**FUJIFILM Holdings Corporation**
***Kenji Sukeno***
***President and Chief Operating Officer***

**December 25, 2017**

# Notice of Submission of the "Improvement Report" to Tokyo Stock Exchange

In relation to the partial restatements of such financial statements as annual earnings releases for past fiscal years, FUJIFILM Holdings Corporation submitted "Improvement Report" detailing the background of the restatements and the improvement measures to Tokyo Stock Exchange, Inc. on December 11, 2017.

Attached is the English translation of the report.

[English translation for information purpose only]

# Improvement Report

December 11, 2017

[English translation for information purpose only]

Improvement Report

December 11, 2017

To: Tokyo Stock Exchange, Inc.
Koichiro Miyahara, President & CEO

FUJIFILM Holdings Corporation
Kenji Sukeno, President and Chief Operating Officer

In relation to the partial restatements of annual earnings releases, quarterly earnings releases, annual securities reports and quarterly securities reports for past fiscal years (collectively, the "Financial Documents for Past Fiscal Years"), the Company submits this improvement report detailing the background of such restatements and the improvement measures being taken in connection therewith, pursuant to Article 502, Paragraph 3 of the Securities Listing Regulations of Tokyo Stock Exchange, Inc.

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1. Outline and background of this matter

(1) Details of restatements of financial results for past fiscal years

On June 12, 2017, the Company disclosed an investigation report prepared by the Independent Investigation Committee concerning appropriateness of accounting practices pertaining to overseas sales subsidiaries of Fuji Xerox Co., Ltd. (“FX”), a consolidated subsidiary of the Company, and on July 31, 2017 the Company restated the annual earnings releases, etc. for past fiscal years On the same day, the Company also submitted amendment reports for the annual securities reports, etc. for past fiscal years. The Financial Documents for Past Fiscal Years that the Company submitted and the amount of impact on consolidated financial results are as follows:

Restated annual earnings releases for past fiscal years

116th Term (From April 1, 2011 to March 31, 2012)

- Financial results for the fiscal year ended March 31, 2012 (US GAAP) (consolidated)

117th Term (From April 1, 2012 to March 31, 2013)

- Financial results for the fiscal year ended March 31, 2013 (US GAAP) (consolidated)

118th Term (From April 1, 2013 to March 31, 2014)

- Financial results for the fiscal year ended March 31, 2014 (US GAAP) (consolidated)

119th Term (From April 1, 2014 to March 31, 2015)

- Financial results for the fiscal year ended March 31, 2015 (US GAAP) (consolidated)

120th Term (From April 1, 2015 to March 31, 2016)

- Financial results for the fiscal year ended March 31, 2016 (US GAAP) (consolidated)

121st Term (From April 1, 2016 to March 31, 2017)

- Financial results for the fiscal year ended March 31, 2017 (US GAAP) (consolidated)

N.B.: The consolidated financial results for the fiscal year ended March 31, 2017 (from April 1, 2016 to March 31, 2017) that the Company announced on June 12, 2017 is unchanged.

Restated quarterly earnings releases for past fiscal years

119th Term (From April 1, 2014 to March 31, 2015)

- Financial results for first quarter of the fiscal year ended March 31, 2015 (US GAAP) (consolidated)
- Financial results for second quarter of the fiscal year ended March 31, 2015 (US GAAP) (consolidated)
- Financial results for third quarter of the fiscal year ended March 31, 2015 (US GAAP) (consolidated)

120th Term (From April 1, 2015 to March 31, 2016)

- Financial results for first quarter of the fiscal year ended March 31, 2016 (US GAAP) (consolidated)
- Financial results for second quarter of the fiscal year ended March 31, 2016 (US GAAP)

(consolidated)

- Financial results for third quarter of the fiscal year ended March 31, 2016 (US GAAP) (consolidated)

121st Term (From April 1, 2016 to March 31, 2017)

- Financial results for first quarter of the fiscal year ended March 31, 2017 (US GAAP) (consolidated)
- Financial results for second quarter of the fiscal year ended March 31, 2017 (US GAAP) (consolidated)
- Financial results for third quarter of the fiscal year ended March 31, 2017 (US GAAP) (consolidated)

Restated annual securities reports for past fiscal years

- 116th Term (From April 1, 2011 to March 31, 2012)
- 117th Term (From April 1, 2012 to March 31, 2013)
- 118th Term (From April 1, 2013 to March 31, 2014)
- 119th Term (From April 1, 2014 to March 31, 2015)
- 120th Term (From April 1, 2015 to March 31, 2016)

Restated quarterly securities reports for past fiscal years

- First quarter of the 119th Term (From April 1, 2014 to June 30, 2014)
- Second quarter of the 119th Term (From July 1, 2014 to September 30, 2014)
- Third quarter of the 119th Term (From October 1, 2014 to December 31, 2014)

- First quarter of the 120th Term (From April 1, 2015 to June 30, 2015)
- Second quarter of the 120th Term (From July 1, 2015 to September 30, 2015)
- Third quarter of the 120th Term (From October 1, 2015 to December 31, 2015)

- First quarter of the 121st Term (From April 1, 2016 to June 30, 2016)
- Second quarter of the 121st Term (From July 1, 2016 to September 30, 2016)
- Third quarter of the 121st Term (From October 1, 2016 to December 31, 2016)

Amount of impact on financial results due to restatement of the Financial Documents for Past Fiscal Years

Fiscal year (Unit: million yen)

| Fiscal Years | Items | Before restatement (A) | After restatement (B) | Amount of impact (B)-(A) |
|---|---|---|---|---|
| 116th Term (Fiscal year ended March 2012) | Revenue | 2,195,293 | 2,180,996 | (14,297) |
| | Operating income | 112,948 | 109,260 | (3,688) |
| | Income before income taxes | 89,187 | 85,849 | (3,338) |
| | Net income attributable to FUJIFILM Holdings | 43,758 | 42,762 | (996) |
| | Total assets | 2,739,665 | 2,734,328 | (5,337) |
| | Total equity | 1,856,484 | 1,839,533 | (16,951) |
| 117th Term (Fiscal year ended March 2013) | Revenue | 2,214,696 | 2,199,540 | (15,156) |
| | Operating income | 114,116 | 108,384 | (5,732) |
| | Income before income taxes | 119,186 | 112,883 | (6,303) |
| | Net income attributable to FUJIFILM Holdings | 54,266 | 50,847 | (3,419) |
| | Total assets | 3,059,596 | 3,035,901 | (23,695) |
| | Total equity | 2,024,786 | 2,000,697 | (24,089) |
| 118th Term (Fiscal year ended March 2014) | Revenue | 2,439,953 | 2,418,095 | (21,858) |
| | Operating income | 140,808 | 128,461 | (12,347) |
| | Income before income taxes | 157,154 | 144,740 | (12,414) |
| | Net income attributable to FUJIFILM Holdings | 80,996 | 71,558 | (9,438) |
| | Total assets | 3,226,969 | 3,191,847 | (35,122) |
| | Total equity | 2,198,223 | 2,159,465 | (38,758) |
| 119th Term (Fiscal year ended March 2015) | Revenue | 2,492,605 | 2,463,387 | (29,218) |
| | Operating income | 172,398 | 164,415 | (7,983) |
| | Income before income taxes | 197,102 | 188,966 | (8,136) |
| | Net income attributable to FUJIFILM Holdings | 118,553 | 110,940 | (7,613) |
| | Total assets | 3,556,569 | 3,501,950 | (54,619) |
| | Total equity | 2,467,416 | 2,418,177 | (49,239) |

| | | | | |
|---|---|---|---|---|
| 120th Term (Fiscal year ended March 2016) | Revenue | 2,491,624 | 2,460,383 | (31,241) |
| | Operating income | 191,179 | 180,626 | (10,553) |
| | Income before income taxes | 194,529 | 182,242 | (12,287) |
| | Net income attributable to FUJIFILM Holdings | 123,313 | 116,402 | (6,911) |
| | Total assets | 3,363,674 | 3,311,970 | (51,704) |
| | Total equity | 2,283,832 | 2,231,997 | (51,835) |

| Fiscal Years | Items | Before restatement (A) | After restatement (B) | Amount of impact (B)-(A) |
|---|---|---|---|---|
| 119th Term (Quarter ended June 2014) First quarter | Revenue | 558,362 | 556,116 | (2,246) |
| | Operating income | 29,838 | 29,168 | (670) |
| | Income before income taxes | 29,866 | 29,158 | (708) |
| | Net income attributable to FUJIFILM Holdings | 15,365 | 13,828 | (1,537) |
| | Total assets | 3,202,592 | 3,165,344 | (37,248) |
| | Total equity | 2,207,453 | 2,167,049 | (40,404) |
| 119th Term (Quarter ended September 2014) Second quarter | Revenue | 1,182,894 | 1,171,655 | (11,239) |
| | Operating income | 71,595 | 70,086 | (1,509) |
| | Income before income taxes | 75,807 | 74,222 | (1,585) |
| | Net income attributable to FUJIFILM Holdings | 40,551 | 38,463 | (2,088) |
| | Total assets | 3,318,817 | 3,280,831 | (37,986) |
| | Total equity | 2,283,050 | 2,242,950 | (40,100) |
| 119th Term (Quarter ended December 2014) Third quarter | Revenue | 1,815,166 | 1,800,439 | (14,727) |
| | Operating income | 124,425 | 120,934 | (3,491) |
| | Income before income taxes | 153,177 | 149,570 | (3,607) |
| | Net income attributable to FUJIFILM Holdings | 93,863 | 89,182 | (4,681) |
| | Total assets | 3,540,175 | 3,496,054 | (44,121) |
| | Total equity | 2,463,037 | 2,416,999 | (46,038) |

