

Outline of the Report by the Independent Committee  
and Future Measures

**June 12, 2017**

**FUJIFILM Holdings Corporation**

FUJIFILM Holdings has received an investigation report from the Independent Investigation Committee on June 10.

Today I would like to explain an outline of the results and future measures to be taken by Fujifilm Holdings with respect to the appropriateness of the accounting involving overseas sales subsidiaries of Fuji Xerox Co., Ltd., which is a consolidated subsidiary of Fujifilm Holdings.

Term	Details
FH	FUJIFILM Holdings
FX	Fuji Xerox
FXAP	Fuji Xerox Asia Pacific. Overseas affiliate of FX in Singapore. Oversees the Asia Oceania regions.
FXNZ	Fuji Xerox New Zealand
FXAU	Fuji Xerox Australia
MSA	Lease agreement that bundle together equipment sales and maintenance services, etc., whereby equipment fees, consumables fees, maintenance fees and interest were recovered through a monthly copy service fee.

Here are the terms used in this presentation.

FH refers to FUJIFILM Holdings, FX is Fuji Xerox, FXAP is Fuji Xerox Asia Pacific, that is an overseas affiliate of Fuji Xerox located in Singapore. FXNZ is Fuji Xerox New Zealand, FXAU is Fuji Xerox Australia. MSA stands for Managed Service Agreement and it refers to lease agreements that bundle together equipment sales and maintenance services whereby equipment fees, consumables fees, maintenance fees and interest were recovered through a monthly copy service fee.

**<Events found as a result of the investigation>**

(1) FXNZ conducted some inappropriate accounting from FY ended March 2011 to FY ended March 2016.

(2) As a result of the investigation of other overseas subsidiaries, it is found that FXAU conducted a similar practice.

(3) Restatement adjustments of past financial results (cumulative total of the impact from FY ended March 2011 until FY ended March 2016)

	Impact on FUJIFILM Holdings shareholders' equity (Cumulative amount of impact on "net income attributable to FUJIFILM Holdings" for the past six years)
FXNZ	JPY 18.5 billion
FXAU	JPY 9.6 billion
Total	JPY 28.1 billion

\* Impact on equity in the balance sheet (Cumulative amount of impact on "current net income" for the past six years) is JPY 37.5billion

(4) It is found that there is a problem with FX's internal control

(5) The system for management of FX by FH was inadequate

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Now, I would like to explain the details of the report received from the Independent Investigation Committee.

First, I will explain the events found as a result of the investigation.

It was discovered in the investigation that certain accounting at Fuji Xerox New Zealand was conducted inappropriately during the period from the Fiscal Year ended March 2011 to the Fiscal Year ended March 2016.

Subsidiaries in other regions were also checked, and it was found that similar events had occurred at Fuji Xerox Australia.

Inappropriate accounting was not found in Japan nor other regions.

The restatement adjustments of past financial results due to this matter was an impact on FUJIFILM Holdings shareholders' equity of JPY 28.1 billion as a cumulative total over six years from the Fiscal year ended March 2011 to the fiscal year ended March 2016. That is a cumulative total of the impact on "net income attributable to FUJIFILM Holdings" for the past six years.

Further, the impact on the financial results for the Fiscal Year ended March 2017 was minor.

The report has also pointed out a problem with Fuji Xerox's internal control, as well as the FUJIFILM Holdings's management system for Fuji Xerox.

**<Inappropriate accounting by FXNZ and FXAU>**

- FXNZ introduced MSAs that bundled together equipment sales and maintenance services, etc., whereby equipment fees, consumables fees, maintenance fees and interest were recovered through a monthly copy service fee at the time of equipment sales.
- Under MSAs, sales equivalent to the price of the copy machines are recorded as a single sale as a capital lease upon installation of equipment during the first fiscal year, and following that, the sales price is recovered as a copying service fee determined by multiplying the copy unit price, determined according to the monthly target volume, with the actual number of sheets copied.
- In order to record contracts as capital leases, stipulated conditions\* must be satisfied, but in the case of FXNZ, all transactions including those with conditions that do not satisfy the capital lease conditions were recorded as capital leases.
  - \* Those include the condition that the recovery of a minimum payment of lease fees can be reasonably expected and that there is no uncertainty that additional costs that could not be recovered from the lessee will arise.
- Consequently, there were many transactions where receivables could not be recovered because, among other reasons, the copy volume did not reach the target set at the time of executing the contract and the minimum usage fee was not clearly set, and that became constant practice.
- Similar accounting practice was conducted at FXAU.

