1. OPERATING RESULTS

Overview

(1) Business Performance Analysis

[Millions of yen]

		April 1, 2007 – March 31, 2008	April 1, 2006 – March 31, 2007	Increase (Decrease)	
Net Sales		1,071,568	1,027,630	43,937	4.3%
Gross profit		531,343	494,916	36,426	7.4%
Operating Income		119,606	104,006	15,599	15.0%
Recurring profit		104,227	98,099	6,128	6.2%
Net income before income taxes and minority interests		98,996	104,890	(5,893)	(5.6)%
Net income		68,829	72,542	(3,712)	(5.1)%
Net income per share [yen]		129.71	136.67	(6.96)	(5.1)%
Capital expenditure		75,295	64,000	11,294	17.6%
Depreciation		60,443	52,692	7,750	14.7%
R&D expenses		81,272	71,961	9,311	12.9%
Exchange rates [yen]	US dollar	114.28	117.02	(2.74)	(2.3)%
	Euro	161.53	150.09	11.44	7.6%

Looking back at the world economy in the fiscal year ended March 31, 2008, the U.S. subprime loan crisis spurred a worldwide credit contraction that impacted the economies of Japan, the U.S., and Europe, which have maintained moderate recoveries, as well as the economies of other industrialized countries. This elicited fears of economic deceleration during the latter half of the fiscal year and increased the perceived difficulty of forecasting trends in the global economy. Economic conditions in the United States generally softened during the year due to factors that included the cooling down of the housing market along with the effect of that trend on hiring and personal consumption, and these trends led to a growing number of observers seeing signs of recession. In Europe, strong exports supported continued robust economic conditions in Germany and France, but indications of a regional economic deceleration were evident from fall 2007. On the other hand, Russia as well as China and other NICs continued to sustain rapid rates of economic growth against the backdrop of growth in external demand and abundant natural resources.

In the Japanese economy, although there were some concerns regarding prospective trends in the U.S. economy and the run-up in prices of crude oil and other raw materials, corporate performance improved during the first half of the year, reflecting the positive effects of the rise in the value of the euro and a weakening of the yen on the export manufacturing sector. As a result, gradual economic growth was sustained. In the latter half of the year, however, amid intensifying concerns regarding the possibility of a U.S. recession, progressive dollar depreciation and yen appreciation along with the further rise in prices of crude oil and other raw materials began rapidly putting pressure on Japanese companies' profitability, and a perception of economic deceleration was recognized.

Regarding exchange rate trends during the fiscal year under review, a trend of yen appreciation has rapidly proceeded since early 2008. Average exchange rates for the fiscal year as a whole were ¥114=US$1, corresponding to yen appreciation by ¥3 (2%) from the previous fiscal year, and ¥162=Euro1, corresponding to yen depreciation by ¥11 (8%) from the previous fiscal year.

Amid these conditions, Konica Minolta implemented the second year of measures based on its 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 that are projected to grow to establish the top brand in those fields and markets.

Regarding the Konica Minolta Group's core Business Technologies Business, Konica Minolta responded to a continued trend of replacing monochrome models with color models in the general office-use color MFP (multifunctional peripheral) field by undertaking the concentrated launch of five new competitive color MFP products from low-to-medium speed to high speed, and endeavoring to increase its market share in Japan and overseas. Robust sales of the new models have enabled Konica Minolta to consolidate its position among the top companies in the MFP markets of Europe and North America, where the Company has a particularly strong marketing base. Demand for products suitable for production print applications by large companies or commercial digital printing firms is expected to grow, and we have also launched new high-speed MFP products that address this demand and taken measures to expand their sales. In addition, as part of a global strategy for further accelerating the growth of MFP business, in January 2008, we concluded a basic partnership agreement with Netherlands-based Oce N.V., a leading information equipment manufacturer in Europe, and a strategic business alliance agreement was formally signed on April 4, 2008. The agreements call for the partners to supply products to each other on an OEM basis as well as cooperate in developing new products.

In the strategic business field of the Optics Business, Konica Minolta worked to increase its sales of TAC film (protective film for polarizing plates used in LCDs), a key component of LCD panels. Aiming to address the expansion of demand centered on LCDs for large-scale televisions in a timely manner, the Company accelerated its plans to construct the No. 5 TAC film plant (in Kobe, Japan), which entered operation in November 2007 and has boosted the Group's annual TAC production capacity from 120 million m^2 to 170 million m^2. The correctness of our decision making regarding strategic investments in expanding production capacity was reflected during the fiscal year under review in a large rise in the sales volume of TAC film, and particularly strong sales were recorded of newly launched high-performance TAC film (viewing angle expansion films). Aiming to further increase production capacity, we have begun the construction of the No. 6 TAC film plant, which is scheduled to begin operating in fall 2008. In the memory device sector, we began full-scale shipments of optical pickup lenses for use with next-generation DVDs including Blueray Disks, regarding which we have an overwhelmingly strong market position. In view of growing demand from customers for the glass substrates that are essential components in hard disk drives (HDDs) used with personal computers and other equipment, a Malaysian subsidiary began operating an additional facility for manufacturing such substrates in February 2008. In these ways, we have strategically invested management resources in business fields that are expected to grow and striven to develop highly competitive new products and strengthen our production bases in Japan and overseas.