| Fiscal Years | Items | Before restatement (A) | After restatement (B) | Amount of impact (B)-(A) |
|---|---|---|---|---|
| 120th Term (Quarter ended June 2015) First quarter | Revenue | 590,918 | 586,676 | (4,242) |
| | Operating income | 36,193 | 33,895 | (2,298) |
| | Income before income taxes | 44,610 | 42,278 | (2,332) |
| | Net income attributable to FUJIFILM Holdings | 24,305 | 22,763 | (1,542) |
| | Total assets | 3,577,442 | 3,525,506 | (51,936) |
| | Total equity | 2,492,334 | 2,442,918 | (49,416) |
| 120th Term (Quarter ended September 2015) Second quarter | Revenue | 1,226,064 | 1,215,606 | (10,458) |
| | Operating income | 80,671 | 77,715 | (2,956) |
| | Income before income taxes | 84,599 | 81,579 | (3,020) |
| | Net income attributable to FUJIFILM Holdings | 46,946 | 44,530 | (2,416) |
| | Total assets | 3,421,546 | 3,368,745 | (52,801) |
| | Total equity | 2,388,023 | 2,340,926 | (47,097) |
| 120th Term (Quarter ended December 2015) Third quarter | Revenue | 1,841,490 | 1,824,942 | (16,548) |
| | Operating income | 133,920 | 128,606 | (5,314) |
| | Income before income taxes | 141,742 | 136,333 | (5,409) |
| | Net income attributable to FUJIFILM Holdings | 84,384 | 80,266 | (4,118) |
| | Total assets | 3,468,901 | 3,412,416 | (56,485) |
| | Total equity | 2,395,084 | 2,343,228 | (51,856) |

| Fiscal Years | Items | Before restatement (A) | After restatement (B) | Amount of impact (B)-(A) |
|---|---|---|---|---|
| 121st Term (Quarter ended June 2016) First quarter | Revenue | 547,013 | 545,845 | (1,168) |
| | Operating income | 27,561 | 29,500 | 1,939 |
| | Income before income taxes | 21,716 | 23,604 | 1,888 |
| | Net income attributable to FUJIFILM Holdings | 11,154 | 12,068 | 914 |
| | Total assets | 3,173,824 | 3,127,222 | (46,602) |
| | Total equity | 2,183,355 | 2,134,847 | (48,508) |

| | | | | |
|---|---|---|---|---|
| 121st Term (Quarter ended September 2016) Second quarter | Revenue | 1,120,937 | 1,113,617 | (7,320) |
| | Operating income | 63,472 | 67,354 | 3,882 |
| | Income before income taxes | 60,600 | 64,353 | 3,753 |
| | Net income attributable to FUJIFILM Holdings | 33,544 | 34,384 | 840 |
| | Total assets | 3,174,725 | 3,129,998 | (44,727) |
| | Total equity | 2,156,724 | 2,109,457 | (47,267) |
| 121st Term (Quarter ended December 2016) Third quarter | Revenue | 1,702,904 | 1,692,261 | (10,643) |
| | Operating income | 114,139 | 118,317 | 4,178 |
| | Income before income taxes | 126,162 | 130,517 | 4,355 |
| | Net income attributable to FUJIFILM Holdings | 76,928 | 78,738 | 1,810 |
| | Total assets | 3,333,183 | 3,286,065 | (47,118) |
| | Total equity | 2,299,260 | 2,248,757 | (50,503) |

In addition to inappropriate accounting practice conducted by overseas sales subsidiaries[1] in the past, other amendments have been made including review of tax effect accounting, adjustment of such consolidated accounting treatment as elimination of unrealized intercompany profits, retrospective correction of past errors and others by reconfirming prior financial results in detail. The breakdowns of the restated amounts are as follows:

Fiscal year (Unit: million yen)

[1] Fuji Xerox New Zealand Limited (“FXNZ”) and Fuji Xerox Australia Pty. Limited (“FXA”).

| Fiscal Years | Items | Breakdown of restatement | | | | |
|---|---|---|---|---|---|---|
| | | FXNZ (C) | FXA (D) | Total of left (C)+(D) | Reconfirmation, etc. (E) | Total of restated amounts (C)+(D)+(E) |
| 116th Term (Fiscal year ended March 2012) | Revenue | (2,868) | (405) | (3,273) | (11,024) | (14,297) |
| | Operating income | (4,567) | (203) | (4,770) | 1,082 | (3,688) |
| | Income before income taxes | (4,567) | (203) | (4,770) | 1,432 | (3,338) |
| | Net income | (4,567) | (203) | (4,770) | 3,231 | (1,539) |
| | Net income attributable to FUJIFILM Holdings | (3,425) | (152) | (3,577) | 2,581 | (996) |
| 117th Term (Fiscal year ended March 2013) | Revenue | (4,570) | (68) | (4,638) | (10,518) | (15,156) |
| | Operating income | (2,365) | (72) | (2,437) | (3,295) | (5,732) |
| | Income before income taxes | (2,365) | (72) | (2,437) | (3,866) | (6,303) |
| | Net income | (2,365) | (72) | (2,437) | (2,244) | (4,681) |
| | Net income attributable to FUJIFILM Holdings | (1,774) | (54) | (1,828) | (1,591) | (3,419) |
| 118th Term (Fiscal year ended March 2014) | Revenue | (6,451) | (1,621) | (8,072) | (13,786) | (21,858) |
| | Operating income | (2,127) | (327) | (2,454) | (9,893) | (12,347) |
| | Income before income taxes | (2,127) | (392) | (2,519) | (9,895) | (12,414) |
| | Net income | (2,127) | (392) | (2,519) | (9,531) | (12,050) |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Net income attributable to FUJIFILM Holdings | (1,595) | (294) | (1,889) | (7,549) | (9,438) |
| 119th Term (Fiscal year ended March 2015) | Revenue | (8,902) | (1,238) | (10,140) | (19,078) | (29,218) |
| | Operating income | (7,347) | (2,405) | (9,752) | 1,769 | (7,983) |
| | Income before income taxes | (7,365) | (2,538) | (9,903) | 1,767 | (8,136) |
| | Net income | (7,365) | (2,538) | (9,903) | (619) | (10,522) |
| | Net income attributable to FUJIFILM Holdings | (5,523) | (1,903) | (7,426) | (187) | (7,613) |
| 120th Term (Fiscal year ended March 2016) | Revenue | (2,205) | (6,132) | (8,337) | (22,904) | (31,241) |
| | Operating income | (2,907) | (9,942) | (12,849) | 2,296 | (10,553) |
| | Income before income taxes | (2,907) | (10,056) | (12,963) | 676 | (12,287) |
| | Net income | (2,907) | (10,056) | (12,963) | 4,742 | (8,221) |
| | Net income attributable to FUJIFILM Holdings | (2,180) | (7,542) | (9,722) | 2,811 | (6,911) |

Fiscal quarters (Unit: million yen)

| Fiscal Years | Items | Breakdown of restatement | | | | |
|---|---|---|---|---|---|---|
| | | FXNZ (C) | FXA (D) | Total of left (C)+(D) | Reconfirmation, etc. (E) | Reconfirmation, etc. (E) |
| 119th Term (Quarter ended June 2014) First quarter | Revenue | (1,122) | 246 | (876) | (1,370) | (2,246) |
| | Operating income | (1,547) | (263) | (1,810) | 1,140 | (670) |
| | Income before income taxes | (1,551) | (296) | (1,847) | 1,139 | (708) |
| | Net income | (1,551) | (296) | (1,847) | 105 | (1,742) |
| | Net income attributable to FUJIFILM Holdings | (1,163) | (222) | (1,385) | (152) | (1,537) |
| 119th Term (Quarter ended September 2014) Second quarter | Revenue | (3,392) | 32 | (3,360) | (7,879) | (11,239) |
| | Operating income | (3,584) | (500) | (4,084) | 2,575 | (1,509) |
| | Income before income taxes | (3,593) | (566) | (4,159) | 2,574 | (1,585) |
| | Net income | (3,593) | (566) | (4,159) | 1,686 | (2,473) |
| | Net income attributable to FUJIFILM Holdings | (2,695) | (424) | (3,119) | 1,031 | (2,088) |
| 119th Term (Quarter ended December 2014) Third quarter | Revenue | (4,560) | (256) | (4,816) | (9,911) | (14,727) |
| | Operating income | (5,806) | (782) | (6,588) | 3,097 | (3,491) |
| | Income before income taxes | (5,819) | (883) | (6,702) | 3,095 | (3,607) |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Net income | (5,819) | (883) | (6,702) | 1,036 | (5,666) |
| | Net income attributable to FUJIFILM Holdings | (4,364) | (663) | (5,027) | 346 | (4,681) |

| Fiscal Years | Items | Breakdown of restatement | | | | |
|---|---|---|---|---|---|---|
| | | FXNZ (C) | FXA (D) | Total of left (C)+(D) | Reconfirmation, etc. (E) | Total of restated amounts (C)+(D)+(E) |
| 120th Term (Quarter ended June 2015) First quarter | Revenue | (1,036) | (355) | (1,391) | (2,851) | (4,242) |
| | Operating income | (1,610) | (595) | (2,205) | (93) | (2,298) |
| | Income before income taxes | (1,610) | (628) | (2,238) | (94) | (2,332) |
| | Net income | (1,610) | (628) | (2,238) | 222 | (2,016) |
| | Net income attributable to FUJIFILM Holdings | (1,208) | (471) | (1,679) | 137 | (1,542) |