Next, I will explain an outline of the inappropriate accounting conducted by Fuji Xerox New Zealand.

Fuji Xerox New Zealand introduced MSAs that bundled together equipment sales and maintenance services, whereby equipment fees, consumables fees, maintenance fees and interest were recovered through a monthly copy service fee arrangement at the time of equipment sales.

Under MSAs, sales equivalent to the price of the copy machines are recorded as a single sale as a capital lease upon introduction of equipment during the first fiscal year, and following that, the sales price is recovered as a copying service fee determined by multiplying the copy unit price, determined according to the monthly target volume with the actual number of sheets copied.

In order to execute contracts as capital leases, certain conditions must be satisfied. In transactions that do not satisfy the capital lease conditions, the amount equivalent to equipment sales should not be recorded as sales in the first fiscal year and the copy fees for each month should be recorded as monthly sales, but in the case of Fuji Xerox New Zealand, all transactions were treated as capital leases. Consequently, there were many transactions where receivables could not be recovered because, among other reasons, the copy volume did not reach the target set at the time of executing the contract and the minimum usage fee was not clearly set, and that became a constant practice.

Further, as a result of the investigation into other corporations in the Asia-Pacific region in the investigation by the Independent Investigation Committee, it was found that events similar to those at Fuji Xerox New Zealand occurred at Fuji Xerox Australia as well.

**<Background of inappropriate accounting>**

- Inappropriate accounting of early sales recognition continued because there were incentives for the MD and employees of FXNZ such as commissions and bonuses, and that structure placed an emphasis on sales.
- At FXNZ, the board of directors did not function effectively, there was a concentration of authority with the MD of FXNZ, and the business management process lacked transparency.
- There were problems related to internal control such as an insufficient subsidiary management system at FXAP and a lack of control by FX's audit system and administration department. Consequently, information was blocked in the process of reporting within FX and appropriate information on the actual situation was not reported to the Chairman or the President of FX.
- There were insufficiencies in the system by which FH monitors FX, the audit system of the audit department, and the information sharing system, so that appropriate information on the situation was not reported by FX to FH.

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Let me explain the background of the inappropriate accounting.

The report by the Independent Investigation Committee raised the following points.

Inappropriate accounting of early sales recognition continued mainly because there were incentives for the Managing Director and employees of Fuji Xerox New Zealand such as commissions and bonuses, and that incentive structure placed an emphasis on sales.

At Fuji Xerox New Zealand, the board of directors did not function effectively, there was a concentration of authority with the Managing Director of Fuji Xerox New Zealand, and the business management process lacked transparency.

There were problems related to internal control such as an insufficient subsidiary management system at Fuji Xerox Asia Pacific and a lack of control by Fuji Xerox's audit system and administration department. Consequently, information was blocked in the process of reporting within Fuji Xerox and appropriate information on the actual situation was not reported appropriately to the chairman or the president of Fuji Xerox.

There were insufficiencies in the system by which FUJIFILM Holdings monitors Fuji Xerox, the audit system of the audit department, and the information sharing system, so that appropriate information on the actual situation was not reported by Fuji Xerox to FUJIFILM Holdings.

