1. Operating Results

(1) Business Performance Analysis

Overview

[Billions of yen]

	April 1, 2008 – March 31, 2009	April 1, 2007 – March 31, 2008	Increase (Decrease)	
Net Sales	947.8	1,071.5	(123.7)	-11.5%
Gross profit	427.6	531.3	(103.7)	-19.5%
Operating Income	56.2	119.6	(63.3)	-53.0%
Recurring profit	45.4	104.2	(58.8)	-56.4%
Net income before income taxes and minority interests	33.2	98.9	(65.7)	-66.4%
Net income	15.1	68.8	(53.6)	-77.9%
Net income per share [yen]	28.62	129.71	(101.09)	-77.9%
Capital expenditure	61.1	75.2	14.1	-18.8%
Depreciation	70.1	60.4	9.7	16.1%
R&D expenses	81.7	81.2	0.5	0.6%
Number of employees [person]	36,875	31,717	5,158	16.3%
Exchange rates [yen] US dollar	100.54	114.28	(13.74)	-12.0%
Euro	143.48	161.53	(18.05)	-11.2%

The Konica Minolta Group has worked as one to achieve sustainable growth and maximize the corporate value of the Group based on its three-year medium-term business plan FORWARD 08, which was created in May 2006. The Group has effectively implemented the “genre-top strategy,” which calls for concentrating resources in specified fields and growth markets to establish the top brand in those fields, consolidating its position one of the leading companies in color multifunctional peripheral (MFP) products for general-office use and production print applications in the MFP markets of Europe and North America in Business Technologies Business. It has also sought to gain a dominant market share in the markets for VA-TAC film (viewing angle expansion films) used in large LCD TVs and optical pickup lenses used with DVDs in the Optics Business. These strategic products are the drivers of the Group’s growth and in previous fiscal years the Group has achieved consistent performance improvements at a pace exceeding initial projections.

In the fiscal year under review, we continued to adhere to this strategy. In the Business Technologies Business, we launched new products such as general office-use color MFP products and high-speed MFP products for production print applications and endeavored to expand sales in these strategic fields. In addition, as part of a global strategy for further accelerating the growth of MFP business, we aggressively moved forward with collaboration with leading companies outside the Group and acquisitions to expand sales channels, signing a strategic business alliance agreement with Oce N.V., a leading business equipment manufacturer in Europe specializing in high-speed products, in April 2008, and acquiring Danka Office Imaging Company (DOIC), a leading information equipment sales company in North America in June 2008. In the Optics Business, we sought to expand sales of strategic products in which we have a clear competitive edge, energetically marketing new VA-TAC film products and expanding applications for optical pickup lenses used with Blu-Ray Discs.

In contrast, at the beginning of the third quarter, the financial crisis deepened, creating profound implications for the real economy and a sharp drop in global economic activity. The markets in which the Konica Minolta Group operates were also affected. In the Business Technologies Business the number of newly installed MFPs showed slow growth, reflecting restrained investment and cost-cutting by companies and stricter credit checks for new lease contracts due to tight credit markets. The Optics Business faced a sharp drop in orders for the Company's mainstay products because of the rapid downward adjustment of production volumes by manufacturers in response to a sudden slackening of commercial demand in the digital consumer electronics industry. This rapid worldwide economic downturn had serious repercussions for the business and the performance of the Konica Minolta Group from the third quarter. Moreover, because overseas sales account for a high share of total sales of the Company, the significant appreciation of the yen from the third quarter also dealt a severe blow to the Company's performance.

Given this dramatic change in the business environment, the Konica Minolta Group took aggressive steps to bolster the profitability of the Group in both the fiscal years ended/ending March 2009 and 2010, seeking to lower the breakeven point through urgent action to enhance its capabilities. This action consisted primarily of steps to improve productivity, slash manufacturing costs, scale back capital investment and reduce selling, general and administrative (SG&A) expenses, and by immediately introducing more far-reaching structural reform measures including the reorganization and integration of domestic production bases in response to contraction in domestic demand, the further acceleration of overseas expansion, and the optimization of the number of offices and staff in overseas sales divisions, including acquired companies.