| | | | | | | |
|---|---|---|---|---|---|---|
| 120th Term (Quarter ended September 2015) Second quarter | Revenue | (1,858) | (1,519) | (3,377) | (7,081) | (10,458) |
| | Operating income | (1,627) | (1,702) | (3,329) | 373 | (2,956) |
| | Income before income taxes | (1,627) | (1,765) | (3,392) | 372 | (3,020) |
| | Net income | (1,627) | (1,765) | (3,392) | 473 | (2,919) |
| | Net income attributable to FUJIFILM Holdings | (1,220) | (1,324) | (2,544) | 128 | (2,416) |
| 120th Term (Quarter ended December 2015) Third quarter | Revenue | (2,334) | (3,143) | (5,477) | (11,071) | (16,548) |
| | Operating income | (2,414) | (3,654) | (6,068) | 754 | (5,314) |
| | Income before income taxes | (2,414) | (3,747) | (6,161) | 752 | (5,409) |
| | Net income | (2,414) | (3,747) | (6,161) | 988 | (5,173) |
| | Net income attributable to FUJIFILM Holdings | (1,810) | (2,810) | (4,620) | 502 | (4,118) |

| Fiscal Years | Items | Breakdown of restatement | | | | |
|---|---|---|---|---|---|---|
| | | FXNZ (C) | FXA (D) | Total of left (C)+(D) | Reconfirmation, etc. (E) | Total of restated amounts (C)+(D)+(E) |
| 121st Term (Quarter ended June 2016) First quarter | Revenue | 1,107 | (617) | 490 | (1,658) | (1,168) |
| | Operating income | 736 | (145) | 591 | 1,348 | 1,939 |
| | Income before income taxes | 736 | (127) | 609 | 1,279 | 1,888 |
| | Net income | 736 | (127) | 609 | 675 | 1,284 |
| | Net income attributable to FUJIFILM | 552 | (95) | 457 | 457 | 914 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Holdings | | | | | |
| 121st Term (Quarter ended September 2016) Second quarter | Revenue | 2,094 | (992) | 1,102 | (8,422) | (7,320) |
| | Operating income | 2,113 | 91 | 2,204 | 1,678 | 3,882 |
| | Income before income taxes | 2,113 | 150 | 2,263 | 1,490 | 3,753 |
| | Net income | 2,113 | 150 | 2,263 | (1,004) | 1,259 |
| | Net income attributable to FUJIFILM Holdings | 1,585 | 113 | 1,698 | (858) | 840 |
| 121st Term (Quarter ended December 2016) Third quarter | Revenue | 3,483 | (1,104) | 2,379 | (13,022) | (10,643) |
| | Operating income | 3,100 | 143 | 3,243 | 935 | 4,178 |
| | Income before income taxes | 3,100 | 257 | 3,357 | 998 | 4,355 |
| | Net income | 3,100 | 257 | 3,357 | (941) | 2,416 |
| | Net income attributable to FUJIFILM Holdings | 2,325 | 192 | 2,517 | (707) | 1,810 |

The amount of impact on shareholders' equity and total equity on the balance sheet and breakdown thereof due to restatements for the 120th Term and the breakdown of such impact are as follows:

(Unit: million yen)

| Fiscal Years | Items | Breakdown of restatement | | | | |
|---|---|---|---|---|---|---|
| | | FXNZ (C) | FXA (D) | Total of left (C)+(D) | Reconfirmation, etc. (E) | Reconfirmation, etc. (E) |
| 120th Term (Fiscal year ended March 2015) | Shareholders' equity | (18,546) | (9,576) | (28,122) | (11,505) | (39,627) |
| | Total equity | (24,728) | (12,768) | (37,496) | (14,339) | (51,835) |

(2) Background to discovery

On September 16, 2016, National Business Review of New Zealand ("NBR") reported that FXNZ, an overseas sales subsidiary of FX, a consolidated subsidiary of the Company, had been improperly posting revenue over several years. On October 11, 2016, a research company and a UK-based investor contacted the Company regarding the media reports. Though the Company recognized a possibility that there was a problem in the appropriateness of accounting practices in terms of accuracy and collectability, etc. regarding receivables in relation to certain lease transactions in or before fiscal 2015 by FXNZ (the "Matter"), the Company did not commence its own investigation since the Company relied on the information reported to it by FX to the effect that the media reports by NBR were not factual. However, the Company had continued to collect information from FX and had been discussing with KPMG AZSA LLC ("KPMG AZSA"), the accounting auditor of the Company, about the contents of the collected information.

After that, in relation to the account closing for the fiscal year ended March 31, 2017, the Company recognized the need to investigate the Matter based on the results of discussions with KPMG AZSA and the results of internal confirmation of facts and created an internal investigation committee on March 27, 2017. Then, at a board meeting on April 20, 2017, the Company passed a board resolution creating an independent investigation committee comprised of outside experts without any interests in the Company, to improve the objectivity and credibility of the investigation into the Matter.

(3) Purpose, target period, scope, and methods of investigation

i. Entrusted matters

The Company entrusted the independent committee with performing the following:

(a) Investigating the facts pertaining to the Matter;
(b) Investigating the existence or non-existence of the cases similar to the Matter and the facts pertaining to such cases (if any);
(c) Analyzing the causes of the Matter and making recommendations on preventative measures;
(d) Other matters recognized as necessary by the Independent Investigation Committee.

ii. The Independent Investigation Committee members

The Independent Investigation Committee was comprised of the following:

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

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

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

iii. Investigative methods, etc. used by the Independent Investigation Committee

Between April 20 and June 10, 2017, the Independent Investigation Committee conducted its investigation based on data documents disclosed by the Company, FX, Fuji Xerox Asia Pacific Pte Ltd. ("FXAP"), FXNZ, FXA, etc. and their related parties, interviews with related parties, data from digital forensics, and public information, etc.

(a) Internal investigation committee's investigation progress report and handover of evidentiary materials

As part of its investigation, the Independent Investigation Committee collected the reports provided by the internal investigation committee prepared prior to the creation of the Independent Investigation Committee. It also requested, obtained, and took over the preserved data (including data preserved, collected and extracted by digital forensics) on the servers of FXNZ, FXA, FXAP, FX, and the Company, with respect to which preservation had already commenced (including examination of data after preservation and preparation for preservation), and contained on PCs used for work by executives and employees subject to investigation. The Independent Investigation Committee determined that it was effective and realistic to use the outcome of the few interviews that had been already conducted, in order to carry out its investigation promptly and effectively, and therefore examined the contents thereof, and used the same in its investigation.

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

(b) Period subject to investigation

The Independent Investigation Committee set the target period to the period from April 1, 2010 to December 31, 2016, from the perspective of effectiveness and achievability of the investigation. However, the Independent Investigation Committee also investigated the facts prior to this period where the Independent Investigation Committee found it important to ascertain the background, the causes, the structure and others of the Matter.

(c) Interviews with executives and employees

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

(d) Interviews with accounting auditors

In the process of the investigation, the Independent Investigation Committee also held multiple interviews with managing partners and other support staff from Ernst & Young ShinNihon LLC, the accounting auditor for the Company group up to the fiscal year ended March 2016 (the previous accounting auditor), and KPMG AZSA, the accounting auditor since that time (the successor accounting auditor), and obtained information outlining the circumstances in which each of these accounting auditors conducted their audits of the Company consolidated financial statements (auditing system, auditing plan, audit results and others).

(e) Digital forensics

The Independent Investigation Committee browsed electronic data of 75 persons related to the Matter in the table below including those for whom data was received from the internal investigation committee.

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

(f) Information collection point

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

(g) Survey implementation

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

(4) Outline of the Matter and details of restatement of financial results for past fiscal years

The Company received an investigation report prepared by the Independent Investigation Committee on June 10, 2017 and, after examining the necessity of restating the financial results for past fiscal years and the details of such restatements based on the investigation report and upon consultation with the accounting auditor the Company made restatements of the financial results as follows.

i. Issues at FXNZ

At FXNZ, inappropriate accounting practices were carried out mainly for lease transactions.

The Company reviewed financial statements for FXNZ's preceding five years, i.e., the fiscal years ended March 31, 2011 to March 31, 2016 and revised the amounts booked for the following four items.

Unit: Million New Zealand dollars

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

* as of March 31, 2016

(a) Revisions to accounting practices pertaining to lease transactions

FXNZ developed and traded in lease products with lease fees that fluctuate in proportion to the customer's equipment usage volume. Previously, FXNZ's financial statements were prepared by classifying those lease transactions as Sales-Type leases under US GAAP. However, based on the issues cited in the investigation of the Matter and the opinion of the outside accounting auditor, the

Company has determined that all of FXNZ's lease contracts for which a Minimum Payment is not guaranteed do not satisfy the conditions for Sales-Type lease accounting treatment. The Company has accordingly changed their classification to operating leases.

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

As a result of revisions described above, the inappropriate accounting practices that FXNZ employed in the past in regard to lease transactions were revised collectively.

| Item | Past issue |
|---|---|
| Target Volume | Revenue overstated due to inflated the Target Volume (expected service usage volume at time of entering lease contracts). |
| Residual Values | Revenue overstated due to inflated Residual Values (the estimated sale price for leased assets when the contract expires). |
| Contract Rollovers | Lease contracts were renewed before expiration and then recorded as a new sale without reversing the past sale (there was no delivery of new equipment for some transactions). In addition, lease receivables pertaining to initial contracts with doubtful collectability were recorded on the balance sheet as-is. |
| Sponsorship Cost | The amount equal to sales promotion costs for the purpose of winning lease contracts was added to sales, and the same amount recorded to lease receivables. |
| Third Party Settlements | In order to win a lease contract from a competitor, FXNZ would pay the customer's remaining contract obligations to the competitor, with this amount being added to sales and the same amount recorded to lease receivables. |

In addition, "Sponsorship Cost," "Third Party Settlements" and other inappropriate accounting practices were also carried out for lease contracts not classified as operating leases, and these were also revised.

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

Unit: Million New Zealand dollars

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

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

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

Of these, the equipment revenue and costs for contracts for which the shipment and delivery of leased assets did not actually occur have been reversed. In addition, for contracts which the shipment and delivery of leased assets actually did occur, equipment revenue and costs have been recorded for the relevant fiscal years when leased assets were actually shipped to customers or delivered to customers' places of business.

