1. OPERATING RESULTS

Overview

(1) Business Performance Analysis

[Millions of yen]

		April 1, 2006 – March 31, 2007	April 1, 2005 – March 31, 2006	Increase (Decrease)	
Net Sales		1,027,630	1,068,390	(40,759)	(3.8%)
Gross profit		494,916	493,227	1,689	0.3%
Operating Income		104,006	83,415	20,590	24.7%
Recurring profit		98,099	76,838	21,261	27.7%
Net income (loss) before income taxes and minority interests		104,890	(35,934)	140,824	- %
Net income (loss)		72,542	(54,305)	126,847	- %
Net income per share [yen]		136.67	(102.29)	238.96	- %
Capital expenditure		64,000	67,570	(3,570)	(5.3%)
Depreciation		52,692	51,198	1,494	2.9%
R&D expenses		71,961	67,039	4,921	7.3%
Exchange rates [yen]	US dollar	117.02	113.31	3.71	3.3%
	Euro	150.09	137.86	12.23	8.9%

Looking back at the world economy in the fiscal year ending March 31, 2007, the U.S. economy continued to show signs of deceleration due to a cooling down of housing investment and other factors but generally maintained its gradual growth trend against the backdrop of improving conditions in the labor market and rising wages. With respect to Europe, a recovery in the German economy helped support an overall trend of improvement in economic conditions throughout Europe, with expanding personal consumption exerting a positive influence during the first half of the year and autonomous internal demand supporting firm economic conditions in the latter half of the year. Regarding Asia, external demand and expansion of the IT industry sustained generally strong economic conditions, with China and India continuing to play the role of economic growth locomotives.

In Japan, despite slack personal consumption and fears of a U.S. recession, robust capital investment seen in a wide range of industries and continued positive employment environment conditions helped sustain economic recovery. On the other hand, the high levels of prices for oil and other raw materials emerged as a factor generally decelerating the revenue growth of manufacturing companies.

With respect to markets in which Konica Minolta has a presence, Japan-based manufacturers’ shipments of copiers and MFPs during calendar 2006 declined slightly from the 2005 level in the domestic market. The manufacturer’s shipments of color products to overseas markets surged, while their shipments of monochrome products to overseas markets were approximately unchanged from the 2005 level.

Moreover, a general trend of rising sales was seen with respect to personal computers, LCD televisions, camera-equipped mobile phones, and other products related to Konica Minolta’s Optics Business. Demand for such digital equipment and communications equipment products continues to be subject to considerable fluctuation, however, and the pronounced impact of demand fluctuations during the latter half of the fiscal year depressed shipments of LCD panels, hard disk drives (HDDs), and other components and materials related to such products. Particularly in LCD-related fields, intensifying competition has reduced the selling prices of finished products and generated increasing pressure on component and materials manufacturers to lower the prices of their products.

Amid these conditions, Konica Minolta implemented the first year of measures based on its new medium-term business plan “FORWARD 08,” which was drafted in May 2006. These measures were designed to promote the Group’s growth and maximize the Group’s corporate value by concentrating management resources in such growth fields as the Business Technologies Business and the Optics Business and effectively implementing the “genre-top strategy,” which calls for concentrating management resources in specified business fields and markets to establish the top brand in those fields and markets.

In line with this strategy, Konica Minolta worked to expand sales in the strategically emphasized MFP sector of the Group's core Business Technologies Business field. Reflecting the abundant array of product line items, the Group maintained strong sales in this sector and maintained its position as the top Group regarding the general office-use color MFP(multi functional peripheral) Europe and the United States. Anticipating rising demand for MFP consumables, Konica Minolta completed the construction of its No. 3 polymerized toner plant (Nagano, Japan) in December 2006. Together with the capacity of a previously existing plant (Yamanashi, Japan), the new plant's 7,000-ton annual production capacity makes the Group one of the world top toner manufacturers in terms of volume, with capabilities for producing 15,000 tons of polymerized toner per year.

In the strategic business field of the Optics Business, Konica Minolta began mass shipments of optical pickup lenses for the Blue-ray Disc (BD) and other next-generation DVD products. The Group has continued to increase its sales of protective film for polarizing plates used in LCDs (TAC film), a key component of LCD panels incorporated into televisions and computer displays. In September 2006, it completed the construction of its No. 4 TAC film plant (Kobe, Japan), boosting its annual production capacity for TAC film from 90 million m2 to 120 million m2, and the addition of capacity was accompanied by a rise in sales of this product. Construction has been begun of the No. 5 TAC film plant, which on its completion in fall 2007 is expected to boost the Group's annual production capacity to 170 million m2. These measures illustrate Konica Minolta's approach to concentrating management resources in strategic growth fields.

