## Overview of Performance

### (1) Summary

**1st quarter results for the fiscal year ending March 31, 2007**
**(From April 1, 2006 to June 30, 2006)**

[Millions of yen]

| | Three months ended June 30, 2006 (April 1, 2006 – June 30, 2006) | Three months ended June 30, 2005 (April 1, 2005 – June 30, 2005) | Increase (Decrease) | Change |
|---|---|---|---|---|
| Net sales | 241,272 | 244,023 | (2,750) | (1.1) |
| Gross profit | 118,126 | 117,119 | 1,006 | 0.9 |
| Operating income | 22,240 | 18,183 | 4,056 | 22.3 |
| Recurring profit | 21,468 | 17,761 | 3,707 | 20.9 |
| Net income before income taxes and minority interests | 22,286 | 13,502 | 8,784 | 65.1 |
| Net income | 10,555 | 7,316 | 3,239 | 44.3 |
| | ¥ | ¥ | ¥ | % |
| Net income per share | 19.89 | 13.78 | 6.11 | 44.3 |
| Capital expenditure | 16,971 | 11,190 | 5,780 | 51.7 |
| Depreciation | 12,032 | 12,421 | (388) | (3.1) |
| R & D expenses | 16,711 | 15,649 | 1,062 | 6.8 |
| Exchange rates | ¥ | ¥ | ¥ | % |
| US dollar | 114.50 | 107.69 | 6.81 | 6.3 |
| Euro | 143.78 | 135.57 | 8.21 | 6.1 |

Consolidated net sales for the first quarter were ¥241.2 billion. As was announced on January 2006, the Photo Imaging Business has been terminated; therefore, although net sales were down, overall sales for the Group were largely in line with those of the previous fiscal year. However, favorable new product sales, primarily of color multi-functional peripherals (MFPs) in the Business Technologies Business, continuing strong demand-driven sales growth for liquid crystal display (LCD) materials in the Optics Business, and growth in other business areas resulted in double-digit year-on-year revenue growth rate in these businesses. The gross profit margin in the first quarter improved 1 percentage point, from 48% to 49%, thanks to Groupwide cost-cutting efforts and increased sales volume, primarily of new products, which offset the impact of lower prices resulting from heavier competition, as well as exchange rate benefits from a weaker yen.

Meanwhile, despite higher R&D spending ¥1.0 billion, mostly in such growth areas as the Business Technologies Business, which is in the midst of a shift to from black and white to color MFPs, selling, general and administrative (SG&A) expenses fell ¥3.0 billion from the same period of the previous fiscal year. As a result, operating income in the first quarter was up 22%, or ¥4.0 billion, to ¥22.2 billion. The operating profit margin also improved from 7. 5% to 9.2%.

Non-operating income was largely in line with that of the first quarter of the previous fiscal year. As a result, recurring income in the first quarter was up 21%, or ¥3.7 billion, to ¥21.4 billion. Moreover, because the Company posted an extraordinary profit / loss from the sale of fixed assets and investments in securities, net income before income taxes and minority interests jumped 65%, to ¥22.2 billion, and net income climbed 44%, to ¥10.5 billion.

In May 2006, Konica Minolta instituted its three-year medium-term business plan “FORWARD 08,” and this fiscal year is the first year of the plan. To win in the ever-intensifying globally competitive market and achieve sustainable growth, the Konica Minolta Group set forth the future direction of management and defined its most important challenges in this plan. The Konica Minolta Group has focused on growth areas and has been implementing its “genre-top” strategy (focusing management resources on specific business areas and markets and establishing the top brand position in them) with the goal of maximizing Group growth and Group corporate value.

Based on the strategies contained in this plan, we are constructing a new polymerized toner plant in Nagano Prefecture (Tatsuno-cho), to handle the increased growth in demand resulting from higher color MFP sales, as well as a fourth manufacturing line in Hyogo Prefecture (Kobe City) for TAC film, demand for which continues to expand, with the goal of having both of them operational by the fall of this year. As a result of aggressive spending to increase production capacity in these focal areas, capital investments rose ¥5.7 billion, to ¥16.9 billion.