Unit: Million New Zealand dollars

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

(c) Reversal of DSG adjustments

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

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

Unit: Million New Zealand dollars

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

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

FXNZ engaged in inappropriate accounting practices, such as the recording of advance sales without execution of contracts or installation of equipment, fictitious sales, and the deferral of the recognition of costs, for the purpose of adjusting financial performance. Other than the two set forth below, these inappropriate accounting practices are revised in (b) Reversal of revenue recognized without execution of contracts or installation of equipment.

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

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

Unit: Million New Zealand dollars

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

ii. Issues at FXA

At FXA, inappropriate accounting practices were carried out mainly for lease transactions same as FXNZ.

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

Unit: million AUD

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

* as of March 31, 2016

(a) Revision of accounting treatment of lease transactions

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

FXA formerly used accounting practices that treated these lease transactions as Sales-Type leases, but based on the investigation report by the Independent Investigation Committee and an opinion by the independent auditor, the Company has determined that from FY2012 some of the GS Agreements and all Non-GS Agreements fail to satisfy the requirements for a Sales-Type lease and has reclassified them as operating leases.

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

(b) Revision of items managed under R&O Spreadsheet

FXA used spreadsheets called the Risk & Opportunity (R&O) Spreadsheets where it recorded, managed, and reported "risk" items with respect to its financial statements on a monthly basis.

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

(c) Other revised items

"Other revised items" includes items pointed out by the independent auditor, as requiring revision in past financial statements even though FXA originally did not state that they were in error.

Unit: million AUD

| | End of the Fiscal Year Ended March 31, 2016 |
|---|---|
| a. Revised amount of allowance for doubtful receivables | (21) |
| b. Revision of over-stated recording of inventory kept at client sites | (14) |
| c. Reversal of revenue recognized without installation of equipment | (10) |
| d. Revision of the timing of loss recognition for Customer 4-2 project | (6) |
| e. Other | (6) |
| Total (revised amount of equity) | (57) |

a. Revised amount of allowance for doubtful receivables

Because FXA had not recorded the appropriate amount of allowance for doubtful debt regarding lease receivables with doubtful collectability, additional allowance for doubtful debt have been recorded.

b. Revision of over-stated recording of inventory kept at client sites

Due to the unit price and volume assumptions being exaggerated during the fiscal year-end appraisal of toner and other consumables provided at client sites, the over-stated amount of inventory assets were revised.

c. Reversal of revenue recognized without installation of equipment

This is about revenue which was recorded early at the time of the execution of contracts when it should have been recorded at the time of equipment installation.

d. Revision of the timing of loss recognition for DFAT project

In relation to development services for a passport scanning system for DFAT (an abbreviation of the Department of Foreign Affairs and Trade, which is the foreign affairs and trade ministry in Australia), because the cost recognition for the system construction costs recorded in the balance sheet were not included in the financial results for FY2015, the loss in FY2016 has been reversed, and then transferred to losses recorded in FY2015.

(5) Involvement of Related Parties in Inappropriate Accounting Practices

(i) FXNZ and FXA

In FXNZ, the CEO (Mr. A) and the CFO (Mr. B) played a leading role in carrying out inappropriate accounting practices. After that, the CEO (Mr. A), who had carried out the inappropriate accounting practices in FXNZ, was transferred to FXA and assumed the position of the CEO of FXA. As he had done in FXNZ, the CEO (Mr. A) also engaged in inappropriate accounting practices in FXA. In addition, Mr. C, who succeeded to the position of FXNZ's CEO from Mr. A, was aware of the inappropriate accounting practices in FXNZ, but did not go far enough to actually fix them.

(ii) APO

The head of Finance Department (Mr. D) of FX's Asia Pacific Operations ("APO," and as APO and FX's local subsidiary FXAP operate without any distinction from each other, FXAP is also referred to as APO) did not accept the audit opinion by APO's Internal Audit Department in February 2014 which deemed FXNZ's lease accounting practices inappropriate. In addition, in July 2015, FX's Deputy President (Mr. E) and the management of Xerox Corporation Ltd. ("XC") received an email from "Tony Night" which pointed out "the use of inflated Target Volumes for MSAs at FXNZ, resulting in over-stated revenue." FX's Deputy President (Mr. E) instructed FX's Executive Vice President (Mr. F) to deal with the matter, and FX's Executive Vice President (Mr. F) instructed the head of APO (Mr. G) and the head of APO's Finance Department (Mr. H) to conduct an on-site investigation of FXNZ. APO's Financial Controller (Mr. I), who was in charge of the investigation, became aware of the possible inappropriate accounting practices of FXNZ and reported to the head of APO (Mr. G) and the head of APO's Finance Department (Mr. H) to that effect. However, when the head of APO (Mr. G), the head of APO's Finance Department (Mr. H) and APO's Financial Controller (Mr. I) reported the details to FX's Deputy President (Mr. E) and FX's Executive Vice President (Mr.

F), they were instructed to prepare a final report which concluded that "there were no problems in the matter pointed out by the whistleblower email," and they obeyed such instruction.

(iii) FX

Although FX's Deputy President (Mr. E) and Executive Vice President (Mr. F) was aware of the existence of the inappropriate accounting practices in FXNZ from as early as when they received APO's investigation report in July 2015, they did not report the details accurately to FX's Chairman (Mr. J) or President or the Company, and it is considered that they were planning to make transitory adjustments from time to time based on the performance of FXNZ without correcting any of the past accounting treatments. Therefore, FX's Deputy President (Mr. E) and Executive Vice President (Mr. F) instructed the head of APO (Mr. G) and others to "first, respond that there are no problems" with respect to the investigation results which concluded that what was pointed out in the whistleblower email received in July 2015 actually existed. In May 2016, FX's President decided that the investigation results on FXNZ received from APO would not clarify the whole picture of FXNZ's problem, and therefore instructed FX's Internal Audit and Analysis Department to conduct further investigation. However, FX's Deputy President (Mr. E) and Executive Vice President (Mr. F) misguided FX's Internal Audit and Analysis Department to conduct the investigation in a manner that excluded FXNZ's past financial reportings from the scope of investigation. It is conceivable that those acts of FX's Deputy President (Mr. E) and Executive Vice President (Mr. F) prevented any negative information about FXNZ from being notified to FX's Chairman (Mr. J) or President or the Company.

(iv) The Company

Since the Company became aware of the possible inappropriate accounting practices in FXNZ on October 11, 2016 when it was reported by NBR, the Company's Internal Audit Division and the Corporate Planning of the Accounting Division collected information through FX's Internal Audit and Analysis Department and FX's Corporate Finance Department to ascertain the facts and had consultations with KPMG AZSA on the details of the information so collected, but the Company trusted the reports from FX and did not conduct its own investigation. After that, in relation to the account closing of the Company for the fiscal year ended March 31, 2017, the Company recognized the necessity of conducting its own investigation into the Matter based on the results of consultations with KPMG AZSA and the confirmation of facts within the Company, and created an internal investigation committee on March 27, 2017. Subsequently at a board meeting on April 20, 2017, the Company passed a board resolution creating an independent investigation committee comprised of outside experts without any interests in the Company, to improve the objectively and credibility of the investigation in into the Matter.

(v) Pursuit of responsibility against the foregoing related parties

FXNZ and FXAP filed a lawsuit for damages on September 8, 2017 against FXNZ's CEO (Mr. A) and the CFO (Mr. B), who had already resigned from their positions at the time the internal investigation commenced in March 2017, and Mr. C, the successor to the CEO (Mr. A)[2]. Mr. C was dismissed on disciplinary grounds as of August 9, 2017.

The head of APO's Finance Department (Mr. H) and APO'S Financial Controller (Mr. I) were reprimanded with a reduction of salary and transferred to different departments on grounds of failure to submit adequate reports to FX headquarters and APO's management or to take active measures for correction in spite of being aware of the existence of the inappropriate accounting practices.

In order to clarify who should bear responsibility for the inappropriate accounting practices and the impairment of reputation caused thereby, FX's Chairman (Mr. J), Deputy Vice President (Mr. E) and Executive Vice President (Mr. F) as well as the head of APO (Mr. G) retired from their positions as officers of FX, upon reducing their remuneration and bonuses and forcing them to waive their stock options in the Company's shares. For the same reason, the former head of APO's Finance Department (Mr. D) was reprimanded with a reduction of remuneration and bonus and retired from his position as an officer of FX. In addition, FX's President was reprimanded with a reduction of remuneration and bonus, and FX's four corporate auditors and the Company's Chairman and President were subject to a reduction of remuneration.

2. Causes and Measures for Improvement

(1) Analysis of Causes

While the markets in Japan were becoming mature, FX deemed the Asia Pacific region as an area for new growth and set sales targets for each of the companies in that area to seek higher growth. In order to achieve those targets, APO and the sales subsidiaries under the APO umbrella were making efforts towards achieving business results. However, in FXNZ and FXA, the CEO and some of the officers and employees carried out inappropriate accounting practices whereby they disregarded the sales accounting rules and recorded advance sales. It is considered that, among other factors, the excessive emphasis by FXNZ's CEO on incentive-based remuneration caused such inappropriate accounting practices.

In response to such inappropriate accounting practices, FX was supposed to act as a control function by ensuring the proper application of accounting practices, but it did not fulfill its function sufficiently and there were also weaknesses in the business processes that should have ensured the appropriateness of the accounting practices.

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[2] The lawsuit was filed by three companies, which were FXNZ, FXAP and Fuji Xerox Finance Limited, a financing company in New Zealand.

In FX Group, especially in its overseas subsidiaries, the awareness of compliance was not fully fostered and there were also deficiencies in the risk countermeasure system. In addition, in terms of supervisory function, the system for corporate auditors to audit the execution system of overseas group subsidiaries and the internal audit function for the whole group did not effectively function either.