Having in January 2006 decided to exit from the Photo Imaging Business, Konica Minolta concluded its camera business at the end of the previous fiscal year. At the same time, the Company transferred a portion of assets related to the development, design, and manufacture of digital SLR cameras to Sony Corporation. Moreover, Group units in Japan and overseas are taking measures in line with a plan to discontinue all other Photo Imaging Business operations, including film and photographic paper, by September 30, 2007. Manufacturing activities related to these operations have already been halted, and the Odawara site (Kanagawa, Japan) where photographic paper is manufactured, along with the Photo Imaging Business domestic sales organization has been transferred to Dai Nippon Printing Co., Ltd. (DNP). While deciding to exit from the original business field of Konica Minolta's predecessor companies was extremely painful, the subsequent process of exciting has advanced smoothly and quickly, and it is scheduled to be generally completed by the end of fiscal year ended March 2007.

Reflecting the aforementioned measures, net sales for the fiscal year under review amounted to ¥1,027.6 billion. Overall sales for the Group declined 3.8% year on year, owing primarily to lower sales from the Photo Imaging Business as it goes through the process of exciting. However, sales of other businesses were strong, reflecting such factors as the Business Technologies Business's robust sales of color MFP products centered on new products and the Optics Business's sustained increase in TAC film sales and inauguration of operations in optical pickup lenses for next-generation DVD products. The negative impact of the surge in silver and other raw materials procurement prices and the fall in selling prices accompanying the intensification of competition was more than offset by the positive effects of Konica Minolta's Groupwide cost-cutting efforts, improvement in the product mix accompanying the launch of new products, and the exchange rate benefits of a weaker yen. As a result, the gross profit margin improved 2.0 percentage points, from 46.2% to 48.2%. Despite an increase in R&D spending concentrated primarily in the Business Technologies Business and other strategically emphasized fields as well as a rise in such Groupwide infrastructure project expenses as those associated with IT systems and environmental countermeasures, selling, general and administrative (SG&A) expenses fell ¥18.9 billion from the previous fiscal year, owing to a significant reduction in Photo Imaging Business expenses reflecting the reinforcement of the Company's focus on select operations. As a result, operating income totaled ¥104.0 billion, up 24.7%, or ¥20.5 billion, from the previous fiscal year. In addition, the operating profit margin improved 2.3 percentage points, from 7.8% to 10.1%.

Recurring income increased ¥21.2 billion, or 27.7%, year on year, to ¥98.0 billion, owing mainly to a ¥0.6 billion reduction in the investment loss on equity method and the loss on disposal of inventory assets in non-operating income. Exerting a positive influence on the balance of extraordinary gain and loss items were such factors as the absence of the Photo Imaging Business related impairment loss and provision of reserves associated with the exit from the Photo Imaging Business in the previous fiscal year as well as the recording in the fiscal year under review of gains on the sales of fixed assets. As a result, net income before income taxes amounted to ¥104.8 billion, and net income totaled ¥72.5 billion. Operating income surpassed the ¥100 billion mark for the first time, and ordinary income, recurring income, and net income all attained record high levels.

Average yen exchange rates against the dollar and euro were ¥117 and ¥150, respectively, representing yen depreciation rates against the dollar and euro of ¥4 or 3% and ¥12 or 9%, respectively.

Segment Information

1. Business Technologies Business
[Multifunctional peripherals (MFPs), laser printers (LBPs), etc.]

[Millions of yen]

	Fiscal year ended March 31, 2007	Fiscal year ended March 31, 2006	Increase (Decrease)	Change
(1) Net sales to outside customers	658,693	606,730	51,963	8.6%
(2) Intersegment net sales	3,955	3,488	466	13.4%
Total net sales	662,648	610,218	52,429	8.6%
Operating income	79,982	65,120	14,862	22.8%

The Business Technologies Business is implementing the “genre-top strategy” by working to expand its operating base with regard to color MFPs, for which demand in general office markets is continuing to grow, as well the light production print field, which is focused on such customers as the in-house printing departments of major corporations, data centers, and major franchise copy shops.

