



KONICA MINOLTA

# **Konica Minolta Group Guidelines for Business Strategies**

**September 2003**

**Konica Minolta Holdings, Inc.**

# Group's Primary Management Strategies

- **Executing portfolio management**
  - **Reorganizing business portfolio based on the business valuation system**
  - **Strengthening operating base**
    - Concentrating management recourses – Business Technologies and Optics
    - Realizing the effects of rationalization at an earlier stage– downsizing, cost cutting
    - Promoting business alliances
- **Promoting group wide corporate governance**
- **Strengthening R&D strategies in the field of imaging**
- **Major emphasis on reinforcing branding strategies**
- **Adopting a performance-oriented human resources system**
- **Realizing the importance of the Company's social responsibilities**



**Maximizing corporate value of Konica Minolta Group**

# Development toward the Integration

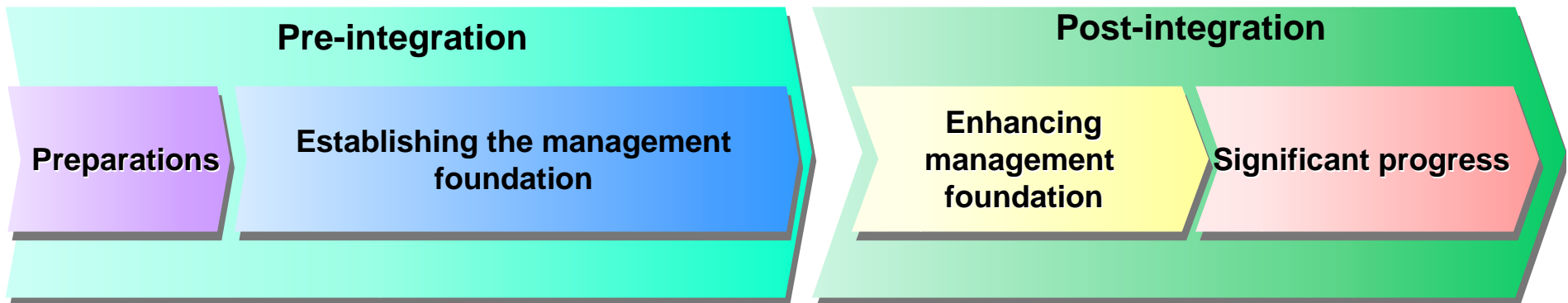
- **Management integration and reorganization of business structure in a rapid manner**
  - **Jan 7, 2003** Agreement on the Letter of Intent (LOI) between Konica and Minolta
  - **Apr 1, 2003** Establishing business companies and a holding company
  - **Jun 25, 2003** Adopting the US style board system
  - **Aug 5, 2003** Management integration of Konica and Minolta
    - Establishing Konica Minolta Holdings, Inc. through stock swaps
  - **Oct 1, 2003** Reorganization of business
    - Reorganizing business operations to create 6 business companies and 2 common function companies
    - Reorganizing overseas subsidiaries
  
- **Acceleration of streamlining in former Konica and Minolta**
  - **Restructuring Konica's photo imaging business (1<sup>st</sup> half FY'03)**
    - Reducing headcounts by 1500 including part-time and contracted workers
  - **Strengthening Minolta's financial position**

	Mar '02	Mar '03	Jun '03
Minolta's interest bearing debts	¥240 billion	¥171 billion	¥160 billion