The Company has operated its business by respecting the independence of FX, with trust in and a certain degree of respect for FX, but the result of this was that the management system to manage group companies was inadequate.

The Company considers as follows with respect to these particular causes.

i. Deficiencies in management system to manage group companies

(a) Inadequate system to supervise the CEOs in FX overseas subsidiaries

In FXNZ and FXA, authority was concentrated in the CEOs and the supervision of the CEOs was not adequate. This was considered to be due to the fact that the board meetings were not held frequently and, even when they were held, only the matters legally required to be resolved were deliberated, and therefore material management matters were not deliberated and its control function became a mere formality.

FXNZ’s CEO lacked awareness of compliance, such as by recording sales by disregarding the rules. It is conceivable that the reason why we were unable to appropriately evaluate such characteristic was because the evaluation for the CEOs in subsidiaries was only based on quantitative factors, such as sales, and did not consider any qualitative factors, such as compliance. In addition, there was no educational training for management to foster an awareness of compliance. Another reason can be considered, for example, to be the fact that, while there was no organizational selection process, APO and FX’s Deputy Vice President (Mr. E) and Executive Vice President (Mr. F), who came from APO, selected the CEOs in overseas subsidiaries.

(b) Insufficient function for supervision of APO by FX headquarters

Whereas APO had broad authority, with any material matters of APO were in practice decided by the head of APO (Mr. G) and FX’s Deputy Vice President (Mr. E) and Executive Vice President (Mr. F) (who had the position of the head of APO in the past), FX headquarters’ supervisory function did not work adequately.

This is considered to be due to the facts that no obligations to report to or receive approval from FX headquarters had been imposed on APO other than the matters to be submitted to the board of directors, and that APO’s Corporate Department was established beneath its Sales Department in terms of the organizational structure and this made it difficult for FX headquarters to exert control through APO’s Corporate Department.

(c) Deficiencies in system for management of overseas subsidiaries by FX

With respect to FXNZ, although sales were increasing, the collection of accounts receivable was not progressing and borrowings were increasing, yet FX was unable to detect the problem at an early stage. This is considered to be due to the fact that FX managed the financial numbers of subsidiaries with a focus on checking the items in the profit and loss statement, and there was no mechanism established to check the financial soundness other than profit and loss (balance sheet and cash flow statement).

In addition, in the process of formulating budgets and interim management plans, while the markets in Japan were becoming mature and Asia and Pacific region was expected to act as driving force for growth, the FX companies under the APO umbrella, in particular, did not formulate any budgets based on such actual circumstance.

In FX's group approval rules to manage its subsidiaries, there were deficiencies in the items which should have provided for the selection and dismissal of executive officers of FX group companies and the lending and borrowing of funds within the consolidated companies.

(d) Deficiencies in the system for group company management by the Company

The Company had engaged in business by respecting the independence of FX, with trust and certain degree of respect for FX, but the Company was not able to establish a sufficient governance system as a group, due to factors such as its grasp of the actual state of the company and risk situation being inadequate.

ii. Insufficient control function to ensure appropriateness of accounting practices and weaknesses in business processes

(a) Weaknesses in business processes

FXNZ and FXA engaged in overstatement of sales and recording of advance sales for the purpose of achieving sales targets, and even with business processes that included accounting practice processes which should have prevented such inappropriate recording practices, they were unable to manage the delinquent receivables, and the system for confirming transactional conditions and making credit decisions at the time of execution was vulnerable and not sufficient.

In addition, in terms of the J-SOX evaluation system and business control processes, the functions of making necessary evaluations, controls and checks to prevent such inappropriate practices were not sufficient.

(b) Deficiencies in credit screening and processes for managing agreements in lease business

The credit management in the lease business of FXNZ and FXA was not sufficient. This is considered to be due to facts such as that: (i) while the achievement of sales targets was emphasized, the sales business and lease business were operated in an integrated manner under the same management team and, as a result, the sales business was prioritized and thereby the control by the credit screening in the lease business was not able to function; and (ii) the monitoring of lease business itself was not sufficient.

In addition, there was no management of amendments to standard agreements and additional execution of side letters, etc., nor were these treated with appropriate accounting practices. This is considered to be due to the fact that the rules regarding notifying any amendments to standard contracts to legal, accounting or any other necessary departments were not clearly stipulated.

(c) Insufficient control function in FX’s Corporate Finance Department

FX’s Corporate Finance Department did not perform its function of taking the initiative in confirming and improving the appropriateness of accounting practices of the subsidiaries under the APO umbrella.

This was considered to be due to the facts that: (i) FX’s Corporate Finance Department had both functions of business management and financial accountings, but, while the achievement of sales targets was emphasized, the business management function was prioritized and an adequate control function could not be effected, and (ii) as a result of integrating all the contact points of overseas subsidiaries into APO, FX’s Corporate Finance Department could not gain direct access to overseas subsidiaries and was unable to ascertain information regarding accounting practices and other matters of the overseas subsidiaries in a timely and accurate manner.

iii. Deficiencies in corporate auditors’ audit system and weaknesses in internal audit function of the whole Company Group

(a) Corporate auditors’ audit system was inadequate

With respect to FX’s corporate auditors, efforts were not made to hold meetings with overseas subsidiaries, like All-FX Full-time Corporate Auditors Meetings which are held with full-time corporate auditors of domestic subsidiaries and where information is shared about the status, issues and other matters pertaining to the audits of each company. In addition, APO’s internal audit report was not submitted to FX’s Internal Audit Department or corporate auditors.

In addition to the fact that the Company’s Audit & Supervisory Board Members had regular meetings with FX’s corporate auditors only three times in a year and the cooperation with corporate auditors of group companies was insufficient, the Company’s Audit & Supervisory Board Members only performed audits of FX twice a year, as well as annual audits of 10 to 20 FX affiliates out of 110 affiliates. This is considered to be due to a shortage of resources to perform sufficient audits as there are only four Audit & Supervisory Board Members in the Company and three staff members (one of which is a secretary) in the Company’s Internal Audit Department.

(b) Weaknesses in internal audit function of whole group

APO's Internal Audit Department had a vulnerable reporting line and its independence was not secured as it was not possible in practice to submit audit reports to the CEOs of local companies or FX's Internal Audit and Analysis Department without the reports first being confirmed by the head of APO's Finance Department. In addition, there were insufficient human resources as there were only two staff members in APO's Internal Audit Department, which was an extremely small number considering the scope of business to be covered.

FX's Internal Audit and Analysis Department had no authority to obtain necessary information for audits and was not able to perform sufficient audits. In addition, the authority for the audits of overseas subsidiaries was delegated to APO and FX's Internal Audit and Analysis Department had less opportunity to audit overseas subsidiaries, and that was one of the reasons for the delay in detection of the inappropriate accounting practices. Other factors that can be raised as causes are: (i) insufficiencies in the awareness of officers and publicity within the company about audit activities, in rights to access any necessary information and data for audits, and in other internal environment infrastructure; (ii) shortage in internal audit personnel to perform audits of all overseas subsidiaries; and (iii) lack of independence due to failure to ensure the policy of performing audits as a department under the direct supervision of President independent from the management.

The Company's Internal Audit Division mainly conducted audits of FUJIFILM Corporation ("FF") and its subsidiaries and was not fully involved with FX, and there was insufficient exchange of information with FX's Internal Audit and Analysis Department or timely and accurate exchange of information about FXNZ matters. With respect to the allocation of roles of the internal audit function as a whole group, the Company's Internal Audit Division did not have enough authority against FX's Internal Audit and Analysis Department and there were also insufficient personnel to audit all subsidiaries.

iv. Lack of awareness of compliance and deficiencies in risk countermeasure system

(a) Lack of awareness of compliance at overseas subsidiaries

In FX Group, especially in overseas subsidiaries, the awareness of compliance was not fostered sufficiently. Although we carried out compliance education for employees of overseas sales subsidiaries, the details and frequency of such education were left to the local subsidiaries and it can be considered that education was not carried out sufficiently.

(b) Lack of awareness of fair financial reporting

Although some of FX's management were aware of the existence of the inappropriate accounting practices of FXNZ, their awareness for making fair financial reporting was insufficient and they were considered to have decided that there would be no problem unless pointed out by independent auditors.

(c) Lack of effectiveness of whistleblower system

As stated in the Investigation Report prepared by the Independent Investigation Committee, the whistleblower email from "Tony Night" was directly sent to FX's management and XC's related parties in July 2015, and none of the whistleblower systems of FXNZ, APO or FX Group were used. This is considered to be due to a lack of effectiveness of the system due either to a lack of trust in the whistleblower system itself or to the fact that the system was not publicized enough.

The investigation of the whistleblower email was handled by officers who are substantially in charge of the subject of the whistleblowing, and such officers did not report to FX's President the accurate results of the special investigation by APO. In addition, FX did not report the fact of whistleblowing to the Company.

(d) Deficiencies in risk management system

FX's risk management system was operated in accordance with the All-Fuji Xerox Risk Management Rules, but the Crisis Escalation Guideline, the supplementary provisions of the Rules, was not expanded to overseas subsidiaries. In addition, the definition of the countermeasures system for whistleblowing matters was not established, so there were differences between domestic and overseas companies in the organizational countermeasures, including measures to prevent recurrence, regarding material matters, such that the countermeasures tended to involve ad hoc adjustments. Moreover, there were differences in the names of the risk management organizations, the departments in charge and the understanding of risk escalation level at each company and organization, and FX headquarters were unable to achieve adequate visibility of the situation of risk countermeasure activities of each company.

In particular, FX did not comprehend whether overseas subsidiaries escalated any issue to upper organization based on the risk level, and as in the case of the FXNZ matter, which was handled only after it was reported by the media, the countermeasures to be taken against visible risks were insufficient. The reasons are considered to be the facts that: (i) FX headquarters did not review the operational status of risk management countermeasures at each company; and (ii) the publication of contents of the All-Fuji Xerox Risk Management Rules and confirmation of understanding of publication status were insufficient.

