FUJIFILM Holdings Corporation
Kenji Sukeno
President and Chief Operating Officer

July 13, 2018

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

Following the "Improvement Report" submitted on December 11, 2017, FUJIFILM Holdings Corporation submitted the "Improvement Status Report" detailing the status of implementation and operation of improvement measures to Tokyo Stock Exchange, Inc. on June 25, 2018.

Attached is the English translation of the report.

[English translation for information purpose only]

Improvement Status Report

June 25, 2018

This document is an English translation of the Improvement Status Report (the “Status Report”) submitted to the Tokyo Stock Exchange by FUJIFILM Holdings Corporation (“the Company”) dated June 25, 2018. The Status Report in Japanese is the original and this English translation shall be used only for reference purposes. Due to the limitation of time for the preparation of the English translation, this document is subject to further review and change. In the event of any discrepancy between the Japanese original and this English translation, the Japanese original shall prevail. The Company makes no assurance and warranty with respect to the completeness and accuracy of this English translation and assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising out of the translation.

[English translation for information purpose only]

Improvement Status Report

June 25, 2018

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

FUJIFILM Holdings Corporation
Kenji Sukeno, President and Chief Operating Officer

The Company submits this improvement status report detailing the status of implementation and management of the improvement measures being taken in connection with the improvement report submitted on December 11, 2017 (the “Improvement Report”) pursuant to Article 503, Paragraph 1 of the Securities Listing Regulations of Tokyo Stock Exchange, Inc.

Table of Contents

1. Sequence of events up to submission of the Improvement Report

(1) Reasons for submission of the Improvement Report and 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. In addition, the Company submitted the Improvement Report detailing the background of and improvement measures for the matter on December 11, 2017 pursuant to Article 502, Paragraph 3 of the Securities Listing Regulations of Tokyo Stock Exchange, Inc.

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:

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

Fiscal year (Unit: million yen)

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	552	(95)	457	457	914

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

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.

(6) 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

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

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.

In the 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 the 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 the 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 and Status of Implementation and Management Thereof, Etc.

(1) Improvement measures stated in the Improvement Report and status of implementation and management thereof

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 status of implementation and management of those measures are stated below for each of the five issued-based projects: i. strengthening management of group companies (p. 34-); ii. strengthening accounting (p. 51-); iii. strengthening auditing (p. 56-); iv. strengthening compliance (p. 58-); and v. IT policies aimed at strengthening group governance (p. 63-).

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

Improvement measures (stated in the Improvement Report submitted in December 2017):

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 corporate auditors 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.

Status of implementation and management (after submission of the Improvement Report in December 2017):

We began implementing (i) above in September 2017, and at the Company's board of directors meetings held in October 2017 and May 2018, half-yearly reports were given on the following matters at the FF and FX groups, which were previously not subject to reporting: (i) compliance breaches; (ii) risk matters, (iii) whistleblowing; and (iv) plans for, and the implementation status of, internal audits of group companies by the Company's Global Audit Division. With respect to (ii) above, we planned presentations to explain our business and tours of our offices, and following the reelection of officers in June 2017, we held an exchange of opinions with top management and a presentation to give an outline of our business (July), a presentation to explain our R&D strategy and a tour of our Open Innovation Hub (August), a tour of the Toyama plant of Fuji Xerox Manufacturing Co., Ltd. (November), a presentation to explain our document solutions business and a tour of FX's Graphics Business Development Center in Ebina (December), a tour of the FX office in Shin-Yokohama (Minatomirai) (March), and a presentation to explain our pharmaceutical business (March), holding four more such events compared to the previous year and improving the content of those events.

Date held	Details	Participants*
July 26, 2017	Exchange of opinions with top management and a	Outside directors: 3

	presentation to give an outline of our business	
August 14, 2017	Presentation to explain our R&D strategy and the tour of our Open Innovation Hub	Outside directors: 3
November 29, 2017	Tour of the Toyama office of Fuji Xerox Manufacturing Co., Ltd.	Outside directors: 1 Outside Audit & Supervisory Board Members: 2
December 8, 2017	Presentation to explain our document solutions business and a tour of FX's Graphics Business Development Center in Ebina	Outside directors: 2 Outside Audit & Supervisory Board Members: 2
March 9, 2018	Tour of the FX office in Shin-Yokohama (Minatomirai)	Outside directors: 2 Outside Audit & Supervisory Board Members: 2
March 29, 2018	Presentation to explain our pharmaceutical business	Outside directors: 3 Outside Audit & Supervisory Board Members: 2

* The Company has three outside directors and two outside Audit & Supervisory Board Members.

With respect to (iii) above, previously the Company's outside directors and corporate auditors were given a prior explanation of the board of directors meeting on the day of the meeting; however, since March 2017, materials are sent to all directors in advance at an earlier time, and board of directors meetings proceed based on the details of questions that were raised during the prior explanation given based on those materials.

Previously, the Company operated its business giving the utmost respect to FX's independence based on trust in, and respect for, FX; however, as a result, the management system for managing group companies was insufficient. However, through the measures detailed above, the Company's board of directors has been able to ascertain the status of risk compliance matters necessary for managing group companies. Furthermore, the Company believes that the supervisory functions of its board of directors have been strengthened through such means as increasing understanding among outside directors of the actual business conditions of, and the status of risks for, the Company group, including FX, and increasing the number of opportunities to speak at board of directors meetings.

b. Formulation of the FH Group Prior Reporting Regulations

Improvement measures (stated in the Improvement Report submitted in December 2017):

As part of the Company's strengthening of management of group companies, we have newly formulated the "FH prior reporting regulations of 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.

Status of implementation and management (after submission of the Improvement Report in December 2017):

These regulations began to be implemented in October 2017; the Company's directors who concurrently serve as directors of both FF and FX, in the course of everyday business operations at each company, ascertain the details of reports from the viewpoint of directors of the Company and closely provide instructions for additional actions in advance, and these are just some of the ways in which it is believed that the management of group companies has been strengthened not only in terms of prior reporting to certain directors, etc. of the Company. The Company's newly established Subsidiaries Administration Division has created a list of the matters subject to prior reporting and conducts checks after board of directors meetings are held to make sure that the regulations are being implemented without any reporting omissions.