As a result, Konica Minolta's consolidated net sales for the fiscal year under review amounted to ¥947.8 billion, a decrease of 11.5% year on year. Though strong during the first two quarters, sales of Konica Minolta's strategic products such as color MFP products, VA-TAC films and optical pickup lenses used with Blu-Ray discs fell from the beginning of the third quarter due to the sudden slackening of global demand, and the effects of the rapid appreciation of the yen also reduced the Group's sales by around ¥81.3 billion.

Gross profit fell 19.5% year on year, to ¥427.6 billion. Besides the decrease in sales and negative impact of yen appreciation described above, changes in accounting principles implemented from this fiscal year such as the accounting shift of service expenses from SG&A expenses to the cost of sales by certain of the Business Technologies Business's sales companies as part of measures to improve the Group's accounting measures, the accounting shift of losses on the disposal of inventory assets from non-operating expenses to the cost of sales due to the application of new inventory asset evaluation accounting standards, and a rise in depreciation expenses owing to tax system reforms reduced gross profit by around ¥41.3 billion.

SG&A expenses decreased ¥40.3 billion year on year, reflecting the above-mentioned accounting shift of service expenses to the cost of sales as well as benefits of the strengthening of imperative cost reduction measures beginning from the third quarter.

As a result, the Group's operating income decreased 53.0% year on year, to ¥56.2 billion.

Among non-operating income and expense items, foreign exchange losses due to the rapid appreciation of the yen from the beginning of the third quarter amounted to ¥7.2 billion and as a result the net value of non-operating income and expense items was an expense of ¥10.8 billion.

Consequently, recurring profit fell 56.4% year on year, to ¥45.4 billion.

Among extraordinary income and expense items, the Company recorded a gain on the sale of an affiliate and a gain on the transfer of business in connection with the April 2008 transfer of a subsidiary in the Medical and Graphic Imaging Business Segment – Konica Minolta ID System Co., Ltd. – and related business assets. However, the impact of the downturn in stock prices led to a ¥3.8 billion loss on the valuation of investment securities and the Company recorded business restructuring expenses of ¥10 billion. As a result of this and other factors, the net value of extraordinary income and expense items was an expense of ¥12.1 billion.

Consequently, income before income taxes and minority interests declined 66.4%, to ¥33.2 billion. After deducting income taxes and minority interests, net income for the fiscal year under review decreased 77.9% year on year, to ¥15.1 billion.

Segment Information

[Billions of yen]

	Net sales to outside customers				Operating income			
	Apr. 1, 2008 – Mar. 31, 2009	Apr. 1, 2007 – Mar. 31, 2008	Increase (Decrease)		Apr. 1, 2008 – Mar. 31, 2009	Apr. 1, 2007 – Mar. 31, 2008	Increase (Decrease)	
Business Technologies	623.6	700.9	(77.2)	-11.0%	52.5	90.0	(37.5)	-41.7%
Optics	173.4	182.2	(8.8)	-4.9%	12.5	31.2	(18.7)	-59.9%
Medical & Graphic	125.8	161.1	(35.2)	-21.9%	3.0	7.7	(4.6)	-60.3%
Sensing	8.3	9.9	(1.5)	-15.3%	0.3	1.2	(0.8)	-71.4%

1. Business Technologies Business

Regarding general office-use color MFPs, we renewed our bizhub series product lineup during the previous fiscal year with the introduction of five new models, and we enhanced the line-up's merchandise competitiveness in the low-to-medium speed market segment with the launch in August 2008 of the strategic bizhub C200 with color printing output capabilities of 20ppm. We focused on expanding sales in the European market, where we have a strong marketing base, and NIC markets in Asia and other regions where demand is expected to increase. As a result, we maintained year-on-year growth in unit sales of color MFPs.

With respect to black-and-white MFPs, we sought to strengthen product competitiveness in the high volume, medium-to-high speed segment, launching five new products.