In the Medical and Graphic Imaging Business, Konica Minolta responded to changing needs in the medical and printing fields, where digitization is proceeding rapidly. The Company is working to expand its sales by offering digital inputting and outputting equipment that offers high levels of image quality and image precision.

In Sensing Business, Konica Minolta proactively launched new color measurement instruments and worked to strengthen the competitiveness of its products. Regarding Industrial Inkjet Printer Business, the Company endeavored to develop additional customers in overseas markets.

Reflecting the aforementioned measures, Konica Minolta's consolidated net sales for the fiscal year under review rose 4.3%, or ¥43.9 billion year on year, to ¥1,071.5 billion. The expansion of the Group's net sales was strongly promoted by the strong performance of Business Technologies Business, reflecting robust sales of color MFP products in principal markets in Japan and overseas, and of Optics Business, which has such growth products as high-performance TAC film and optical pickup lenses for next-generation DVD products. While the discontinuation of Photo Imaging Business in the previous fiscal year had the effect of reducing sales during the period under review by ¥47.7 billion, a comparison of sales after excluding sales of the Photo Imaging Business shows relatively high year-on-year growth of 9%.

Gross profit for the period rose 7.4%, or ¥36.4 billion year on year, to ¥531.3 billion. We were able to absorb the effects of rising raw material prices and declines in product prices stemming from price competition by expanding our sales volume primarily with respect to new products, working to augment our added value by improving our product mix, implementing Groupwide cost-cutting programs, and taking other initiatives. Although the appreciation of the yen vis-a-vis the U.S. dollar presented challenges, our efforts were assisted by the positive impact of the decline in the value of the yen vis-a-vis the euro. As a result of these various factors, the gross profit ratio rose 1.4 percentage points, from 48.2% to 49.6%.

Selling, general and administrative (SG&A) expenses rose ¥20.8 billion year on year, reflecting such factors as a ¥9.3 billion rise in R&D investments that reflected the proactive development of new products in strategically emphasized fields, with the goal of supporting future growth. However, the Company's efforts to thoroughly manage expenses based on the "selection and concentration" concept enabled it to restrain the ratio of SG&A expenses to net sales to 38.4%, approximately the same as during the same period of the previous fiscal year. As a consequence, operating income rose 15.0%, or ¥15.5 billion year on year, to ¥119.6

billion, and the ratio of operating income to net sales increased 1.1 percentage points, from 10.1% to 11.2%.

Among non-operating income and expense items, non-operating income declined ¥4.0 billion year on year, reflecting the impact of yen appreciation in the second half of the year, which led to the recording of foreign exchange losses, compared with foreign exchange gains in the previous year. Because of this and a ¥5.4 billion rise in non-operating expenses, net non-operating income deteriorated ¥9.4 billion. Consequently, recurring profit expanded 6.2%, or ¥6.1 billion, to ¥104.2 billion.

Among extraordinary income and expense items, extraordinary profit was ¥1.8 billion lower year on year. This decline reflected decreases in gains on sales of fixed assets and investment securities, which were at higher levels in the previous year, owing to the exit from the Photo Imaging Business. As factors including impairment losses caused extraordinary losses to grow ¥10.2 billion, net extraordinary profit deteriorated ¥12.0 billion. Consequently, income before income taxes and minority interests declined 5.6%, or ¥5.8 billion year on year, to ¥98.9 billion.

Regarding corporate income taxes, a number of special factors reduced tax payments to a lower level than usual, and the effective income tax rate for the period under review was 30.3%. One of the principal factors accounting for this was the confirmation that a portion of losses on the exit from the Photo Imaging Business, which were entered in the accounts for the year ended March 31, 2006, would be recognized for tax purposes as the Company approached the completion of its exit from this business. As a result of this and other factors, net income declined 5.1%, or ¥3.7 billion, to ¥68.8 billion.

Please note that operating income and recurring profit results have been at record high levels for three consecutive fiscal years and four consecutive fiscal years, respectively. The results for both items reached new record high levels during the fiscal year under review.

Performance in individual business segments is explained in the following section.

