations of relative credit standing of those financial institutions that are considered in the Company's investment strategy.

Concentration of credit risk associated with trade receivables is limited due to the Company's large customer base, maintenance of customers' guarantee deposits and the Company's performance of ongoing credit evaluations. An allowance for doubtful accounts is maintained at a level which management believes is sufficient to cover potential losses.

The Company is exposed to credit risk in the event of nonperformance by counterparties to derivative instruments. The Company limits this exposure by acquiring such derivative instruments from counterparties with high credit ratings.

***Fair Value of Financial Instruments***

The estimated fair value of financial instruments has been determined using available market information or other appropriate valuation methodologies. Although management uses its best judgment in estimating the fair value of such instruments, the methodologies and assumptions for the estimate of fair value are inherently subjective. Consequently, the estimates are not necessarily indicative of the amounts which could be realized or would be paid in a current market exchange. The following methodologies and assumptions were used by the Company in estimating the fair value of its financial instruments:

*Cash and cash equivalents, Notes and accounts receivable, Short-term debt, Notes and accounts payable:* The carrying amounts in the consolidated balance sheets approximate fair value because of the short maturity of these instruments.

*Marketable securities, Investment securities:* The fair value of current and noncurrent marketable securities is estimated based on quoted market prices. The fair value of nonmarketable debt securities with variable rates approximates their carrying amounts.

*Customers' guarantee deposits:* The carrying amounts approximate fair value because they are variable rate instruments.

*Long-term debt:* The fair value of long-term debt is estimated using discounted cash flow analyses based on the current incremental borrowing rates for similar types of borrowing arrangements. The fair value of long-term debt, including the current portion, as of March 31, 2005 and 2004 were ¥118,974 million ($1,111,907 thousand) and ¥133,087 million, respectively.

*Derivative financial instruments:* The fair values of forward currency exchange contracts, interest rate swaps, a currency swap and cross currency interest rate swaps are estimated on the basis of the market prices of derivative financial instruments with similar contract conditions or obtained from brokers. The fair value and the carrying amounts of these derivative assets were ¥1,079 million ($10,084 thousand) and ¥1,695 million, and those of derivative liabilities were ¥1,539 million ($14,383 thousand) and ¥3,303 million, as of March 31, 2005 and 2004, respectively.

## 16. Acquisitions

In order to expand its distribution channels in Japan, the United States of America, Europe and Oceania and increase in technological developments in certain products, the Company acquired eleven, thirty and nine businesses and/or minority interests during the years ended March 31, 2005, 2004 and 2003. Significant acquisitions completed during the year ended March 31, 2005 included (i) Microelectronic Materials Division of Arch Chemicals, Inc. and 49% of common stock of FUJIFILM Arch Co., Ltd, which was a 51%-owned subsidiary of the Company before acquisition for approximately ¥17,060 million ($159,439 thousand) in cash and (ii) 100% of common stock of Sericol Group Limited, which was manufacturer of screen ink and industry inkjet ink based in the United Kingdom for approximately ¥25,994 million ($242,935 thousand) in cash. Each acquisition that qualified as business combinations has been accounted for under the purchase method of accounting in accordance with SFAS No. 141, "Business Combinations," and the Company mainly recognized technology-based intangibles and customer-related intangibles on major acquisitions as mentioned above. Although purchase price allocations of Microelectronic Materials Division of Arch Chemicals, Inc. and 49% of common stock of FUJIFILM Arch Co., Ltd. and 100% of common stock of Sericol Group Limited were not finalized, the Company does not expect any significant adjustments. Acquisitions completed during the year ended March 31, 2005 also included six acquisitions of customer-related intangible assets that did not qualify as business combinations.

Total purchase price for acquisitions amounted to ¥58,010 million ($542,150 thousand), ¥21,901 million and ¥33,486 million, net of cash acquired for the years ended March 31, 2005, 2004 and 2003, respectively. Considerations for all significant acquisitions were paid in cash and there were no significant contingent payments, options nor commitments related to those acquisitions. The excess of the purchase price over the estimated fair value of net assets acquired has been recorded as goodwill, which is primarily tax non-deductible.

The results of operations for the acquired entities since the date of the acquisitions have been included in the Company's consolidated statements of income. Pro forma results of operations have not been presented for any of the acquisitions because the results of operations related to the entities acquired were not significant to the operating results of the Company on either an individual or an aggregate annual basis.

