

Overseas Development: Current Status and Outlook

Fujifilm's business developments have their roots in its intensive efforts to expand its exports through the establishment of overseas sales bases from the late 1960s. Later, the Company commenced local production, primarily involving the finishing and packaging process, in the mid-1970s and then established full-scale manufacturing facilities in the 1980s. Having constructed a tripolar global system with facilities in Japan, the United States and Europe through these decades, Fujifilm has gained a strong foothold in overseas operations, which now cover more than 200 countries and regions throughout the world. Meanwhile, having begun full-fledged overseas businesses in the Asia-Pacific region during the 1990s, Fuji Xerox acquired China operations from U.S.-based Xerox Corporation in 2000. At present, Fuji Xerox is selling products and providing services overseas through strategic partnerships with overseas affiliated companies located in 12 countries and regions, including Singapore, South Korea, China and Australia.

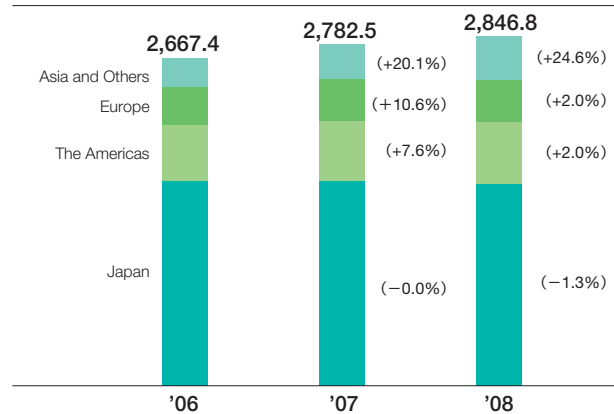
On a consolidated basis, the Company's revenue from external customers by geographical area is presented in the graph below. Revenue in Japan dipped 1.3% compared with

the previous fiscal year to ¥1,643.7 billion. The decrease was attributable to weak sales of color films and digital minilabs, which more than offset the robust performance of flat panel display materials and optical devices. Revenue in the Americas rose 2.0% year on year to ¥500.9 billion, mainly due to the strong sales of color digital multifunction devices to Xerox Corporation. Revenue in Europe improved 2.0% year on year to ¥347.0 billion, buoyed by favorable results in our graphic arts and medical systems businesses and the yen's depreciation against the euro and the sterling pound. Revenue in Asia and others surged 24.6% year on year to ¥355.2 billion, supported by healthy sales of color digital multifunction devices and graphic arts products.

Continuously recognizing the importance of its overseas development, the Company will intensively undertake operations with particular focus on Asia and other regions, which are experiencing rapid growth. Furthermore, we will strengthen our focus on other European countries, Russia and Eastern European countries, which are achieving robust economic growth.

Revenue from External Customers by Geographic Area

(Billions of yen, %)



Year ended March 31
Percentages in parentheses represent year-on-year changes in revenue of each category

Structural Reforms of European Operations and Future Development

Fujifilm first penetrated into overseas markets primarily through its Imaging Solutions business. The Company established a German subsidiary in charge of the comprehensive management of its European operations in 1966 and a manufacturing company in the Netherlands, which was tasked with manufacturing color paper and color films, in 1982. The establishment of overseas operations, including those mentioned here, represents our proactive approach toward overseas expansion, which we continued until the 1990s.

From the late 1990s, business environments in Europe underwent changes in line with the increase in the number of the EU member states. These changes accompanied the emergence of large-scale retailers in the pan-European region, which consequently enabled Fujifilm to win customers in a region with diverse countries and growing economic importance. To effectively respond to these external changes, the Company accelerated activities to improve operational efficiency in the region, which included the establishment of its European headquarters aimed at optimizing its business portfolio and streamlining its back-office functions.

Similar to other regions in the world, Europe experienced the rapid spread of digital cameras, which consequently led to a shrinking market for color films. Under such circumstances, Fujifilm took a bold step in implementing drastic reforms in the fiscal years ended March 31, 2006 and 2007, particularly for its Imaging Solutions business. This approach has been in line with our goal of accelerating management on a consolidated basis in the pan-European region. And this goal has enabled us to adjust to macro-environmental changes and tackle European markets that keep expanding their influence in the global market. Furthermore, the consolidated

management structure is helping us to view all of Europe as one huge market and thereby secure consistency and relevance in our regional management and strategy formulation.

European Reorganization Project

Fujifilm has launched a European Reorganization Project (ERP) as a means to further expand its European operations after the success of its structural reforms.