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

Improvement measures (stated in the Improvement Report submitted in December 2017):

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.

Status of implementation and management (after submission of the Improvement Report in December 2017):

The Company's Subsidiaries Administration Division supervises the status of group companies management as follows.

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

The Company's Subsidiaries Administration Division makes the standards for authority on approvals of each of FF and FX consistent in order to ensure that the approval regulations are based on the Company group's policies. This has also been reflected in the June 2018 revisions as well, on instruction to amend the revision details of the All-FX Communication Matrix Regulations, regulations applicable to all FX companies that set out reporting obligations and approval authorities for material matters relating to FX group companies ("**Com-Mat**"), so that standards, etc. for recording allowances for doubtful debts are based on the Company group's policies (refer to "(b).c Revision of approval regulations within groups" for details of these regulations).

Furthermore, the Company's Director and the head of the Subsidiaries Administration Division, who concurrently serves as a director of FX, ascertains the outline of matters from the viewpoint of the head of the Subsidiaries Administration Division of the Company and closely provides instructions for additional actions in advance, in the course of everyday business operations at FX.

Each month, the Company's Subsidiaries Administration Division confirms whether there are any changes to the approval regulations of each of FF and FX and creates, and manages, a list of the matters for approval under the approval regulations of each of the FF and FX Groups.

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

The Company's Subsidiaries Administration Division collects from each of FF and FX the materials from board of directors meetings and management meetings, ascertains the status and details of those meetings, and is continuing its monitoring in order to request detailed reporting and additional actions in the case of any unclear or problem points; however, no problems have been found at present.

(iii) Monitoring the status of FF's and FX's management of subsidiary company performance

By participating in the monthly reporting meetings held by each of FF's Corporate Planning Department and FX's Subsidiaries Administration Office, confirming the details of discussions, and instructing that additional confirmations be carried out, the Company's Subsidiaries Administration Division is ascertaining the management status of group companies and continuing its monitoring of the management status of FF's and FX's subsidiaries (refer to "(b).a Broadening performance management items and regular monitoring" for the implementation status of these measures).

Although the Company was previously unable to adequately ascertain information on the FX Group, as a result of the measures set out above, the Company is now able to acquire necessary information when required.

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

<u>Improvement measures (stated in the Improvement Report submitted in December 2017):</u>

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 Senior General Manager of the newly established Asia Pacific and China Regional Headquarters.

<u>Status of implementation and management (after submission of the Improvement Report in December 2017):</u>

In June 2018, we increased the number of directors dispatched from the Company to FX by one (specifically, two newly assumed office and one retired), meaning that seven of the twelve directors of FX are currently dispatched from the Company; we also increased the number of corporate auditors dispatched from the Company to FX by two, meaning that three of the four corporate auditors of FX are currently dispatched from the Company. Furthermore, we dispatched one additional full-time executive officer in April 2018 and two additional full-time executive officers in June 2018 (specifically, three newly assumed office and one retired), meaning that seven of the 24 full-time executive officers of FX are dispatched from the Company.

Furthermore, two department head-level staff members were dispatched to FX group companies as follows:

Dispatched from	Dispatched to	Commencement of dispatch period	Role at FX group company
The Company	FXAP	From March 2018	Senior Manager (in charge of internal auditing)
The Company	FXK	From March 2018	Executive Vice President (in charge of management and planning, and finance and accounting)

By having personnel of the Company be involved in top management and managerial level roles at FX, this has resulted in even closer collaboration between the Company and FX and the sense of solidarity for the Company group as a whole has strengthened.

e. Organizational consolidation of corporate departments

Improvement measures (stated in the Improvement Report submitted in December 2017):

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.

Status of implementation and management (after submission of the Improvement Report in December 2017):

We are continuing to implement our new organizational system (refer to "ii.(a) Consolidation of accounting functions" and "iii.(b) Consolidation of auditing functions with the Company and audits of all group companies" for the post-consolidation implementation status of each department).

We will continue to consider further organizational and functional consolidation of other corporate departments.

(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

Improvement measures (stated in the Improvement Report submitted in December 2017):

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.

Status of implementation and management (after submission of the Improvement Report in December 2017):

The measures outlined above began to be implemented, starting with the monthly reporting for October 2017, by the Subsidiaries Administration Office newly established within the Comprehensive Planning Group at FX, aimed at 73 domestic and overseas subsidiary companies. Although only income statements were reported under the previous monthly reporting, balance sheets, cash flow statements, and the balances of lease receivables were newly added as reporting items, meaning that financial soundness other than profit and loss is subject to checking. Furthermore, based on the fact that management of receivables was previously insufficient, cash conversion cycles have been set as a KPI, and high priority is given to checking that there are no large amounts of accumulated receivables. The Company's Subsidiaries Administration Division also participates in the monthly reporting meetings that are used to carry out this monitoring, and this division carries out checks and discussions of management issues with respect to the details of reports from each subsidiary. The Sales Planning Department, the department that manages domestic sales subsidiaries, and APO, which manages overseas sales subsidiaries, have started to be involved since the third monthly reporting meeting, so that the issues discussed can be integrated into actual operations.

Meeting Name	Date Held	Attendees
First Monthly Reporting Meeting	October 31, 2017	The Company: 3 people FX: 6 people
Second Monthly Reporting	November 29, 2017	The Company: 3 people

Meeting		FX: 7 people
Third Monthly Reporting Meeting	December 27, 2017	The Company: 3 people FX: 7 people
Fourth Monthly Reporting Meeting	February 6, 2018	The Company: 3 people FX: 7 people
Fifth Monthly Reporting Meeting	February 28, 2018	The Company: 2 people FX: 7 people
Sixth Monthly Reporting Meeting	March 30, 2018	The Company: 3 people FX: 6 people
Seventh Monthly Reporting Meeting	May 8, 2018	The Company: 4 people FX: 8 people
Eighth Monthly Reporting Meeting	May 31, 2018	The Company: 4 people FX: 9 people

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

<u>Improvement measures (stated in the Improvement Report submitted in December 2017):</u>

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 of FX overseas.