## 17. Segment Information

***Operating Segments***

The Company has three operating segments. The Company's operating segments were determined based upon common technology, manufacturing processes as well as distribution processes and type of customers, and they reflect how management reviews the businesses and operating results and makes decisions about strategic investments and the allocation of resources. "Imaging Solutions" manufactures, develops, markets and services color films, digital cameras, photofinishing equipment, and color paper, chemicals and services for photofinishing, primarily for the individual consumer. "Information Solutions" manufactures, develops, markets and services system devices for graphic arts, medical imaging, and information systems, flat panel display materials and recording media, primarily for commercial enterprises. "Document Solutions" manufactures, develops, markets and services office copiers/MFPs (multifunction printers), printers, production systems and services, paper, consumables and office services, primarily for commercial enterprises.

| *Revenue* | Year ended March 31 | | | |
|---|---|---|---|---|
| | **2005** | 2004 | 2003 | **2005** |
| | (Millions of yen) | | | (Thousands of U.S. dollars) |
| Revenue: | | | | |
| Imaging Solutions: | | | | |
| External customers | **¥ 742,993** | ¥ 815,527 | ¥ 830,990 | **$ 6,943,860** |
| Intersegment | **306** | 1,030 | 447 | **2,860** |
| Total | **743,299** | 816,557 | 831,437 | **6,946,720** |
| Information Solutions: | | | | |
| External customers | **768,680** | 755,159 | 724,299 | **7,183,925** |
| Intersegment | **4,414** | 4,878 | 5,046 | **41,252** |
| Total | **773,094** | 760,037 | 729,345 | **7,225,177** |
| Document Solutions: | | | | |
| External customers | **1,015,701** | 996,039 | 956,632 | **9,492,533** |
| Intersegment | **13,560** | 12,557 | 11,588 | **126,729** |
| Total | **1,029,261** | 1,008,596 | 968,220 | **9,619,262** |
| Eliminations | **(18,280)** | (18,465) | (17,081) | **(170,841)** |
| Consolidated total | **¥2,527,374** | ¥2,566,725 | ¥2,511,921 | **$23,620,318** |

| *Segment profit or loss* | Year ended March 31 | | | |
|---|---|---|---|---|
| | **2005** | 2004 | 2003 | **2005** |
| | (Millions of yen) | | | (Thousands of U.S. dollars) |
| Operating income: | | | | |
| Imaging Solutions | **¥ (7,101)** | ¥ 43,475 | ¥ 45,077 | **$ (66,364)** |
| Information Solutions | **71,089** | 76,380 | 63,830 | **664,383** |
| Document Solutions | **100,407** | 65,121 | 55,492 | **938,383** |
| Total | **164,395** | 184,976 | 164,399 | **1,536,402** |
| Eliminations | **47** | (76) | 1 | **439** |
| Consolidated operating income | **164,442** | 184,900 | 164,400 | **1,536,841** |
| Other income (expenses), net | **(2,096)** | (19,952) | (43,887) | **(19,589)** |
| Consolidated income before income taxes | **¥162,346** | ¥164,948 | ¥120,513 | **$1,517,252** |

The results of transfer of substitutional portion of employee pension fund of certain domestic subsidiaries for the year ended March 31, 2005 were included in the operating income of Document Solutions and the results of liquidation of the defined benefit pension plan of the Company and certain domestic subsidiaries for the year ended March 31, 2003 were included in the operating income of Imaging Solutions and Information Solutions, respectively. See Note 10.

| *Assets* | March 31 | | | |
|---|---|---|---|---|
| | **2005** | 2004 | 2003 | **2005** |
| | (Millions of yen) | | | (Thousands of U.S. dollars) |
| Total assets: | | | | |
| Imaging Solutions | **¥ 706,698** | ¥ 727,051 | ¥ 803,772 | **$ 6,604,654** |
| Information Solutions | **857,993** | 767,462 | 694,451 | **8,018,626** |
| Document Solutions | **978,820** | 971,319 | 962,034 | **9,147,851** |
| Total | **2,543,511** | 2,465,832 | 2,460,257 | **23,771,131** |
| Eliminations | **(4,623)** | (5,722) | (5,750) | **(43,205)** |
| Corporate assets | **444,569** | 563,399 | 503,810 | **4,154,850** |
| Consolidated total | **¥2,983,457** | ¥3,023,509 | ¥2,958,317 | **$27,882,776** |