In the color MFP field, Konica Minolta worked to bolster its product lineup in its emphasized medium-to-high-speed market segment of products with speeds of 30ppm to 55ppm by launching four new products—the bizhub C300, the bizhub C352, (May 2006) the bizhub C252 (October 2006), and the bizhub C550 (February 2007). In addition to abundant network functions that respond to office network environments as well as the latest security functions, these new products feature high-quality images achieved through our unique polymerized toner with outstanding particle consistency and our exclusive image technologies as well as excellent cost performance afforded by tandem engines that enable high-speed outputting and other outstanding performance characteristics. These features were highly evaluated by customers, supporting robust sales of the newly launched color MFPs, particularly in Europe.

Unit sales of color MFPs continued to increase, and the Company maintained its solid position among the top companies with respect to the medium-to-high-speed segments of U.S. and European markets, where it has particularly strong business bases. In the (light) production print market, Konica Minolta added two high-speed models to its lineup with the launch of the bizhub PRO C6500 (September 2006; 65ppm color and black and white) and the bizhub PRO 1050e (December 2006; 105ppm black and white). Unit sales of these products increased, reflecting the Company’s strategy of emphasizing steps to strengthen and expand marketing systems in the U.S. (light) production print market, the world’s largest (light) production print market, through such measures as those to bolster its specialized direct marketing system and augment collaboration with leading dealers. Besides measures focused on such strategically emphasized fields as color MFPs and high-speed MFPs, Konica Minolta has steadily increased its response to persistently strong demand from customers in the United States and Asia for monochrome MFPs for general office applications, and this was a principal factor enabling the Company to sustain rapid growth in its unit sales of both color MFPs and monochrome MFPs.

In LBP operations, Konica Minolta has progressively shifted to marketing strategies that place greater emphasis on printing volumes and profitability. Moreover, striving to give more emphasis in its marketing strategies to general corporate users, the Company strengthened its product lineup in the medium-to-high-speed tandem color LBP segment with the launch of the magicolor 5570 (March 2007; 30ppm color) and upgraded its product lineup in the high-value-added segment with the launch of the magicolor 2490 (February 2007), which is an “all-in-one” printer equipped with copying, scanning, and facsimile functions.

As a result, sales to external customers rose 9% year on year, to ¥658.6 billion, and operating income surged 23%, to ¥79.9 billion.

2. Optics Business
[Optical devices, electronic materials, etc.]

[Millions of yen]

	Fiscal year ended March 31, 2007	Fiscal year ended March 31, 2006	Increase (Decrease)	Change
(1)) Net sales to outside customers	138,960	110,368	28,592	25.9%
(2) Intersegment net sales	1,396	1,803	(407)	-22.6%
Total net sales	140,356	112,171	28,184	25.1%
Operating income	21,000	17,593	3,407	19.4%

In the Optics Business, Konica Minolta fully leveraged its strengths in optical technology, coating technology, materials technology, and nano fabrication technology, and it took steps to expand the scale of its operations by providing products that anticipate market trends, customer needs, and technological trends.

Regarding displays, demand for TAC film continued to increase in step with growth in the scale of the LCD panel market as well as in the size of LCD panels, and Konica Minolta responded to this trend by increasing its TAC film production capacity in September 2006. In response to intensifying competition in the market for films that broaden the range of angles from which LCDs can be viewed, for use with LCD televisions, the Company launched a new product in January 2007 and proactively took various other measures to strengthen its product competitiveness, and these efforts helped sustain a high rate of growth in its TAC film sales volume.

As for memory-related products, current-generation DVD optical pickup lenses centered on recording lenses emerged from an adjustment period. Moreover, along with the start of next-generation DVD product mass production during the latter half of the year, Konica Minolta initiated objective lens shipments and took other measures that greatly contributed to a recovery in the profitability of business in such lenses. Sales of glass hard disk substrates were also strong, reflecting the growth in the personal computer markets and the expanding applications of information appliances that incorporate hard disc drives (HDDs) as well as the Company’s progressive response to vertical magnetic recording format HDDs.

The scale of Konica Minolta’s business in image input/output components grew, reflecting a large increase in the volume of shipments of micro cameras for incorporation in camera-equipped mobile phones by customers in Japan and overseas.

As a result, sales to outside customers in this segment grew 26% year on year, to ¥138.9 billion, and operating income advanced 19%, to ¥21.0 billion.