Segment Information

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

[Millions of yen]

	Fiscal year ended March 31, 2008	Fiscal year ended March 31, 2007	Increase (Decrease)	Change
(1) Net sales to outside customers	700,969	658,693	42,276	6.4%
(2) Intersegment net sales	5,175	3,955	1,220	30.9%
Total net sales	706,145	662,648	43,497	6.6%
Operating income	90,093	79,982	10,111	12.6%

In Business Technologies Business, we are implementing a “genre-top strategy” that emphasizes measures to expand sales of general office-use color MFP products and high-speed MFP products for production print applications. Demand for these kinds of products is continuing to grow in Japan and overseas markets.

During the period under review, in the MFP field, we strengthened our general office-use color MFP product lineup in all market segments from low-speed segments to high-speed segments. During the first half of the period, we launched high-speed products with color printing output capabilities ranging from 45ppm to 50ppm (monochrome printing output capabilities ranging from 45ppm to 65ppm), including the “bizhub C451” and the “bizhub C650”. In the latter half of the period, we launched low- and medium-speed products with color printing output capabilities ranging from 20ppm to 35ppm, including the “bizhub C203”, the “bizhub C253”, and the “bizhub C353”. All of these units are highly competitive productwise as they use our strengths regarding tandem engines along with our advanced polymerized toner and imaging technology to realize high image quality and high productivity, and they also feature the latest network functions and leading-edge security capabilities, both of which are required for uses in office environments, which are becoming more sophisticated each day. During the period under review, we recorded strong sales of color MFPs for general office use, especially the newly introduced models. We have a particularly strong marketing base for medium-speed models in Europe and North America, and we were able to further reinforce our position among the top companies in the color MFP markets of those regions during the fiscal year under review.

In the production printing field, which is focused on such customers as large corporations’ internal printing departments and commercial digital printing companies, our sales of the “bizhub PRO C5500” high-speed color MFP have been strong since that product’s launch in September 2007. As a result, we now have expanded our lineup to include three color models—the “bizhub PRO C6500”, the “bizhub PRO C5500”, and the “bizhub PRO C500”—along with two monochrome models—the “bizhub PRO 1050e” and the “bizhub PRO 920”. We are endeavoring to expand the sales of these products through our own specialized direct marketing system as well as through business alliance with leading dealers and through other channels.

With respect to the LBP field, we are emphasizing efforts to strengthen our marketing of products to ordinary offices that anticipate considerable printing volumes. In accordance with this strategy, in our principal European and North American markets, we created new marketing systems by reorganizing and consolidating printer marketing companies within MFP marketing companies during summer 2007. We also expanded and strengthened our lineup of medium- to high-speed tandem color LBPs with color printing output capabilities ranging from 24ppm to 35ppm for the general-office market by launching such high-value-added products as the “magicolor 4650”, “magicolor 5570”, and the “magicolor 8650DN”, and we also launched the high-value-added and multifunctional “magicolor 2590MF” color laser printer, which features printing, copying, and scanning functions.

As a result of these various activities, sales of this business to outside customers during the period under review expanded 6%, to ¥700.9 billion, and operating income rose 13%, to ¥90.0 billion.

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

[Millions of yen]

	Fiscal year ended March 31, 2008	Fiscal year ended March 31, 2007	Increase (Decrease)	Change
(1) Net sales to outside customers	182,262	138,960	43,301	31.2%
(2) Intersegment net sales	1,083	1,396	(313)	(22.4)%
Total net sales	183,345	140,356	42,988	30.6%
Operating income	31,255	21,000	10,254	48.8%

In the Optics Business, Konica Minolta makes good use of industry-leading optics technologies, coating technologies, materials technologies, nanofabrication technologies, and its special technological strengths to provide diverse components, including the display materials required for the latest digital appliances and IT equipment as well as molded glass lenses and plastic lenses.

Regarding display materials, the Company has designated the field of viewing-angle-expansion film products for use with large LCD televisions as a strategic field and has emphasized the development of additional products in that field. A series of highly competitive new products of this kind have been launched in 2007 and 2008. These new high-function TAC film products were highly evaluated by customers, and our share of domestic and overseas markets for such products greatly increased. This trend and our efforts to augment production capacity supported a large rise in sales of TAC film products during the period under review.

In the memory-related product field, regarding our mainstay optical pickup lenses, we have established an overwhelmingly strong market position for products for next-generation DVDs. The fiscal year under review saw the full-scale start of business in such products, and strong sales were recorded of such products as optical pickup lenses for Blueray Disks. Business performance in the glass hard disk substrate field was adversely affected by a period of adjustment during the first half of 2007 but began recovering from summer 2007. This recovery and the high evaluation of our products for applications involving perpendicular magnetic recording formats supported strong sales.

In the image input/output component field, we greatly increased our sales to manufacturers based in Japan and overseas of microcamera modules for camera-equipped mobile phones as well as zoom lens units for digital cameras, and this supported growth in overall sales.