| *Other significant items* | Year ended March 31 | | | |
|---|---|---|---|---|
| | **2005** | 2004 | 2003 | **2005** |
| | (Millions of yen) | | | (Thousands of U.S. dollars) |
| Depreciation and amortization: | | | | |
| Imaging Solutions | **¥ 62,870** | ¥ 59,442 | ¥ 65,787 | **$ 587,570** |
| Information Solutions | **59,625** | 54,876 | 47,523 | **557,243** |
| Document Solutions | **59,791** | 58,304 | 60,676 | **558,794** |
| Consolidated total | **¥182,286** | ¥172,622 | ¥173,986 | **$1,703,607** |
| Capital expenditures for segment assets: | | | | |
| Imaging Solutions | **¥ 41,964** | ¥ 49,124 | ¥ 43,897 | **$ 392,187** |
| Information Solutions | **83,190** | 82,727 | 58,739 | **777,477** |
| Document Solutions | **32,266** | 28,889 | 24,683 | **301,551** |
| Consolidated total | **¥157,420** | ¥160,740 | ¥127,319 | **$1,471,215** |

Transfers between operating segments are generally based on market pricing. Corporate assets consist primarily of cash and cash equivalents as well as marketable and investment securities maintained for general corporate purposes. The capital expenditures in the above table represent the purchase of fixed assets of each segment.

***Geographic Information***

Revenues, which are attributed to geographic areas based on the country of the Company or the subsidiary that transacted the sale with the external customer, operating income for the years ended March 31, 2005, 2004 and 2003 and long-lived assets at March 31, 2005, 2004 and 2003 were as follows. Although the geographic information of operating income is not required under SFAS No. 131, the Company discloses this information as supplemental information in light of the disclosure requirement of the Japanese Securities and Exchange Law.

| | Year ended March 31 | | | |
|---|---|---|---|---|
| | **2005** | 2004 | 2003 | **2005** |
| | (Millions of yen) | | | (Thousands of U.S. dollars) |
| Revenue: | | | | |
| Japan | | | | |
| External customers | **¥1,624,748** | ¥1,640,368 | ¥1,594,306 | **$15,184,561** |
| Intersegment | **338,601** | 318,468 | 303,766 | **3,164,495** |
| Total | **1,963,349** | 1,958,836 | 1,898,072 | **18,349,056** |
| The Americas | | | | |
| External customers | **428,361** | 459,945 | 486,679 | **4,003,374** |
| Intersegment | **15,520** | 5,881 | 7,597 | **145,047** |
| Total | **443,881** | 465,826 | 494,276 | **4,148,421** |
| Europe | | | | |
| External customers | **271,438** | 294,472 | 267,398 | **2,536,804** |
| Intersegment | **11,707** | 12,711 | 10,060 | **109,411** |
| Total | **283,145** | 307,183 | 277,458 | **2,646,215** |
| Asia and others | | | | |
| External customers | **202,827** | 171,940 | 163,538 | **1,895,580** |
| Intersegment | **143,699** | 77,086 | 89,181 | **1,342,981** |
| Total | **346,526** | 249,026 | 252,719 | **3,238,561** |
| Eliminations | **(509,527)** | (414,146) | (410,604) | **(4,761,935)** |
| Consolidated total | **¥2,527,374** | ¥2,566,725 | ¥2,511,921 | **$23,620,318** |
| Operating income: | | | | |
| Japan | **¥ 137,448** | ¥ 145,567 | ¥ 122,720 | **$ 1,284,561** |
| The Americas | **(1,782)** | 7,794 | 19,266 | **(16,654)** |
| Europe | **10,336** | 15,244 | 11,243 | **96,598** |
| Asia and others | **17,231** | 18,074 | 13,031 | **161,037** |
| Eliminations | **1,209** | (1,779) | (1,860) | **11,299** |
| Consolidated total | **¥ 164,442** | ¥ 184,900 | ¥ 164,400 | **$ 1,536,841** |

| | March 31 | | | |
|---|---|---|---|---|
| | **2005** | 2004 | 2003 | **2005** |
| | (Millions of yen) | | | (Thousands of U.S. dollars) |
| Long-lived assets: | | | | |
| Japan | **¥538,747** | ¥509,390 | ¥485,557 | **$5,035,019** |
| The Americas | **100,721** | 101,176 | 116,101 | **941,318** |
| Europe | **73,610** | 66,118 | 67,004 | **687,944** |
| Asia and others | **34,134** | 28,465 | 29,586 | **319,009** |
| Consolidated total | **¥747,212** | ¥705,149 | ¥698,248 | **$6,983,290** |

Transfers between geographic areas are generally based on market pricing.

Primarily all of the revenue and long-lived assets of The Americas are related to operations in the United States of America.