As for high-speed MFPs for production printing applications, in August 2008 we began marketing two new high-speed color MFP models: the bizhub PRO C5501 and the bizhub PRO C6501. These models offer significantly improved image quality stability and solid mechanical durability. This was followed in February 2009 with the launch of the bizhub PRO C65hc, the industry's first high-speed color MFP with High Chroma Toner. Moreover, based on the alliance with Oce N.V, in November 2008 we expanded our lineup of high-speed black & white MFP products to include three ultra high-speed models the bizhub PRO 1600P, the bizhub 2000P and the bizhub 2500P with black & white printing output capabilities ranging from 160ppm duplex to 250ppm duplex (duplex printing; printing simultaneously both sides of the page). We worked to leverage these new products to expand the scope of our operations in the production printing market.

In the LBP field, we are focusing on stepping up marketing of products to ordinary offices that anticipate considerable printing volumes. The Group has sought to expand and improve its product line-up, notably with the introduction in June 2008 of the bizhub C31P/magicolor 5670EN, an A4 high-speed, color printer. These high added-value color printer products have been well received by the market and in the fiscal year under review we reported year on year growth in unit sales of color printers.

Consequently, in the Business Technologies Business, the Konica Minolta Group focused on expanding sales of general office-use color MFP products and high-speed MFP products for production printing applications, especially in the markets of Europe and North America, in line with its "genre top strategy." However, in a global recession sparked by the financial crisis, sales of MFP products were sluggish, particularly from the third quarter onwards, reflecting further reductions in investment and credit tightening. With the rapid appreciation of the yen against other currencies also having the effect of reducing the yen value of sales made by the business, sales of this business to outside customers during the period under review declined 11.0% year on year, to ¥623.6 billion. Operating income fell 41.7%, to ¥52.5 billion, because of reduced sales volume from the third quarter and the negative impact of the strong yen on gross profit, despite intensified cost-saving and cost-cutting efforts in response to the rapid changes taking place in the operating environment.

2. Optics Business

Display materials:

The Company reported an expansion of market share driven by new VA-TAC film products for large-size LCD TVs, which have been designated a strategic field, and expanded production capacity also contributed to robust growth in sales volume during the first two quarters. Though sales were affected by the rapid downward adjustment of production volumes by LCD panel manufacturers from the third quarter, the Company maintained year-on-year growth in sales volume.

Memory-related products:

Sales of mainstay optical pickup lenses were strong during the first two quarters, reflecting the full-start up of business in optical pickup lenses for Blu-ray discs, an area in which we successfully developed products ahead of rivals and have established an overwhelmingly strong market. However, from the third quarter, demand for these and other products dropped sharply and although the Company maintained sales volume comparable with the previous fiscal year for optical pickup lenses used with Blu-ray discs, the volume of sales of current-generation products such as optical lenses used with CDs and DVDs decreased significantly. Glass hard disk substrate business also entered a period of adjustment at the beginning of the fourth quarter and sales volume was unchanged from the previous fiscal year.

Image input/output components:

Sales of products such as microcamera modules for camera-equipped mobile phones and zoom lens units for digital cameras were affected by the downward adjustment of production volumes by manufacturers from the third quarter, and generally sales were lackluster.

As a consequence, in the Optics Business, the Konica Minolta Group sought to expand sales of strategic products such as VA-TAC film and optical pickup lenses used with Blu-Ray discs, taking advantage of its clear competitive edge, and sales during the first two quarters remained brisk. Starting in the third quarter, however, orders for these core products fell sharply, affected by the abrupt downward adjustment of production volumes across the entire digital consumer electronics industry. Sales of this business to outside customers slipped 4.9% year on year, to ¥173.4 billion. From the third quarter, which saw an abrupt drop in sales following a strong performance in the first six months, the Group stepped up its structural reform efforts, notably with the optimization of domestic production bases in response to rapidly falling demand, and sought to reduce fixed expenses. Unfortunately, this was not enough to offset the negative impact of the sharp decrease in sales volume and a rise in depreciation expenses as a result of tax system reforms effective from the fiscal year under review. Consequently, Operating income fell 59.9%, to 12.5 billion.