As a consequence of these developments, sales of this business to outside customers rose 31%, to ¥182.2 billion, and operating income surged 49%, to ¥31.2 billion.

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

[Millions of yen]

	Fiscal year ended March 31, 2008	Fiscal year ended March 31, 2007	Increase (Decrease)	Change
(1) Net sales to outside customers	161,105	158,705	2,399	1.5%
(2) Intersegment net sales	3,566	12,249	(8,683)	(70.9)%
Total net sales	164,671	170,955	(6,283)	(3.7)%
Operating income	7,775	8,880	(1,105)	(12.4)%

In the medical/healthcare field, we are focusing on expanding sales of digital input/output equipment—including the REGIUS series of digital radiography image inputting systems and the DRYPRO series of imaging output equipment. During the period under review, we developed the “REGIUS MODEL 110”, which is designed to offer a compact and simple operating environment, along with the associated “REGIUS Unitea” peripheral terminal system. These new products enabled us to endeavor to expand our domestic and overseas sales of digital image inputting and outputting equipment by supplementing our previous marketing efforts focused on large medical institutions with additional efforts directed at relatively small hospitals and clinics.

In the graphic (printing) segment, we are responding to printing facility needs arising from the shift to digital printing processes by strengthening our capabilities for marketing digital printing equipment. During the period, we succeeded in achieving a full-scale expansion in Japan and overseas of our sales of products centered on the “Pagemaster Pro 6500” high-quality, on-demand printing system, which effectively leverages our exclusive technologies.

Amid an operating environment in which digitization is reducing demand for film products in both segments of this business, we emphasized sales of digital equipment. As a result, sales of this business to outside customers during the period amounted to ¥161.1 billion, approximately unchanged from the previous fiscal year. On the other hand, operating income declined 12%, to ¥7.7 billion, as a consequence of the effect of increases in the price of silver, which is a raw material for film; higher R&D expenditures; and other factors.

4. Other Business

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

This segment draws on Konica Minolta’s exclusive light-measurement technologies to provide diverse measurement instruments for industrial and medical applications, including instruments for measuring colorimetric levels, gloss levels, blood oxygen levels, jaundice levels, and 3-D shapes.

During the period under review, the Company endeavored to create a solid platform for expanding its business scale by developing a new generation of mainstay products in three strategic fields—light source color, object color, and 3-D shapes. As a result, it was able to increase the competitiveness of its product lineup by commercializing such products as the “CS-2000” spectroradiometer, the “CM-700d/600d” spectrophotometers, and the “RANGE7” noncontact digitizer.

As a result of these measures, sales of this business to outside customers during the period amounted to ¥9.9 billion, approximately unchanged from the previous fiscal year. Operating income fell 26%, to ¥1.2 billion, reflecting a rise in marketing expenses.

■ **Industrial Inkjet Printer Business [Industrial inkjet printer heads, textile printers, etc.]**

Utilizing Konica Minolta’s proprietary inkjet technologies and unique chemical and ink technologies, this segment markets high-definition printer heads and inks to major printer manufacturers and large inkjet printers for textile use. During the period, ink product sales in Japan grew, and efforts were made to further improve performance by proactively developing additional customers overseas.

As a result of these measures, sales to outside customers during the period grew 15%, to ¥6.9 billion. On the other hand, operating income decreased 32%, to ¥0.8 billion, reflecting increases in R&D expenses and other kinds of expenses.

Outlook for the fiscal year ending March 31, 2009

There is concern regarding the possibility that the protraction of the sub-prime loan crisis may cause a recession in the U.S. economy, which has been a primary locomotive of the global economy to date, and this situation is making it increasingly difficult to project future economic trends in Japan and overseas. It is anticipated that a slowdown in the principal advanced economies of Japan, the United States, and Europe is inevitable during the first half of the current fiscal year, while a recovery due to the benefits of various economic countermeasures is expected to begin from the latter half of the year. Konica Minolta recognizes that conditions in its operating environment will continue to be harsh due to such factors as the surge of crude oil prices and similar rises in other raw materials prices; currency exchange rate trends with respect to the U.S. dollar, the Euro, and the yuan; the further intensification of price competition in markets; and the responses to increasingly severe global environmental issues.

Regarding the impact of such factors on the markets in which the Konica Minolta Group operates, the Group intends to carefully monitor the effect of economic deceleration on MFP markets but anticipates that demand for general office-use MFPs will continue to be robust in Japan and overseas due to moves to replace monochrome models with highly functional, high-performance color models as well as moves to purchase additional MFP units. In addition, demand for high-speed MFPs for production print applications is projected to increase. Furthermore, it is expected that the Beijing Olympic games will spur a rise in demand for large LCD televisions, Blueray Disk products, high-performance notebook computers, and other digital consumer products as well as communications-related products. In view of this, we are anticipating a general expansion in demand for such Konica Minolta’s products as TAC film, optical pickup lenses, and glass hard disk substrates. Regarding medical/healthcare and graphic printing markets, we are projecting a continuation of the domestic and overseas trend toward film-free and the Group is responding to this trend by undertaking business restructuring measures and seeking to quickly strengthen its capabilities for marketing digital equipment.