# Year-to-Year Strategies

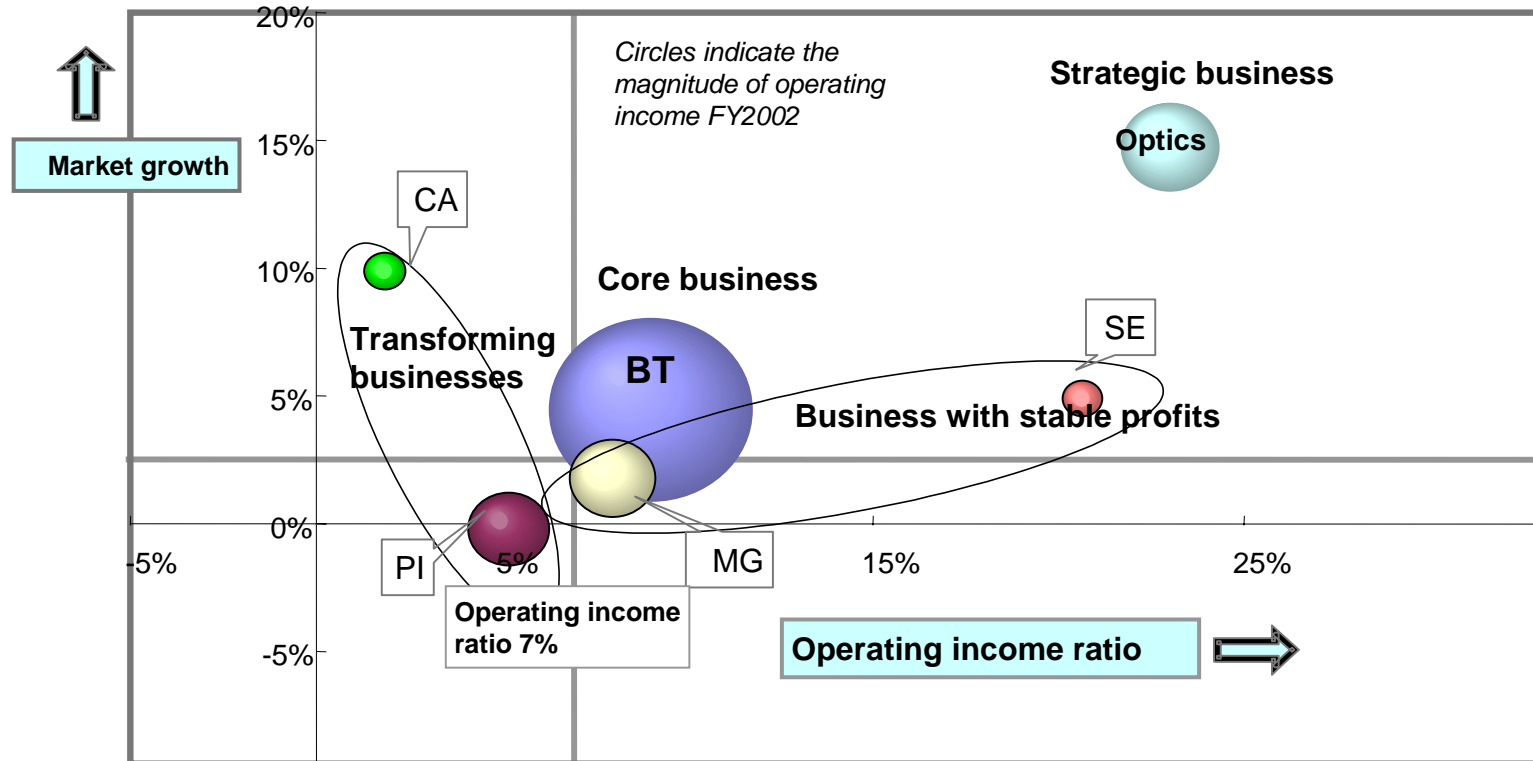
Completion of integration

2003	2004	2005	2006
<p>▶ <b>Management integration (Aug 05, 2003)</b></p>		<ul style="list-style-type: none"> <li>▶ Increasing the number of “Category-top” fields</li> <li>▶ Realizing high profits</li> <li>▶ Further improvement of financial position</li> </ul>	<ul style="list-style-type: none"> <li>▶ Growth strategies</li> <li>▶ To be nominated for the “Fortune Top 500”</li> </ul>
<ul style="list-style-type: none"> <li>◆ Establishment of a holding company</li> <li>◆ The US style board system</li> <li>◆ Restructuring</li> </ul>	<ul style="list-style-type: none"> <li>▶ Completion of business reorganization</li> <li>▶ Prevailing new corporate brand</li> <li>▶ Reorganization of management infrastructure (IT, human resources system, accounting system, etc.)</li> </ul>		



# Business Portfolio (1)

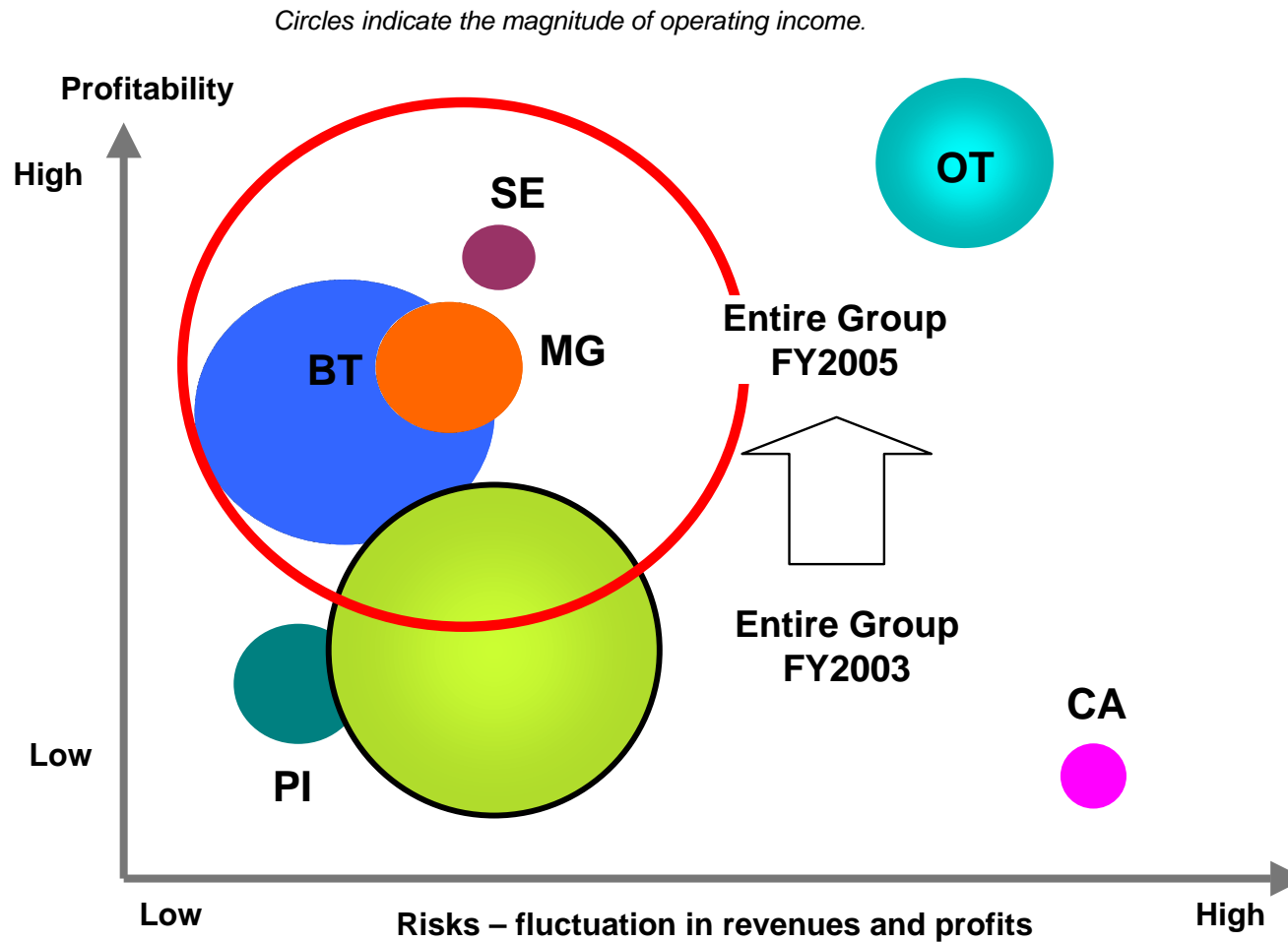
- Execute portfolio management (Where to allocate management resources)