**Managerial issues indicated by the Independent Investigation Committee****<Issues to be addressed at FXNZ>**

- (1) Review of incentives to correct the over-riding sales policy which disregards rules
- (2) Improve the internal system to correct the reporting line centralization

**<Issues to be addressed at FX>**

- (1) Strengthen the system of managing subsidiaries and affiliates
- (2) Strengthen information sharing within FX and improve transparency of the business management process
- (3) Strengthen the supervisory function of the board of directors and the audit function of the corporate auditors and the audit department
- (4) Strengthen the checking function of the accounting department
- (5) Improve the insufficient awareness of compliance with laws and regulations

**<Issues to be addressed at FH>**

- Strengthen the function of managing FX

Here are the managerial issues that were pointed out by the Independent Investigation Committee:

At Fuji Xerox New Zealand:

- (1) Revision of incentives to correct the over-riding sales policy which disregards rules
- (2) Improve the internal system to correct the reporting line centralization

At Fuji Xerox:

- (1) Strengthen the system of managing subsidiaries and affiliates
- (2) Strengthen information sharing within FX and improve transparency of the business management process
- (3) Strengthen the supervisory function of the board of directors and the audit function of the corporate auditors and the audit department
- (4) Strengthen the checking function of the accounting department
- (5) Improve awareness of compliance with laws and regulations

At FUJIFILM Holdings, the Independent Investigation Committee pointed out that it should strengthen the system for management of Fuji Xerox.

Including those indicated matters, FUJIFILM Holdings takes the findings of this investigation by the Independent Investigation Committee seriously and it will work to prevent a recurrence by taking multifaceted measures.

## Personnel Measures

FUJIFILM

### <FX>

Title	Name	Details
Chairman of the Board and Representative Director	Tadahito Yamamoto	Retirement from the position, reduce remuneration by 20% (three months), reduce bonus by 30%
President and Representative Director	Hiroshi Kurihara	Compensation reduction of 20% (three months) Bonus reduction of 30%
Deputy President and Representative Director	Haruhiko Yoshida	Retirement from the position Compensation reduction of 30% (three months) Bonus reduction of 50%
Executive Vice President and Director	Katsuhiko Yanagawa	Retirement from the position Compensation reduction of 30% (three months) Bonus reduction of 50%
Senior Vice President	Masashi Honda	Retirement from the position Compensation reduction of 30% (three months) Bonus reduction of 50%
Corporate Vice President	Tetsuya Takagi	Demotion from position Compensation reduction of 30% (three months) Bonus reduction of 50%
Full-time Corporate Auditor	Keiji Somata	Retirement from the position Compensation reduction of 20% (three months)
Full-time Corporate Auditor	Kazunobu Ogura	Compensation reduction of 20% (three months)
Corporate Auditors (two people)	Kouichi Tamai Tetsuya Shiokawa	Compensation reduction of 10% (three months)

### <FH>

Chairman and CEO, Representative Director	Shigetaka Komori	Return 10% of Compensation (three months)
President and COO, Representative Director	Kenji Sukeno	Return 10% of Compensation (three months)

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Fuji Xerox and FUJIFILM Holdings will take personnel measures in response to this problem.

Three directors, two vice presidents, and one full-time corporate auditor at Fuji Xerox will retire from their positions.

The compensation and bonuses will also be reduced by 10–50% for three months.

The chairman and president of FUJIFILM Holdings will also return 10% of their compensation for three months.

**(1) Strengthening of governance and strengthening of the business management process by FH****(i) Revision of organization**

- Strengthen the business management process by integrating the business management divisions in charge of accounting and auditing of FX into FH

**(ii) Dispatch of management personnel from FH to FX**

- Dispatch directors and working-level managers in charge of administration of business management from FH to FX
- Further expand personnel exchanges within the Group

**(iii) Strengthen internal control within the Group**

- a) Enhancement of business management guidelines of affiliates
- b) Rebuilding and strengthening of the reporting structure within the Group
  - Rebuilding and strengthening the structure for reporting from FX to FH
  - Rebuilding and strengthening the structure for reporting within FX (including its affiliates)
  - Rebuilding and strengthening the structure for meetings relating to decision making
- c) Strengthening and thorough reinforcement of compliance education, and strengthening of personnel development

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Next, I will explain the measures to be taken by FUJIFILM Holdings in response to this matter.

FUJIFILM Holdings will strengthen the governance of Fuji Xerox and strengthen the business management of Fuji Xerox by FUJIFILM Holdings. Specifically, it will take measures from the following three viewpoints.

First, we will review the organization.