Amid these conditions, the Group is emphasizing concerted Groupwide measures to ensure the comprehensive and expeditious completion of all action plans within the “FORWARD 08” medium-term business plan as the current fiscal year is the final year of time period covered by the plan. At the same time, the Group will do its utmost to prepare a solid foundation for additional growth initiatives in the future.

Outlook for the Fiscal Year Ending March 31, 2009

[Billions of yen]

	Fiscal year ending March 31, 2009		Fiscal year ended March 31, 2008		Increase (Decrease)	
	Six months	Full year	Six months	Full year	Six months	Full year
Net sales	535.0	1,110.0	524.9	1,071.5	10.0	38.4
Operating income	56.5	120.0	57.0	119.6	(0.5)	0.3
Recurring profit	55.0	115.0	54.6	104.2	0.3	10.7
Net income	34.0	70.0	37.6	68.8	(3.6)	1.1

The presumed currency exchange rates for fiscal year ending March 31, 2009, are US$1=¥100 and €1=¥155.

**The above operating performance forecasts are forecasts based on future-related suppositions, outlooks, and plans at the time this report was released, and they involve risks and uncertainties. It should be noted that actual results may differ significantly from these forecasts due to various important factors, such as changes in economic conditions, market trends, and currency exchange rates.*

(2) Financial Position

Overview

		As of March 31, 2008	As of March 31, 2007	Increase (Decrease)
Total assets	[millions of yen]	970,538	951,052	19,485
Net assets	[millions of yen]	418,310	368,624	49,686
Net assets per share	[yen]	786.20	692.39	93.81
Equity ratio	[%]	43.0	38.6	4.4

At fiscal year-end, total assets amounted to ¥970.5 billion, up ¥19.4 billion compared with the end of the previous fiscal year. The increase in assets centered on tangible assets, reflecting investment in the Group's core field of Business Technologies Business and the strategic Optics Business. Inventory assets stood at ¥132.9 billion, approximately unchanged from the end of the previous fiscal year, and sustained efforts to reduce the level of interest-bearing debt caused the balance of interest-bearing debt to decrease ¥3.3 billion, to ¥226.0 billion.

Regarding net assets, such factors as the posting of ¥68.8 billion in net income for the fiscal year under review boosted retained earnings, and, consequently, net assets amounted to ¥418.3 billion. Net assets per share came to ¥786.20, and the shareholders' equity ratio rose 4.4 percentage points from the end of the previous fiscal year, to 43.0%.

Cash Flows

[Millions of yen]

	Fiscal year ended March 31, 2008	Fiscal year ended March 31, 2007	Increase (Decrease)
Cash flows from operating activities	123,014	66,712	56,301
Cash flows from investing activities	-76,815	-56,401	(20,414)
Total (Free cash flow)	46,198	10,311	(35,887)
Cash flows from financing activities	-10,545	-5,170	(5,375)

Cash flows from operating activities

In addition to cash flow reflecting such factors as the generation of ¥98.9 billion in income before income taxes and the reduction of receivables, cash flows were affected by such non-cash item changes as an increase in depreciation and amortization that reflected a rise in fixed assets accompanying several years of proactive capital investments and also reflected a tax system reform that was accompanied by a change to the depreciation and amortization employed. Thus, net cash provided by operating activities totaled ¥123.0 billion, ¥56.3 billion less than in the previous fiscal year.

Cash flows from investing activities

Net cash used in investing activities totaled ¥76.8 billion, a cash outflow increase of ¥20.4 billion compared with the previous fiscal year. This was primarily due to cash used to acquire tangible fixed assets amounting to ¥62.9 billion—mainly in connection with investments in the Business Technologies Business and Optics Business. The investments focused primarily on dies for new products as well as projects to bolster production capacity for such products as TAC film and glass hard disk substrates.

As a result, free cash flows, calculated from the total of cash flows from operating activities and cash flows from investing activities, amounted to ¥46.1 billion, a level ¥35.8 billion higher than in the previous fiscal year.

Cash flows from financing activities

Net cash used in financing activities amounted to ¥10.5 billion, a cash outflow increase of ¥5.3 billion compared with the previous fiscal year. This cash was mainly used to pay cash dividends and repay borrowings.

As a result of the above, cash and cash equivalents at fiscal year-end totaled ¥122.1 billion, up ¥35.6 billion from the end of the previous fiscal year.