<u>Status of implementation and management (after submission of the Improvement Report in December 2017):</u>

With respect to (i), the Company's Corporate Planning Division began participating in FX's meetings for consideration of budgets (meetings held 12 times every half-year, where overall deliberation of FX's budget is carried out having consulted with each department and function) and meetings for consideration of business performance (meetings held twice per month, where the status of business performance and issues at FX are confirmed and measures for responding to issues are considered), and in addition to permeating a policy that places more importance on profits than sales, the Company is instructing that budgets be based on actual business conditions.

With respect to (ii) and (iii), commencing from the budget for FY 2018, the Company is conducting discussions with FX's Corporate Finance Department on the process and schedule for formulating budgets and facilitating communication, and in doing so, is aiming to further advance mutual understanding. Additionally, the Company's Director and the head of the Corporate Planning Division, who concurrently serves as FX's Executive Vice President, the Company's Director and Senior Executive Vice President, who concurrently serves as FX's Deputy President, and FX's Corporate Vice Presidents dispatched from the Company are all participating in the budget process and are looking into, providing instructions for additional analysis of, and conducting other activities in relation to, the major causes of disparities between budgets and actual business performance.

With respect to (iv), we began granting system access rights to the Company and the FX Corporate Finance Department in October 2017.

c. Revision of approval regulations within groups

Improvement measures (stated in the Improvement Report submitted in December 2017):

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.

Status of implementation and management (after submission of the Improvement Report in December 2017):

We have reviewed the details of Com-Mat, which sets out the reporting obligations and approval authorities for material matters relating to FX group companies by function, established and commenced implementation of the new "All-FX Communication Matrix Regulations," which apply to all FX companies, on October 1, 2017 and have notified the Presidents of all domestic and overseas affiliates in the form of a notice from FX President. The Subsidiaries Administration

Office under the Comprehensive Planning Group of FX is the group with the main responsibility over regulations, and with respect to material matters for the execution of operations of each affiliate company (including the appointment and dismissal of executive officers, organizational restructuring, and the disposition of material property), a system has been put in place for affiliate companies to obtain the prior consent of, or report in advance to, FX before carrying out final internal approvals (refer to “(d).d Ensuring transparency in the appointment of major human resources” for the implementation status of rules regarding executive officers of FX group companies). The implementation status is reported to the Company’s Subsidiaries Administration Division on a monthly basis.

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

Improvement measures (stated in the Improvement Report submitted in December 2017):

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.

Status of implementation and management (after submission of the Improvement Report in December 2017):

The measures set out above began to be implemented in October 2017, and at the FX board of directors meeting held in October 2017, a report was given on the status of activities to promote risk management and compliance. After that, the categories of matters subject to reporting (product related; operations and business related; information security; inappropriate activity and scandals; laws and regulations related; personnel and labor management; fires and accidents; natural disasters and terrorism; matters in which the Company was harmed; environment; and other) were unified between the Company and FX, and the second report was made at the FX board of directors meeting held in April 2018.

(c) Strengthening supervision by APO Corporate

Improvement measures (stated in the Improvement Report submitted in December 2017):

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.

Status of implementation and management (after submission of the Improvement Report in December 2017):

In the past, material matters at APO were effectively determined by the head of APO (Mr. G), FX's Deputy President (Mr. E), and FX's Executive Vice President (Mr. F) (who has experience working as the head of APO), and although APO held a wide range of authorities, there were insufficient supervisory functions in place at FX Headquarters, and based on our reflection that information of which APO was aware was not appropriately aligned with FX Headquarters at all times, we have strengthened collaboration between APO corporate staff and FX Headquarters and commenced sharing of APO's information and are responding to issues through the leadership of FX Headquarters (the response status by each of the General Administration, Legal, and HR departments is as follows). Furthermore, the Executive General Manager of the Asia Pacific and China Regional Headquarters receives direct reports from the APO corporate staff in each function, and in collaboration with FX Headquarters, is taking lead of local corporate functions.

General Administration: Monthly meetings in which the status of risk management is shared between the General Administration and CSR departments of FX Headquarters and APO General Affairs and MQO (Management Quality Office; risk management of overseas sales subsidiaries) began to be held in November 2017. Specifically, checks and the like have been carried out on the establishment status of a risk management committee in each country, on the progress of compliance awareness surveys, on issues from the CSR meetings held in November 2017, February 2018, and March 2018, and on the new system for risk management established in FY 2018.

Legal: Monthly meetings in which the status of compliance and governance at overseas sales subsidiaries is shared between FX's Legal Department and APO's Legal Department began to be held in December 2017. Specifically, consultations are held with APO's Legal Department on the specific operation standards (including main audit items, timing of audits, reporting of audit results at board of directors meetings, and relationship with internal audits) for activities of auditing committees at overseas sales subsidiaries.

HR: Matters that should be approved under Com-Mat (e.g., important personnel at sales subsidiaries at or above the head of department level) are communicated to FX Headquarters' HR Department each time in order to obtain approval prior to making an official decision, and with respect to other daily activities, monthly reports are submitted to the head of FX's HR Department. Specifically, with respect to the compliance breaches by overseas sales subsidiaries that were discovered through the activities to strengthen governance in the second half of FY 2017, the details of the disciplinary action were decided by FX Headquarters, taking into account the nature of the matter and the level of impact in terms of the company as a whole, in order to prevent recurrence by handling the breaches strictly.

With respect to accounting, we have integrated the functions of the accounting/corporate finance departments of each of FF, FX, and APO, and through organizational and functional integration, the Company has developed a unified operation system at the Company and is strengthening accounting functions. With respect to auditing, except for the Internal Audit Department of APO, we have integrated the internal audit functions of FF and FX; however, audit plans and audit results are also shared with the Internal Audit Department of APO and joint audits are conducted; in doing so, we are substantially carrying out unified operations and strengthening internal audit functions.