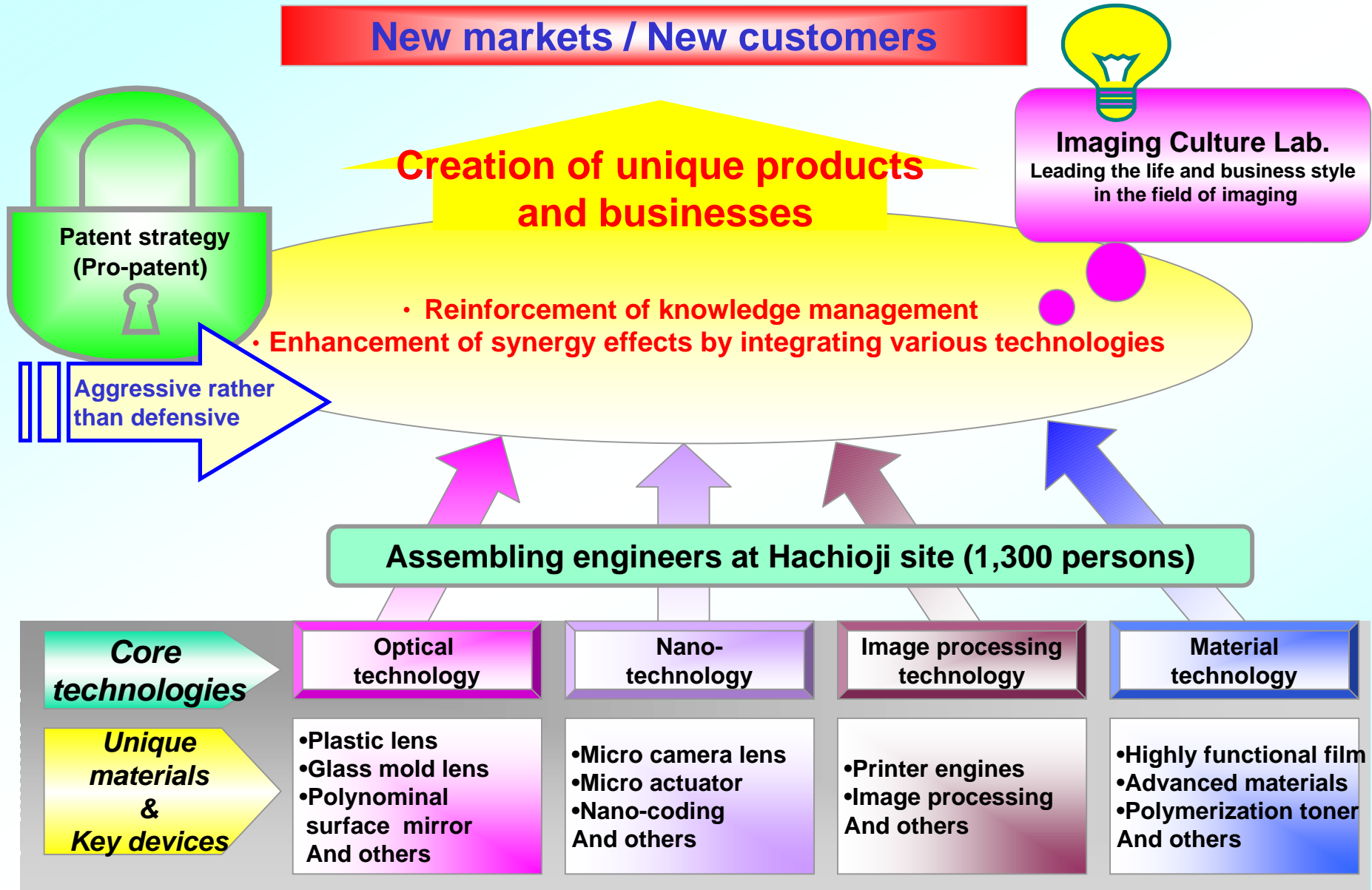
- BT : Core business
- OT : Strategic business
- PI/CA : Transforming business
- MG/SE : Business with stable profits

# Business Portfolio (2)

- Realizing sustainable and stable growth of the Group by sharing the fluctuation risks of each business



# Primary Strategies in Technologies



# Business Strategies (BT)

## BT (Business Technologies)

### [Mission]

Expanding business and generating profits as well as cash flow as a core business of  
Konica Minolta Group