Revenue to external customers, which are attributed to geographic areas based on the location of the customers for the years ended March 31, 2005, 2004 and 2003, were as follows:

| | Year ended March 31 | | | |
|---|---|---|---|---|
| | **2005** | 2004 | 2003 | **2005** |
| | (Millions of yen) | | | (Thousands of U.S. dollars) |
| Revenue: | | | | |
| Japan | **¥1,311,893** | ¥1,336,015 | ¥1,330,119 | **$12,260,682** |
| The Americas | **515,169** | 541,982 | 562,827 | **4,814,664** |
| Europe | **349,903** | 376,006 | 333,699 | **3,270,122** |
| Asia and others | **350,409** | 312,722 | 285,276 | **3,274,850** |
| Consolidated total | **¥2,527,374** | ¥2,566,725 | ¥2,511,921 | **$23,620,318** |

***Major Customers and Other***

No single customer of the Company accounted for more than 10% of consolidated revenue for each of the three years in the period ended March 31, 2005.

Document Solutions sold certain copier and other equipment to a minority shareholder and also purchased certain equipment from a minority shareholder, which amounted to ¥123,479 million ($1,154,009 thousand) and ¥19,959 million ($186,533 thousand), ¥112,894 million and ¥16,386 million, and ¥92,935 million and ¥14,418 million for the years ended March 31, 2005, 2004 and 2003, respectively. Document Solutions has a long-term supply agreement with the minority shareholder, which was entered into in December 1990 and is effective through December 2005, and it may be extended by mutual consent. Under the agreement, Document Solutions made a prepayment of U.S.$70.0 million and was entitled to purchase specified products at cost, without mark-ups. As of March 31, 2005, the unamortized balance of the prepayment amounted to ¥368 million ($3,439 thousand).

In conjunction with a license agreement and other arrangements between Document Solutions and a minority shareholder, certain expenses of ¥15,199 million ($142,047 thousand), ¥15,316 million and ¥14,590 million, which primarily related to royalty and research expenses, were incurred and certain expenses of ¥2,308 million ($21,570 thousand), ¥3,107 million and ¥4,435 million, which primarily related to research expenses, were reimbursed for the years ended March 31, 2005, 2004 and 2003, respectively.

ERNST & YOUNG

■ ERNST & YOUNG SHINNIHON
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo 100-0011
C.P.O. Box 1196, Tokyo 100-8641

■ Phone: 03 3503-1191
Fax: 03 3503-1277

The Board of Directors and Shareholders
Fuji Photo Film Co., Ltd.

We have audited the accompanying consolidated balance sheets of Fuji Photo Film Co., Ltd. and subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended March 31, 2005, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fuji Photo Film Co., Ltd. and subsidiaries at March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005, in conformity with accounting principles generally accepted in the United States.

We have also reviewed the translation of the 2005 consolidated financial statements into U.S. dollars on the basis described in Note 3. In our opinion, such U.S. dollar amounts have been translated on such basis.

May 10, 2005

Ernst & Young ShinNihon

# Principal Consolidated Subsidiaries

(As of March 31, 2005)

## JAPAN

Fuji Xerox Co., Ltd.
FUJINON CORPORATION
FUJINON MITO CORPORATION
FUJINON SANO CORPORATION
FUJINON OKAYA CORPORATION*
Fuji Photo Equipment Co., Ltd.*
FUJIFILM Electronic Materials Co., Ltd.
FUJIFILM MICRODEVICES CO., LTD.
FUJIFILM PHOTONIX CO., LTD.
Suzuka Fuji Xerox Co., Ltd.
Niigata Fuji Xerox Manufacturing Co., Ltd.
FUJIFILM MEDICAL CO., LTD.
FUJIFILM Medical Nishi-Nippon CO., LTD.
FUJIFILM BUSINESS SUPPLY CO., LTD.
FUJIFILM IMAGING Co., Ltd.
FUJIFILM Graphic Systems Co., Ltd.
Fuji Xerox Office Supply Co., Ltd.
Fuji Xerox Information Systems Co., Ltd.
Fuji Xerox System Service Co., Ltd.
Hokkaido Xerox Co., Ltd.
Kanagawa Xerox Co., Ltd.
Tokyo Xerox Co., Ltd.
Aichi Xerox Co., Ltd.
Osaka Xerox Co., Ltd.
Fukuoka Xerox Co., Ltd.
Fuji Xerox Printing Systems Co., Ltd.
FXPS Sales Co., Ltd.
Fujinon Toshiba ES Systems Co., Ltd.
Fujifilm Imagetec Co., Ltd.
JUSPHOTO CO., LTD.
FUJIFILM LOGISTICS CO., LTD.
FUJIFILM Computer System Co., Ltd.
Fuji Xerox Careernet Co., Ltd.