3. Medical and Graphic Imaging Business
[Medical and graphic products, etc.]

[Millions of yen]

	Fiscal year ended March 31, 2007	Fiscal year ended March 31, 2006	Increase (Decrease)	Change
(1) Net sales to outside customers	158,705	146,600	12,104	8.3%
(2) Intersegment net sales	12,249	27,269	(15,019)	-55.1%
Total net sales	170,955	173,869	(2,914)	-1.7%
Operating income	8,880	11,689	(2,809)	-24.0%

In the medical segment, we took steps to expand sales of digital input/output equipment, including the REGIUS series of digital radiography systems and the DRYPRO series of imaging output equipment, as well as X-ray film. Domestic sales were depressed by revisions to the payment system for medical services (National Health Insurance reimbursement price revisions affecting diagnostic and therapeutic services), which restrained growth in demand related to X-ray equipment. Strong sales of equipment and film were recorded in overseas markets, however, reflecting the establishment of an additional marketing company in Europe and other measures taken to bolster overseas marketing systems.

In the graphic (printing) segment, the move to filmless imaging is accelerating as digital printing processes take root both in Japan and overseas. Regarding its mainstay printing-use films, Konica Minolta selectively strengthened its marketing operations in overseas markets and strove to maintain the level of sales volume.

As a result, sales to outside customers in this segment increased 8% from the previous fiscal year, to ¥158.7 billion. Operating income, however, dropped 24%, to ¥8.8 billion, owing to a rise in expenses connected with the development of digital equipment products as well as to the soaring price of silver used as a raw material.

4. Other Business

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

This segment maintained strong sales of colorimeters to customers in the flat panel display industry and automobile manufacturing industry. Moreover, various market route development efforts were made for three-dimensional digitizers including industrial and academic applications. From the fiscal year under review, the performance of three new autonomous sensing business marketing companies—in the United States, Europe, and Singapore—has been included within the scope of consolidated accounts. Sales to outside customers amounted to ¥10.0 billion, and operating income totaled ¥1.6 billion,

Industrial Ink-Jet Printer Business [Industrial ink-jet printer heads, large ink-jet printers, etc.]

Drawing on Konica Minolta's proprietary ink-jet technologies and unique chemical and ink technologies, this segment markets high-definition printer heads to major printer manufacturers and large ink-jet printers for textile use as well as various ink consumables for these printers. Established in January 2005, the business corporation responsible for this segment has entered its second year of full-fledged operations. Thanks to proactive initiatives during the first half of the current fiscal year aimed at developing new customers, that company has maintained robust performance. In the fiscal year under review, sales to outside customers in this business were ¥5.9 billion, and operating income was ¥1.2 billion.

Photo Imaging Business [Film, photographic paper, etc.]

In the Photo Imaging Business, as mentioned previously, Konica Minolta plans to progressively terminate all business operations by September 30, 2007. Regarding color film and photographic paper business, the Company has reduced the number of products and volume of production in stages, and manufacturing operations were ended as of March 31, 2007. Plans call for completing the closure or ownership transfer of all related domestic and overseas marketing companies and offices during the first half of the current fiscal year. As a result of this policy, sales to outside customers amounted to ¥47.7 billion, and an operating loss of ¥800 million was recorded.

Outlook for the fiscal year ending March 31, 2008

Despite concerns regarding the possibility of a slowdown in the U.S. economy, which has been driving the world economy, the overall prognosis is for continued strong economic expansion both in Japan and overseas. However, we recognize that conditions will remain challenging due to such factors as intensifying price competition in digital product markets and skyrocketing prices of crude oil and other raw materials as well as the difficulty of forecasting yen exchange rates against the dollar, euro, yuan, and other currencies.

Regarding trends in the Konica Minolta Group's principal markets, in the Business Technologies Business, the Company believes ordinary companies' propensities to invest in IT equipment will continue increasing, sustaining robust demand for high-function, high-performance, office network-compatible color MFPs with the objective of replacing existing products as well as expanding existing stocks of products. Regarding the Optics Business, demand for certain products in digital equipment and telecommunication equipment industries—including TAC film and other LCD-related materials as well as glass hard disk substrates—is projected to undergo a period of adjustment during the first half of the current fiscal year, but a general trend of expanding demand is expected from the latter half of the year. The Medical and Graphic Imaging Business is expected to be impacted by the ongoing shift to filmless imaging in Japan and overseas, and the Group is responding by emphasizing speedy measures to strengthen digital product marketing operations.