We will strengthen the business management process by integrating the business management divisions in charge of accounting and auditing of Fuji Xerox into FUJIFILM Holdings.

Second, we will dispatch management personnel from FUJIFILM Holdings to Fuji Xerox.

We will dispatch directors and working-level managers in charge of administration of business management from FUJIFILM Holdings to Fuji Xerox. We will explain the new management structure of Fuji Xerox on the next slide. We will also expand personnel exchanges within the Group more than ever.

Third, we will strengthen internal control within the Fujifilm Group. We will stipulate important points of business management and risk management of affiliates and a code of conduct for managers, and enhance business management guidelines of affiliates.

We will also rebuild and strengthen the reporting structure within the Group. We will rebuild and strengthen the structure for reporting from Fuji Xerox to FUJIFILM Holdings, as well as the structure for reporting within Fuji Xerox including its affiliates and the structure for meetings relating to decision making. We will strengthen and thoroughly reinforce compliance education, and strengthen personnel development.



**New Management Structure of FX****1. Directors to be resolved at the Annual General Meeting of shareholders and the Meeting of the Board of Directors scheduled on June 22**

Chairman and Representative Director	Shigetaka Komori	Newly Appointed
President and Representative Director	Hiroshi Kurihara	Reappointed
Deputy President and Representative Director	Kouchi Tamai	Newly Appointed
Director	Masataka Jo	Reappointed
Director	Masaru Yoshizawa	Newly Appointed
Director	Toru Yamada	Reappointed
Director	Hisanori Makaya	Newly Appointed
Director	Kengo Taneda	Newly Appointed
Director	Kenji Sukeno	Reappointed
Director	Royston C. Harding	Reappointed
Director	Jeffrey Jacobson	Reappointed
Director	Farooq Muzaffar	Reappointed

**2. Corporate Auditors to be resolved at the Annual General Meeting of shareholders on June 22 and resolved by Corporate Auditors**

Full-time Corporate Auditor	Kazunobu Ogura	No election takes place
Full-time Corporate Auditor	Toshiyuki Iijima	Newly Appointed
Corporate Auditor	Shigeru Sano	Newly Appointed
Corporate Auditor	Tetsuya Shiokawa	No election takes place

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The new management structure of Fuji Xerox is shown on the slide

Chairman Komori of FUJIFILM Holdings will assume the position of Chairman and Representative Director of Fuji Xerox, and a total of seven officers will be dispatched from FUJIFILM Holdings, including two directors and one corporate auditor who are to be newly dispatched, so that we can strengthen the management of Fuji Xerox.

## Measures by FH in response to this Matter



### (2) Change to FH's governance system

Review the composition of the board of directors and strengthen the governance system

#### New Structure of FH

The candidates for the members of Director and for Audit & Supervisory Board Members to be presented at the 121st Ordinary General Meeting of Shareholders of FH scheduled on June 29, 2017

##### Candidate Directors

Director	Shigetaka Komori	Reappointed	
Director	Kenji Sueno	Reappointed	
Director	Kouichi Tamai	Reappointed	
Director	Yuzo Toda	Reappointed	
Director	Norio Shibata	Reappointed	
Director	Masaru Yoshizawa	Reappointed	
Director (*1)	Tatsuo Kawada	Newly appointed	
Director (*1)	Makoto Kaiami	Newly appointed	
Director (*1)	Kunitaro Kitamura	Newly appointed	(*1) Outside Directors

##### Candidate Audit & Supervisory Board Member

Audit & Supervisory Board Member	Kazuya Mishima	Newly appointed
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##### Audit & Supervisory Board Members with no election

Full-time Corporate Auditor	Mamoru Matsushita	
Corporate Auditor (*2)	Hisayoshi Kobayakawa	
Corporate Auditor (*2)	Shiro Uchida	(*2) Outside Audit & Supervisory Board members

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Next, I will explain the new management structure of FUJIFILM Holdings.

We will review the composition of the board of directors of FUJIFILM Holdings and strengthen the governance system of FUJIFILM Holdings.