## THE AMERICAS

FUJIFILM America, Inc.
Fuji Photo Film Finance U.S.A., Inc.
Fuji Photo Film, Inc.
Fuji Hunt Photographic Chemicals, Inc.
FUJIFILM Microdisks U.S.A., Inc.
FUJIFILM Electronic Materials U.S.A., Inc.
Fuji Photo Film U.S.A., Inc.
FUJIFILM Medical Systems U.S.A., Inc.
Fujinon Inc.
Enovation Graphic Systems, Inc.
Fujicolor Processing, Inc.
FX Global, Inc.
Fuji Photo Film Canada Inc.
Black Photo Corporation
Fuji Photo Film do Brasil Ltda.

## EUROPE

Fuji Magnetics GmbH
Fuji Photo Film (Europe) GmbH
Fujinon (Europe) GmbH
Fujicolor Central Europe Photofinishing GmbH & Co. KG
Fuji Photo Film B.V.
Fuji Photo Film Holdings (U.K.) Ltd.
Fuji Photo Film (U.K.) Ltd.
FUJIFILM Electronic Imaging Ltd.
FUJIFILM Sericol UK Limited
Fuji Photo Film Holdings (France) S.A.S.
FUJIFILM France S.A.S.
Laboratoires FUJIFILM S.A.
FUJIFILM España, S.A.
Fuji Hunt Photographic Chemicals, N.V.
FUJIFILM Electronic Materials (Europe) N.V.

## ASIA AND OTHERS

FUJIFILM Regional Services (Singapore) Pte Ltd
Fuji Photo Film (Singapore) Pte Ltd
Fuji Hunt Photographic Chemicals, Pte. Ltd.
Fuji Xerox Asia Pacific Pte Ltd
Fuji Xerox (Singapore) Pte Ltd
FUJIFILM Australia Pty Ltd
Fuji Xerox Australia Pty Limited
Fuji Xerox New Zealand Limited
Fuji Photo Film (China) Investment Co., Ltd.
FUJIFILM Imaging Systems (Suzhou) Co., Ltd.
FUJIFILM STARLIGHT Co., Ltd.
Fuji Xerox of Shenzhen Ltd.
Fuji Xerox (China) Limited
Fuji Xerox (Hong Kong) Limited
Fuji Xerox of Shanghai Limited
Fuji Xerox Industry Development (Shanghai) Co., Ltd.
Fuji Xerox Korea Company Limited

* As of April 1, 2005, FUJINON OKAYA CORPORATION, Fuji Photo Equipment Co., Ltd., and three other equipment manufacturing companies merged, and the merged company adopted the name "FUJIFILM TECHNO PRODUCTS CO., LTD."

(As of June 30, 2005)