### [Primary strategies]

- 1) To concentrate on the color and high-speed digital fields as a core of the business.
- 2) To establish a leading position in those market - "Category-top" strategy -
  - Color MFPs -- Expanding market share (Targeting a 30% share in Europe and the US, FY2005)**
    - > Introducing a full lineup of color MFPs by the end of FY2005
  - Color LBPs – Maintaining the No.1 share in the A4/letter size color LBP market**
    - > Enhancing a lineup of color LBPs, from low- to high-end, by the end of FY2004
  - Expanding the production print business including print-on-demand (POD) and in-house printing**  
(Targeting 50 billion yen or more in net sales, FY2005)
    - > Introducing a high speed color MFP (Sep 2003)
    - > Entering the Segment 6 market in FY2004
- 3) Product strategies
  - Differentiation in color products (The widest lineups of color products in the industry)
  - Integration and concentration – engines, controllers, and software
  - High image quality ensured by the polymerization toner and the color image processing technology



# Business Strategies (BT)

## BT (Business Technologies)

- 4) Strengthening network solution business
- 5) Promoting profitable consumables business placing the polymerization toner as the core of the business (Increase of production capability for the polymerization toner)
- 6) Expanding business by reinforcing OEM business (Sales of polymerization toner and color MFPs/LBPs)
- 7) Promoting strategic business alliances with other companies
- 8) R&D power

Engineers:            Approx. 1,400 persons

R&D expenses:    Approx. 32 billion yen

BT (Business Technologies)

Unit: billions of yen

	FY2002	FY2005	Increase (%)
Net sales	594.7	700.0	17.7
Operating income	52.6	90.0	71.1
Operating income ratio (%)	8.8	12.9	

# Business Strategies (BT)

## BT (Business Technologies)

### [Headquarters]

Consolidating functions in Tokyo (Oct 2003)

### [Reorganization of R&D locations]

Reorganizing former Konica's and Minolta's R&D teams by product category

#### Aichi

- ◆ Monochrome MFPs (Mid to low speed)
- ◆ Color MFPs (Mid to low speed)
- ◆ Color LBPs

#### Tokyo

- ◆ Monochrome MFPs (Mid to high speed)
- ◆ Color MFPs (Mid to high speed)
- ◆ Consumables (Polymerization toner)

### [Reorganization of Sales locations]

Overseas sales companies of Konica and Minolta will be consolidated. The new integrated companies will conduct the reorganization of their local offices.

#### In North America

- Headquarters: Ramsey, New Jersey
- Direct sales locations: Consolidating 90 locations into 60
- Central warehouses: Consolidating into 3 locations

# Business Strategies (OT)

## OT (Optics)

### [Mission]

Becoming a world's strongest optical devices manufacturer, positioning the optics business as the Group's strategic business.

### [Primary strategies]

- 1) Expanding optics business and generating greater profits focusing on the pick-up lenses, lens units, micro lenses, micro camera units, and electronic materials businesses.
- 2) Maintaining high profitability of the pick-up lenses business ensured by advanced technologies and patent strategies.
- 3) Expanding the lens units business and boosting profitability (Targeting a 20% share in the lens unit for digital cameras) Net sales: Approx. 8 billion yen (FY2002) => 20 billion yen (FY2005)
- 4) Swift start-up of the micro lenses and micro camera units businesses  
Net sales: Approx. 3 billion yen (FY2002) => 40 billion yen or more (FY2005)  
Creating high-value-added products as the cell phone market goes into mega-pixels and auto-focusing.
- 5) Developing the electronic materials business by increasing sales of TAC along with wide-view and AR, responding to the growing large LCD market.

### OT (Optics)

Unit: billions of yen

	FY2002	FY2005	Increase (%)
Net sales	54.1	120.0	121.8
Operating income	12.4	20.0	61.3
Operating income ratio (%)	22.9	16.7	

# Business Strategies (PI and CA)

## PI (Photo Imaging)

### [Mission]

Restructuring the silver-halide business and securing profits by transforming into a new business

### [Primary strategies]

#### 1) Silver-halide photo business --- Executing strategies tailored for each geographic area

(Matured markets such as Japan, Europe and the US, and growing markets such as Russia and other countries).

Continuing drastic business restructuring in the matured markets.

#### 2) Developing specific businesses depending on the value chain.

[Midstream] Silver-halide photo, IJ media, sublimation [Downstream] Various ID photos, digital photo net

PI (Photo Imaging)

Unit: billions of yen

	FY2002	FY2005	Increase (%)
Net sales	163.1	150.0	-8.0
Operating income	8.3	9.0	8.4
Operating income ratio (%)	5.1	6.0	

## CA (Cameras)

### [Mission]

Striving to expand the digital camera business

### [Primary strategies]

#### 1) Obtaining No.1 position in the four categories where the company can fully demonstrate its strength.

(Aiming a 30% share in each targeting areas and a 15% share in the entire market)

Four categories: 1) Slim and compact, 2) Compact body with high resolution,  
3) High-powered zoom lens but low price, 4) Advanced functions and built-in lens

#### 2) Improving profitability by expanding business and reinforcing cost competitiveness, taking advantage of the sophisticated sales network in Europe and the captive production bases in China.

CA (Cameras)

Unit: billions of yen

	FY2002	FY2005	Increase (%)
Net sales	117.6	200.0	70.1
Operating income	2.1	12.0	471.4
Operating income ratio (%)	1.8	6.0	

# Business Strategies (MG)

## MG (Medical and Graphic)

### [Mission]

Securing profits by expanding the dry and digital products businesses, taking the medical and graphic business as a source of constant revenue.

Transforming to a service-oriented business structure, which is a source of profit in the 'filmless' era.