(2) Improvement measures to prevent recurrence

In the "Notice of Receipt of the Independent Investigation Committee's Investigation Report and Future Measures" that we disclosed on June 12, 2017, we raised the following as concrete measures aimed at strengthening our governance over, and strengthening business management processes at, FX: dispatch of management personnel from the Company to FX; revision of organizational structure, including by consolidating some of FX into the Company; and strengthening of the group's internal controls. After that, we developed a comprehensive project management system in order to be thorough in our strengthening of governance. Specifically, we established the Committee for Strengthening Governance, chaired by the President of the Company and made up of the Company's executive officers in charge of each of corporate planning, accounting, legal, CSR, auditing, IR, and document solutions, and initiated five issue-based projects (strengthening management of group companies, strengthening accounting, strengthening auditing, strengthening compliance, and strengthening IT governance under that committee; we also decided on our future improvement policy as of the end of September 2017. The outline of the improvement measures and the progress of those measures are as follows.

Looking ahead, we will continue to advance each of those projects being carried out under that committee and we will regularly manage the progress of those projects.

i. Strengthening management of group companies

(a) Strengthening the Company's governance over FX

a. Improved provision of information to the Company's board of directors

In terms of strengthening supervisory functions, we have decided to improve the provision of information to the Company's board of directors as follows.

(i) With respect to the status of risk compliance matters within our group companies, including FX, in addition to the written reports that have been provided since the past to the Company's directors and Audit & Supervisory Board Members each quarter by CSR, we will report half-yearly to the Company's board of directors on the status of compliance breaches, risk matters, and whistleblowing and on plans for, and the status of, internal audits of group companies conducted by the Company's Global Audit Division;

(ii) we will systematically and more frequently provide explanations of our business to the Company's outside directors and outside Audit & Supervisory Board Members; and

(iii) we will send out materials for the Company's board of directors meetings in advance.

We began implementing (i) above in September 2017 and (iii) above in October 2017. Furthermore, with respect to the presentations explaining our business as stated in (ii) above, following the reelection of officers in June 2016, a presentation to explain our company (July), the presentation to explain our R&D strategy and the tour of our Open Innovation Hub (September), and having the outside directors accompany the Audit & Supervisory Board Members on visits to FX subsidiary offices (November) and the FX office visit (December) were conducted, and we are currently developing a schedule for January-March 2018.

b. Formulation of the FH Group Prior Reporting Regulations

As part of the Company's strengthening of management of group companies, we have newly formulated the "FH prior reporting regulations for FF and FX" that require prior reporting to certain directors, etc. of the Company in relation to the matters to be deliberated at the board of directors of each of FF and FX.

These regulations began to be implemented in October 2017 and the Company's newly established Subsidiaries Administration Division has created, and started managing, a list of the reported matters.

c. Establishment of the Company's new Subsidiaries Administration Division

We have established the Subsidiaries Administration Division (established as of August 1, 2017) and have strengthened systems to supervise the status of group company management in which each of FF and FX is engaging.

The Subsidiaries Administration Division mainly takes on the following roles:

(i) managing the development and implementation status of approval regulations within FF and FX;

(ii) monitoring the status and details of general shareholders meetings, board of directors meetings, and management meetings at FF and FX; and

(iii) monitoring the status of FF's and FX's management of subsidiary company performance (the Subsidiaries Administration Division participates in monthly reporting meetings of FF and FX).

In line with this, the Comprehensive Planning Group at FX has established the Subsidiaries Administration Office and is strengthening its systems for management of group companies.

d. Increasing the number of, and dispatching new, officers, department heads, etc. dispatched from the Company to FX

We have increased the number of officers dispatched from the Company to FX from four (three directors and one corporate auditor) to seven (six directors and one corporate auditor), and we have increased the number of dispatched full-time executive officers of business departments from one to four (appointed at the FX general shareholders meeting held on June 22, 2017).

Furthermore, as of December 1, 2017, the following personnel have been dispatched from the Company: the General Manager of FX’s Legal Department, the Chairman and CFO of FXA, and the Executive General Manager of the Asia Pacific and China Regional Headquarters.

e. Organizational consolidation of corporate departments

Each of these departments of FF and FX has been consolidated, as follows, into the Company. Furthermore, we will consider further organizational consolidation of other corporate departments.

| | |
|---|---|
| September 2017: | The financial accounting functions of FF and FX were consolidated into the Company’s Accounting Division and the internal audit functions of FF and FX were consolidated into the Company’s Global Audit Division. |
| October 2017: | The financial accounting functions of APO were consolidated into the Company’s Accounting Division. |
| December 2017: | The cost accounting functions of each factory of FF and FX were consolidated into the Company’s Accounting Division. Some CSR functions of FF and FX were consolidated into the CSR Group of the Company’s Corporate Planning Division. |

(b) Strengthening management of group companies within FX

Following the inadequate management of overseas subsidiaries, we have revised the methods for managing group companies overall.

a. Broadening performance management items and regular monitoring

In comparison to FF’s monthly monitoring items, balance sheet and cash flow statement items and the like were insufficient; therefore, FX has also added to its monitoring similar items to those of FF, and FX has further added its own item, lease receivables.

Monitoring that includes these additional items began with the monthly reporting for October 2017 by the Subsidiaries Administration Office newly established within the Comprehensive Planning Group at FX.

b. Improvements to processes regarding formulation of budgets and medium-term management plans

Because budget-setting that is not based on each company's actual conditions can be a major cause of inappropriate accounting, the Company has decided to implement the following improvement measures in order to more deeply understand the actual business conditions.

(i) Participation by the Company's Corporate Planning Division in important FX meeting bodies;

(ii) conducting of sufficient discussions on the process and schedule of formulating budgets and medium-term management plans for the Company and FX;

(iii) personnel exchanges for budgeting processes (promotion of mutual understanding); and

(iv) granting of system access rights so that the Company and the FX Accounting/Corporate Finance Department are able to confirm the budget performance figures of subsidiary companies under the umbrella of FX overseas.

Implementation of those measures detailed above began in October 2017.

c. Revision of approval regulations within groups

We compared the group approval regulations for each of FF and FX, and with respect to those items that had not to date been provided for in FX's group approval regulations, including rules on the appointment or dismissal of executive officers at FX group companies, it was decided that these items would be added to the FX Communication Matrix ("**Com-Mat**").

The matters above were revised and began to be implemented in October 2017.

d. Improving the provision of information to the FX board of directors

Similar to the Company, improving the provision of information to the FX board of directors was also decided. Specifically, it was decided that, as a form of reporting on the status of risk compliance matters, half-yearly reports will be given on compliance breaches, risk matters, and whistleblowing.

The measures set out above began to be implemented in October 2017, and at the board of directors meeting held on October 26, 2017, a report was given on the status of activities to promote risk management and compliance. The next report is scheduled to be given in April 2018.

(c) Strengthening supervision by APO Corporate

With the aim of strengthening supervision at APO, the APO corporate staff functions were separated from the sales division, a separate position of Executive General Manager of the Asia Pacific and China Regional Headquarters, falling under the direct supervision of the officer in charge of FX Headquarters Corporate, was established, and the control functions over the sales division were strengthened. Additionally, it was decided to strengthen the control functions of FX Headquarters by developing a system in which APO corporate staff report directly to FX Headquarters.

In addition, it was decided to reorganize sales coordination under the umbrella of APO into two regions—Asia Pacific and China and East Asia—and to optimize the management scopes of each, and this new organization was initiated as of October 1, 2017. Also, the Executive General Manager of the Asia Pacific and China Regional Headquarters assumed office and has begun ascertaining the situation and examining issues.

(d) Strengthening supervision over CEOs of sales subsidiaries

a. Changes to directors at subsidiaries and revisions to matters to be deliberated at board of directors meetings

It has been decided to implement the following improvement measures with respect to changes to directors at subsidiaries and revisions of matters to be deliberated at board of directors meetings.

(i) Strengthen “supervisory” systems of the board of directors at FX overseas sale subsidiaries and change the frequency of board of directors meetings from the current once per year to four times per year.

(ii) In order to strengthen the “audit” functions of FX overseas sales subsidiaries, appoint the following as board members at each sales subsidiary: (a) people with experience in a corporate group (General Manager or Manager of one of accounting, legal, corporate planning, or auditing) of the Company or FX; and (b) an Internal Auditor affiliated with APO.

(iii) Form an audit committee made up of members falling under (a) and (b) in (ii) above and hold meetings of that committee at the same timing as board of directors meetings.

(iv) Report directly to the President of FX and the corporate auditors of FX on the results of considerations made by the audit committee.

With respect to those measures above, we started preparation of a draft of the “Internal Rules on Operations of the Audit Committee” (manual of operation methods) which will be approved by a board of directors meeting of each sales subsidiary that resolves establishment of an “audit committee" within that sales subsidiary. Looking ahead, to align with the establishment of audit committees (planned aim of by February 2018), we will consider the following together with the FX corporate auditors and the Global Audit Division: (a) the "Internal Rules on Operations of the Audit Committee"; (b) the items for the audit committee to audit; and (c) the matters to be reported to the President and the corporate auditors.

b. Supervision of CEOs of overseas sales subsidiaries

With the aim of strengthening supervision of CEOs of overseas sales subsidiaries, both FXA and FXNZ appointed a Chairman from the Company or from FX in September 2017. Looking ahead, we plan to identify those companies that need to strengthen their supervision and dispatch personnel.

c. Ensuring independence of CFOs of overseas sales subsidiaries

Traditionally, the CFO of an overseas sales subsidiary reported to the CEO of the subsidiary to which he or she was affiliated; however, as of December 2017, this has changed to a system in which CFOs of overseas sales subsidiaries report directly to the Executive General Manager of the Asia Pacific and China Regional Headquarters.

d. Ensuring transparency in the appointment of major human resources

With the aim of ensuring transparency in the appointment of major human resources, we have decided to implement the following improvement measures.