## PRINCIPAL OVERSEAS SUBSIDIARIES

### THE AMERICAS

**Fuji Photo Film U.S.A., Inc.**
200 Summit Lake Drive, Valhalla, NY 10595, U.S.A.

**Fuji Photo Film Hawaii, Inc.**
94-468 Akoki Street, Waipahu, HI 96797, U.S.A.

**FUJIFILM Medical Systems U.S.A., Inc.**
419 West Avenue, Stamford, CT 06902, U.S.A.

**Enovation Graphic Systems, Inc.**
200 Summit Lake Drive, Valhalla, NY 10595, U.S.A.

**Fujicolor Processing, Inc.**
120 White Plains Road, Tarrytown, NY 10591, U.S.A.

**Fuji Photo Film, Inc.**
211 Pucketts Ferry Road, Greenwood, SC 29649, U.S.A.

**FUJIFILM Microdisks U.S.A., Inc.**
45 Crosby Drive, Bedford, MA 01730, U.S.A.

**Fuji Hunt Photographic Chemicals, Inc.**
40 Boroline Road, Allendale, NJ 07401, U.S.A.

**FUJIFILM Electronic Materials U.S.A., Inc.**
80 Circuit Drive, North Kingstown, RI 02852, U.S.A.

**Fuji Photo Film Canada Inc.**
600 Suffolk Court, Mississauga, Ontario L5R 4G4, Canada

**Fuji Graphic Systems Canada Inc.**
6425 Airport Road, Mississauga, Ontario L4V 1E4, Canada

**Fuji Photo Film do Brasil Ltda.**
Avenida Vereador José Diniz 3400, Campo Belo,
São Paulo-SP, Brazil CEP-04604-901

### EUROPE

**Fuji Photo Film (Europe) GmbH**
Heesenstrasse 31, 40549 Düsseldorf, Germany

**Fuji Magnetics GmbH**
Fujistrasse 1, 47533 Kleve, Germany

**Fuji Photo Film (U.K.) Ltd.**
Fujifilm House, 125 Finchley Road, Swiss Cottage,
London NW3 6HY, U.K.

**FUJIFILM Electronic Imaging Ltd.**
Fujifilm House, Boundary Way, Hemel Hempstead,
Hertfordshire HP2 7RH, U.K.

**FUJIFILM Sericol UK Limited**
Patricia Way, Pysons Road Industrial Estate, Broadstairs,
Kent CT10 2LE, U.K.

**Fuji Photo Film B.V.**
Industrieterrein Vossenberg, Oudenstaart 1,
5047 TK Tilburg, The Netherlands

**FUJIFILM Medical Systems Benelux N.V.**
Europark-Noord 25, B-9100 Sint-Niklaas, Belgium

**Fuji Hunt Photographic Chemicals, N.V.**
Europark-Noord 21-22, B-9100 Sint-Niklaas, Belgium

**FUJIFILM France S.A.S.**
Parc d'Activités du Pas-du-Lac-2, Avenue Franklin,
78186 St. Quentin-En-Yvelines Cedex, France

**Fuji Graphic Systems France S.A.S.**
Parc d'Activités Gustave Eiffel, 13 Avenue Gutenberg,
BP 20 - Bussy Saint-Georges, 77607
Marne La Vallée Cedex 03, France

**FUJIFILM España, S.A.**
Aragón, 180, 08011 Barcelona, Spain

**FUJIFILM Italia S.p.A.**
Via Della Unione Europea Palazzo Beta N.4,
Quartiere Affari, 20097 San Donato Milanese (MI), Italy

**FUJIFILM CZ, s.r.o.**
U Nakladoveho nadrazi 2/1949, 130 00 Praha 3-Zizkov,
Czech Republic

**FUJIFILM Polska Distribution Sp. Zo.o.**
Al. Jerozolimskie 178, 02-486 Warsaw, Poland

### ASIA & OTHERS

**Fuji Photo Film (China) Investment Co., Ltd.**
Rm. 07, 24F, Real Estate Building, No. 201, Lao Shan West Road,
Pu Dong New Area, Shanghai, PRC

**FUJIFILM Imaging Systems (Suzhou) Co., Ltd.**
138 Chang Jiang Road, New District, Suzhou 215011, PRC

**FUJIFILM STARLIGHT Co., Ltd.**
49 Jingha Road, Yanjiao Development Zone, Sanhe City,
Hebei Province 065201, PRC

**FUJI PHOTO FILM PRINTING PLATE (SUZHOU) CO., LTD.**
Longtan Road, District No. 3, Suzhou Industrial Park,
Suzhou, PRC

**FUJIFILM Medical Systems (Shanghai) Co., Ltd.**
Flat N, 6/FL, Shi Mei BLD, 79 Ri Jing Road,
Wai Gao Qiao Free Trade Zone, Shanghai 200131, PRC

**Hong Kong Fuji Photo Logistics Ltd.**
Suites 2512-2514, The Gateway, Tower 6, Harbour City,
9 Canton Road, Tsimshatsui, Kowloon, Hong Kong

**Fuji Photo Film (Singapore) Pte Ltd**
10 New Industrial Road, Fujifilm Building, Singapore 536201

**Fuji Hunt Photographic Chemicals, Pte. Ltd.**
15 Tuas Avenue 7, Singapore 639270

**Fuji Photo Film (Malaysia) Sdn. Bhd.**
Letter Box 1, Level 10, 11 & 12, Menara Axis, No. 2,
Jalan 51A/223, 46100 Petaling Jaya, Selangor Darul Ehsan,
Malaysia

**Fuji Photo Film (Thailand) Ltd.**
S.P. Building, 8th Floor, 388 Phaholyothin Road,
Samsennai, Phayathai, Bangkok 10400, Thailand

**FUJIFILM Australia Pty Ltd**
114 Old Pittwater Road, Brookvale, N.S.W. 2100, Australia

**FUJIFILM NZ Ltd.**
Cnr William Pickering Drive, and Bush Road, Albany,
Auckland, New Zealand

## OVERSEAS OFFICES

**Fuji Photo Film Co., Ltd., Hong Kong Office**
Room 2208, Tower 6, The Gateway, Harbour City,
9 Canton Road, Tsimshatsui, Kowloon, Hong Kong

