1. Operating Results

(1) Business Performance Analysis

1. Overview

[Billions of yen]

	March 31			
	2010	2009	Increase (Decrease)	
Net sales	804.4	947.8	(143.3)	-15.1 %
Gross profit	364.4	427.6	(63.1)	-14.8 %
Operating income (loss)	43.9	56.2	(12.2)	-21.8 %
Ordinary income	40.8	45.4	(4.5)	-10.1 %
Income before income taxes and minority interests	36.0	33.2	2.8	8.6 %
Net income	16.9	15.1	1.7	11.5 %
Net income per share [yen]	31.93	28.62	3.31	11.6 %
Capital expenditure	36.9	61.1	(24.2)	-39.6 %
Depreciation	61.1	70.1	(9.0)	-12.8 %
R & D expenses	68.4	81.7	(13.3)	-16.3 %
Free cash flow	72.9	17.3	55.5	319.2 %
Number of employees [persons]	36,048	36,875	(827)	-2.2 %
Exchange rates [yen]				
US dollar	92.85	100.54	(7.69)	-7.6 %
Euro	131.15	143.48	(12.33)	-8.6 %

Looking at economic circumstances in Japan and abroad, a credit crunch triggered by the financial crisis in the fall of 2008 had severe repercussions for the real economy, producing a vicious cycle of weak consumption, declining production, and worsening employment conditions that swept across the world, especially in advanced economies. The worst of this downturn has now passed, thanks largely to measures to restore financial order by the financial authorities and the success of government stimulus packages, and there were signs of a gradual recovery in the second half of the fiscal year under review. However, the recovery remained anemic as capital spending restrains and the credit crunch lingered. Moreover, a protracted appreciation of the yen put strong pressure on operating revenue at businesses including the Konica Minolta Group, where the ratio of overseas sales is high.

The Group regards the drastic change in the business environment not as a temporary economic slowdown but as a turning point in society and an opportunity to enhance its corporate value to achieve stronger growth, the Group formulated **BUSINESS PLAN <09-10>**. And it is now executed it to ensure it is able to successfully navigate through this challenging period. The business plan has three pillars: **(1) Improving corporate capabilities, (2) Achieving strong growth, and (3) Reforming the corporate culture.** It will be executed during the fiscal year under review and in the next fiscal year. In the fiscal year under review, the first year of implementation, the Group focused on lowering break-even point by **minimizing fixed costs** through cost cutting and the execution of structural reforms, including the optimization of production systems in Japan and overseas, and the streamlining of overseas sales bases and sales personnel, including acquired sales companies, considering that the Group needs to urgently change its corporate structure to ensure it has free cash flows even in difficult business circumstances where growth in sales cannot be expected. The Group also took steps to **trim down the balance sheet** by reducing inventories, curbing capital expenditure, and improving accounts receivable periods and accounts payable periods. As a result of those initiatives, free cash flows for the fiscal year under review topped ¥70 billion, far exceeding the year-ago level.

Looking at the results of major businesses, sales of multi-functional peripherals (MFPs) for offices, the main products in the Business Technologies Business, were less than in the previous fiscal year, reflecting reduced capital spending by a corporate sector looking to cut costs, as well as tightening lease contracts attributable to the credit crunch. Nonetheless, the Group sought to boost demand by launching new color machines, and sales momentum consequently recovered in the Business Technologies Business in the second half of the fiscal year under review. In the Optics Business, as the LCD TV and personal computer markets recovered, sales of TAC films (protective films for polarizing plates) and glass hard disk (HD) substrates were sold well. In the Medical and Graphic Imaging Business, sales of digital equipment were almost on a par with the year-ago level, but that did not offset decrease in sales of film products.

As a result, Konica Minolta's consolidated net sales for the fiscal year under review amounted to ¥804.4 billion, a decrease of 15.1% year on year, reflecting declines in sales of main products and the effect of exchange conversion associated with the strong yen. Although the Group cut fixed costs and research and development expenditure, among other cost reductions, operating income fell 21.8%, to ¥43.9 billion, and ordinary income slipped 10.1%, to ¥40.8 billion, respectively, reflecting a decline in profits associated with the decrease in sales and the effect of exchange rates. After posting a loss on valuation of investment securities and business structure improvement expenses as extraordinary losses, net income stood at ¥16.9 billion, up 11.5% year on year.