3. Medical and Graphic Imaging Business

Medical/healthcare:

We strengthened our marketing of digital radiography input/output equipment/systems. We concentrated on marketing the REGIUS MODEL 110, a compact computed radiography (CR) unit, and its peripheral terminal system. This product responds to the IT needs of clinics and other small medical establishments. These products have become widely accepted both in Japan and overseas. In the fiscal year under review we recorded year-on-year growth in unit sales of CR systems and, as hospitals switch to filmless radiology, these products also helped to expand our new service businesses, such as remote care contracts.

Graphic imaging:

We took steps to increase sales of digital printing equipment such as the Pagemaster Pro 6500 on-demand printing system. However, as economic conditions worsened, customers tended to freeze or postpone investment decisions, severely affecting sales of such products.

Consequently, in the Medical and Graphic Imaging Business, the Konica Minolta Group aimed to expand sales of digital printing products, but in both the medical/healthcare and the graphic imaging segments, the contraction in global demand for film products became even more pronounced, and the volume of sales of film products fell sharply. Add to this the negative effect of the strong yen on the yen value of the business's sales, and sales of this business to outside customers during the period contracted 21.9% year on year, to ¥125.8 billion.

Operating income declined 60.3%, to ¥3.0 billion, reflecting lower gross profit due to lower sales volume for film products, which offset exhaustive cost-cutting efforts.

4. Sensing Business

During the period under review, the Company sought to expand sales of the CS-2000 spectroradiometer, the CM-700 spectrophotometer, and the RANGE7 3D digitizer, which are its mainstay products in the three strategic segments of light source color, object color and 3-D shapes. The Company also worked to enhance its capability, reviewing its marketing structure in the markets of Europe and North America and bolstering profitability. However, each of the three strategic fields registered slow sales growth in sales volume as manufacturing sectors such as the automotive industry and the electrical equipment industry scaled back capital investment in the face of the sudden global economic slowdown.

As of result of these developments, sales of this business to outside customers during the period fell 15.3%, to ¥8.3 billion, and operating income declined 71.4%, to ¥300 million.

Outlook for the fiscal year ending March 31, 2010

The outlook for the domestic and global economy in the year ahead remains very uncertain, but it is feared that conditions will remain extremely challenging. Looking at the markets in which we operate, although there are signs of recovery in certain segments such as LCD-related products, it is likely to take time before demand for our products is restored to previous levels given that firms are expected to keep up efforts to curtail investment and cut expenses for the time being and that the B2B business such as MFP products for offices makes up the bulk of our business. The impact of the movements in the yen against the US dollar, the euro and other major currencies on our business and performance also needs to be monitored.

To deal effectively with these sweeping changes to the operating environment and to move into the next growth phase, the Group has developed **BUSINESS PLAN <09-10>**, which positions the coming two years fiscal 2009 (fiscal year ending March 31, 2010) and fiscal 2010 (fiscal year ending March 31, 2011) as a period for bolstering the capabilities of the Group and adopting reforms. We are united in our commitment to achieving the targets under this plan.

[Billions of yen]

	Fiscal year ending March 31, 2010		Fiscal year ended March 31, 2009		Increase (Decrease)	
	Six months	Full year	Six months	Full year	Six months	Full year
Net sales	404.0	880.0	532.9	947.8	(128.9)	(67.8)
Operating income	16.0	45.0	48.6	56.2	(32.6)	(11.2)
Recurring profit	12.0	38.0	47.8	45.4	(35.8)	(7.4)
Net income	3.5	17.0	29.2	15.1	(25.7)	1.9

The presumed currency exchange rates for fiscal year ending March 31, 2010, are US$1=¥95 and €1=¥125.

**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, 2009	As of March 31, 2008	Increase (Decrease)
Total assets	[Billions of yen]	918.0	970.5	(52.4)
Net assets	[Billions of yen]	414.2	418.3	(4.0)
Net assets per share	[yen]	779.53	786.20	(6.67)
Equity ratio	[%]	45.0	43.0	2.0

At the fiscal year end, total assets amounted to ¥918.0 billion, down ¥52.4 billion compared with the end of the previous fiscal year. Assets decreased generally, with notes and accounts receivable-trade and notes and accounts payable-trade significantly reduced due to the decline in sales caused by the sharp global economic downturn, tangible fixed assets declined because of the curtailment of capital investment, and the value of investment securities fell with the stock market. Inventory stood at ¥129.1 billion, down ¥3.7 billion from the end of the previous fiscal year, reflecting production adjustments. Interest-bearing debt amounted to ¥230.4 billion, up ¥4.3 billion compared with the end of the previous fiscal year, despite past efforts to reduce the level of debt.

