To Our Shareholders

Fumio Iwai, President & CEO (Left)
Yoshikatsu Ota, Vice President (Right)

Between 1998 and 1999, under the influence of the stagnant silver-halide photographic market, Konica Corporation lost momentum in its photographic film business, which had been its prime source of earnings. This situation, combined with increasingly fierce competition in this sector, served to temporarily stall revenue. To make matters worse, an increase in interest-bearing debt at the time also had a negative impact on Konica's balance sheet.

Given these circumstances, management decided that a thorough reorganization of the business structure was required. Based on that decision, we began by focusing our business operations, eliminating those sectors that were not profitable. At the same time, we shifted to a management structure concentrating on free cash flows, with the aim of improving our financial affairs. Using these accomplishments as a springboard, in 2000 we formulated the SAN Plan, a medium-term management plan. We also progressed with digital networking across all of our business domains, and shifted toward growth sectors. Through these actions, we made significant improvements to our earnings potential. We are also diligently advancing improvements to management efficiency. Responsive and timely management and business portfolio management yielded significant results in fiscal 2002, ended March 31, 2003, with Konica recording its highest levels ever in operating income, recurring income, and net income.

In 1999, Minolta Co., Ltd. formulated NEXT '03, its new medium-term management plan, that essentially outlined an aggressive strategy for growth and expansion over the next five years. Some factors, however, prevented the Company from performing as planned. Chief among these were sluggish market growth, increasingly fierce competition, and exchange rate fluctuations beyond expectations. At the same time, such adjustments as book reductions in share crossholdings, in accordance with changes in accounting standards to comply with global standards, were also adopted during this period, with the result that Minolta recorded a significant net loss in the first half of fiscal 2001.

Under these conditions, management reexamined the state of the medium-term management plan, while working to change the management mind-set within the group. We implemented strategies that focused even further on the selection and concentration of a specific genre and lineup of products and those regions where the Company could attain the number one position in the market. Management also focused on capital efficiency and cash flows, rather than profit and loss. In particular, we have revamped our companywide structure, reducing the number of employees, lowering procurement costs, and eliminating excess inventory. We have also moved swiftly to reduce our growing interest-bearing debt. Thanks to the contributions made by these various structural reforms, together with real contributions to our performance by those product lines where we have been advancing: digitization, colorization, and the specific genre strategy, we recorded our highest-ever results in net sales, operating income, and recurring income for fiscal 2002, while successfully reducing interest-bearing debt from ¥250 billion as of the end of fiscal 2001, to ¥171 billion.

The field of imaging, a business domain of both Konica and Minolta, remains very promising, with continued growth forecast. As technology advances, however, the market is likely to be dominated by top-ranking companies with the gap between upper- and lower-ranked businesses expected to increase. Competition is also anticipated to intensify as large numbers of companies from other industries enter the market. To combat this difficult environment, Konica and Minolta have worked to improve their competitiveness in the image information business, beginning in April 2000, through collaborative partnership in the research and development of new products and joint businesses in the consumables field, including polymerization toner. This partnership has lately achieved considerable success, with both companies placing greater trust in one another and advancing their management integration plans. Fruitful collaboration has enabled the two companies to maximize synergies in such businesses as optical technologies and cameras, in addition to the image information business. We firmly believe that the resulting company will achieve a leading position in the global marketplace.

To date, our two companies have met and overcome our respective management difficulties independently. We have come to the conclusion, however, that it will be difficult to realize further development and growth if we maintain existing structures and status. Accordingly, we established Konica Minolta Holdings, Inc. in August 2003, based on a determination to found a brand-new enterprise group.

The aims of this management integration are as follows:

1. **To maximize corporate value by promoting portfolio management and improving competitiveness of individual businesses**
   > We will execute a strategy for achieving top standing in various categories, with the image information business at the core of portfolio management, to drive growth.
   > In the optics business, where we already are No. 1, we will expand our business domain, making it even stronger, by combining and upgrading our optical technologies.
   > We will increase the synergy between Minolta's camera business and Konica's consumer photo imaging business.
2. **To operate our business in a fair and transparent manner, under a new corporate governance scheme**

Immediate issues and concerns facing management are as follows:

1. **Building a new corporate culture after the integration from the existing corporate cultures of the two companies, while accelerating the pace of the integration itself**
2. **Accelerating measures to streamline costs at the new company**

By improving our technologies in optics, precision engineering, materials, and coating—which Konica has cultivated over 130 years and Minolta has accumulated over 75 years—we will work diligently to provide our customers with unique products and services that will assure them of the utmost satisfaction and delight in our photo imaging business domain. Our aim is to become a global market leader, through advanced technology and solid reliability.

Operating objectives for the new company have been set at ¥1,300 billion in net sales and ¥150 billion in operating income for fiscal 2005. We are working to implement management rapidly and maximize shareholder value to achieve these objectives. To this end, we are grateful for your support and understanding.

August 2003

Fumio Iwai, President & CEO,
Representative Executive Officer

Yoshikatsu Ota, Vice President,
Representative Executive Officer