2. Segment Information

[Billions of yen]

	March 31			
	2010	2009	Increase (Decrease)	
Business Technologies				
Net sales - external	540.8	623.6	(82.8)	-13.3 %
Operating income	38.9	52.5	(13.5)	-25.9 %
Optics				
Net sales - external	136.7	173.4	(36.6)	-21.1 %
Operating income	14.3	12.5	1.8	14.8 %
Medical & Graphic				
Net sales - external	104.3	125.8	(21.5)	-17.1 %
Operating income	1.4	3.0	(1.6)	-52.3 %
Sensing				
Net sales - external	6.9	8.3	(1.4)	-17.5 %
Operating income (loss)	(0.0)	0.3	(0.3)	-

Business Technologies Business

[MFPs for offices]

Konica Minolta strove to boost demand for **MFPs for offices** as companies cut costs and curbed capital expenditure in the protracted global downturn, updating the bizhub series by launching two models of high speed color MFPs, namely *bizhub C652 and C552*, and four models of medium-to-low speed color MFPs, *bizhub C452, C360, C280, and C220*, in the first half of the fiscal year. These six new products are designed to contribute to customers' total cost of ownership (TCO) with new energy saving systems that slash power consumption compared with conventional models and with more durable components. They are also intended to help customers boost their productivity and reduce the environmental burden by offering high image quality with the use of the Company's proprietary polymerized toner, cutting-edge network and security functions, and significantly lower machine operation noise. Partly reflecting the contribution of these new products, sales volumes of color MFPs for offices increased steadily every quarter. Although sales volumes for the full year fell short of the level of a year ago, those for the second half exceeded the year-ago level. Meanwhile, sales volumes of monochrome MFPs for offices recovered in the second half, with volumes in the North American market, which drove the recovery, exceeding the year-ago level.

[Production printing field]

Demand for color machines, such as *bizhub PRO C6501 and C5501*, remained stagnant in all markets in the global slowdown. On the other hand, with the launch of two new monochrome products, the *bizhub PRO 1201/1051*, sales of monochrome MFPs were up from a year ago, reflecting strong sales, principally in the North America and Asian markets.

[Printer field]

We stepped up our efforts to sell A4 tandem printers and A4 color MFPs for office use. Sales volumes of printers for the fiscal year under review far exceeded the year-ago level, driven by sharp rises in sales volumes of color machines for Europe and OEMs.

Overall, our Business Technologies Business focused on sales of color MFPs for offices, color printers and high-speed MFPs for production printing in line with our "genre-top strategy." Momentum recovered, with sales rising every quarter and exceeding the year-ago level in certain areas and product fields. However, the recovery did not offset weak sales in the first half and the effect of the strong yen. As a consequence, sales to external customers fell 13.3% from the previous fiscal year, to ¥540.8 billion, and also operating income declined 25.9%, to ¥38.9 billion.

Optics Business

[Display materials field]

The Group sought to boost sales of high-function products, such as VA-TAC (viewing angle expansion) film and 40μ thin film, where the Company has a competitive edge. Meanwhile, given the positive impact of measures taken, especially by the Japanese and Chinese governments, to stimulate demand for home electrical appliances, the market for large LCD televisions recovered sharply. The recovery in demand in the United States and advanced economies in Europe also outpaced expectations. Consequently, sales volumes for the fiscal year under review were up sharply from a year ago.

[Memory related product field]

The Group took steps to expand sales of optical pickup lenses for Blu-ray Discs, the mainstay in the field. Although demand for optical pickup lenses for personal computers remained weak, demand for lenses for audio-video equipment recovered. Overall sales volumes of optical pickup lenses, including those for CDs and DVDs, exceeded the year-ago levels.

The Group sought to increase sales of glass HD substrates for high storage densities of 250GB and 320GB. Backed by a recovery in demand for substrates for notebook computers and external memory, sales volumes exceeded the year-ago result.