### [Primary strategies]

- Medical imaging:**
- 1) Increasing market share in the film market by expanding the sales of dry imagers and CRs.
  - 2) Expanding overseas operations (Europe, China, Russia)
  - 3) Creating new businesses and streamlining the current business structure in line with decreasing conventional film business.
- Graphic imaging:**  
Middle East)
- 1) Boosting the market share in overseas. (China and other Asian countries, Middle East)
  - 2) Securing profits based on the increased direct sales in Japan.

MG (Medica and Graphic)

Unit: billions of yen

	FY2002	FY2005	Increase (%)
Net sales	117.4	140.0	19.3
Operating income	9.3	13.0	39.8
Operating income ratio (%)	7.9	9.3	

# Business Strategies (SE)

## SE (Industrial Instruments)

### [Mission]

Concentrating resources on the non-contact 3D measuring instruments business to secure stable profits.

### [Primary strategies]

- 1) Expanding the non-contact 3D digitizers business by enhancing a product lineup.
  - > High accuracy and affordable price
  - > The VIVID series
- 2) Strengthening the ability to provide solutions by integrating our original software with the software developed outside the company.

SE (Industrial Instruments)

Unit: billions of yen

	FY2002	FY2005	Increase (%)
Net sales	9.7	13.0	34.0
Operating income	2.0	3.0	50.0
Operating income ratio (%)	20.6	23.1	

# Group Targets on Consolidated Basis

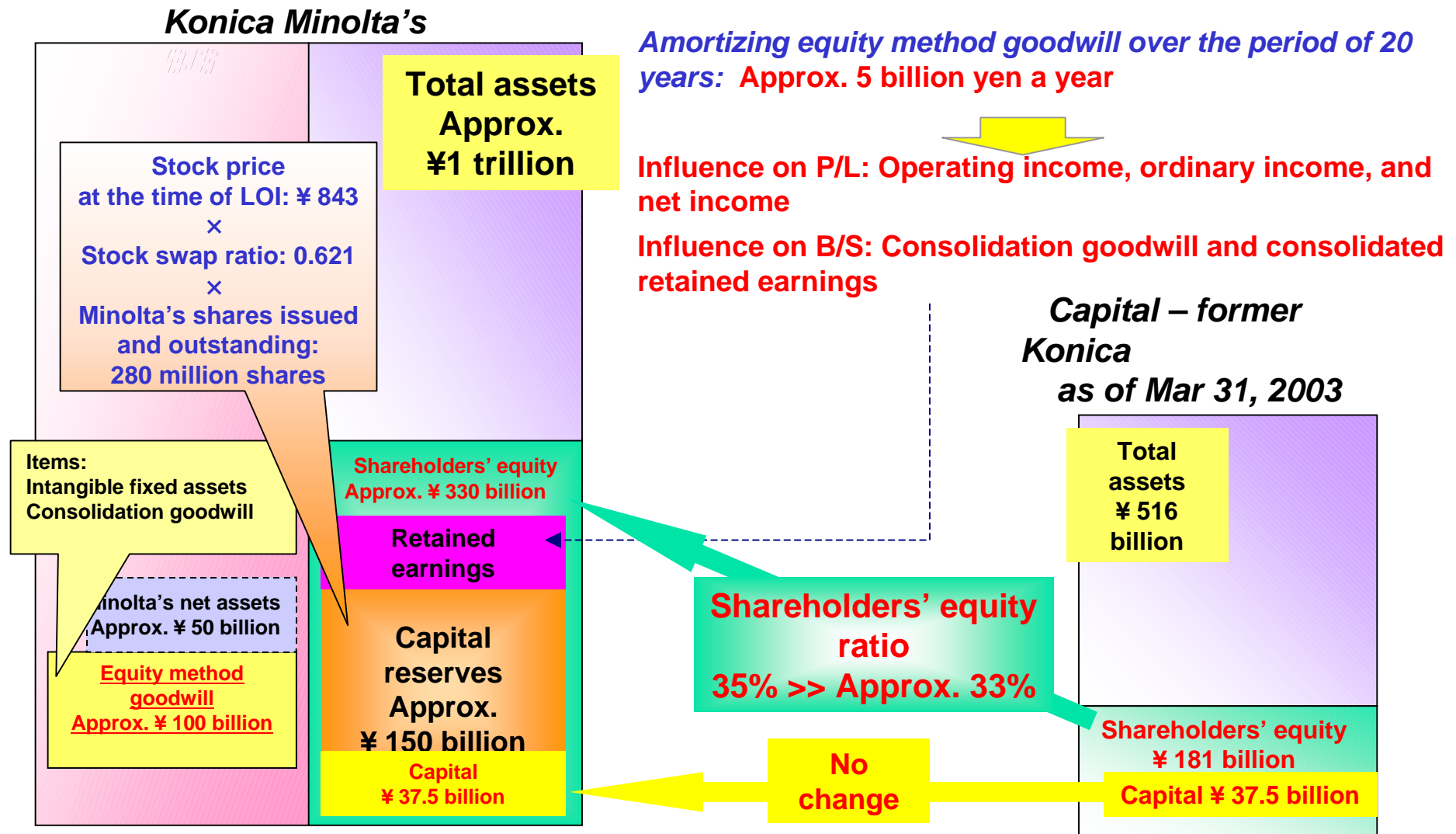
(Excluding equity method goodwill amortization)