(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

Improvement measures (stated in the Improvement Report submitted in December 2017):

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.

<u>Status of implementation and management (after submission of the Improvement Report in December 2017):</u>

With respect to those measures above, as described in (i), from October 2017, we began to roll out implementation of a system at 14 overseas sales subsidiaries of FX whereby board of directors meetings are held four times per year. Furthermore, per (ii), we have added two directors (concurrent post), one person with experience in a corporate group of the Company or FX and one Internal Auditor affiliated with APO, to the board of directors of each overseas sales subsidiary, and per (iii), as of May 2018, we have obtained the approval of the board of directors of each overseas sales subsidiary for the establishment of an "audit committee" (a subordinate organ to the board of directors) at each overseas sales subsidiary comprised of the two directors described in (ii) appointed to that subsidiary, and we have developed a system where the status of major meetings other than the board of directors meetings, including management meetings, can be monitored and where the status of audits by audit corporations can be checked. Along with this, in order to strengthen auditing at each overseas sales subsidiary, each company has established "Internal Rules for the Operation of the Audit Committee" that set out the general outline of the method for running the audit committee, including the requirement that meetings of the audit committees be held four times per year, like board of directors meetings.

The Internal Auditors affiliated with APO were the ones mainly involved in preparing the FY 2018 schedule for the meetings of audit committees, collaborating with FX corporate auditors and the Company's Global Audit Division, setting out the common important audit items for all overseas sales subsidiaries and the important audit items specific to each company, and commencing the activities of the audit committees. In May 2018, audits of FXNZ and Fuji Xerox Document Management Solutions Pty. Limited ("**FXDMS**") were conducted by each company's respective audit committee, with the audits looking at (i) items indicated by past internal audits; (ii) important issues common to overseas sales subsidiaries (including collection of receivables, cutoffs, recording sales, personal crimes (embezzlement and the like)); and (iii) important issues specific to each company; however, no serious problems were found with either company (meetings of the audit committees of FXNZ and FXDMS are scheduled to be held in June 2018). The results of those audits will be deliberated at board of directors meetings, and per (iv) above, direct reports are scheduled to be given to the FX President and FX corporate auditors.

As described above, through an increase in the number of board of directors meetings held for FX overseas sales subsidiaries, through changes to directors, and through the holding of audit committee meetings, it is believed that supervisory and audit systems have been strengthened.

b. Supervision of CEOs of overseas sales subsidiaries

Improvement measures (stated in the Improvement Report submitted in December 2017):

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 or after September 2017. Looking ahead, we plan to identify those companies that need to strengthen their supervision and dispatch personnel.

Status of implementation and management (after submission of the Improvement Report in December 2017):

In addition to the dispatches from the Company that are described in "(i).d Increasing the number of, and dispatching new, officers, department heads, etc. dispatched from the Company to FX," FX has also dispatched personnel as follows to serve in the major positions at overseas sales subsidiaries, and by clarifying the fact that FX Headquarters has the rights of personnel management and by dispatching suitable personnel as needed, we believe that we have been able to strengthen supervision of CEOs of overseas sales subsidiaries. We will confirm as necessary the status of personnel dispatched from FX Headquarters to serve in the major positions at overseas sales subsidiaries and continue to consider additional dispatches of personnel in terms of strengthening internal controls.

Dispatched from	Dispatched to	Commencement of dispatch period	Role at overseas sales subsidiary
The Company	FXA	From July 2017	CFO
The Company	FXA	From December 2017	Chairman
The Company	FXAP	From March 2018	Senior Manager (in charge of internal auditing)
The Company	FXK	From March 2018	Executive Vice President (in charge of management and planning, and finance and accounting)
FX	FXK	From July 2017	Chairman
FX	FXNZ	From September 2017	Chairman

FX	FXTW	From December 2017	President (CEO)
FX	FXTH	From February 2018	President (CEO)
FX	FXP	From February 2018	President (CEO)
FX	FXMM	From February 2018	Executive General Manager (Branch Manager)
FX	FXTW	From February 2018	Senior Vice President (in charge of accounting and finance and compliance)
FX	FXV	From April 2018	President (CEO)

c. Ensuring independence of CFOs of overseas sales subsidiaries

Improvement measures (stated in the Improvement Report submitted in December 2017):

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.

Status of implementation and management (after submission of the Improvement Report in December 2017):

CFOs of overseas sales subsidiaries report directly to the Executive General Manager of the Asia Pacific and China Regional Headquarters on matters such as the actual conditions surrounding inadequacies, etc. in local work processes related to receivables management and returns and on the progress of improvements. Furthermore, with the aim of ensuring independence of CFOs of overseas sales subsidiaries, a system has been implemented in which the Executive General Manager of the Asia Pacific and China Regional Headquarters is directly involved in the final decision on the evaluation of the performance of CFOs, and the performance evaluation for FY 2017 was carried out in May 2018.

d. Ensuring transparency in the appointment of major human resources

Improvement measures (stated in the Improvement Report submitted in December 2017):

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).

Status of implementation and management (after submission of the Improvement Report in December 2017):

The implementation status of each improvement measure is as follows.

(i) Appointment of CEOs of FX overseas sales subsidiaries

After changes were made to the FX *Ringi* Approval Standard Table in June 2017, a total of 12 appointments of Chairmen and Presidents of 10 overseas sales subsidiaries have been resolved by management bodies of FX as of April 2018 (July 2017: FXK Chairman; September 2017: FXA Chairman and FXNZ Chairman; October 2017: FXNZ President; December 2017: FXA Chairman, FXS President, and FXTW President; February 2018: FXTH President, FXP President, and FXMM President; April 2018: FXM President and FXV President). Furthermore, on this occasion, the appropriateness of the level of remuneration for locally hired personnel has been confirmed through market benchmarks.

(ii) Strengthening awareness of compliance in those people being appointed to major posts at overseas local subsidiaries

As of November 2017, we completed education on the code of conduct for, and the roll out of the code of conduct guidebook (overseas version) to, people being appointed to major posts at overseas local subsidiaries, and in January 2018, the compliance-related departments at FX Headquarters joined together to carry out face-to-face risk management and compliance education (one day) for the CEOs of overseas sales subsidiaries. We are aiming to increase awareness of compliance among these CEOs, as the people with responsibility over overseas local subsidiaries, and will have the CEOs submit their commitment in written form.