Amid these circumstances, the Company will expeditiously implement the strategies and other measures described in FORWARD 08 and concertedly use Group capabilities to attain the performance targets specified below. Regarding net sales, as the drop accompanying the exit from Photo Imaging Business is expected to be more than offset by growth in the Business Technologies Business and the Optics Business, sustained growth in overall Group sales is anticipated. Regarding operating income, despite an approximately ¥5.0 billion rise in amortization expense due to the revision of the depreciation and amortization system within the fiscal 2007 tax code reform, the Group is aiming to generate a level of operating income that is higher than that in the fiscal year under review. The projected level of net income in the current fiscal year is down ¥25.0 billion from the fiscal year under review, but this decrease reflects the projected lack of certain special circumstances that temporarily increased net income during the fiscal year under review. For example, approximately ¥12.0 billion in extraordinary gains were recorded for the fiscal year under review on the disposal of fixed assets and investment securities in connection with the exit from Photo Imaging Business, and permitted deductions from taxable income associated with losses on business discontinuation are projected to decrease during the current fiscal year in step with progress in the discontinuation of the Photo Imaging Business.

[Billions of yen]

	Fiscal year ending March 31, 2008		Fiscal year ended March 31, 2007		Increase (Decrease)	
	Interim	Full year	Interim	Full year	Interim	Full year
Net sales	496.0	1,045.0	493.9	1,027.6	2.1	17.4
Operating income	48.0	105.0	46.2	104.0	1.8	1.0
Recurring profit	42.0	93.0	44.8	98.0	(2.8)	(5.0)
Net income (loss)	20.5	47.5	22.5	72.5	(2.0)	(25.0)

Please note that the following foreign currency exchange rates have been assumed in this outlook:

U.S. dollar: ¥115
Euro: ¥150

**The above performance projections were made based on assumptions, forecasts, and plans that were current at the time of the business report and are subject to change due to various potential risks and uncertainties. Depending on economic conditions, market trends, exchange rate trends, and diverse other factors, actual performance may be considerably different from projected performance.*

(2) Financial Position

Overview

		As of March 31, 2007	As of March 31, 2006	Increase (Decrease)
Total assets	[millions of yen]	951,052	944,054	6,997
Shareholders' equity	[millions of yen]	368,624	293.817	-
Shareholders' equity per share	[yen]	692.39	553.50	-
Equity ratio	[%]	38.6	31.1	7.5

Note: The figure used for total assets at previous fiscal year-end is the total for the shareholders' equity section.

At fiscal year-end, total assets amounted to ¥951.0 billion, up ¥6.9 billion compared with the end of the previous fiscal year. While the exit from the Photo Imaging Business was accompanied by progressive measures to dispose of certain assets during the fiscal year under review, business expansion in other business fields during the year was accompanied by an increase in assets centered on receivables and tangible assets. Inventory assets fell ¥15.8 billion, to ¥133.5 billion, and sustained efforts to reduce the level of interest-bearing debt caused the balance of interest-bearing debt to decrease ¥7.1 billion, to ¥229.3 billion.

Regarding net assets, such factors as the posting of ¥72.5 billion in net income for the fiscal year under review boosted retained earnings and consequently net assets recorded ¥368.6 billion. Net assets per share came to ¥692.39 and the shareholders' equity ratio rose 7.5 percentage points from the end of the previous fiscal year, to 38.6%,

Cash Flows

[Million of yen]

	Fiscal year ended March 31, 2007	Fiscal year ended March 31, 2006	Increase (Decrease)
Cash flows from operating activities	66,712	78,924	(12,212)
Cash flows from investing activities	-56,401	-43,146	(13,254)
Total (Free cash flow)	10,311	35,778	(25,467)
Cash flows from financing activities	-5,170	-16,850	11,680

Cash flows from operating activities

Despite an increase in cash flow reflecting such factors as ¥104.8 billion in income before income taxes, ¥52.6 billion in depreciation and amortization, and ¥13.2 from improvement in the balance of operating capital items, this increase was more than offset by factors including payments for liabilities due to provision for loss on the discontinuation of Photo Imaging Business operations that was posted at the previous fiscal year-end and the reserve for retirement benefits and pension plans as well as income tax payments. Thus, net cash provided by operating activities totaled ¥66.7 billion, ¥12.2 billion less than in the previous fiscal year.

Cash flows from investing activities

Net cash used in investing activities totaled ¥56.4 billion, a cash outflow increase of ¥13.2 billion compared with the previous fiscal year. This was primarily due the acquisition of tangible fixed assets amounting to ¥62.5 billion—mainly in the Group's core fields of Business Technologies Business and strategic Optics Business. The investments focused primarily on dies for new products as well as projects to bolster production capacity for such products as polymerized toner and TAC film.

As a result, free cash flows, calculated from the total of cash flows from operating activities and cash flows from investing activities, amounted to ¥10.3 billion, a level ¥25.4 billion lower than in the previous fiscal year.