Unit: billions of yen	Exchange rates: 1 USD=115 JPY, 1 EUR=120 JPY				Presentation as of Jan 2003
	FY2002	FY2003	FY2004	FY2005	FY2005
Net sales	1,087.2	1,142.0	1,200.0	1,300.0	1,300.0
Operating income	77.2	69.0	98.0	150.0	150.0
Net income	29.1	26.0	35.0	70.0	58.0
FCF	92.9	10.0	26.0	53.0	
Investments	45.4	53.0	55.0	60.0	
Interest bearing debts	322.8	310.0	300.0	250.0	256.0
Shareholders' equity	239.0	260.0	290.0	355.0	360.0
Total assets	883.2	890.0	900.0	930.0	980.0
Operating income ratio (%)	7.1	6.0	8.2	11.5	11.5
ROE (%)	12.2	10.0	12.1	19.7	16.1
ROA (%)	3.3	2.9	3.9	7.5	5.9
Equity ratio (%)	27.1	29.2	32.2	38.2	36.7
D/E ratio (times)	1.35	1.19	1.03	0.70	0.71

\*Assumption of annual cash dividends : ¥10 per share or ¥5 billion a year

# Impact on B/S brought by Equity Method Goodwill

- Amortizing equity method goodwill over the period of 20 years
- Abstract image of capital and equity method goodwill after the integration





# Group Targets on Consolidated Basis

(including equity method goodwill amortization)

Unit: billions of yen	Exchange rates: 1 USD=115 JPY, 1 EUR=120 JPY				Presentation as of Jan 2003
	FY2002	FY2003	FY2004	FY2005	FY2005
Net sales	1,087.2	1,142.0	1,200.0	1,300.0	1,300.0
Operating income	77.2	66.5	93.0	145.0	150.0
Net income	29.1	23.5	30.0	65.0	58.0
FCF	92.9	10.0	26.0	53.0	
Investments	45.4	53.0	55.0	60.0	
Interest bearing debts	322.8	310.0	300.0	250.0	256.0
Shareholders' equity	239.0	357.5	382.5	442.5	360.0
Total assets	883.2	987.5	992.5	1,017.5	980.0
Operating income ratio (%)	7.1	5.8	7.8	11.2	11.5
ROE (%)	12.2	6.6	7.8	14.7	16.1
ROA (%)	3.3	2.4	3.0	6.4	5.9
Equity ratio (%)	27.1	36.2	38.5	43.5	36.7
D/E ratio (times)	1.35	0.87	0.78	0.56	0.71

**Consolidation goodwill (equity method goodwill): ¥ 100 billion**

**Amortization of equity method goodwill: ¥ 5 billion a year, over a period of 20 years. The amounts will be posted in operating income, ordinary income, and net income.**

**Assumption of annual cash dividends : ¥10 per share or ¥5 billion a year**

# Business Companies' Targets

(excluding equity method goodwill amortization)

Unit: billions of yen

Exchange rates: 1 USD=115 JPY, 1 EUR=120 JPY

		Results FY2002	FY2005
BT (Business Technologies)	Net sales	594.7	700.0
	Operating income	52.6	90.0
PI (Photo Imaging)	Net sales	163.1	150.0
	Operating income	8.3	9.0
CA (Cameras)	Net sales	117.6	200.0
	Operating income	2.1	12.0
OT (Optics)	Net sales	54.1	120.0
	Operating income	12.4	20.0
MG (Medical and Graphic)	Net sales	117.4	140.0
	Operating income	9.3	13.0
SE (Industrial Instruments)	Net sales	9.7	13.0
	Operating income	2.0	3.0
Holdings and other companies including inter-company adjustments	Net sales	30.6	-23.0
	Operating income	-9.5	3.0
Total	Net sales	1,087.2	1,300.0
	Operating income	77.2	150.0

Amounts of forecast FY2003 include Inter-company sales.