(iii) Reporting to, and obtaining approval from, FX Headquarters for the appointment of important personnel at and below the director level

As described in “(b).c Revision of approval regulations within groups,” we revised Com-Mat in October 2017 and have made it rule that the appointment of directors of FX subsidiaries requires approval of the FX President and appointment of executive officers and positions equivalent to important personnel requires the approval of the Officer in charge of HR at FX. As of April 2018, we have given prior approval for the appointment of three major posts at overseas sales subsidiaries (April 2018: the person responsible for sales at FXTW and the person responsible for sales at FXTH; May 2015: the person responsible for marketing at FXS). The appointment of the person responsible for accounting at each overseas sales subsidiary has been made a matter requiring approval of the FX President, and five such roles have been appointed (October 2017: FXA; December 2017: FXP and FXS; February 2018: FXTW; and March 2018: FXTH).

e. Changes to remuneration system

Improvement measures (stated in the Improvement Report submitted in December 2017):

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.

Status of implementation and management (after submission of the Improvement Report in December 2017):

With respect to the bonus of the CEO of each overseas sales subsidiary, with the approval of the Officer in charge of HR at FX, a remuneration system that incorporates evaluation items that utilize non-financial indicators, such as compliance, has been applied to each CEO since the evaluation for the second half of FY 2017 (October 2017 to March 2018). Furthermore, we are making it a requirement to report to FX Headquarters on the remuneration of executive officers other than CEOs and are confirming appropriateness through market benchmarks and the like. Looking ahead, we plan to continually confirm the appropriateness of remuneration based on the regular reporting system that was introduced on this occasion.

ii. Strengthening accounting

(a) Consolidation of accounting functions

Improvement measures (stated in the Improvement Report submitted in December 2017):

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 Corporate 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.

Status of implementation and management (after submission of the Improvement Report in December 2017):

After the integration, the groups within the Company's Accounting Division that had previously been separately organized within each of FF and FX (including the consolidation group, tax group, and financial group) were reorganized into nine joint groups of the companies, and the exchange of personnel and information was encouraged through means such as regular meetings among group leaders and within groups (including discussions on policies for how to deal with new revenue recognition standards and next-generation accounting-related systems). Also, each group endeavors to mutually understand the details of the business conducted by the other groups and works with them to realize business efficiency and quality improvement. Compared with before the integration, the quality and quantity of communication and information have improved, and control functions to secure the appropriateness of accounting practices have been strengthened. In addition, the Company is not only working on strengthening of the control functions but is also tying this into strengthening FX accounting functions in general, by promoting the standardization of and improvement of efficiency in work processes for enhancing the quality and productivity of accounting work.

With respect to FX overseas sales subsidiaries, the Company will examine strengthening the accounting and management functions, including temporary staffing, while facilitating the service sharing for accounting (by unifying accounting process, cost settlement process and other processes).

(b) Improving accounting practices and work processes

Improvement measures (stated in the Improvement Report submitted in December 2017):

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 formulated an overall policy on improving and evaluating J-SOX, revised work process controls and considered evaluation items, and endeavored to revise work process controls from FXNZ and FXA where this matter arose.

Status of implementation and management (after submission of the Improvement Report in December 2017):

a. Criteria for revenue recognition

In order to reinforce the existing rules on revenue recognition, notices were delivered to domestic sales functions, including domestic sales subsidiaries, in October 2017 and January and March 2018 and to overseas sales subsidiaries in November 2017 and March 2018. In addition, with the aim of strengthening the internal controls for revenue recognition, documents certifying the completion of installment of machines and provision of services were added as vouchers to the revenue recognition of machines and services.

Subsequent to that, with respect to the revenue recognition for March 2018, we verified the operational status by cut-off tests and confirmed that there is no issue in the internal controls.

b. Accounting practices for valuation of receivables

With a view towards improving work processes for valuation of receivables, FX Headquarters established requisite internal controls for claims for account receivables and receipt applications at each location to provide improvement instructions, and each such location implemented the improvements. In December 2017, FX's Corporate Finance Department conducted audits of main overseas sales subsidiaries (FXPC-A, RFPC-K, FXPC-S, FXK, FXTW and FXDMS) and confirmed the status of their compliance with the improved internal controls. As a result, there were no material issues found in the internal controls.

In addition, with respect to FXS, FXTH and FXM, which especially had issues in the management of receivables, the internal controls of work processes for claims and receipts were strengthened in order to prevent any future occurrence of accumulated receivables, and procedures to confirm outstanding receivables were established in order to take adequate accounting measures against past accumulated receivables.

With respect to the revision of work process controls, an overall implementation schedule and evaluation system were formulated in October 2017. Furthermore, we implemented the audits and J-SOX-based checks of FXNZ and FXA and confirmed that the work processes of company-level controls and lease classifications realized through an introduction of monthly monitoring of financial data and whistleblower system are operating in an appropriate manner.

(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

Improvement measures (stated in the Improvement Report submitted in December 2017):

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.

Status of implementation and management (after submission of the Improvement Report in December 2017):

In January 2018, a General Manager, Regional Leasing Operations and lease managers for each overseas sales subsidiary were appointed. In connection with this, a lease policy (rules for accounting practices) and lease business guidelines (which provide for work processes and procedures in lease transactions, including escalation rules) were formulated; the lease policy began to be enforced in November 2017 and the lease business guidelines in February 2018 respectively.

The status of lease cases and the application of the lease policy and the lease business guidelines are being confirmed on a continuous basis by the General Manager, Regional Leasing Operations and lease managers in each country.

b. Changes to contract management processes

Improvement measures (stated in the Improvement Report submitted in December 2017):

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).

