



Yoshikatsu Ota
President and CEO

To Our Shareholders

FORWARD 08 Progressing Well

We started a new growth phase with our *FORWARD 08* medium-term management plan. In the fiscal year ended March 2008, we reached the consolidated earnings targets of this three-year initiative a year ahead of schedule.

Sales of our core Business Technologies business advanced 6.4%, to ¥701.0 billion, with operating income climbing 12.6%, to ¥90.1 billion. Optics business sales were up 31.2%, to ¥182.3 billion; operating income gained 48.8%, to ¥31.3 billion.

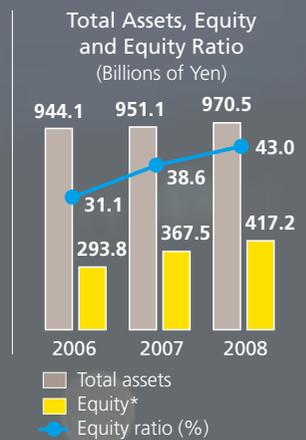
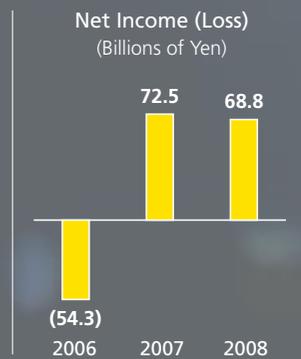
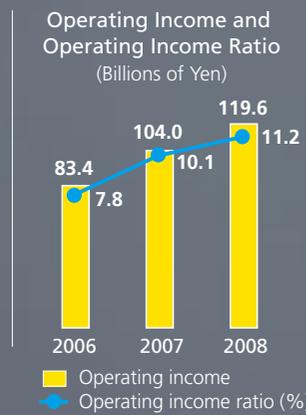
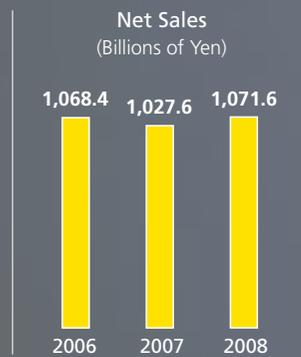
As a result, consolidated net sales for the period under review came to ¥1,071.6 billion, up 4.3% year on year despite the ¥47.8 billion negative impact on sales from our exit from the Photo Imaging business. Consequently, we posted operating income of ¥119.6 billion, up 15.0% year on year and a record high for the third consecutive period.

Genre-Top Strategy Bears Fruit

As part of *FORWARD 08*, which we announced in May 2006, we have deployed groupwide operations that harness our genre-top strategy. This strategy entails concentrating management resources on potential growth markets and business fields to boost our competitiveness, achieving greater growth than our competitors and earning a top position in the market.

Genre-top priorities in the Business Technologies business are color multi-functional peripherals (MFPs) for general office use and production printing models. We have reinforced our capabilities in these areas, which have excellent growth potential. We differentiated ourselves from the outset by equipping our offerings with tandem engines and accumulated production technologies, thus winning top marks from customers for consistent quality. At the same time, we have optimally sited production while stepping up local procurement to hone our cost-competitiveness.

Image quality is a key differentiator, and we were accordingly swift to employ polymerized toner across our color and production printing lineups. We are constantly refining our polymerized toner technologies as we pursue world-class performance in terms of low-temperature fusing, color reproduction, and minimal environmental impact. On top of that, we have upgraded manufacturing facilities to achieve industry-leading toner production capacity.



* Equity = Total net assets – minority interests – share subscription rights

The genre-top strategy has enabled us to lead our competitors by helping us to refine proprietary technologies, bring out outstanding competitive offerings, and expand the installed base of color and high-speed MFPs.

The genre-top strategy drives progress in the Optics business. We have drawn on our advanced thin-film technologies to commercialize second- and third-generation triacetyl cellulose (TAC) film for vertical alignment (VA) mode LCDs and boost our market share in TAC films. We dominate the market for next-generation DVD pickup lenses. Our market share is surging in glass hard disk substrates using perpendicular magnetic recording system.

These examples underscore our determination to target and dominate growth markets by continuing to outpace our competitors in commercializing outstanding products and services. The genre-top strategy offers tremendous value and potential. I believe that the consistent accumulation of solid genre-top positions in various markets will transform our positioning in the industry.

Other key Group management priorities in the drive to raise our market and customer presences are growth, change and speed. Focusing on these keywords, we will further promote Group management and raise our presence in the marketplace and with customers. We are confident that we can create new corporate value by building a unique position.

Dividend Policy

We recognize enhancing shareholder value as an important management issue. Raising our dividend steadily in line with increases in corporate performance, we raised dividends for the fiscal year ended March 2008 by ¥5 per share compared to the previous fiscal year, to ¥15 per share. We target a payout ratio of at least 25% over the medium to long term. We set dividends from retained earnings from the basic standpoint of maintaining a steady payout to shareholders, taking into overall consideration of consolidated operating performance and strategic investment in growth fields. Going forward, we aim to maximize Group growth and corporate value.

Emphasizing Environmental Management

We cannot expand without considering the environment, which is an important global issue. Management's commitment to creating new value goes well beyond product innovation. We believe that our mission as a manufacturer is to create offerings that excel in terms of environmental performance.

Working together as a group, we proactively pursue product development and manufacturing that conserve energy and resource use, as well as promote green procurement. Furthermore, through groupwide efforts, we aim to reduce emissions, promote the reuse of resources and lower the generation of hazardous substances. In these endeavors, we aim to be in the top class of our industry.

Looking Ahead

Management will complete *FORWARD 08* in the fiscal year ending March 2009, ensuring that it achieves all action plans speedily to fuel concentrated groupwide efforts to maintain and accelerate sustainable growth. I look forward to your ongoing understanding and support as we move ahead.

June 2008



Yoshikatsu Ota
President and CEO