**Fuji Photo Film Co., Ltd., Taipei Office**
Room 601, Hung Chong Building, No. 38, Sec. 6,
Min Chuan E. Road, Taipei 11466, Taiwan

**Fuji Photo Film Co., Ltd., Seoul Office**
505-19, Kasan-Dong, Kumchon-Gu, Seoul 150-803, Korea

**Fuji Photo Film Co., Ltd., Manila Office**
c/o YKL Development & Trading Corporation, 24 Sto.
Domingo St., Quezon City, Metro Manila, Philippines

**Fuji Photo Film Co., Ltd., Dubai Office**
R/A 08 HB 03, Jebel Ali Free Zone, Dubai, U.A.E.

**Fuji Photo Film Co. Ltd., New Delhi Office**
Le Meridien Commercial Tower 8F,
Janpath, New Delhi 110 001, India

**Fuji Photo Film Co., Ltd., Mexico Office**
Av. Ejército Nacional 351, 5 piso, Col. Granada, 11560
México D.F., Mexico

**Fuji Photo Film Co., Ltd., Johannesburg Office**
9th Floor, Sandton City Office Towers,
Cnr. Rivonia Road & 5th Street, Sandton 2196, South Africa

# Domestic Network

(As of June 30, 2005)

**FUJINON CORPORATION*1**
1-324, Uetake-cho, Kita-ku, Saitama-shi, Saitama 331-9624

**FUJIFILM TECHNO PRODUCTS CO., LTD.*2**
1250 Takematsu, Minamiashigara-shi,
Kanagawa 250-0111

**FUJIFILM Electronic Materials Co., Ltd.*3**
7F 15th Arai Bldg., 6-19-20, Jingumae, Shibuya-ku,
Tokyo 150-0001

**FUJIFILM MICRODEVICES CO., LTD.**
1-6, Matsusakadaira, Taiwa-cho, Kurokawa-gun,
Miyagi 981-3493

**FUJIFILM PHOTONIX CO., LTD.**
1-6, Matsusakadaira, Taiwa-cho, Kurokawa-gun,
Miyagi 981-3492

**FUJIFILM Opto Materials Co., Ltd.**
600 Ohata, Yoshida-cho, Haibara-gun,
Shizuoka 421-0305

**FUJIFILM Kyushu Co., Ltd.**
2900 Tsukure, Kikuyou-machi, Kikuchi-gun,
Kumamoto 869-1101

**FUJIFILM MEDICAL CO., LTD.**
2nd Marutaka Bldg., 7-13-8, Ginza, Chuo-ku,
Tokyo 104-0061

**FUJIFILM BUSINESS SUPPLY CO., LTD.**
5F Shinnishiginza Bldg., 2-2-2, Ginza, Chuo-ku,
Tokyo 104-0061

**FUJIFILM IMAGING Co., Ltd.*4**
Toranomon Kotohira Tower, 1-2-8, Toranomon,
Minato-ku, Tokyo 105-8443

**FUJIFILM Graphic Systems Co., Ltd.**
Takebashiyasuda Bldg., 3-13, Kandanishiki-cho,
Chiyoda-ku, Tokyo 101-8452

**JUSPHOTO CO., LTD.**
23F WBG Malibu West, 2-6, Nakase, Mihama-ku, Chiba-shi,
Chiba 261-7123

**FUJIFILM LOGISTICS CO., LTD.**
Nakameguro Gate Town Tower, 2-1-1,
Kamimeguro, Meguro-ku, Tokyo 153-0051

**FUJIFILM Techno Service Co., Ltd.**
4F Takeshiba Bldg., 1-9-15, Kaigan, Minato-ku,
Tokyo 105-0022

**FUJIFILM Software Co., Ltd.**
8F Shinyuri Twenty-one, 1-2-2, Manpukuji, Asao-ku,
Kawasaki-shi, Kanagawa 215-0004

**FUJIFILM Computer System Co., Ltd.**
2F Odakyu Minamiaoyama Bldg., 7-8-1, Minamiaoyama,
Minato-ku, Tokyo 107-0062

**Fuji Xerox Co., Ltd.**
Akasaka Twin Tower/East Tower, 2-17-22 Akasaka,
Minato-ku, Tokyo 107-0052

**Suzuka Fuji Xerox Co., Ltd.**
1900 Ifuna-cho, Suzuka-shi, Mie 519-0323