Net assets stood at ¥414.2 billion, down ¥4.0 billion compared with the end of the previous fiscal year. This was partly attributable to a decrease in foreign currency translation adjustments due to yen appreciation and a decrease in net valuation and adjustments owing to stock market decline, despite an increase in retained earnings primarily due to the posting of ¥15.1 billion in net income. Net assets per share came to ¥779.53, and the shareholders' equity ratio rose 2.0 percentage points from the end of the previous fiscal year to 45.0%.

Cash Flows

[Billions of yen]

	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2008	Increase (Decrease)
Cash flows from operating activities	107.5	123.0	(15.4)
Cash flows from investing activities	(90.1)	(76.8)	(13.3)
Total [Free cash flow]	17.3	46.1	(28.8)
Cash flows from financing activities	4.9	(10.5)	15.5

Cash flows from operating activities

Net cash flow provided by operating activities amounted to ¥107.5 billion, ¥15.4 billion less than the previous year. The Company reported income before income taxes and minority interests of ¥33.2 billion and depreciation of ¥70.1 billion as well as a ¥36.6 billion rise in operating capital associated with notes and accounts receivable-trade, inventories and notes and accounts payable-trade. These inflows were partially offset by ¥34.6 billion in income taxes and other factors.

Cash flows from investing activities

Net cash flow used in investing activities totaled an outflow of ¥90.1 billion, -¥13.3 billion year on year. This was mainly due to expenditures of ¥27.9 billion for acquisition of shares of subsidiaries including the Business Technologies Business's acquisition of DOIC. It also reflected expenditures of ¥61.6 billion for the acquisition of tangible fixed assets, which included principally investments to increase production capacity for glass hard disk substrates and TAC film in the strategic business field of the Optics Business.

As a result, free cash flow (the sum of operating and investment cash flows) amounted to ¥17.3 billion, ¥28.8 billion less than previous fiscal year).

Cash flows from financing activities

Net cash flow provided by financing activities amounted to a net outflow of ¥4.9 billion. This was due mainly to a ¥16.9 billion increase in interest-bearing debt and the use of ¥9.2 billion of cash to pay dividends.

As a result of the above, cash and cash equivalents at fiscal year end total ¥133.7 billion, up ¥11.5 billion from the end of the previous fiscal year.

[Cash flow indicators]

	FY ended March 31, 2005	FY ended March 31, 2006	FY ended March 31, 2007	FY ended March 31, 2008	FY ended March 31, 2009
Shareholders' equity ratio [%]	35.6	31.1	38.6	43.0	45.0
Market price-based shareholders' equity ratio [%]	60.2	84.5	86.4	74.0	48.4
Debt redemption period [years]	4.4	3.0	3.4	1.8	2.1
Interest coverage ratio	10.1	14.4	12.8	27.7	23.4

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, 2010

Konica Minolta projects that free cash flow, the net value of cash flows from operating and investing activities, will amount to an inflow of ¥30.0 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

The 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 Company 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 and the current fiscal year

In the fiscal year under review (fiscal year ended March 31, 2009) the Company reported decreased profits as the deterioration in the business environment was greater than initially anticipated and business restructuring expenses for the capability enhancement of the Konica Minolta Group and other expenses were posted in response. Nonetheless, the Company intends to distribute a year-end dividend of 10 yen per share as planned, which combined with the interim dividend of 10 yen per share will bring the total annual dividend to 20 yen per share.

Regarding dividends for the current fiscal year (fiscal year ending March 31, 2010), given that the business outlook remains bleak, the Company plans to distribute 7.5 yen per share for both the interim dividend and the year-end dividend, making a total annual dividend of 15 yen per share.

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