(i) It was made a rule in June 2017 that in order to ensure transparency in the appointment process at overseas subsidiaries, appointment of the CEO of an FX sales subsidiary is to be made at a meeting body of FX management.

(ii) As of October 2017, education on the code of conduct and on a code of conduct guidebook (overseas version) has been rolled out, with the aim of strengthening the awareness of compliance in those people being appointed to major posts at overseas local subsidiaries.

(iii) With respect to important personnel including director, it was made a rule in October 2017 to revise the rules (Com-Mat) for FX's management of each group company, and appointments are to be reported to, and approval obtained from, FX Headquarters (depending on the position).

e. Changes to remuneration system

With respect to the remuneration system, traditionally, the only evaluation item used to determine a CEO's bonus was performance indicators; however, compliance, CS (Customer Satisfaction), ES (Employee Satisfaction), trustworthiness from outside the company, and the like were added in October 2017. Furthermore, with respect to determining the remuneration for managerial-level staff, including CEOs and directors, revisions were made to Com-Mat and the processes of obtaining approval from, and reporting to, FX Headquarters were added to ensure transparency; also, confirmations on the remuneration records for each FX overseas local subsidiary were conducted by FX's Human Resources Department and the Company's HR Division.

Looking ahead, the regular reporting system implemented at FF will also be introduced at FX from FY 2018, with a view towards strengthening remuneration management at FX overseas local subsidiaries.

ii. Strengthening accounting

(a) Consolidation of accounting functions

We have decided to strengthen control functions in order to ensure the appropriateness of accounting practices by consolidating the accounting functions of FF and FX into the Company's. Furthermore, we have decided to clearly separate performance management functions and financial accounting functions.

With respect to the matters above, as of September 1, 2017, the Company's Accounting Division was separated from the Management Planning Division, the accounting functions of the FF and FX accounting departments were separated and consolidated into the Company's Accounting Division, and as of October 1, the accounting functions of APO were separated from APO's Finance Department and consolidated into the Company's Accounting Division; furthermore, as of December 1, the cost accounting departments of each FF and FX factory were consolidated into the Company's Accounting Division. Looking ahead, we plan to continue strengthening control functions in order to ensure the appropriateness of accounting practices by making advancements with service sharing and the consolidation of work locations for accounting at FX overseas sales subsidiaries, etc., with the standardization of, and improvement of efficiency in, work processes at FF and FX, and with personnel exchanges.

(b) Improving accounting practices and work processes

With respect to those matters pointed out by the audit in relation to this series of matters, we have made a distinction between issues to be improved regarding accounting practices and issues to be improved regarding work processes, and have decided to take action as is detailed below.

a. Criteria for revenue recognition

We will deliver notices in order to reinforce the rules on revenue recognition. With respect to accounting allowances for those transactions in which documents are still en route to the customer but for which provision of services is considered complete by the due date, we will develop those allowances after having consulted with the independent audit.

b. Accounting practices for valuation of receivables

We will analyze the outlook of collection of receivables and the cause of accumulated receivables, and we will develop appropriate accounting treatment (such as allowance for bad debts, cancellation of sales, or allowance for sales returns) upon consultation with the independent auditor.

Improvement measures are gradually being employed for the matters above, and the FX Global Accounting Rule (US GAAP) was prepared and developed in December 2017 for general transactions and lease transactions.

Furthermore, with a view towards improving work processes, plans at each location that prioritize improving the inadequate processes pertaining to revenue recognition (including leases), management of receivables and returns were formulated, and we conducted verification of the overall consistency of the presented plans, and we plan to commence monitoring beginning January 2018.

Furthermore, the J-SOX evaluation systems of both FF and FX were consolidated into the Company's Global Audit Division with the aim of revising the J-SOX evaluation system and work process controls. Additionally, we have decided to formulate an overall policy on improving and evaluating J-SOX, to revise work process controls and consider evaluation items, and to revise work process controls from FXNZ and FXA where this matter arose.

With respect to the matters above, an overall implementation schedule and evaluation system were formulated in October 2017. Furthermore, the audits of FXNZ and FXA were completed and agreement on improvement policies was reached, and looking ahead, we plan to conduct monitoring with a view towards confirming improvements.

(c) Revision of work processes overseas, such as strengthening lease operations systems and changing contract management processes

a. Developing a system for lease operations and newly establishing a General Manager, Regional Leasing Operations

In light of the fact that, due to sales and lease operations operating as one unit, there were no controls in place regarding credit and agreement reviews, and that accounting practices pertaining to leases were not appropriately reflected, a General Manager, Regional Leasing Operations, directly supervised by and reporting to the General Manager of FX's Accounting Department, was newly established as a function of Asia Pacific and China Regional Headquarters. As a result of this, a system has been developed where the General Manager, Regional Leasing Operations and the General Manager of FX's Accounting Department are able to conduct checks and monitoring of lease matters.

Definition of the role of General Manager, Regional Leasing Operations, in order to appoint somebody to this role, has been finalized, and on October 2, 2017, an explanation was given to the top management at subsidiaries on the aims of this system for lease operations and it was explained that the aim is to commence implementation of this system in December 2017, the same timing as the lease policy. Furthermore, a lease policy (rules for accounting practices) and lease business guidelines (including escalation rules) were formulated; the lease policy began to be enforced on November 6, 2017, and enforcement based on the lease business guidelines is scheduled to commence in December 2017. Looking ahead, we aim to appoint a General Manager, Regional Leasing Operations by January 2018 and to commence implementation of a new team system that includes support staff.

b. Changes to contract management processes

In order to strengthen contract management, we have decided to introduce escalation rules (including rules on applicable contracts, criteria for monetary amounts, criteria for items that may be changed, and the people with authority to approve changes) in the event that an FX sales subsidiary makes changes to the terms and conditions of the standard lease agreement (including changes during the agreement term and submission of side letters).

With respect to the matters above, we have explained the outline of the new "Agreement Review Process" to, and are increasing familiarity of this new process among, those in charge of legal affairs at each FX sales subsidiary. Looking ahead, we plan to include this review process as part of the "Lease Transaction Review System (Escalation Criteria)" and commence implementation from January 2018.

iii. Strengthening auditing

(a) Strengthening audits of group companies by the Company's Audit & Supervisory Board Members

With the aim of strengthening audits by Audit & Supervisory Board Members, we have decided to proceed with the development of a framework for audits by Audit & Supervisory Board Members that covers the whole of the Company group and that clarifies the roles of Audit & Supervisory Board Members at each group company under the instruction and coordination of the Company's Audit & Supervisory Board Members.

With respect to the matter above, the Company's Audit & Supervisory Board Office was established in September 2017 in order to strengthen support functions for the Company's Audit & Supervisory Board Members, to implement and strengthen auditing systems, and to collect various kinds of information, including audit reports. Furthermore, looking ahead, by December 2017 we plan to formulate the "Basic Principles for Auditing by Audit & Supervisory Board Members of Group Companies" which will set out the new mechanism, and by the end of January 2018, we plan to formulate guidelines, including the "Practical Guidelines for Auditing by Audit & Supervisory Board Members of Group Companies" that set out, among other things, workflows for audits of group companies by Audit & Supervisory Board Members and where to report the results of audits, with a view towards strengthening the group's auditing.

(b) Consolidation of auditing functions with the Company and audits of all group companies

With the aim of strengthening auditing, we have decided to consolidate the internal auditing functions of each of FF and FX and to establish a Global Audit Division within the Company; also, the Global Audit Division has set a target to audit all of the approximately 300 of the Company's group companies in a period of three years and it will formulate an auditing policy and a three-year auditing plan.

Furthermore, with the aim of strengthening internal audits and making them more efficient, we have decided to combine the auditing techniques of FF and FX, to consider the introduction of Computer Assisted Audit Techniques ("CAAT") and computer forensics technology, to design roles for internal audits within the Company group, and to revise the Internal Audit Charter and the internal audit plan for the second half of FY 2017.

With respect to the matters above, the Global Audit Division was established on September 1, 2017 and has commenced integrated audits. Looking ahead, we plan to continue considering the combining of audit techniques and the introduction of CAAT and computer forensics technology.

iv. Strengthening compliance

(a) Education and awareness survey aimed at permeation of an open, fair, and clear corporate culture

In order to raise awareness of compliance throughout the Company group and especially at its overseas companies, the Company President conveyed to all employees a message that the Company group places importance on compliance and we implemented training and education for all employees about the outline of the inappropriate accounting at FXNZ, the sequence of events in response to the issues, problems and causes, and policies for addressing the issues based on what was learnt from the issues that have occurred this time (training and education for leader-level personnel were implemented through the end of September 2017 and through November 2017 for employees (separate sessions for each level of personnel)).

Furthermore, the message that the Company group places importance on compliance, that is, the objective to “ensure again that business operations we are involved in are always open, fair, and clear,” has been conveyed from the Company’s top management to outside parties through our website as well as internal media such as in-house magazines and intranet websites of the Company group.

In addition, for the purposes of checking the degree of the permeation of awareness of compliance through the above training and education and of detecting any signs of inappropriate accounting at an early stage, we decided to conduct an awareness survey. The target of the awareness survey is all 97,000 employees of the Company group (including non-regular employees such as dispatched employees and temporary employees), and we aim to use the results of the survey not only for formulating an improvement plan, but also for continuously checking the degree of the permeation of awareness of compliance as well as detecting any signs of inappropriate accounting by internally disclosing the results of the survey and the status of action taken in response to such results. We commenced the awareness survey in December 2017.