**Niigata Fuji Xerox Manufacturing Co., Ltd.**
7546 Yasuda-tajiri Kogyo Danchi, Kashiwazaki-shi,
Niigata 945-1398

**Fuji Xerox Office Supply Co., Ltd.**
2-5-12, Kandasurugadai, Chiyoda-ku,
Tokyo 101-8314

**Fuji Xerox Information Systems Co., Ltd.**
KN Shibuya 3 Bldg., 9-8, Sakuragaoka-cho, Shibuya-ku,
Tokyo 150-0031

**Fuji Xerox Printing Systems Co., Ltd.**
Nakanosakaue Sun Bright Twin Bldg.,
2-46-1 Hon-cho, Nakano-ku, Tokyo 164-0012

**Fuji Xerox Imaging Materials Co., Ltd.**
1277-6, Ojima, Namerikawa-shi, Toyama 936-0801

*1. On October 1, 2004, Fuji Photo Optical Co., Ltd., changed its name to FUJINON CORPORATION.
*2. On April 1, 2005, Fuji Photo Equipment Co., Ltd., and four other equipment manufacturing companies merged, and the merged company adopted the name "FUJIFILM TECHNO PRODUCTS CO., LTD."
*3. On December 1, 2004, FUJIFILM Arch Co., Ltd., changed its name to FUJIFILM Electronic Materials Co., Ltd.
*4. On October 1, 2004, Fujicolor Imaging Service Co., Ltd., and FUJIFILM AXIA Co., Ltd., were integrated into a new company and adopted the name "FUJIFILM IMAGING Co., Ltd."

**Fuji Photo Film Co., Ltd.**
26-30, Nishiazabu 2-chome,
Minato-ku, Tokyo 106-8620, Japan
Tel: (03) 3406-2111
URL: http://www.fujifilm.co.jp/ (Japanese)
http://home.fujifilm.com/ (English)

**Date of Establishment:** January 20, 1934

**Capital:** ¥40,363 million (As of March 31, 2005)

**Fiscal Year:** April 1–March 31

**Main Domestic Factories:**
Ashigara, Odawara, Fujinomiya,
Yoshida-Minami

**Stock Exchange Listings:**
Tokyo, Osaka, Nagoya

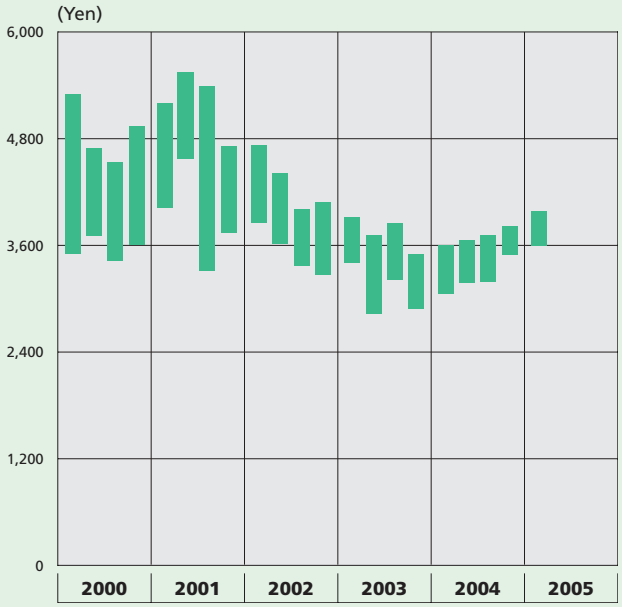
**Transfer Agent:**
UFJ Trust Bank Limited
4-3, Marunouchi 1-chome,
Chiyoda-ku, Tokyo 100-0005, Japan

**Independent Accountants:**
Ernst & Young ShinNihon

**Distribution of Shareholders and Shares:**
(As of March 31, 2005)

| | Number of shareholders | Thousands of shares | % |
|---|---|---|---|
| Financial institutions | 215 | 196,563 | 38.2 |
| Securities companies | 35 | 2,236 | 0.4 |
| Other corporations | 621 | 18,650 | 3.6 |
| Individuals and others | 27,197 | 46,456 | 9.1 |
| Foreign corporations | 748 | 250,721 | 48.7 |
| Total | 28,816 | 514,626 | 100.0 |

**Common Share Prices**
(Tokyo Stock Exchange)



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Ink: Soybean-oil ink is used. (For the front cover, a vegetable-oil OP varnish containing no aromatic components is used.)

Binding: Notch binding using EVA hot-melt glue, the nonsegmenting ability of which has been improved.

FUJIFILM

FUJI PHOTO FILM CO., LTD.

26-30, NISHIAZABU 2-CHOME, MINATO-KU, TOKYO 106-8620, JAPAN

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