Excluding  
equity method  
goodwill

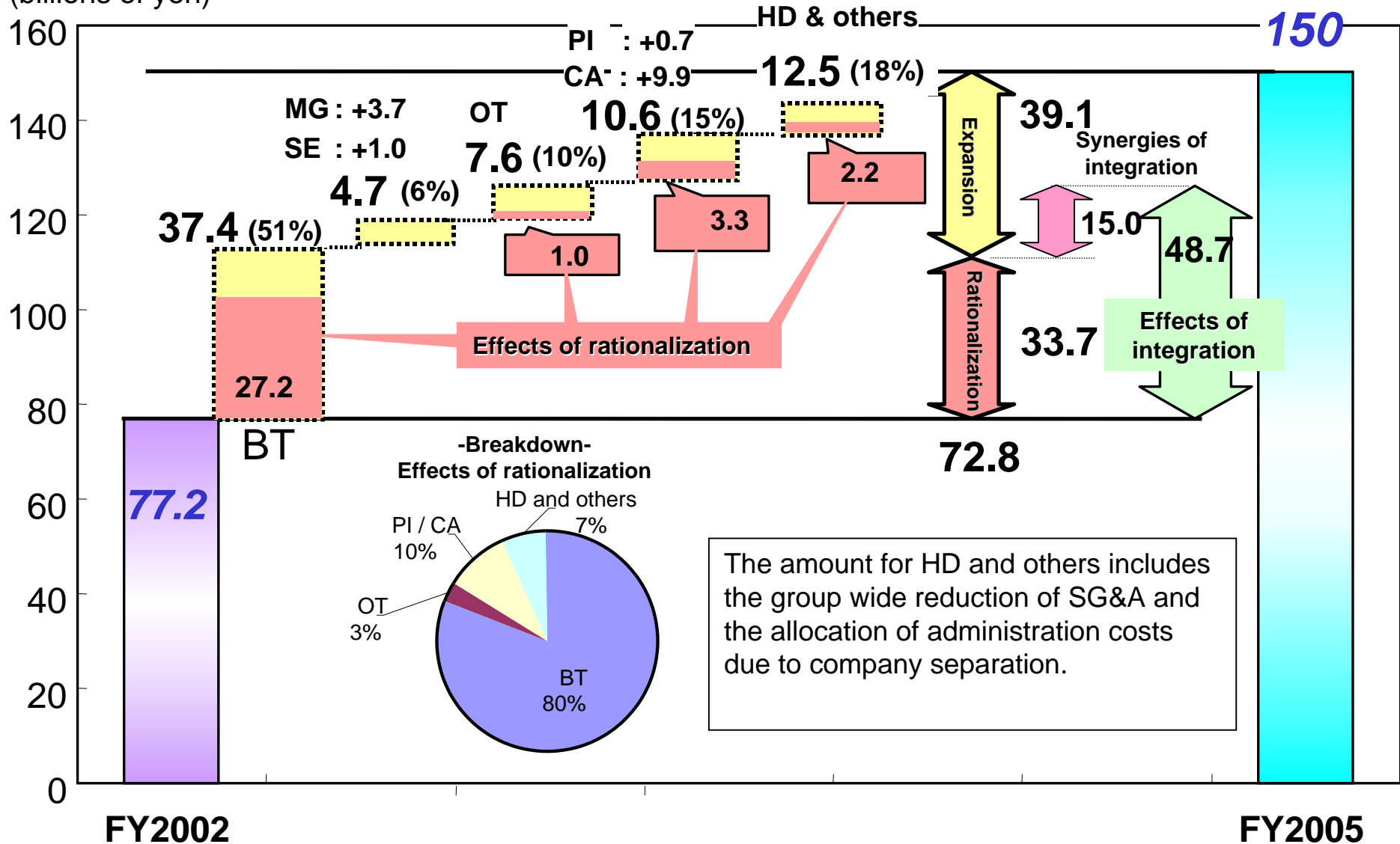
# Costs and Effects of Integration

## ■ Costs and effects of integration from FY2003 through FY2005

<i>Unit: billions of yen</i>	FY2003	FY2004	FY2005
Costs of integration [SG&A of total costs]	-21 [-12]	-23 [-13]	-4 [-3]
Effects of rationalization	1	21	34
Loss in sales	- 5	- 5	0
Expansion of sales, including synergy effects	0	10	34
<b>Impact on operating income</b>	<b>- 16</b>	<b>13</b>	<b>65</b>
<b>Change in operating income (Year-on-year)</b>	<b>- 8.2</b>	<b>29</b>	<b>52</b>

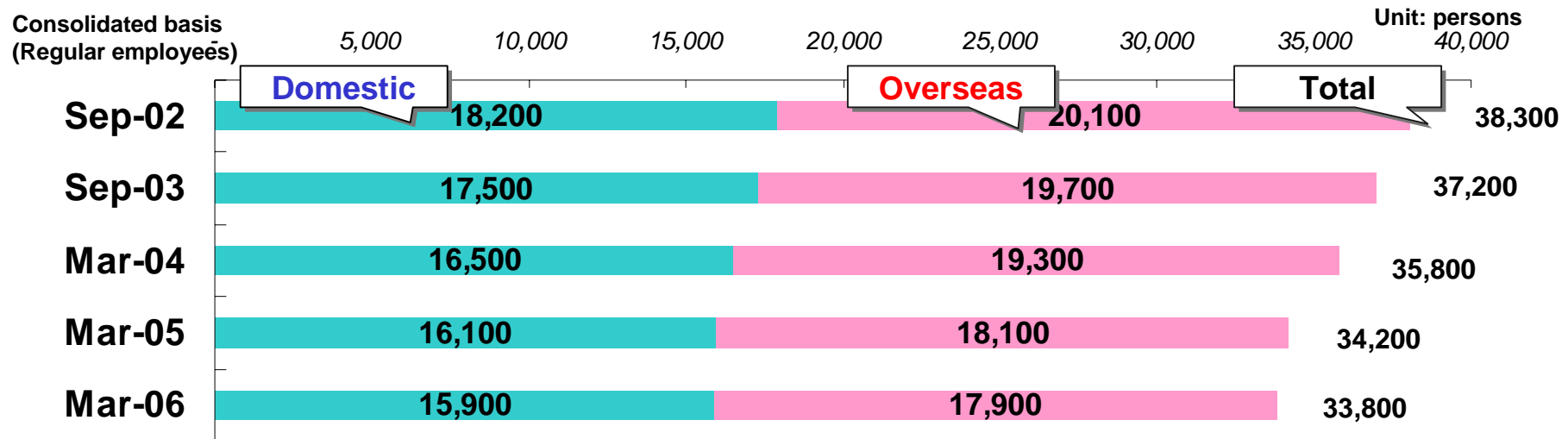
# Factors of Improved Operating Income

(billions of yen)