Currently, there are 12 directors of FUJIFILM Holdings, but by reducing the number of directors to 9, FUJIFILM Holdings aims to achieve flexible operation, promote active deliberation of the board of directors and streamline management decision-making. This will further enable FUJIFILM Holdings to make management decisions in an even more timely manner.

**(2) Changes to FH's governance system****Review the composition of the board of directors and strengthen the governance system**

Subject to a resolution of the Annual General Meeting of Shareholders scheduled on June 29, the ratio of outside directors in FH's board of directors will increase to 1/3 and the appropriateness of decision-making will be ensured through the exchange of opinions of each director from more diverse perspectives. A legal professional and company managers will be proposed as candidates to be outside directors.

## &lt;Candidate outside directors&gt;

Tatsuo Kawada	Current position	Chairman and CEO of SEIREN CO., LTD. (since June 2014)
Makoto Kaiami	Current position	Attorney at Law, Of counsel of Sophiacity Law Office (since February 2017) (former President of Tokyo District Court)
Kunitaro Kitamura	Current position	Representative Director of Sumitomo Mitsui Trust Holdings, Inc. (since April 2017)
	Current position	Chairman (Director) of Sumitomo Mitsui Trust Bank, Limited (since April 2017)

**Ensure thoroughly there is an open, fair, and clear corporate culture and strengthen group management capability and governance by taking these measures**

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Subject to a resolution of the Ordinary General Meeting of Shareholders scheduled on June 29, the ratio of outside directors in FUJIFILM Holdings' board of directors will increase to 1/3 and the appropriateness of decision-making will be ensured through the exchange of opinions of each director from more diverse perspectives. A legal professional and company managers will be proposed as candidates to be outside directors.

The candidate outside directors are as follows.

Tatsuo Kawada, Chairman and CEO of SEIREN Co., Ltd.

Makoto Kaiami, Attorney at law and former President of Tokyo District Court.

Kunitaro Kitamura, Representative Director of Sumitomo Mitsui Trust Holdings, Inc.

By taking measures, we will reinforce our "open, fair, and clear" corporate culture and strengthen group management capability and governance.

I have explained the outline of the report by the Independent Investigation Committee and the future measures to be taken by FUJIFILM Holdings.

Thank you for your attention.

Reference materials: Background leading to the establishment of the Independent Investigation Committee



July 2015	An email reporting on matters such as overstating sales of equipment of FXNZ was sent to FX Deputy President Yoshida and others. Special audit was conducted by FX and FXAP but appropriate information was not shared with FH.
September 2015	FXAP corrected the inappropriate MSAs at FXNZ. However, the correction of accounting was not conducted retroactively.
February 2016	Upon the replacement of the CFO of FXNZ, bad loans and unclear accounting was reported to FXAP. FX and FXAP conducted an investigation using outside attorneys. It became clear that management that overemphasized sales by former FXNZ MD led to the inappropriate accounting. The MD of FXAU since April 2015, was dismissed former FXNZ MD in May 2016.
September 2016	Local media in New Zealand made a report condemning matters such as the inappropriate sales and marketing techniques of FXNZ.
October 2016	With respect to the local media report, FX Deputy President Yoshida reported to FH President Sukeno that there was no inappropriate accounting such as that described in the media report.
November 2016	FX was informed by the audit corporation that had commenced an annual audit of FXNZ in late October that there are concerns about the contents of the local media report and it would check those details in the audit. FH asked FX again whether the media report was true, but there was no clear response by end of the year.
February 2017	The audit corporation presented a risk of loss of JPY 13.3 billion to FH. When FH asked FX to confirm this fact, FX answered that its understanding was that the risk of loss was JPY 3 billion.
March 2017	Chairman Yamamoto, President Kurihara and Deputy President Yoshida of FX explained to Chairman Komori and President Sukeno of FH that the risk of loss was JPY 3 billion.
March 21	FH received a letter from the audit corporation stating that "it obtained information that indicates there might be irregularities in the accounting at FXNZ."
March 22	An internal investigation committee was established by FH immediately, and it started to conduct an investigation.
April 20	FH established the Independent Investigation Committee and commenced an investigation.
June 10	An investigation report was received from the Independent Investigation Committee.