[Image input/output component field]

While we have limited the product fields focusing on profitability, sales volumes declined, reflecting weak demand for the high-end items in which the Company excels and, in turn attributable to the global economic downturn.

Overall, sales volumes of TAC film and glass HD substrates increased, backed by a recovery in the markets. However, the business was adversely affected by increasing pricing pressure on TAC film in association with falling prices of LCD TVs, a decline in sales volumes in the image input/output component field, and a fall in the unit sales price of pickup lenses for Blu-ray Discs, shifting to plastic. As a result, net sales to outside customers declined 21.1% from a year ago, to ¥136.7 billion, but operating income increased 14.8%, to ¥14.3 billion, reflecting a recovery in sales of mainstay products and the effect of structural reforms to reduce breakeven sales undertaken by the Group from the end of the previous fiscal year.

Medical and Graphic Imaging Business

[Healthcare field]

In the digital X-ray diagnostic imaging area, main business sector, Konica Minolta launched a new computed radiography (CR) system, the *REGIUS MODEL 210*. The Company sought to expand sales to medical facilities both in Japan and overseas by offering digital radiography (DR) systems and diagnostic imaging workstations in addition to CR systems. As a result, sales volumes of this digital equipment were almost on a par with the levels of the previous year. We also took steps to expand our business sphere from the existing X-ray diagnostic imaging area, launching new products such as the *I-PACS EX ceed*, a network device, and the *SONIMAGE 513* color ultrasonic diagnostic equipment.

[Graphic imaging field]

Konica Minolta focused on sales of digital equipment, including *Pagemaster Pro 6501*, an on-demand printing system. Despite the continued cooling of capital expenditure in the printing industry associated with the lingering economic sluggishness, the Company endeavored to boost sales. As a result of its efforts, sales of digital equipment were almost on a par with the level of a year ago.

As noted, our Medical & Graphic Imaging Business focused on expanding the sales of the digital equipment and strengthening the digital solution business, but accelerating declines in sales of film products, in addition to the effect of a strong yen, could not be offset either in the healthcare field or in the graphic imaging field. As a consequence, net sales to outside customers fell 17.1% from the previous year, to ¥104.3 billion. As gross profit declined with a fall in sales volumes of film products, the Company stepped up its initiatives to reduce fixed costs. However, operating income slipped 52.3%, to ¥1.4 billion.

Sensing Business

In the Sensing Business, Konica Minolta launched new products, the *CM-5* spectrophotometer, the *CR-5* colorimeter, and the *RANGE5* non-contact 3D digitizer and sought to boost sales, especially in the fields of color sensing and 3D measuring. However, although sales increased sharply in China, capital expenditure continued to be curbed in the manufacturing industry in major markets in Japan, the United States, and Europe, reflecting economic stagnation, and consequently, sales volumes experienced sluggish growth. As a result, net sales to outside customers declined 17.5%, to ¥6.9 billion. The operating loss was ¥6 million.

[Reference]
Three month performance (From January 1, 2010 to March 31, 2010)

[Billions of yen]

	Three months (Jan - Mar)			
	2010	2009	Increase (Decrease)	
Net sales	215.7	201.2	14.5	7.2 %
Gross profit	105.8	80.6	25.2	31.3 %
Operating income (loss)	22.7	(7.1)	29.9	-
Ordinary income (loss)	21.6	(8.6)	30.3	-
Income before income taxes and minority interests (loss)	18.5	(17.3)	35.9	-
Net income (loss)	7.9	(12.1)	20.0	-
Net income per share [yen]	14.94	(22.95)	37.89	-
Capital expenditure	12.5	13.8	(1.3)	-9.8 %
Depreciation	15.1	18.4	(3.3)	-18.1 %
R & D expenses	16.4	19.0	(2.5)	-13.4 %
Free cash flow	15.1	10.9	4.2	38.2 %
Exchange rates [yen]				
US dollar	90.70	93.61	(2.91)	-3.1 %
Euro	125.62	121.81	3.81	3.1 %

[Reference]
Three month performance by segment (From January 1, 2010 to March 31, 2010)

[Billions of yen]