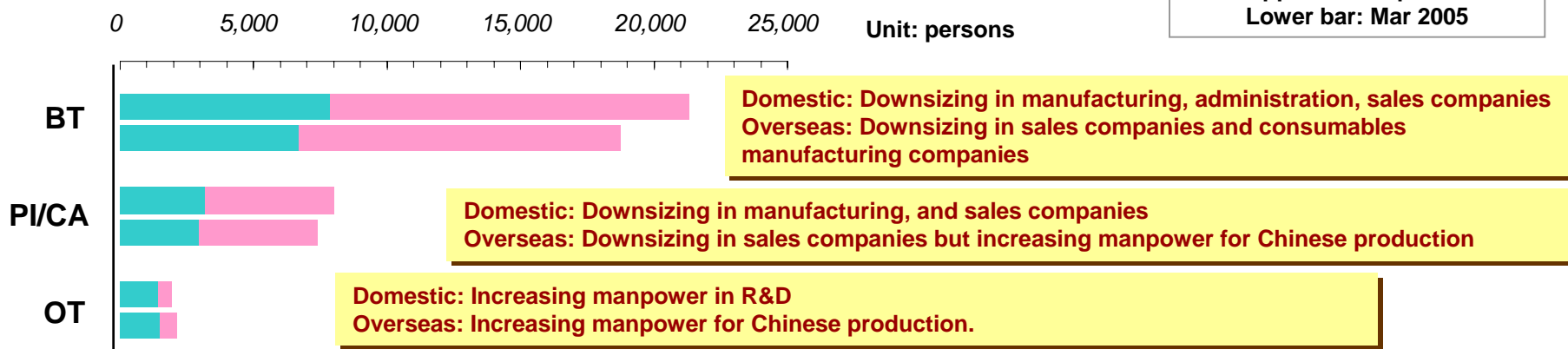


# Manpower Planning

- Streamlining manpower by consolidating overlapping functions and companies
- Shifting manpower to the focusing areas such as sales and R&D (including job change)
- Downsizing of the Group: reducing 4,500 persons (regular employees)



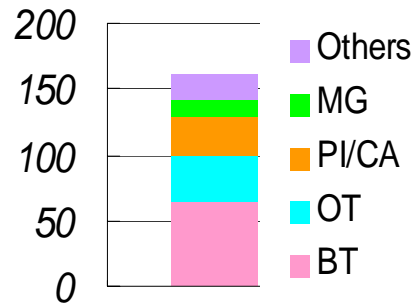
- Manpower planning by business (Oct 2003 through Mar 2005)



# Capital Investments and Allocation

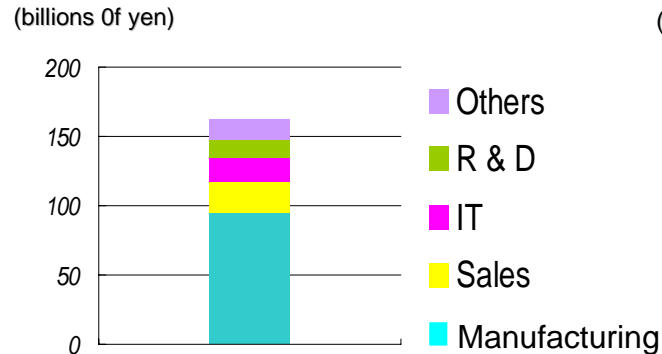
- Planning to invest 162 billion yen in total from FY2003 through FY2006.  
(balancing with the amount of depreciation & amortization and excluding investments for rental equipment)
- Concentrating investments on the BT and OT businesses.

**Business company basis**  
(billions Of yen)



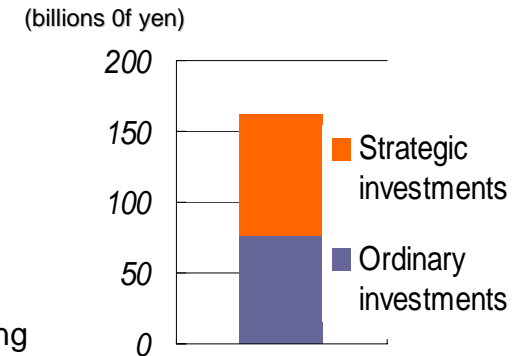
BT: 40%, OT: 20%, PI/CA: 19%

**Function basis**  
(billions Of yen)



Manufacturing: 59%, Sales: 14%, IT: 11%, R&D: 7%  
Manufacturing: 95, Sales: 22, IT: 18, R&D: 12  
(unit: in billions of yen)

**Subjective basis**  
(billions Of yen)



Ordinary investments: 47%  
Strategic investments: 53%

Unit: billions of yen

BT (Business Technologies)	65	Ordinary investments	28
		Strategic investments	37
OT (Optics)	33	Ordinary investments	3
		Strategic investments	30
PI (Photo Imaging)/ CA (Cameras)	30	Ordinary investments	20
		Strategic investments	10
MG (Medical and Graphic)	15	Ordinary investments	6
		Strategic investments	9
Holdings/Technology Center/ Business Expert	19		

# Visions of Konica Minolta

Management  
Philosophy

Management  
Visions

Corporate  
Message

The Creation of New Value

- Innovative Corporation That Continues to Create Impressions in the Field of Imaging.
- A Global Market Leader That Offers Advanced Technology and Reliability.

“ The essentials of imaging ”

Obtaining a dominant position in the areas where the company can demonstrate its strength.

Developing the world most advanced technology and strengthening the ability to produce revolutionary ideas.

4 principles  
to accomplish  
Company's goals

Achieving sustainable development as well as establishing a solid financial position.

Creating open and fair environment with a global vision.

## Philosophy in personnel management

Becoming a market leader in the field of imaging

(Vision)

Not being obsessed with the past successful experiences and customs

(Awareness of obstructions)

Judging from the viewpoint of customers

(Positioning)

Increasing his/her value as well as restlessly making changes

(Action)

Respecting each other

**Caution:**

***The forecasts mentioned in this material are the results of estimations based on currently available information, and accordingly, contain risks and uncertainties. The actual results of business performance may sometimes differ from those forecasts due to various factors.***