Our future plan is to implement training and education and conduct awareness surveys on a continuous basis and we will engage in ongoing reviews of the specific content and methods of the surveys.

(b) Strengthening awareness of accounting compliance

We will implement training focused on accounting for CEOs, CFOs, personnel who are engaged in accounting affairs, and sales MDs, and other relevant employees of the Company’s group companies in addition to the compliance training that we have implemented for all employees of the Company group based on the Matter.

We will roll out commencement of education from mid-December 2017 for domestic companies and from January 2018 for oversees companies, respectively.

(c) Establishing a single whistleblowing system for the entire Company group

From the perspective of ensuring the effectiveness of our whistleblowing systems, we decided to newly establish a whistleblower helpline to which all employees of the Company group are able to directly report, and to then make announcements to all employees of the Company group in order to keep them thoroughly informed of the whistleblowing system. In Japan, the operation of the whistleblower system commenced in November 2017, and it will commence operation in December 2017 in China, Asia-Pacific and North America. Its operation will commence in February 2018 for the regions other than those set out above.

In addition, with regard to the separate whistleblower systems in each of the Company's group companies, we have reviewed systems for responses taken after a report is received and developed rules for reporting from each group company to the Company.

(d) Development of risk management systems

In the FX Group, the CSR Committee at FX headquarters deliberates on and decides matters relating to risk management in accordance with the Risk Management Rules. From the perspective of strengthening risk management at overseas subsidiaries, we decided to additionally newly establish a new risk management committee at each FX group company and to specify in the All-FX Risk Management Rules matters such as crisis management in case of emergency, thorough implementation of prevention of recurrence, risk management during ordinary times, and reports to higher-level organizations.

In addition, we decided to newly establish risk management regulations at the Company, in which the systems and roles (including compliance and risk management) of the CSR Committee are defined, from the perspective of strengthening risk management.

Also, at FF, the Total Risk Management Committee determines risk forecasting and prevention as well as policies and measures for responding to material issues, but we decided to newly establish risk management basic regulations that are made up of these policies and measures.

Through to December 2017 we have been proceeding with revisions to the All-Fuji Xerox Risk Management Rules at FX and the establishment of risk management regulations at the Company, and we aim to keep all employees informed of the regulations and thoroughly implement the operation of the regulations in the future.

v. IT policies aimed at strengthening group governance

We plan to efficiently push forward with strengthening group governance by adopting the following IT policies aimed at strengthening group governance through the various efforts described above. We plan to examine issues toward the introduction of each IT policy through consultation with departments that are responsible for improvement measures.

(a) Development of monitoring environment at each group company

We will implement phased development of bases for sharing information for monitoring the status of management at each group company (such as the environment for monitoring the status of management at each group company and environment for monitoring important matters as a group) as well as verification of systematization toward audits utilizing IT and forensics audits for the purpose of efficiently carrying out audits of the Company's 300 group companies.

(b) Development of core systems in connection with review of rules and processes

In connection with our review of the revenue recognition standards and processes for lease operations, we will aim to implement responsive measures for improving processes based on the current systems in the short term, and integrate the core systems of FF and FX based on a standard operations process design in the medium to long term.

(c) Development of environment necessary for communication within the Company group

For more efficient and active communication among the Company, FF, and FX, we will develop necessary communication infrastructures (such as the Company's network environment and an in-house portal platform).

(3) Implementation schedule for improvement measures

| Category | Improvement measures | No. | 2017 To Sep | 2017 Oct to Dec | 2018 Jan to Mar | 2018 Apr to Jun |
|---|---|---|---|---|---|---|
| Milestones | | | Form the Governance Strengthening Project; Governance Strengthening Committee | Governance Strengthening Committee; Improvement Report | Governance Strengthening Committee | Governance Strengthening Committee; Improvement Status Report |
| Strengthening management of group companies | Strengthening the Company's governance over FX | i.-(a) | | | | |
| | Strengthening management of group companies within FX | i.-(b) | | | | |
| | Strengthening supervision by APO corporate | i.-(c) | | | | |
| | Strengthening supervision over CEOs of sales subsidiaries | i.-(d) | *Audit Committee scheduled to be established in Jan 2018; remuneration system to commence operation from FY2018 | | | |
| Strengthening accounting | Consolidation of accounting functions | ii.-(a) | | | | |
| | Improving accounting practices and work processes | ii.-(b) | | | | |
| | Review of work processes such as strengthening leasing operation system and changing contract management processes | ii.-(c) | | | | |
| Strengthening auditing | Strengthening audit of group companies by the Company's Audit & Supervisory Board Member | iii.-(a) | | | | |
| | Consolidation of auditing functions with the Company and audits of all group companies | iii.-(b) | | | | |
| Strengthening compliance | Education and awareness surveys | vi.-(a) | * Education and training already implemented; awareness surveys will commence in December | | | |
| | Strengthening awareness of accounting compliance | vi.-(b) | | | | |
| | Establishing a single whistleblowing system for the entire Company group | vi.-(c) | | | | |
| | Development of a risk management system | vi.-(d) | | | | |
| IT governance | IT policies aimed at strengthening group governance | v | * To be continuously examined and introduced in stages | | | |

Legend: ⟶ Policy examination ---▶ Operation and monitoring of implementation

3. Awareness Regarding the Impact of Inappropriate Information Disclosure, etc. on Investors and the Market

The Company deeply apologizes for inconvenience and concern to shareholders, investors, and all other stakeholders for the inappropriate accounting practice in our group companies, which led to a restatement of the past five years' financial figures and delaying the announcement of the financial results.

In order to thoroughly strengthen governance so that such a situation not to be repeated, the Company has developed a comprehensive project management system and again performed its own analysis of the causes, and has formulated improvement measures aimed at recurrence prevention. Currently, the Company is working not only at steadily implementing such improvement measures, but is also developing the best possible governance systems and taking action on recurrence prevention by performing revisions and additions to its policies in a timely manner in response to changes in the internal and external environments. The Company will report on the progress of implementation of such initiatives to all shareholders, investors, and other stakeholders.

End

Glossary

| Term | Description |
|---|---|
| KPMG AZSA | KPMG AZSA LLC. Became accounting auditor for the Company from FY 2016. |
| Operating Lease | A type of lease accounting used by the lessor side under USGAAP. Income is accounted for when and as lease payments are received. |
| Customer Stored Consumables | Toner, etc. used in printers (stored at the customer site). Until the customer uses the consumables, they are accounted for as inventory assets of the Company group. |
| Com-Mat | Communication Matrix. An internal company regulation that prescribes the reporting obligations and approval authorities for important matters within FX group companies. |
| Residual Values | Residuals values of equipment at the end of a term of lease agreement. |
| Sponsorship Cost | The cost incurred by FXNZ to provide funding support or to supply furnishings free of charge to universities and other organizations that purchase equipment. |
| Independent Investigation Committee | The Board of Directors of Company resolved on April 20, 2017 to create an investigation committee comprised of outside experts without any interests in the Company, to improve the objectivity and credibility of the investigation into the Matter. |
| Third Party Settlements | When FXNZ wins a customer from a competitor, the payment FXNZ makes on behalf of the customer to pay the lease balance the customer has at the time with the competitor it had a contract with. This is believed to be an industry practice. |
| Target Volume(s) | The monthly target copy volume regarding MSA or GCSA adopted at FXNZ. |
| Digital Forensics / Computer Forensics | The work of collecting and storing electronic data without compromising its probative value and then viewing the content of the collected electronic data. |
| Sales-type Lease | A type of lease accounting used by the lessor side under US GAAP. Income is accounted for in one lump sum when the lease begins, using an amount equal to the sale price of the lease asset. |
| Matter | The possibility that there were problems with the appropriateness of accounting practices in terms of accuracy and collectability, etc. regarding receivables in relation to certain lease transactions in or before fiscal 2015 by FXNZ. |
| (Contract) Rollover(s) | Transition from an MSA or GCSA, which has a contract term of several years, to a new contract at a lower unit price before the initial contract expires in order to record a new sale of equipment. |
| AGM | Annual General Meeting |
| APO | FX's Asia Pacific Sales Headquarters or Asia Pacific Operation |
| CAAT | Computer Assisted Audit Techniques. Techniques that utilize computers to audit data stored in computer systems. |
| CEO | Chief Executive Officer |

| | |
|---|---|
| CFO | Chief Financial Officer |
| CS | Customer satisfaction |
| DFAT | Department of Foreign Affairs and Trade (the Australian government ministry for trade). A customer of FXA. |
| DSG | Document Services Group (a type of contract) |
| ES | Employee satisfaction |
| FF | FUJIFILM Corporation |
| FH<br>(the Company) | FUJIFILM Holdings Corporation |
| FX | Fuji Xerox Co., Ltd. |
| FXA | Fuji Xerox Australia Pty. Ltd. |
| FXAP | Fuji Xerox Asia Pacific Pte Ltd. |
| FXNZ | Fuji Xerox New Zealand Limited |
| GCSA | Graphic Communications Service Arts Agreement (a type of contract) |
| GS Agreements | Global Service Agreements. A form of lease transaction agreements offered by FXA that include delegated services ranging from comprehensive office services such as printing to just a part of such services outsourced by a client |
| MD | Managing Director |
| MSA | Managed Service Agreement (Contract) (A contract consolidating equipment sales and maintenance service, etc. for collecting monthly copy charges to cover equipment charges, consumable charges, maintenance charges and interest.) |
| NBR | The National Business Review (an economic newspaper in New Zealand) |
| OPCO(s) | Operating Company(ies) (sales operating companies such as FXNZ, FXA etc.) |
| R&O Spreadsheet | Risk & Opportunity (R&O) Spreadsheet. FXA used these spreadsheets to manage items in the financial statements that constituted risks. |
| Tony Night | The sender of a whistleblowing email; the sender is as yet unidentified. |
| XC | Xerox Corporation Ltd. |