	Three months (Jan - Mar)			
	2010	2009	Increase (Decrease)	
Business Technologies				
Net sales - external	146.8	137.4	9.4	6.9 %
Operating income	20.8	4.8	16.0	331.0 %
Optics				
Net sales - external	34.1	26.9	7.2	26.9 %
Operating income (loss)	4.0	(6.8)	10.9	-
Medical & Graphic				
Net sales - external	27.9	31.2	(3.3)	-10.7 %
Operating income (loss)	(0.0)	(1.0)	1.0	-
Sensing				
Net sales - external	2.1	1.8	0.3	20.7 %
Operating income (loss)	0.4	(0.0)	0.4	-

3. Outlook for the fiscal year ending March 31, 2011

The economic situation surrounding the Group, both in Japan and abroad, is generally expected to recover as emerging economies in Asia and elsewhere maintain the growth seen in the current fiscal year. Japan and the United States, along with advanced European economies, seem to enjoy moderate recoveries. Still, many concerns remains, including a very difficult employment situation, rising long-term interest rates, and a stronger yen. We think the economic outlook remains uncertain and challenging.

Looking at the main businesses of the Company, we believe the Business Technologies Business will enjoy a modest recovery in the fiscal year ending March 31, 2011, although it will take some time for demand for MFPs for offices and production printing to recover in earnest. In the Optics Business, demand for digital consumer electronics such as LCD TVs and personal computers is expected to continue to expand.

We assume exchange rates of 90 yen against the US dollar and 125 yen against the euro.

[Billions of yen]

	March 2011 forecast		March 2010		Increase (Decrease)	
	Six months	Full year	Six months	Full year	Six months	Full year
Net sales	400.0	830.0	393.3	804.4	6.6	25.5
Operating income	21.0	50.0	9.1	43.9	11.8	6.0
Ordinary income	19.0	46.0	8.7	40.8	10.2	5.1
Net income	8.0	20.0	3.5	16.9	4.4	3.0

Note: The above operating performance forecasts are based on future-related suppositions, outlooks, and plans at the time this report was released, and they involve risks and uncertainties. It should be noted that actual results may differ significantly from these forecasts due to various important factors, such as changes in economic conditions, market trends, and currency exchange rates.

(2) Financial Position

(1) Analysis of financial position

		March 31		[Billions of yen]
		2010	2009	Increase (Decrease)
Total assets	[Billions of yen]	865.7	918.0	(52.2)
Net assets	[Billions of yen]	420.7	414.2	6.4
Net assets per share	[yen]	791.28	779.53	11.75
Equity ratio	[%]	48.5	45.0	3.4

At fiscal year end, total assets amounted to ¥865.7 billion, down ¥52.2 billion compared with the end of the previous fiscal year. The decline in assets reflects a reduction in inventories, the curtailment of capital investment, and improvements in accounts receivable periods and accounts payable periods. Inventories fell ¥30.8 billion from the end of the previous fiscal year, to ¥98.2 billion, attributable to launches of new products and a recovery in sales. Interest-bearing debt slipped ¥33.0 billion, to ¥197.3 billion.

Despite a decrease in foreign currency translation adjustments because of the appreciation of the yen, net assets increased ¥6.4 billion from the end of the previous fiscal year, to ¥420.7 billion, reflecting a rise in retained earnings primarily due to the posting of ¥16.9 billion in net income. Net assets per share came to ¥791.28, and the shareholders' equity ratio rose 3.4 percentage points from the end of the previous fiscal year to 48.5%.

(2) Cash flows

	March 31		[Billions of yen]
	2010	2009	Increase (Decrease)
Cash flows from operating activities	113.3	107.5	5.8
Cash flows from investing activities	(40.4)	(90.1)	49.7
Total [Free cash flow]	72.9	17.3	55.5
Cash flows from financing activities	(43.8)	4.9	(48.7)

During the fiscal year under review, net cash provided by operating activities was ¥113.3 billion, while net cash used in investing activities, mainly associated with capital investment, totaled ¥40.4 billion. As a result, free cash flow (the sum of operating and investing activities) was an inflow of ¥72.9 billion.
Net cash used in financing activities was ¥43.8 billion.