Cash flows from financing activities

Net cash used in financing activities amounted to ¥5.1 billion, ¥11.6 billion less than in the previous fiscal year. Although ¥70.3 billion was raised through the issuance of convertible bonds, a greater amount was used to redeem bonds and repay borrowings.

As a result of the above, cash and cash equivalents at fiscal year-end totaled ¥86.5 billion, up ¥5.7 billion from the end of the previous fiscal year.

<Cash flow indicators>

	FY ended March 31, 2003	FY ended March 31, 2004	FY ended March 31, 2005	FY ended March 31, 2006	FY ended March 31, 2007
Shareholders' equity ratio [%]	35.1	34.6	35.6	31.1	38.6
Market price-based shareholders' equity ratio [%]	65.0	81.5	60.2	84.5	86.4
Debt redemption period [years]	2.3	3.1	4.4	3.0	3.4
Interest coverage ratio	14.3	11.1	10.1	14.4	12.8

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 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, 2008

Konica Minolta projects that free cash flow, the net value of cash flows from operating and investing activities, will amount to an outflow of approximately ¥20 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

Regarding the retained earnings distribution policies determined by the Company's board of directors, in accordance with the FORWARD 08 medium-term management plan objectives of increasing the new added value by the Group's operations and pursuing the Group's growth as well as maximizing the Group's corporate value, during the period of the plan, priority will be given to accumulating internal reserves, proactively working to promote strategic investments in growth fields, and proactively strengthening the Company's financial position while also striving to distribute stable levels of profit to shareholders.

With respect to its basic policy of paying stable dividends from retained earnings, the Company has chosen ¥10 per share as a benchmark dividend level. Moreover, in view of its goal of increasing dividends, the Company has set the objective of maintaining a dividend payout ratio of 15% or more on a consolidated basis and will to the extent possible increase dividends in line with changes in Group performance.

Regarding retained earnings, the Company intends to employ retained earnings to fund such projects as R&D and capital investments in current and future growth fields while also appropriately taking such measures as those to distribute retained earnings.

With respect to the acquisition of treasury stock, the Company does not currently intend to acquire treasury stock but 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

We greatly regret not being able to distribute interim dividends for the fiscal year under review due to the considerable extraordinary losses recorded on both consolidated and nonconsolidated bases in the previous fiscal year in connection with the decision to exit the Photo Imaging Business.

However, because structural reforms associated with the exit of those operations are moving ahead on schedule and because the benefits of steps being taken to strengthen operations centered on the Business Technologies Business and the Optics Business are progressively being reflected in consolidated performance in a manner that enables the forecast of the restoration of the basis for renewed dividends, the Company is proposing to draw on retained earnings to distribute a ¥10-per-share year-end dividend as a means of rewarding loyal shareholders for their support to date.

[3] Projected dividends for the current fiscal year

Regarding dividends applicable to the current fiscal year, based on the FORWARD 08 medium-term management plan objectives of increasing the new added value by the Group's operations and maximizing the Group's corporate value, during the period of the plan, the Company will proactively work to promote strategic investments in growth fields, and proactively strengthening the Company's financial position while also striving to distribute stable levels of profit to shareholders. Accordingly, the Company currently plans to distribute interim dividends and year-end dividends of ¥5 per share (¥10 per share dividends applicable to the fiscal year).

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

2. GROUP OVERVIEW

The Group comprises the parent company, 120 consolidated subsidiaries, 25 non-consolidated subsidiaries, and 9 affiliates. A chart detailing the business structure follows.

Konica Minolta Holdings, Inc

Business Technologies Businesses: 80
(Consolidated Subsidiaries: 59, Unconsolidated Subsidiaries: 16, Affiliates: 5)

Production: 9
- Konica Minolta Supplies Manufacturing Co., Ltd.
- Toyohashi Precision Products Co., Ltd.
- Konica Minolta Business Technologies Manufacturing (H.K.) Ltd. (Hong Kong)
- Konica Minolta Business Technologies (WUXI) Co., Ltd. (China)
- Other Companies: 5

↓

Konica Minolta Business Technologies, Inc.

↓

Sales: 70
- Konica Minolta Business Solutions Japan Co., Ltd.
- Konica Minolta Business Solutions U.S.A., Inc. (U.S.A)
- Konica Minolta Business Solutions Europe GmbH (Germany)
- Konica Minolta Business Solutions Deutschland GmbH (Germany)
- Konica Minolta Business Solutions (UK) Ltd. (U. K.)
- Konica Minolta Business Solutions France S.A.S. (France)
- Konica Minolta Business Solutions Australia Pty. Ltd. (Australia)
- Other Companies: 63

Sensing Business: 4
(Consolidated Subsidiaries: 4)

Konica Minolta Sensing, Inc.

