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# Review of Fiscal 2004 First Quarter Performance (Consolidated)

**Konica Minolta Holdings, Inc.**
Company Name: Konica Minolta Holdings, Inc.
(URL: http://www.konicaminolta.jp)
Representative: Fumio Iwai, President and Representative Executive Officer
Inquiries: Yuki Kobayashi, General Manager, Corporate Communications & Advertising Division
Tel: (81) 3-3349-5251
Stock Exchange Listings: Tokyo, Osaka, Nagoya (First Sections)
Local Securities Code Number: 4902

1. Items Pertaining to the Compiling of the Overview of Quarterly Results

(a) Discrepancies between methods recognized in the most recent consolidated fiscal accounting year and the accounting procedures for the quarter under review: none

(b) Changes to the application of consolidated and equity methods: yes

Consolidated: (new) 1 company (excluded) 12 companies

Equity: (new) 0 companies (excluded) 3 companies

Excluded companies were mainly sales companies reorganized within the Office Equipment Business.

2. Overview of Fiscal 2004 First Quarter Performance (April 1, 2003, to June 30, 2003)

(a) Progress of business performance (consolidated)

(Millions of yen)

| | Net sales | Operating income | Recurring profit | Net income |
|---|---|---|---|---|
| First quarter of fiscal 2004 | 132,036 | 13,879 | 14,733 | 6,959 |
| Fiscal 2003 (for reference) | 559,041 | 42,855 | 32,438 | 16,375 |

| | Net income per share (yen) |
|---|---|
| First quarter of fiscal 2004 | 19.49 |
| Fiscal 2003 (for reference) | 45.72 |

Notes: 1. Units of less than ¥1 million have been dropped

2. The disclosure of quarterly results is being conducted from the period under review, so quarter-on-quarter comparisons are not presented herein. For the same reason, the percentage change from the same quarter in the previous fiscal year is also omitted.

3. Fully diluted earnings per share are not recorded for the period because no latent shares exist.

[Qualitative Information Related to the Progress in Business Performance (Consolidated)]

The Company made subsidiaries of all its businesses units in April 2003, and its shares in the spun off companies were transferred to a holding company. Furthermore, the business integration with Minolta Co., Ltd., was approved at the general meeting of shareholders convened on June 25, 2003, and, on August 5, 2003, the new, integrated holding company, Konica Minolta Holdings, Inc., was created through a stock swap.

The world's leading economies continued to be lackluster in the first quarter of fiscal 2004, ending March 31, 2004, reflecting the Asia-centered outbreak of the SARs virus and despite the quick finish to the war in Iraq, which had threatened to carry on for a long time. Late in the quarter, the economy started to regain its balance as demonstrated in such areas as the stock market, which showed a fledgling recovery in prices. The current instability in the international situation and persistently high unemployment, however, and other conditions do not warrant optimism for the future.

Amid these difficult business conditions, by quickly moving forward with portfolio management, the Company recorded consolidated net sales for the first quarter of ¥132.0 billion. With regard to the foreign exchange market, compared with the previous fiscal year, the yen was strong against the U.S. dollar and weak against the euro. In terms of profit, thanks to cost cutting and reductions in such expenses as those associated with marketing and general management, operating income was ¥13.8 billion. Thanks also to gains on foreign exchange differentials from the strong euro, non-operating profits rebounded. Recurring profit was ¥14.7 billion, and net income for the quarter was ¥6.9 billion.

## Overview by Segment

### Office Equipment Business (Copiers, Printers, etc.)

Sales to customers external to the Company were ¥49.8 billion, and operating income was ¥7.1 billion.

In line with the basic tenets of the medium-term plan, the Company moved forward with a shift in marketing to medium- and high-speed machines in all regions and further increased the rate of installation of controllers and other options. As a result, net sales rose dramatically. The Second Polymerization Toner Plant started operations from May and the Company is happy to report a subsequent increase in sales.

### Optics Business (Optical Products, Electronics Materials, etc.)

Sales to external customers were ¥12.8 billion, and operating income was ¥3.2 billion.

Sales of our optical pickup lenses quickly recovered in both AV- and IT-related equipment markets after inventory adjustments were concluded in the fourth quarter of fiscal 2003, but there was a slight decline in volume compared with the same quarter of the prior term.

The sales volume of TAC film for use in LCD polarization plates is increasing at a healthy clips, and we have also started to deliver a high-value-added optical functional film that is capable of amplifying a viewing angle.

Consumer Business (Photographic Materials, Inkjet Media, Cameras, etc.)

Sales to external customers were ¥40.8 billion, and operating income was ¥2.8 billion.

Regarding color film, photographic paper, minilabs, and other products for silver-halide photography, the proliferation of digitization and the effects of SARS on the market caused sales of film and photographic paper on a volume basis to decline compared with the same quarter in fiscal 2003. In contrast, sales of the digital minilab, which was launched in the second half of fiscal 2003, were strong, and the number of units sold increased overall, with a strong showing from overseas sales. In the camera segment, the shift from film to digital cameras continued, and sales of high-definition digital cameras, which are the Company's forte, expanded.