In addition, although a write-off of fixed assets was recorded in the previous fiscal year, mainly in the Photo Imaging Business, increased depreciation for a third TAC film manufacturing line completed in September 2005 and an office equipment assembly plant in China (Wuxi), depreciation and amortization were down ¥300 million, to ¥12.0 billion, more or less in line with the amount recorded in the previous fiscal year.

## (2) Overview by Segment

### 1. Business Technologies Business

**[Multifunctional peripherals (MFPs), laser printers (LBPs), etc.]**

[Millions of yen]

| | Three months ended June 30, 2006 (April 1, 2006 – June 30, 2006) | Three months ended June 30, 2005 (April 1, 2005 – June 30, 2005) | Increase (Decrease) | Change |
|---|---|---|---|---|
| (1) Net sales to outside customers | 150,796 | 137,198 | 13,598 | 9.9% |
| (2) Intersegment net sales | 908 | 585 | 323 | 55.2% |
| Total net sales | 151,705 | 137,784 | 13,921 | 10.1% |
| Operating expenses | 135,608 | 123,459 | 12,148 | 9.8% |
| Operating income | 16,097 | 14,324 | 1,772 | 12.4% |

In Business Technologies Business, since the business merger, Konica Minolta has been promoting its “genre-top” segment domination strategy of becoming the dominant player in each of its market segments (focusing business resources on specific businesses and markets and securing the top brand position), and, in recent years, it has focused on expanding its business foundations related to color MFPs, an area of accelerating growth in the overseas and domestic office markets. The Company has also been expanding its product lineup in the medium- to high-speed MFP market with the *bizhub C250* (25 ppm output capacity for color and black and white), the *bizhub C351* (35 ppm color and black and white), and the *bizhub C450* (35 ppm color, 45 ppm black and white). In the first quarter, we took steps to further strengthen product appeal through successive launches of the *bizhub C352* (35 ppm color and black and white) and *the bizhub C300* (30 ppm color and black and white) in May. With high image quality made possible through our industry-leading polymerized toner and the high productivity afforded by tandem engines, these models enjoy a competitive edge and sold well in all countries. First-quarter unit sales of color MFPs were up a substantial 76%, causing the share of MFP unit sales in segment 2 above (21 ppm and over output capacity MFPs) as a percentage of color MFP sales to rise from 30% to 40%, as we moved steadily ahead with the shift from black and white to color MFPs. The *bizhub PRO C500* (51 ppm color and black and white), the *bizhub PRO 1050* (105 ppm black and white), and the *bizhub PRO 920* (92 ppm black and white) high-speed MFPs for the high-growth light production print markets, continued to fare well, with continuing strong sales, primarily in the U.S. market. In addition to increased sales in color MFPs, high-speed MFPs, and other focal areas, we maintained sales momentum for new black and white MFPs, an area in which we had invested heavily during the previous fiscal year, and increased overall MFP unit sales 21% compared with the first quarter of the previous fiscal year.

In LBP operations, targeting the general office market, a market in which we expect to see further print volume increases, we took aggressive action to strengthen sales of tandem color LBPs in the medium- to high-speed segment, including the *magicolor 5400* series (25.6 ppm color and black and white) and the *magicolor 7400* series (25 ppm color and black and white).

As a result, sales to outside customers were ¥150.7 billion and operating income was ¥16.0 billion, representing increases of 10% and 12%, respectively.

## 2. Optics Business

### [Optical devices, electronic materials, etc.]

[Millions of yen]

| | Three months ended June 30, 2006 (April 1, 2006 – June 30, 2006) | Three months ended June 30, 2005 (April 1, 2005 – June 30, 2005) | Increase (Decrease) | Change |
|---|---|---|---|---|
| (1) Net sales to outside customers | 32,134 | 24,715 | 7,418 | 30.0% |
| (2) Intersegment net sales | 258 | 430 | (171) | (39.9)% |
| Total net sales | 32,392 | 25,146 | 7,246 | 28.8% |
| Operating expenses | 27,174 | 21,507 | 5,666 | 26.3% |
| Operating income | 5,218 | 3,638 | 1,580 | 43.4% |

In the optical pickup lens segment, as a result of decreased production of object lenses for use in DVD products by final equipment makers, we recorded only a marginal increase in sales. In the wake of higher development costs for such next-generation DVDs as the BD (Blu-ray) and HD-DVD, and price declines for all objective lenses, business revenue came in below that of the first quarter of the previous fiscal year.