Status of implementation and management (after submission of the Improvement Report in December 2017):

In light of the past situation where the approval processes for changing terms and conditions of the standard lease agreement were unclear, the “Lease Business Guideline,” established in February 2018, provides for review processes and matters to be checked. In reviewing lease agreements, the authority to approve will be escalated based on the level of importance and risk of each such agreement in accordance with the provisions of the “Lease Business Guideline.” The “Lease Business Guideline” also describes points of caution with respect to agreement terms and conditions that deviate from those of standard agreements, and instructs that terms and conditions that entail especially high risk must be checked by legal departments.

In addition, with the aim of attaining thorough compliance with the “Lease Business Guideline,” we sought to make the contents of the guideline thoroughly known to the employees by holding an explanatory session in February 2018. The reviewing of lease transactions under the guideline commenced in February 2018 and it is confirmed that the reviewing has been operating without problem.

iii. Strengthening auditing

(a) Strengthening auditing of group companies by the Company’s corporate auditors

Improvement measures (stated in the Improvement Report submitted in December 2017):

With the aim of strengthening auditing by corporate auditors, we have decided to proceed with the development of a framework for auditing by corporate auditors that covers the whole of the Company group and that clarifies the roles of corporate auditors at each group company under the instruction and coordination of the Company’s corporate auditors.

Status of implementation and management (after submission of the Improvement Report in December 2017):

The Company’s Audit & Supervisory Board Office composed of 6 corporate auditors was established in September 2017 in order to strengthen support functions for the Company’s corporate auditors, to implement and strengthen auditing systems, and to collect various kinds of information, including via periodic reports and the like. Furthermore, in December 2017 we formulated the “Basic Principles for Auditing by Audit & Supervisory Board Members of Group

Companies" which set out the new auditing framework of the Company group, and in February 2018, the "Basic Principles for Auditing by Audit & Supervisory Board Members of Group Companies" that set out, among other things, workflows for auditing of group companies by corporate auditors and where to report the results of auditing.

In particular, in the "Basic Principles for Auditing by Audit & Supervisory Board Members of Group Companies," we introduced a new auditing framework in which a managing system and reporting system are established in each group company for its corporate auditors, separate from the executive functions of each such company and with the Company's corporate auditors at the top. In addition, with the aim of strengthening information sharing and cooperation among corporate auditors, we decided to hold information-sharing discussion meetings among the full-time corporate auditors of the Company and of FX twice or more each month. Furthermore, in order to further enhance the auditing activities of corporate auditors of group companies and to ensure seamless communication among the corporate auditors, we have decided to hold corporate auditor communication meetings twice a year among the full-time corporate auditors of the Company, the head of Audit & Supervisory Board Office of the Company, and the corporate auditors of group companies.

In March 2018, the Company's corporate auditors held the first such communication meeting by assembling the corporate auditors of those group companies within Japan which already have corporate auditors and their corporate auditors were able to be convened. At the meeting, the group company corporate auditors in attendance were requested again to be conscious that they are in a position to play an important role in internal control of the Company group, and were also informed of the workflows for auditing and where to report the results of auditing by group companies under the new auditing framework in accordance with the "Basic Principles for Auditing by Audit & Supervisory Board Members of Group Companies" and "Basic Principles for Auditing by Audit & Supervisory Board Members of Group Companies." In addition, for the overseas group companies that do not have a corporate auditor system, the Company selects divisions or individuals that perform the duties equivalent to that of corporate auditors and proceed to begin operation of a managing system and reporting system for the functions equivalent to corporate auditors at such group companies in the same way as with group companies in Japan (with the Company's corporate auditors at the top), and the Company intends to convene a communication meeting for such overseas group company members within this fiscal year.

Also, the Company has increased the frequency (i.e., from quarterly to monthly) of the face-to-face sessions with FX corporate auditors and heads of major corporate departments (finance and accounting, HR, legal, CP&RM) and with full-time corporate auditors of each group company in Japan, thereby strengthening the monitoring system of each group company by FX corporate auditors. Specifically, from the latter half of last year, the Company conducted local site visits to

16 locations such as overseas sales subsidiaries including FXNZ and FXA, and confirmed or otherwise reviewed the progress of improvements being made on problematic areas and the progress of rollout of corporate governance measures that have been deployed throughout all overseas sales subsidiaries, and, in addition to this, the results of the foregoing confirmations, etc. by the FX corporate auditors were reported at regular meetings and the like with the Company's corporate auditors in accordance with the "Practical Guidelines for Auditors by Corporate Auditors." Moreover, the Company intends to confirm the status of the local management systems and the activities of local audit committees by having the audit committee members dispatched locally act as contact points, while the FX corporate auditors receive periodic reports (once a quarter) from each audit committee or receives reports on individual matters on internal audit results and the like of local locations.

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

Improvement measures (stated in the Improvement Report submitted in December 2017):

With the aim of strengthening auditing, we have decided to consolidate the internal audit functions 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.

Status of implementation and management (after submission of the Improvement Report in December 2017):

In September 2017, the Company established a Global Audit Division that is composed of 56 staff members and has made the Division commence performance of integrated auditing. Upon this establishment, as described above, the Company has dispatched one staff member of the Company's Global Audit Division to FXAP since March 2018. By appointing the dispatched staff member to lead the auditing unit at FXAP, the Company has increased the number of staff members in the FXAP auditing unit to 4 members in total, thereby strengthening the auditing function in the Asia Pacific region. The Company devised the internal audit plan for the second half of FY 2017 and reported the plan to the Board of Directors at its meeting held in October. The Global Audit Division performed audits of 34 domestic companies and 40 overseas companies during the period from September 2017 to March 2018 in accordance with the plan. According to the internal audit plan for FY 2018, the Global Audit Division plans to conduct audits of 32 domestic companies and 59 overseas companies. Also, in March 2018, the Company formulated "Internal Audit Charter" and an "Internal Audit Implementation Guidance", which redefine the roles and other relevant matters of internal audits within the Company group. Further, the Company has completed trial use of CAAT and computer forensics in order to strengthen the auditing function and perform comprehensive and effective auditing, and has now adopted and started using them in the internal audits of domestic group companies since January 2018 (please refer to v.(a) (Development of monitoring environment at each group company) for more details), and the Company intends to introduce these methods at its overseas group companies in the future.