Sales: 3
- Konica Minolta Sensing Europe B.V. (Netherlands)
- Konica Minolta Sensing Americas, Inc. (U.S.A)
- Konica Minolta Sensing Singapore, Pte.Ltd. (Singapore)

Photo Imaging Businesses: 28
(Consolidated Subsidiaries: 22, Unconsolidated Subsidiaries: 5, Affiliates: 1)

Production: 7

↓

Konica Minolta Photo Imaging, Inc.

↓

Sales: 20

Optics Businesses: 9
(Consolidated Subsidiaries: 9)

Production: 7
- Konica Minolta Opto Products Co., Ltd.
- Konica Minolta Opto (DALIAN) Co., Ltd. (China)
- Konica Minolta Optical Products (SHANGHAI) Co., Ltd. (China) *2
- Konica Minolta Glass Tech Malaysia Sdn. Bhd. (Malaysia) *4
- Other Companies: 3

↓

Konica Minolta Opto, Inc.

↓

Sales: 1
- Konica Minolta Opto (SHANGHAI) Co., Ltd. (China)

Medical and Graphic Imaging Businesses: 19
(Consolidated Subsidiaries: 14, Unconsolidated Subsidiaries: 3, Affiliates: 2)

Production: 4
- Konica Minolta Technoproducts Co., Ltd.
- Konica Minolta Repro Co., Ltd.
- Other Companies: 2

↓

Konica Minolta Medical & Graphic , Inc.

↓

Sales: 14
- Konica Minolta Medical Co., Ltd. *5
- Konica Minolta ID System Co., Ltd.
- Konica Minolta Medical Imaging U.S.A., Inc. (U.S.A.)
- Konica Minolta Graphic Imaging Japan Co., Ltd.
- Konica Minolta Graphic Imaging U.S.A., Inc. (U.S.A.)
- Other Companies: 9

Other Businesses: 14
(Consolidated Subsidiaries: 12, Unconsolidated Subsidiaries: 1, Affiliates: 1)

- Konica Minolta IJ Technologies, Inc.
- Konica Minolta Business Expert, Inc.
- Konica Minolta Technology Center, Inc.
- Konica Minolta Logistics Co., Ltd.
- Konica Minolta Sogo Service Co., Ltd.
- Konica Minolta Engineering Co., Ltd.
- Konica Minolta Information System Co., Ltd.
- Konica Minolta Technosearch Co., Ltd.
- Konica Minolta Planetarium Co., Ltd.
- Other Companies: 5

Notes:
*1: Organization chart is as March 31, 2007. Only major consolidated subsidiaries are shown.
*2: On August 31, 2006, Konica Minolta Optical Products (SHANGHAI) Co., Ltd. was transferred to the Optics Business from the Photo Imaging Business through the transfer of the shares.
*3: On July 1, 2006, Konica Minolta ID Imaging Co., Ltd., was transferred to a third party.
*4: On November 2, 2006, Konica Minolta Glass Tech Malaysia Sdn. Bhd is established.
*5: On April 1, 2007, Konica Minolta Medical Co., Ltd., and Konica Minolta MG Techno Support Co., Ltd., merged and the merged company was renamed Konica Health Care Co., Ltd.,

3. MANAGEMENT POLICY

(1) Basic Management Policy

With its sights set on becoming an innovative corporate group that generates new excitement in the area of imaging input/output, the Konica Minolta Group is developing its business globally under the business philosophy “Creation of new value.”

Management philosophy: “Creation of new value”
Management vision: “Innovative corporation that continues to create impressions in the field of imaging”
“A global market leader that offers advanced technology and reliability.”
Corporate message: “The essentials of imaging”

(2) Medium-to Long-Term Management Strategies and Pending Issues

Medium-Term Business Plan “FORWARD 08”

In line with its “Creation of new value” management philosophy, the Konica Minolta Group is leveraging its advanced technologies and reputation for reliability to expand its global operations while aiming to be an innovative corporate group that elicits new excitement in the image inputting and outputting field. Based on consideration of strategies for Group development after exciting the Photo Imaging Business, in May 2006, the Konica Minolta Group drafted “FORWARD 08,” a new medium-term business plan that covers the three-year period from April 2006 through March 2009. This plan outlines the growth strategies the Group is using to further increase the added value in its operations and maximize its corporate value.