In addition, the effect of exchange rate changes increased cash and cash equivalents by ¥1.3 billion. As a result, cash and cash equivalents at the end of the fiscal year under review stood at ¥164.1 billion, rising ¥30.4 billion from the consolidated previous fiscal year-end.

Net cash provided by operating activities

Net cash provided by operating activities reached ¥113.3 billion (¥107.5 billion in the previous consolidated fiscal year). Although the Group reported income before income taxes and minority interests of ¥36.0 billion, depreciation of ¥61.1 billion, and an improvement of working capital of ¥17.5 billion, these amounts were partly offset by ¥6.5 billion in accounts payable and accrued expenses, ¥3.8 billion in interest expenses, and other factors.

Net cash used in investing activities

Net cash used in investing activities was ¥40.4 billion (¥90.1 in the previous fiscal year). Cash of ¥33.6 billion was mainly used for investments in molding for new products in the Business Technologies Business and in the acquisition of tangible fixed assets relating to the reinforcement of production capacities in the Optics Business, our strategic business.

As a result, free cash flow (the sum of operating and investing activities) was an inflow of ¥72.9 billion (¥17.3 billion in the previous fiscal year).

Net cash used in financing activities

Net cash used in financing activities was ¥43.8 billion (net cash provided of ¥4.9 billion in the previous fiscal year), mainly reflecting ¥30.0 billion for the redemption of corporate bonds at maturity, ¥9.2 billion in dividend payments, and ¥4.4 billion for repayments of loans payable and lease obligations.

(Note) Amounts mentioned above do not include consumption taxes.

[Cash flow indicators]

	March 31				
	2006	2007	2008	2009	2010
Shareholders' equity ratio [%]	31.1	38.6	43.0	45.0	48.5
Market price-based shareholders' equity ratio [%]	84.5	86.4	74.0	48.4	66.8
Debt redemption period [years]	3.0	3.4	1.8	2.1	1.7
Interest coverage ratio	14.4	12.8	27.7	23.4	29.3

Notes:

Shareholders' equity ratio: Shareholders' equity / Total assets
Market price-based shareholders' equity ratio: Market capitalization / Total assets
Years of debt redemption: Interest-bearing debt / Cash flow from operating activities
Interest coverage ratio: Cash flow from operating activities / Interest payments

Market capitalization is calculated as the share price at period-end multiplied by the number of shares outstanding at period-end (excluding treasury stock). Net cash flow from operating activities figures are those stated in the consolidated statements of cash flows. Interest-bearing debt is all liabilities reflected on the consolidated balance sheets that are subject to interest payments. Interest payments are those stated in the consolidated statements of cash flows.

Cash flow outlook for the fiscal year ending March 31, 2011

Konica Minolta projects that free cash flow, the net value of cash flows from operating and investing activities, will amount to an inflow of ¥20.0 billion.

(3) Basic policy regarding profit distribution, dividends for the fiscal year under review, and projected dividends for the current fiscal year

1. Basic policy regarding profit distribution

The policy regarding the payment of dividends from retained earnings, etc. calls for the basic approach of making a comprehensive evaluation of consolidated performance and funding requirements for promoting strategic investments in growth fields while seeking to sustain shareholder returns. Regarding the specific dividend target, the Company is aiming to sustain a dividend payout ratio of 25% or higher over the medium-to-long-term.

With respect to the acquisition of treasury stock, the Company intends to make appropriate decisions regarding treasury stock acquisition as a means of profit distribution while giving due attention to such factors as the Company's financial condition and stock price trends.

2. Dividends for the fiscal year under review and the current fiscal year

In the fiscal year under review (fiscal year ended March 31, 2010), the Company reported lower profits as the business downturn was greater than anticipated in the first half of the fiscal year. Nevertheless, the Company intends to distribute a year-end dividend of 7.5 yen per share as initially planned, which combined with the interim dividend of 7.5 yen per share will bring the total annual dividend to 15 yen per share.

With respect to dividends for the current fiscal year (fiscal year ending March 31, 2011), given that the business environment demands prudence, the Company plans to distribute 7.5 yen per share for both the interim dividend and the year-end dividend, making a total annual dividend of 15 yen per share.

**Figures given in the text as billions of yen have been rounded off to the nearest hundred million.*