As described above, the Company believes that it has been able to achieve strengthened and more effective auditing functions through the implementation of auditing of the whole Company group by the Company's Global Audit Division, as well as through the use of CAAT and computer forensics that enable the Company to conduct comprehensive and effective auditing.

iv. Strengthening compliance

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

<u>Improvement measures (stated in the Improvement Report submitted in December 2017):</u>

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.

Status of implementation and management (after submission of the Improvement Report in December 2017):

With regard to compliance education, in addition to the training implemented for all employees of the Company through to November 2017, we have since then continued education for raising awareness of compliance for all employees of the FX Group. At present, all of the officers and the heads of organizations of FX, as well as the presidents of all subsidiaries, such as domestic and overseas sales companies, have made declarations of their belief or policy regarding compliance as a commitment, and are carrying out activities for keeping each relevant organization informed of such matters, including about compliance breaches and expected risks.

The awareness survey was conducted during the period from December 2017 to January 2018, targeting 93,000 employees at 320 organizations, and almost all of the employees responded to the survey (response rate: 98%). The results showed that, in general, the degree of understanding and awareness of compliance of the Company's group as a whole was high. Going forward, we will conduct a detailed analysis of the awareness survey and, based on the results of the detailed analysis, carefully examine the questions and target companies and then conduct an additional survey as soon as the relevant preparations are complete.

(b) Strengthening awareness of accounting compliance

Improvement measures (stated in the Improvement Report submitted in December 2017):

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 overseas companies, respectively.

Status of implementation and management (after submission of the Improvement Report in December 2017):

Notice of the implementation of accounting compliance training was sent to CEOs and CFOs of the group companies from the General Manager of FH's Accounting Division on December 21, 2017 for domestic companies and on February 15, 2018 for overseas companies. Training through e-learning commenced on January 4, 2018 for domestic companies and training through video-on-demand commenced on March 1, 2018 for overseas companies. The status of participation is as follows.

Domestic participation rate: 100% (all of the 220 expected trainees have finished taking the training)

Overseas participation rate: 100% (all of the 164 expected trainees have finished taking the training)

In the future, we will continue these measures for other personnel who are engaged in accounting affairs and sales MDs by incorporating the content in the training for new employees and in group training.

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

Improvement measures (stated in the Improvement Report submitted in December 2017):

From the perspective of ensuring the effectiveness of our whistleblowing systems, we decided to newly establish a whistleblower hotline 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.

Status of implementation and management (after submission of the Improvement Report in December 2017):

In the past, each group company had its own whistleblowing system, but now we have established a separate whistleblowing system under which all employees of the Company group are able to directly report issues to the Company. The whistleblower hotline is outsourced, and the system operates in such a way that all of the reports made to the outsourced company are reported to the Company's CSR Group.

The operation of the whistleblower system commenced in November 2017 in Japan, in December 2017 in China and the Asia-Pacific region, and in January 2018 in North America. We received 21 reports during the period from November 2017 to March 2018 (20 cases (11 domestic cases and 9 overseas cases) out of the 21 reports were related to FX).

For European regions, we plan to commence the operation of the system during the first half of 2018 after taking measures in response to personal information protection laws and regulations and the like.

In addition, together with the commencement of the Company's whistleblower hotline, each of the Company's group companies reviewed the whistleblower system used in their relevant companies and regions, and developed a whistleblower system that is easier for employees to utilize. We endeavor to keep all employees informed of the Company's whistleblower hotline by posting information on the Company's group-wide newsletter and group-wide intranet, sending emails, and other means.

(d) Development of risk management systems

Improvement measures (stated in the Improvement Report submitted in December 2017):

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.

Status of implementation and management (after submission of the Improvement Report in December 2017):

At the Company, the CSR Committee Policy, in which the structure and roles of FH's CSR Committee are defined, were newly established in August 2017, and the FUJIFILM Holdings Group Risk Management Regulations were newly established in March 2018. In accordance with these Rules, we established and operate a system under which we receive a report on risks from FX each time any risk is detected. FF newly established the FUJIFILM Group Basic Regulations on Risk Management in April 2018.

The FX Group amended the All-Fuji Xerox Risk Management Rules in October 2017. Specifically, the Rules contain new provisions including (i) the obligation of each company, including FX, to establish a risk management committee, (ii) the obligation of escalation to the Company upon the occurrence of any material issues, and (iii) the requirement to clarify responsibilities of risk owners.

As a result, as of December 2017, all of the 73 group companies of FX have completed the restructuring of their risk management systems, including the establishment of risk management committees. In addition, in accordance with the Crisis Escalation Guidelines that supplement the All-Fuji Xerox Risk Management Rules, issues with a certain or higher level of risk (risk matters) are examined at the risk management committee of the relevant company and then reported to FX Headquarters' Risk Management Committee (a consultative body that assists FX's CSR Committee and mainly composed of department heads at FX Headquarters) through a person responsible for risk management at that company. The Company receives reports from FX on the status of occurrence of risk matters and measures to prevent recurrence at weekly meetings held among the risk management departments at the Company, FF, and FX, but any matters that FX determines to be important are escalated to the Company each time such matter occurs, before the weekly meeting is held.

Further, matters that would cause significant impact were brought to the meetings of FX's CSR Committee held in November 2017, and February and March 2018, where how to handle the matters and measures to prevent recurrence or the like were deliberated on and decided. In addition to the above, in order to further strengthen risk management and compliance, the Compliance & Risk Management was organized as a department of FX Headquarters in April 2018 by integrating risk management functions and compliance functions that had in the past been allocated to the General Affairs and the Legal Department, respectively.

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

Improvement measures (stated in the Improvement Report submitted in December 2017):

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.

<u>Status of implementation and management (after submission of the Improvement Report in December 2017):</u>

In order to enable more efficient and effective management of the measures set out in i. through iv. above upon implementation thereof, we implemented the following three IT policies.