<Cash flow indicators>

	FY ended March 31, 2004	FY ended March 31, 2005	FY ended March 31, 2006	FY ended March 31, 2007	FY ended March 31, 2008
Shareholders’ equity ratio [%]	34.6	35.6	31.1	38.6	43.0
Market price-based shareholders’ equity ratio [%]	81.5	60.2	84.5	86.4	74.0
Debt redemption period [years]	3.1	4.4	3.0	3.4	1.8
Interest coverage ratio	11.1	10.1	14.4	12.8	27.7

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 figures 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, 2009

Konica Minolta projects that free cash flow, the net value of cash flows from operating and investing activities, will amount to an inflow of approximately ¥15.0 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

In accordance with the FORWARD 08 medium-term management plan, the Group has been proactively working to promote strategic investments in growth fields and strengthen its financial position. Going forward, plans call for 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. At the same time, with an eye to increasing shareholder returns, the Group has from fiscal 2008 adopted the following new policy regarding the payment of dividends from retained earnings.

The new policy regarding the payment of dividends from retained earnings, etc., calls for the basic approach of making a comprehensive evaluation of consolidated performance and funding requirements for promoting strategic investments in growth fields while seeking to sustain shareholder returns.

Regarding the specific dividend target, the Group is aiming to sustain a dividend payout ratio of 25% or higher over the medium-to-long term.

With respect to the acquisition of treasury stock, the Company 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

Regarding year-end dividends applicable to fiscal 2007, in view of the smooth development in performance in accordance with the medium-term management plan, the Company intends to distribute year-end dividends of ¥7.5 per share, the same level as determined for interim dividends. Thus, interim and year-end dividends applicable to fiscal 2007 are expected to amount to ¥15 per share, up ¥5 per share from the level in fiscal 2006. This increase in dividends is designed to serve as a means of rewarding shareholders for their support to date.

[3] Projected dividends for the current fiscal year

Regarding dividends applicable to the current fiscal year, in view of projections of continued robust performance in the fiscal year ending March 31, 2009, and based on the newly instituted basic policy regarding distribution of profits described above, the Company currently plans to distribute dividends applicable to the fiscal year amounting to ¥20 per share, up ¥5 per share from the level applicable to the fiscal year under review. (Plans call for distributing interim dividends and year-end dividends of ¥10, up ¥2.5 from the level applicable to the fiscal year under review.)

As a result, the consolidated dividend pay-out ratio is projected to be 15.2% for the fiscal year ending March 31, 2009, compared with 11.6% for the fiscal year ending March 31, 2008, and 7.3% for the fiscal year ending March 31, 2007.

**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, 108nsolidated subsidiaries, 23 non-consolidated subsidiaries, and 7 affiliates. A chart detailing the business structure follows.

Konica Minolta Holdings, Inc

Business Technologies Business: 81
(Consolidated Subsidiaries: 59 Unconsolidated Subsidiaries: 18 Affiliates: 4

Production: 10
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: 6

↓

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)

Optics Business: 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)
Konica Minolta Glass Tech Malaysia Sdn. Bhd. (Malaysia)
Other Companies: 3

↓

Konica Minolta Opto, Inc.

↓

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

Medical and Graphic Imaging Business: 18
(Consolidated Subsidiaries: 13, Unconsolidated Subsidiaries: 3, Affiliates: 2)

Production: 3
Konica Minolta Technoproducts Co., Ltd.
Konica Minolta Repro Co., Ltd.

Other Companies: 1

↓

Konica Minolta Medical & Graphic , Inc.

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Sales: 14
Konica Minolta Health Care Co., Ltd. *2
Konica Minolta Graphic Imaging Japan Co., Ltd
Konica Minolta ID System Co., Ltd. *3
Konica Minolta Medical Imaging U.S.A., Inc. (U.S.A.)
Konica Minolta Graphic Imaging U.S.A., Inc. (U.S.A.)
.
Other Companies: 9

Other Businesses: 26 *4
(Consolidated Subsidiaries: 23Unconsolidated Subsidiaries: 2 Affiliates: 1)

Konica Minolta Photo Imaging, Inc.
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: 16

Notes:
*1: Organization chart is as March 31, 2008. Only major consolidated subsidiaries are shown.
*2 On April 1, 2007, Konica Minolta Medical Co., Ltd., and Konica Minolta MG Techno Support Co., Ltd., merged, and the medical product sales functions of Konica Minolta Medical & Graphic, Inc., were integrated into the newly merged company, which was then renamed Konica Heal Care Co., Ltd.
*3 On April 1, 2008, Konica Minolta ID Imaging Co., Ltd. was sold to the third party.
*4: As previously announced on January 19, 2006, as a result of the Company's decision to exit the Photo Imaging business, which was formerly reported as a separate business segment, the importance of this business for the Company's operations has declined, it has been omitted from the business segment classification.