In contrast, sales of LCD materials, such as TAC film, including regular products and functionally sophisticated products, such as retardation film, remained strong. Unit sales jumped 60% thanks to added production capacity due to a third manufacturing line coming on stream in September 2005. Sales in the glass hard disk substrate segment were strong thanks to heavy demand for such digital consumer electronic goods as PCs, portable digital audio equipment, and car navigation systems. Konica Minolta enhanced its products with the addition of a small diameter substrate, and increased unit sales by 40% compared to the previous period. Unit sales of components for camera-equipped mobile phones were up nearly 500% due to microcamera units shipments going into full swing.

As a result, sales to outside customers were ¥32.1 billion and operating income was ¥5.2 billion, representing increases of 30% and 43%, respectively.

## 3. Medical and Graphic Imaging Business

### [Medical and graphic products, etc.]

[Millions of yen]

| | Three months ended June 30, 2006 (April 1, 2006 – June 30, 2006) | Three months ended June 30, 2005 (April 1, 2005 – June 30, 2005) | Increase (Decrease) | Change |
|---|---|---|---|---|
| (1) Net sales to outside customers | 36,440 | 30,744 | 5,695 | 18.5% |
| (2) Intersegment net sales | 4,305 | 7,876 | (3,571) | (45.3)% |
| Total net sales | 40,745 | 38,621 | 2,124 | 5.5% |
| Operating expenses | 38,024 | 36,726 | 1,297 | 3.5% |
| Operating income | 2,721 | 1,895 | 826 | 43.6% |

In the medical segment, sales of digital input/output equipment, including the *REGIUS* series of computed radiography (CR) units and *DRYPRO* series of imaging output equipment, were in line with those of the same period of the previous fiscal year. Meanwhile, as a result of a steady increase in input/output equipment installations, a market we had been working on both in Japan and abroad since last year, film sales, primarily dry film, were up 25%, which had a major impact on first-quarter earnings.

The graphic (printing) segment is becoming increasingly filmless as former printing processes are supplanted by digitization in Japan and abroad. However, strong sales in the Middle East, Asia and other overseas markets served to offset sluggish domestic demand, and, thanks to assiduous efforts, we achieved a slight overall increase in sales. In the area of equipment sales, where we are seeking to switch over to a business structure that is adapted to a filmless market, unit sales of the digital color proofing system *Digital Consensus PRO* were in line with those of the previous fiscal year and, while sales of special paper rose slightly, sales of our digital color printer, the *Pagemaster PRO* were sluggish.

As a result of the above-mentioned efforts, sales to outside customers climbed 19%, to ¥36.4 billion and operating income jumped 44%, to ¥2.7 billion.

### 4. Other Businesses

#### ■ Sensing Business [Colorimeters, 3D digitizers and other measurement devices]

This segment supplies customers with unique measurement devices that perform a variety of measurements including of light-source color, object color, luminance, illuminance, temperature, medical-related, and object shape. Sales in the area of color measurement, which targets the automotive and flat-panel display industries, were strong. Moreover, in the 3D digitizer field, we expanded our sales channels to include industrial and academic applications. In the fiscal year under review, U.S. and European sales, which became independent from this fiscal year through the establishment of new sales companies, were included in the consolidated earnings of this segment, as a result, sales to outside customers expanded 55%, to ¥1.9 billion. However, operating income declined 53%, to ¥160 million, due to higher start up costs associated with the establishment of the sales companies.

#### ■ Inkjet Business [Industrial inkjet printer heads, large inkjet printers, etc.]

This segment sells high-definition printer heads to other major printer manufacturers and large inkjet printers for textile use as well as ink, that employ our proprietary inkjet, chemical, and ink-related technologies. Begun in January 2005, and only in their second year, sales to outside customers in this business were up 61%, to ¥1.4 billion, with operating income also up 61%, to ¥210 million.

#### ■ Photo Imaging Business [Photographic materials, etc.]

As was announced on January 19, 2006, Konica Minolta terminated its camera and minilab businesses on March 31, 2006, and has entrusted its camera after-sales service to Sony Corporation and minilab maintenance and after-sales service to Noritsu Koki Co., Ltd. In addition, the Company plans to terminate the production of color film and photographic paper by the end of this fiscal year, and sales by September 30, 2007, with all related business activities to be terminated after that.