First, in order to develop the environment for monitoring the status of management at each group company, the granting of system access rights that enables the Company and FX's Corporate Finance Department to directly access budget and actual performance information of FX's overseas subsidiaries has been completed as of December 2017.

Second, for the same purpose as the above, development of an environment for file sharing that enables the Company to access the monthly reports of FF and FX has been completed as of December 2017. Also, in April 2018, the automation of regular work by utilizing RPA (robotic process automation) was implemented as an IT measure for improving the efficiency of monthly report preparation by FX subsidiaries.

Third, in order to develop the environment for monitoring important matters as a group, we developed a system for applications by FF subsidiaries for obtaining proposal approvals from FF, which in the past was a paper-based process, and the operation for domestic group companies commenced in May 2018. For overseas group companies, systems for applications for obtaining proposal approvals within each region are being constructed at the initiative of the relevant regional headquarters, so we plan to consider future measures based on the status of development.

In addition, applications made by FX subsidiaries to FX are thoroughly managed by registering the applications by the subsidiaries in the same system at FX Headquarters. Reports from FF and FX to the Company are made through a paper-based process from the perspective of cost effectiveness because the number of cases and parties concerned are limited.

With regard to the utilization of IT in internal audits, our policy is to commence a phased application of CAAT to group companies in FY 2018, and we have commenced providing core system data (such as data regarding the purchases, production, sales, and inventory of each company) to the Global Audit Division. At the present stage, the provision of data is made through a manual process, and we are considering the possibility of automation of the process in preparation for the expansion of the scope of audit. We will formulate a systematization plan by September 2018, including the development of anomaly detection functions.

Also, with regard to computer forensics, we implemented a functional validation of a system that efficiently detects wrongdoing by steadily monitoring emails of group companies. We commenced the construction of system operation in April 2018 and, in the future, we will commence the monitoring of domestic group companies by September 2018, add functions for overseas bases by December 2018, and extend the scope of monitoring to include overseas group companies in due course.

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

<u>Improvement measures (stated in the Improvement Report submitted in December 2017):</u>

In connection with the improvement in accounting practices, reinforcement of the rules on revenue recognition, and our review of the 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.

<u>Status of implementation and management (after submission of the Improvement Report in December 2017):</u>

As a short-term measure, specific requirements for the current IT system have been confirmed with corporate finance and accounting departments as of June 2018 in order to ensure that the reviewed operational rules and processes are implemented. We plan to start with high priority measures, namely measures to enhance the management of lease transactions and receivables, in due course by the end November 2018.

Toward the integration of core systems as a medium-to-long-term measure, we plan to formulate a systematization scheme by September 2018.

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

<u>Improvement measures (stated in the Improvement Report submitted in December 2017):</u>

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).

Status of implementation and management (after submission of the Improvement Report in December 2017):

We have implemented the following measures to develop infrastructure for communication within the group.

- We completed the development of an in-house portal platform, which is a doorway to information sharing within the group, in October 2017.
- We completed the development of the environment for file sharing among the Company, FF, and FX in December 2017.
- We commenced the sharing of telephone number and email address information among the Company, FF, and FX in April 2018. We plan to formulate a scheme for the sharing of schedules by September 2018.
- In March 2018, we completed the development of a network environment that enables the Company and FF to use FX's operational system, in addition to the existing network used by FX to use FF's operational system. Also, we plan to develop a network environment at the Tokyo Midtown headquarters that provides access to FF's and FX's systems from all floors by July 2018.

(2) Company's assessment of the status of implementation and management of improvement measures

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 July 2017.

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. Then, the Company has been working not only at steadily implementing such improvement measures, but also at 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 considers that these measures have steadily produced results. Since July 2018, we will change the system for promoting these improvement activities from the previous system, in which the Committee for Strengthening Governance took initiative, to one in which each department takes responsibility for conducting these activities itself under the supervision of the Company's board of directors, and each department will continue and promote these activities as its part of daily operations.

From June 2018, the Company plans to increase the number of outside directors of the Company by one and newly establish the Nomination and Compensation Committee, in which an outside director will serve as the chair, in order to improve deliberations at the meetings of the board of directors and enhance the transparency of the management decision making process by more actively utilizing outside directors. In addition to continuing to maintain the improvement measures that we have undertaken thus far, we will make efforts to further strengthen governance with the aim of regaining trust. The Company will also 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 US GAAP. 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 (the Company)	FUJIFILM Holdings Corporation
FX	Fuji Xerox Co., Ltd.
FXA	Fuji Xerox Australia Pty. Ltd.
FXAP	Fuji Xerox Asia Pacific Pte Ltd.
FXDMS	Fuji Xerox Document Management Solutions Pty. Limited
FXK	Fuji Xerox Korea Company Limited
FXM	Fuji Xerox Asia Pacific Pte. Ltd. (Malaysia Operations)
FXMM	Fuji Xerox Asia Pacific Pte. Ltd. (Myanmar Branch)
FXNZ	Fuji Xerox New Zealand Limited
FXP	Fuji Xerox Philippines Inc.
FXPC-A	Fuji Xerox Printer Channel Operations (Australia). A department of FXAP.
FXPC-K	Fuji Xerox Printer Channel Operations (Korea). A department of FXAP.
FXPC-S	Fuji Xerox Printer Channel Operations (Singapore). A department of FXAP.
FXS	Fuji Xerox Singapore Pre Ltd.
FXTW	Fuji Xerox Taiwan Corporation
FXTH	Fuji Xerox (Thailand) Co., Ltd.
FXV	Fuji Xerox Vietnam Company 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)
Open Innovation Hub	A business base established in Tokyo in 2014 as a venue for "co-creation" of new values with outside business partners. Open Innovation Hubs were established in Silicon Valley, the United States in 2015 and the Netherlands in Europe in 2016.
R&O Spreadsheet	Risk & Opportunity (R&O) Spreadsheet. FXA used these spreadsheets to manage items in the financial statements that constituted risks.
RPA	An abbreviation for "robotic process automation" (a type of technology that automates simple work).
Tony Night	The sender of a whistleblowing email; the sender is as yet unidentified.
XC	Xerox Corporation Ltd.