3. MANAGEMENT POLICY

(1) Basic Management Policy

Management philosophy:	"The creation of new value"
Management visions:	"An innovative corporation that continues to create inspiring products and services in the field of imaging" "A global corporation that leads the market by advanced technologies and reliability"
Corporate message:	"The essentials of imaging"

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

To serve as a strategic framework for further increasing the added value of the Konica Minolta Group's operations and maximize the Group's growth and corporate value, the Company has drafted "FORWARD 08," a medium-term business plan that covers the three-year period from April 2006 through March 2009.

Basic Strategies of the Medium-Term Business Plan "FORWARD 08"

1. Promote growth by leveraging collective Group resources

To improve our growth potential, we will pursue inter-business synergies beyond the Group's current framework and increase the added value of our businesses while seeking to achieve growth in both 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.

2. Build a new corporate image

We are intent on attaining a sophisticated integration of the Group's core technologies—namely, optical, image processing, materials, and nanofabrication technologies—and providing innovative high-quality products and professional services that anticipate customers' needs. To demonstrate that the Group is a business partner that "leads its customers to success in their business activities" and is worthy of absolute confidence, we are working to further strengthen our capabilities for employing technologies and drafting proposals in line with customers' perspectives.

3. Promote world-class corporate social responsibility (CSR) management

To realize sustained corporate growth, it is important that Konica Minolta achieves strong corporate social responsibility (CSR) performance in line with global standards so that it can inspire widespread trust throughout society and be recognized as a corporate group that plays an indispensable role in society. In particular, amid society's rising demands for companies to respond to environmental issues, the Konica Minolta Group is giving thorough attention as a manufacturer to fundamental environmental and quality issues through such measures as those to develop products that conserve energy and resources and those to promote green procurement. In addition, we are working to reduce waste emissions, promote recycling, decrease emissions of harmful substances, and take other initiatives that place it in the top class of companies regarding the environmental friendliness of all its operations—not just development and manufacturing activities. 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, business partners, residents of local communities, and employees—and stepping up its contribution to society at large as well as increasing the rigor of its compliance and internal control systems.

Progress and Prospects of "FORWARD 08" Medium-Term Business Plan

Regarding consolidated performance in the fiscal year ended March 31, 2008, which was the second year of FORWARD 08, as is explained elsewhere in this report, the implementation of strategic investments and business initiatives in accordance with the medium-term plan has generated benefits that were reflected in revenue growth in the Business Technologies Business and the Optics Business, and this growth boosted consolidated net sales and profit figures to considerably above the target levels. Particularly regarding profitability, the target level was attained a year ahead of schedule, reflecting the smoothness of the plan's implementation. Regarding business operations, also, the strategy has been successfully implemented as planned—in the European and U.S. markets, for example, our color MFP genre top strategy has borne fruit and production print operations have been expanded; highly competitive new products in the field of viewing angle expansion films for use with large LCD televisions have been launched; and we have advanced ahead of other companies regarding the commercialization of pickup lenses for next-generation DVDs—and the achievements regarding strategic products are steadily contributing to the Group's consolidated performance.

[Reference]
Consolidated Performance Targets and Actual Performance under the "FORWARD 08" Medium-Term Business Plan

[Billions of yen]

	Fiscal Year Ended March 31, 2007		Fiscal Year Ended March 31, 2008		Fiscal Year Ending March 31, 2009	
	Target	Performance	Target	Performance	Target	Projection
Net sales	980.0	1,027.6	1,020.0	1,071.5	1,100.0	1,110.0
Operating income	80.0	104.0	92.0	119.6	110.0	120.0
Operating income ratio	*8%*	*10%*	*9%*	*11%*	*10%*	*11%*
Net income	30.0	72.5	N.A.	68.8	57.0	70.0

Aiming to ensure the attainment of the plan's goals and the sustainability of the Group's growth, we made overall refinements to brush up the plan in April 2007. Having considered each business field from short-term and medium-to-long-term perspectives, we determined the most important strategic goals in each field and began implementing action plans to realize those goals in line with specific time schedules. In the current fiscal year, which is the final year of the medium-term business plan, we steadily moved forward with the implementation of each of these action plans.

The following sections explain the framework of the brushed-up plan, the main features of implementation efforts so far, and future measures.

1) Strengthen and Promote Core Businesses

To make sure we attain growth in the fiscal years ended March 2008 and ending 2009, we believe it will be important to strengthen and promote existing core businesses. Accordingly, in our Business Technologies Business, we are taking initiatives to further consolidate our genre-top position in color MFPs, and, in our Optics Business, we are working to expand our business position in the LCD market based on our high-performance TAC films. We are moving ahead with work on these and other strategic themes.