Basic Strategies and Numerical Targets of the Medium-Term Business Plan “FORWARD 08”

- Basic Strategies
  1. Promote growth by leveraging collective Group resources
  2. Build a new corporate image
  3. Promote world-class corporate social responsibility (CSR) management
- Numerical Targets (for Fiscal year ending March 31, 2009)
  1. Consolidated net sales: ¥1,100 billion
  2. Consolidated operating income: ¥110 billion
     (consolidated operating profit margin: 10%)
  3. Consolidated Net income: ¥57 billion

To improve our growth potential, we consider it crucial to pursue inter-business synergies beyond the Group’s current framework and increase the added value of our businesses. We will accelerate Group growth in the equipment and services business group, which includes MFPs, LBPs and digital printing, and medical imaging businesses as well as in the component business group, which focuses on business related to optical components and display materials.

We are intent on integrating the Group’s core technologies—namely, optical, image processing, materials, and nano fabrication technologies—and providing innovative high quality products and services that anticipate customers’ needs. To demonstrate that the Group is a business partner worthy of absolute confidence, we are working to further strengthen our capabilities for employing technologies and drafting proposals in line with customers’ perspectives.

Strong corporate social responsibility (CSR) performance is an increasingly important requirement for realizing sustained corporate growth. To accelerate the implementation of CSR management activities in line with global standards, Konica Minolta is dynamically implementing programs aimed at ensuring that it is consistently in the top class of companies regarding such fundamental manufacturing-related issues as environmental protection and quality assurance matters. At the same time, the Group is progressively implementing a broad range of other CSR initiatives, including those aimed at augmenting its communications with all kinds of stakeholders—including shareholders as well as customers, transactional partners, residents of local communities, and employees—and stepping up its contribution to society at large as well as increasing the rigor of its internal control systems.

Implementation of the Medium-Term Business Plan

As reported on the first page of this flash report, during the fiscal year ended March 31, 2007, which is the first year of the medium-term plan, the Konica Minolta Group's sales and profitability were higher than originally projected. Operating income surpassed the ¥100 billion mark for the first time, and the operating income ratio reached the 10% level targeted for the fiscal year ending March 2009. Having emphasized efforts to strengthen its operations in Business Technologies Business and the Optics Business, the Group displayed positive results in these fields. For example, it has become the top manufacturer in its segments of the color MFP markets of Europe and the United States, and it has launched next-generation DVD pickup lenses in advance of competing companies.

On the other hand, to further accelerate its growth, Konica Minolta has comprehensively brushed up its "FORWARD 08" medium-term business plan, tightening the focus of emphasized items in each business field and creating concrete action plans that specify the measures to be taken with respect to those items. To ensure growth during the period from April 2007 through March 2009, it will be important to further strengthen and advance operations in current core businesses. In the Business Technologies Business, the Group will further reinforce its "genre top" position with respect to color MFPs. In the Optics Business, the Group will employ high-function films to expand operations in the LCD television market. The Group is proceeding with the implementation of measures in line with these and other strategy outlines.

In addition, as the next corporate growth step, Konica Minolta believes it must leverage its core business field business bases and technological resources to expand the scope of its operations into peripheral fields adjacent to its core businesses. In the Business Technologies Business, the Group will advance from solutions business centered on equipment sales and move into service businesses. In the medical field, the Group will undertake image-based diagnosis support business employing computer analysis technologies. We have already begun preparations for these and other initiatives of this type.

As another means of preparing the basis for the Group's sustained growth over the medium-to-long term, Konica Minolta is working to nurture new businesses with the potential to become important pillars of its operations in the future. One example of such initiatives that has already been announced is our agreement with General Electric Company to employ Konica Minolta's unique organic EL (electroluminescence technologies in collaborative efforts to commercialize OLED (Organic Light Emitting Diode) products by 2010. In addition to combining and integrating the materials and coating technologies and other core technologies Konica Minolta cultivated in photographic business the Group is moving ahead with preparations to enter new business fields by strategically employing outside resources that enable the shortening of business development periods.

To effectively attain these objectives, it will be important to further strengthen the Group's corporate structure. Specifically, we are seeking to strengthen the Group through measures aimed at three primary goals: (1) strengthening our base of development and manufacturing capabilities, (2) rebuilding our corporate culture in a manner designed to promote corporate growth, and (3) establishing a strong and solid financial structure.