

KONICA MINOLTA GROUP Q&A from March 2007 Financial Results Investor Meeting

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Place: The Tokyo Chamber of Commerce and Industry (Tokyo, Japan)
Announced by: Yoshikatsu Ota, President & CEO

Cautionary statement

This material was prepared for those who were unable to attend the financial results briefing in person and is intended only for reference purposes. The reader is asked to acknowledge in advance that the text is not a verbatim account of everything that was said at the briefing but a basic summary whose content was determined by the judgment of Konica Minolta.

Moreover, The reader is asked to acknowledge in advance that the business performance outlook and other content concerning future results in this document is based on information that the company has at the present time and a rational evaluation based on certain assumptions and that actual business performance can greatly vary due to a number of factors.

Business Technologies

Q: The Business Technologies business's success with color MFP due to the "genre top" strategy has now expanded company market share in the color MFP market. In the future, will strategy focus more on competition by scale than on a niche top approach?

A: Unlike a "niche top" approach, the Konica Minolta "genre top strategy" concentrates operational resources on *growing markets* with the aim of capturing the greatest market share in those markets. As you noted, color MFP market share has greatly increased, and within that market we have concentrated on a growth strategy aimed at the general office medium- to high-speed segment, meaning segment 2 and above machines (product with output speeds of over 21 pages-per-minute) and A3 tandem machines (MFP with a high-speed output mechanism installed). As such, the strategy does not aim to capture top market share for the whole color MFP market, meaning color MFP with low cost products included.

Q: Competition in the high-speed segment of the MFP market continues to intensify and companies are experiencing slowing share growth momentum as a result. Given this situation, what strategy are you adopting?

A: FY/Mar2007 color MFP sales by unit increased about 40% over the previous year, with sales increasing about 50% in Europe. For FY/Mar2008 as well we plan for color MFP sales by unit to increase about 40% over 2006, and of this we expect the high-speed segment to increase around 60%.

Sales for our new bizhub C550 high-speed color MFP, which was released February of this year, have been robust, and we are going to put our energy into product development with more emphasis on an advanced application adoptability, become more cost competitive, and develop new sales channels. In terms of region, we will maintain our robust business performance in Europe while also working to increase our high-speed color MFP market share in the US.

Optics

Q: Tell us the profit margin ranking for your principle optical products.

A: In FY/Mar2007, display materials had the highest profit margin, memory devices were second, followed by image output devices. We expect the order to be the same in FY/Mar2008.

Q: Do you foresee increased revenue and profits for optical pickup lenses in the memory devices area as next-generation DVD gathers momentum?

A: Our outlook is that the market seems to be off to a slow start. And though this is supplementary information, the recovery of demand for glass HD substrates seems somewhat slow as well. On the other hand, as for the display materials segment, we see TAC film's robust recovery in the first half of FY/Mar2008.

Other

Q: Tell us your outlook for the effects of extraordinary gains or losses and effective tax rate on business performance for FY/Mar2008.

A: In FY/Mar2007 we reported profit from the sale of fixed assets and other extraordinary profits accompanying our exit from the Photo Imaging business. In FY/Mar2008, we foresee no reporting of extraordinary profits and a 4.5 billion yen extraordinary loss due to losses such as the disposal of fixed assets. Since FY/Mar2007 saw reduced tax costs due to unique factors such as our exit from Photo Imaging business, our effective tax rate for the corresponding year was a lower than normal 30.6%. We do not anticipate similar unique factors in FY/Mar2008, so the effective tax rate will probably be around 46%.

Q: FY/Mar2007 investment and R&D cost recorded less than the company plan, so give us your outlook for FY/Mar2008.

A: The areas that we want to concentrate on by segment include the following: (1) solution business for the Business Technologies, (2) TAC film product lineup and increasing production capacity for Optics, and (3) expanding our lineup of instruments and systems aimed at general practitioners for Medical. FY/Mar2007 results turned out to be less than we had been planned and in FY/Mar2008 we want to implement possible measures ahead of the current schedule so that we will achieve our medium-term business plan objectives for the period.

Q: You discussed the expected effect of the sharp rise in raw material costs for FY/Mar2008. What about FY/Mar2007?

A: Every business division was affected by the sharp rise in the cost of steel, copper, aluminum, petroleum products, and other raw materials. In FY/Mar2007, Medical and Graphic Imaging business especially were impacted by the 4.5 billion yen expense caused by the sharp rise in silver, which is a raw material used in film. The high cost of silver had a negative effect on profits for this business overall.

Q: In 2010 you will launch doing business in organic EL. Tell us a little more about that.

A: We are concentrating the business around our novel blue phosphorescent and coating technology that we have developed for use as a light source, and we have chosen to form business alliance with General Electric of the US. Competitors have developed a glass evaporation type, but since we expect a significant increase in surface area for organic EL devices to be applied along with market growth, we are convinced that cost competition will make our roll-to-roll process the dominant type.

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