As a result of this policy, first quarter sales to outside customers were ¥17.0 billion, a sharp 65% decline. However, through rigorous reductions in fixed costs and expenses, including personnel rationalization from the termination of business, we were able to reduce the amount of our operating loss.

## (3) Earnings Forecast

**Interim earnings forecast for the fiscal year ending March 31, 2007**

**(From April 1, 2006 to September 30, 2007)**

[Millions of yen]

| | Revised interim results projection for the fiscal year ending March 31, 2007 | Previous interim results projection announced on May 11, 2006 | Increase / Decrease | Reference: Full-year projection for fiscal year ending March 31, 2007, announced on May 11, 2006 |
|---|---|---|---|---|
| Net sales | 490,000 | 480,000 | 10,000 | 980,000 |
| Operating income | 39,000 | 30,000 | 9,000 | 80,000 |
| Recurring profit | 32,500 | 26,000 | 6,500 | 70,000 |
| Net income | 15,500 | 11,000 | 4,500 | 30,000 |

The strong U.S. economy continues to drive the world economy, and, while overall overseas and domestic economic conditions are expected to continue on an expansionary track, the future remains uncertain with respect to skyrocketing raw material prices, including for crude oil; fluctuations in the exchange rates for the yen against the dollar, euro, yuan and other currencies; and the economic effects of political instability in the Middle East and Northeast Asia. In short, we recognize that conditions are unpredictable.

With respect to our awareness of Group-related market environments, as profits recover, company IT spending should continue to increase and result in continued strong demand for sophisticated high-performance color MFPs, color LBPs, and other office equipment. Demand for such LCD materials as TAC film as well as for digital consumer electronics, IT-related optical devices, and such components as optical pickup lenses, glass substrates for HDDs, and lens and microcamera units for camera-equipped mobile phones, should be strong in the second half of the year while undergoing a partial and temporary adjustment period.

We expect favorable earnings in line with Company projections, primarily in the Business Technologies Optics businesses. Meanwhile, because of the decision to exit the Photo Imaging Business, we are implementing structural changes in the Konica Minolta Group as a whole, including the Photo Imaging Business, nevertheless, we must recognize that this process generates some degree of uncertainties in terms of direct or indirect effects. In light of these circumstances, we have revised our interim earnings projections to reflect first quarter conditions as follows: net sales, ¥490.0 billion; operating income, ¥39.0 billion; recurring profit, ¥32.5 billion; and net income, ¥15.5 billion. In addition, we will make full-year earnings projections after we have determined Group earnings for the second quarter; therefore, the projections announced on May 11, 2006 remain unchanged.

* 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. Various significant factors may cause actual results to differ materially from these forecasts.

### (4) Financial Position

Total assets at the end of the first quarter fell ¥28.6 billion from the end of the previous fiscal year, to ¥915.4 billion, due to a decrease in cash and deposits, accounts receivable, inventories, and investments in securities. In addition, interest-bearing debt declined ¥5.8 billion, to ¥230.7 billion.

Net assets were up ¥8.6 billion, to ¥305.2 billion, as a result of an increase in retained earnings, primarily due to increased profits. The equity ratio was 33.0%, a 1.9 percentage point increase, and net assets per share were ¥575.03, ¥21.53 higher than the first quarter of the previous fiscal year.

With regard to cash flows, although the Company recorded net income before income taxes and minority interests of ¥22.2 billion, and generated a cash inflow due to depreciation and amortization and accounts receivable, outflows from a provision for loss on discontinued operations made at the end of the previous fiscal year for the Photo Imaging Business were substantial. As a result, cash flow used in operating activities amounted to ¥2.7 billion.

Cash used in investing activities amounted to ¥10.9 billion, and primarily comprised expenditures for the acquisition of tangible and intangible fixed assets for IT-related equipment in the Optics Business. Free cash flow thus amounted to an outflow of ¥8.2 billion.

Net cash used in financing activities totaled ¥6.9 billion, and was mostly attributable to the payback of interest-bearing debt.

As a result, the balance of cash and cash equivalents at the end of the first quarter was ¥65.9 billion, down ¥14.9 billion from the same period of the previous fiscal year.

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