The underlying goals of the ERP are: (1) strengthening the Company's management structure that controls businesses on a consolidated basis; (2) maximizing management efficiency throughout the pan-European region; and (3) reinforcing corporate functions, which involve the central coordination of activities relating to taxation, competition laws and environmental regulations. Recognizing the ERP as a "Slim & Strong Drive" undertaken in Europe, we are promoting the implementation of a spectrum of initiatives to achieve these goals.

To better prepare ourselves for achieving these goals, we have reinforced the functions of FUJIFILM Europe GmbH—our European sales and marketing headquarters located in Dusseldorf, Germany—by giving the European base headquarters functions for formulating corporate strategies. In addition, we have established FUJIFILM Europe B.V. based on our manufacturing base for color paper and CTP plates in Tilburg, the Netherlands. This new European arm will serve as a business center that coordinates supply chain operations and in-house financing services. These companies will take the lead in standardizing the Groupwide IT infrastructure in the European region and constructing a structure to enable efficient operations through cooperation with local sales companies. This whole project is expected to reduce the Group's costs and expenses over a five-year period from 2006 to 2010 by 60 million euro.

Fujifilm's Principal European Bases



Major Activities in Europe

Imaging Business

In the Imaging Solutions business, Fujifilm has continuously implemented structural reforms and promoted the "Slim & Strong Drive" cost-reform program toward strengthening its business foundation. Meanwhile, the Company acquired IP Labs GmbH, a German photo service software provider, in January 2008. Through this acquisition, the Company aims to expand the market share of its color paper and bolster its online photo services, the market of which is rapidly growing. IP Labs' user-friendly online operation systems are driving Fujifilm's activities to enhance services worldwide in the growth fields of digital, "photo-book" and other high-value-added printing services.

Moreover, the Company is reinforcing the lineup of its wide-format inkjet printers, dry minilabs, dye-sublimation printers and other products to meet ever-diversifying market needs.

In addition to economically advanced Western European markets, the Russian market, which demonstrates significant growth potential, and the Eastern European markets, which keep expanding their purchasing power after joining the EU, are presenting increased opportunities for the Company. In these markets, the Fujifilm Group will implement effective marketing initiatives in a timely manner through its local distributors to expand regional sales.

Medical Systems Business

The Fujifilm Group's medical systems business covers 34 European countries, providing medical-use films, x-ray imaging and diagnostic systems and services relating to these products. In recent years, the Company has vigorously promoted the spread of its digital mammography systems. For example, we have participated in German and Portuguese government projects to contribute to disseminating the importance of early breast cancer detection. Also, we established a new European Medical Network Center in January 2008. Through the center's software development, we aim to meet country-specific requirements and increase our capability to provide solutions to our customers. This approach will enable us to expand the sales of our network systems.

In Eastern European countries, economic growth is boosting the improvement of primary-care quality in the medical field. This situation is a key factor maintaining the annual growth rate for medical-use film demand at around 5%. Also notable in the region is the accelerated introduction of medical equipment, which has been financially supported by the EU. Seeing this trend as an opportunity for the Group's business expansion in the region, we are focusing on the marketing of the Fuji Computed Radiography (FCR) digital x-ray imaging and diagnostic systems. In order to expand our businesses in Eastern European countries, we have established distributors in Romania and Bulgaria.

Particularly in its digital endoscope business, Fujifilm has aggressively established service and training centers in the Czech Republic, Russia, Turkey and Middle Eastern countries. In these countries, we are vigorously pioneering new markets by introducing such new products as double-balloon endoscope systems and transnasal endoscope systems.



Graphic Arts Business

The Fujifilm Group is providing graphic arts equipment and materials and related services in 32 European countries and principal African countries. In particular, sales are robust for computer-to-plate (CTP) plates, which enable direct transfers of digital text and image data to printing plates without the film processing stage, and they are showing a double-digit-percentage annual growth rate. Demand for CTP plates accounts for approximately 85% of the total plate demand in Western Europe. The comparable figure for Eastern Europe remains low. With their steady economic growth, the Eastern European mar-

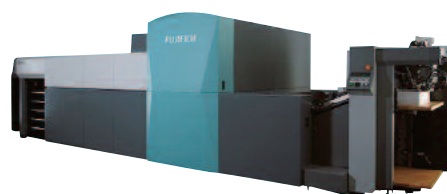
kets are expected to experience expanded demand for graphic arts products, and thus, for CTP plates. In response to such strong demand, Fujifilm is now constructing a new CTP plate production line at its base in the Netherlands. Increased production capacity will empower us to expand CTP plate sales in the Russian and Western European markets and pioneer new markets in Russia and Eastern Europe. In addition, we will work to bolster the manufacture and sales of eco-friendly products to better contribute to the global efforts to reduce the environmental load of human activities.