Sales of inkjet media also increased steadily, both in Japan and overseas.

Medical and Graphic Business (Medical and Printing Products, etc.)

Sales to external customers were ¥27.7 billion, and operating income was ¥2.3 billion.

In the medical segment, both film and equipment sold well in Japan. However, sluggish sales in North America resulted in a drop in sales from the previous term.

In the graphic segment, volume sales continued to slide amid the economic downturn and the general shift away from the use of film.

(b) Changes to the financial position (consolidated)

(Millions of yen)

| | Total assets | Shareholders' equity | Shareholders' equity ratio (%) | Shareholders' equity per share (Yen) |
|---|---|---|---|---|
| First quarter of fiscal 2004 | 535,599 | 187,700 | 35.0 | 525.60 |
| Fiscal 2003 (for reference) | 515,956 | 181,019 | 35.1 | 506.82 |

【Consolidated Cash Flows】

(Millions of yen)

| | Operating activities | Investing activities | Financing activities | Cash and cash equivalents at the end of the first quarter |
|---|---|---|---|---|
| First quarter of fiscal 2004 | (3,779) | (4,633) | 11,070 | 55,040 |
| Fiscal 2003 (for reference) | 66,437 | (37,328) | (24,685) | 51,876 |

[Quantitative Information Regarding the Changes in Financial Position (Consolidated)]

Total assets were up ¥19.6 billion from the end of the previous consolidated fiscal accounting year, to ¥535.5 billion. The principal factor behind this was an increase of ¥14.7 billion in interest-bearing debt, and most of these funds were appropriated for the payment of taxes and shareholder dividends. Furthermore, shareholders' equity increased ¥6.6 billion, to ¥187.7 billion, as compared with the end of the prior fiscal accounting period due to net income in the first quarter exceeding cash dividends paid. As a result, the return on equity edged down from 35.1% at the end of the prior fiscal accounting period to 35.0%.

With regard to cash flows, net income before taxes and other adjustments for the period was ¥14.6 billion and depreciation expenses were ¥6.8 billion, while there was an increase of ¥12.0 billion in working inventory and ¥9.9 billion in corporate taxes were paid. Thus cash flows from operations amounted to an outflow of ¥3.7 billion.

Cash flows from investment activities also slipped below zero, yielding an outflow of ¥4.6 billion, mainly due to ¥4.9 billion in expenditures on tangible and intangible assets.

Cash flows from financial activities were ¥11.0 billion, reflecting a net inflow of ¥13.6 billion from the procurement of short-term loans to pay taxes and dividends.

As a result, with the addition of ¥400 million in cash and cash equivalents from the change in consolidation, the balance of cash and cash equivalents at the end of the first quarter increased ¥3.1 billion, to ¥55.0 billion, up from the previous consolidated fiscal year-end figure of ¥51.8 billion.

## 3. Consolidated Results Forecast For Fiscal 2004 (April 1, 2003, to March 31, 2004)

(Millions of yen)

| | Forecast Net Sales | Forecast Recurring Profit | Forecast Net Income |
|---|---|---|---|
| Interim | 280,000 | 20,000 | 7,700 |
| Full-year | 877,000 | 45,500 | 21,000 |

Note: Initial forecasts have been revised downward with regard to interim net sales and have been revised upward with regard to interim recurring profit and net income for this interim period. For the full-term forecast data, based on the business integration with Minolta Co., Ltd., on August 5, 2003, we have combined the accounts of Minolta's consolidated forecasts for the second half of the term with our consolidated whole term forecasts and recorded it with integration expenses included.

[Quantitative Information Related to Performance Forecasts (Consolidated)]

With the move toward digitization ongoing, the business environment related to photosensitive materials continues to be difficult. With regard to the second quarter and beyond, expenses are expected to be incurred from the integration with Minolta, and this has been taken into account in consolidated performance forecasts.

With regard to consolidated performance results for the interim period, initial forecasts for net sales have been revised downward from those made at the time of the announcement of March 2003 earnings in consideration of the protracted deflationary environment. However, recurring profit and net income for the interim period have been revised upward to reflect a greater than initially expected weakness in the yen against the euro.

Interim Fiscal 2004 Performance Forecasts (April 1, 2003, to September 30, 2003)

(Millions of yen)

| | Interim Period | | |
|---|---|---|---|
| | Net Sales | Recurring Profit | Interim Net Income |
| Initial Forecast (A) | 290,000 | 16,000 | 6,000 |
| Revised Forecast (B) | 280,000 | 20,000 | 7,700 |
| Change (B)-(A) | (10,000) | 4,000 | 1,700 |
| Percent Change (%) | (3.4) | 25.0 | 28.3 |

Also, with respect to the consolidated performance forecast for the whole term, upcoming changes in the business environment and fluctuations in the foreign exchange market are difficult to predict, thus we have not made any revisions to the original forecasts.

**The above performance forecasts are expectations based on predications, outlooks, and plans related to the future at the time of this announcement and, as such, are subject to risks and uncertainties. Numerous significant factors may cause actual results to differ greatly from forecasts.*