- **Progress during the period**

In our Business Technologies Business, we introduced five new color MFPs for general office use and renewed our lineup of products from low- and medium-speed units through high-speed units. In addition, in the production printing field, we worked to strengthen the competitiveness of our product lineup, including the introduction of high-speed color MFPs that can output 55 pages a minute. We have also moved to acquire leading dealers, including a Germany-based dealer in September 2007 and a U.S.-based dealer in November 2007. We are continuing to proactively work to strengthen our marketing systems and decided in April 2008 to acquire Danka Office Imaging Company (DOIC), a major U.S.-based dealer. (The acquisition of DOIC is expected to be completed in June 2008, after approval of the transaction at DOIC's general shareholders' meeting and the completion of U.S. legal procedures.)

In the Optics Business, we have been launching new high-function TAC film products (viewing angle expansion film products) and working to expand our share of the market for such films while we move forward with the construction of a new plant to increase manufacturing capacity for such films. Regarding glass hard disk substrates, we have constructed in Malaysia an additional facility for manufacturing such substrates in view of a sharp rise in demand for such products as well as to meet the need to expand our supply capabilities for applications involving perpendicular magnetic recording formats. We have also constructed a new development facility in Osakasayama City, Osaka, to consolidate glass hard disk substrate-related optical technology R&D functions in the Kansai region.

2) Expand the Scope of Core Businesses into Peripheral Domains

We think the next necessary step toward further growth will be to draw on the business base and technological resources of our core businesses to expand the scope of operations into peripheral domains. We are, therefore, making preparations to start up activities in the Business Technologies Business that will make further advances in the services business beyond solutions for equipment sales and, in the medical field, to enter the image diagnostic support business using computer analysis.

- **Progress during the period**

In our Business Technologies Business, as the production printing market expands, we want to work with our customers to help them address the issues they confront. To this end, on October 1, 2007, we opened the KONICA MINOLTA Digital Imaging Square, a presentation show space targeted at the production print market that provides an information dissemination base for proposing new business models to our customers. Through this base, we will be offering high-value-added solutions, information, and services broadly to our customers in Japan and overseas. To strengthen marketing capabilities by further increasing the sophistication of our capabilities for offering further advanced services beyond solutions for equipment sales, we cooperated with Computer Engineering & Consulting, Ltd., to establish a joint venture company, Konica Minolta Bizcom, Co., Ltd.

3) Nurture the Businesses of the Future

Looking to continue the growth of the Group from a medium- to long-term perspective, we are also taking initiatives to develop the businesses of the future.

- **Progress during the period**

As already announced, we are entering into the lighting business based on our original organic electroluminescence (EL) technology. We are looking to a start-up date in 2010 for this business, and we are working in partnership with General Electric Company, of the United States.

4) Strengthen Corporate Capabilities to Support Our Growth Strategy

To implement these plans, strengthening the corporate capabilities of the Group will be essential. We plan to focus on enhancing these capabilities from the following three perspectives.

1. Strengthen our business base through enhancement of development and production capabilities

- **Progress during the period**

In June 2007, we established a company to evaluate the quality of software installed on MFPs and printers in Dalian, China. In addition, in July, as a means for securing stable software development resources for these products, we concluded a partnership contract with HCL Technologies Ltd., a leading IT service provider in India (headquartered in Noida, India). We have begun initiatives to establish an offshore development center and take other steps toward the development of a global software development system. As part of a global strategy for further accelerating the growth of MFP and printer business, in January 2008, we entered into a basic partnership agreement with Netherlands-based Oce N.V., a leading information equipment manufacturer in Europe. The agreement call for the partners to supply products to each other on an OEM basis in fields ranging from general office products through production print products as well as to cooperate in developing new products. (A strategic business alliance agreement was formally signed on April 4, 2008.)

2. Rebuild our corporate culture, strengthen human resources and business base to support growth

- **Progress during the period**

We realigned and integrated our printer sales companies into MFP sales companies in the United States in July 2007 and then took similar measures in Europe in August 2007. By conducting sales development activities aimed at the general office market for MFPs and printers through a fully coordinated sales organization, we aim to realize substantially greater synergies in these activities.

3. Establish a strong financial position

- **Progress during the period**

To win out in the increasingly competitive corporate environment, we believe it is essential for us to establish a stronger financial position and are, therefore, working to reduce interest-bearing debt and increase our shareholders' equity. As mentioned, at the end of the fiscal year under review, we had lowered interest-bearing debt to ¥226.0 billion, down ¥3.3 billion from the end of the previous fiscal year. Moreover, we increased shareholders' equity ¥49.6 billion, to ¥417.1 billion. As a result, the Group's equity ratio at the end of the fiscal year rose to 43.0%, compared with 38.6% at the end of the previous fiscal year, and the debt/equity ratio improved to 0.54, compared with 0.62 as of March 31, 2007.