Jet Press 720 (provisional name) Draws Crowds at drupa 2008

Held in Dusseldorf, Germany once every four years, drupa is the world's largest printing equipment exhibition. Being the 14th drupa event, drupa 2008 attracted a record number of corporate exhibitors who showcased their inkjet and other digital printing systems. drupa 2008 has set a clear direction for the printing-related industries.

At the event, Fujifilm introduced the new Jet Press 720 system (provisional name) packed with its new, ground-breaking, next-generation inkjet digital printing technologies. Based on a core inkjet single-pass print-head technology, which realizes a print width of 720 mm, a four-level gray scale and a physical resolution of 1,200 dpi, Jet Press 720 is capable of high-speed printing (180 sheets [A4 size-equivalent] per minute) on large sheet sizes (maximum print size: 720 mm x 520 mm) with image quality comparable to that of offset printing. Also

compatible with a variety of ordinary coated printing paper, the Jet Press 720 system attracted significant attention from visiting print industry professionals.



Jet Press 720 (provisional name)
next-generation inkjet digital printing system

Fuji Xerox's Strategy for the China Market

A high proportion of China's copy machine market is comprised of low-speed copy machines relative to those of Japan, Europe and North America. Also, copy machines are sold primarily through distributors, and price competition is growing increasingly intense.

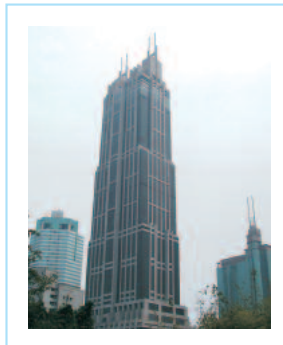
Under such circumstances, Fuji Xerox aims at providing higher value to Chinese customers as well as bolstering business profitability in the country by shifting its marketing structure to a direct sales approach. This new strategy places a particular emphasis on the high-end, full-color device market, where high growth is expected. In addition, Fuji Xerox aims to further expand earnings by strategically implementing a business model centered on after-service contracts (full service agreements*), which are already standard in Japan, United States, and Europe.

China's office copy machine market has seen significant growth in color device sales, in line with the country's rapid economic expansion, and robust growth is expected to continue. Similarly, in the production services targeting the digital printing market, the ratio of color devices sales is increasing. Resulting from these market changes as well as its business strategies, Fuji Xerox is expanding the sales of high-end, advanced machines. Its after-service contract business is growing substantially, as its flexible, speedy services-including on-site repairs and consumables replacement-have been very well received by its customers.

Thanks to the success of those initiatives, sales and profitability of the document-related business in China has shown steady growth. Looking ahead, Fuji Xerox intends to stay in the growth path with its unique business strategy tailored for the Chinese market, maintaining its competitive advantages while aggressively expanding its business presence.

* Service contract pricing based on copy volume

Sales & Marketing Sites



China Sales & Marketing
(Shanghai, China)
This marketing base promotes
Fuji Xerox's business
expansion in China
(including Hong Kong)



AP Sales & Marketing (Singapore)
This marketing base promotes
Fuji Xerox's business expansion
in the Asia-Pacific region,
excluding China
(including Hong Kong)

Production Site



Fuji Xerox of Shanghai Limited (Shanghai, China)
Developing and manufacturing low- and medium-speed copy machines
and toner cartridges, this subsidiary is supporting
Fuji Xerox's copy machine business in China.

Timeline of Fuji Xerox's Global Business Development

- | | |
|--------------|--|
| 1965: | Enters the Philippines market, and subsequently develops its business in various Southeast Asian countries in the form of joint ventures or via distributors |
| 1991: | Establishes Fuji Xerox Asia Pacific Pte Ltd in Singapore to supervise operations in the Asia-Pacific region |
| 1995: | Establishes a new research laboratory, FX Palo Alto Laboratory, Inc., in California, U.S.A.
Establishes a subsidiary to produce printers in Shenzhen, Guangdong Province, China |
| 2000: | Acquires operations in China from Xerox Corporation. |
| 2004: | Expands manufacturing capacity of Fuji Xerox of Shanghai Limited to provide the global market with digital copy and multifunction machines |