

KONICA MINOLTA GROUP Q&A from 1Q / March 2008 Financial Results Briefing Session

Date: Thursday, August 2, 2007 16:30 - 17:30 JST
Place: Keidanren Kaikan (Tokyo, Japan)
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Cautionary Statement

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

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Business Technologies

Q: In the Business Technologies business, the MFP segment shows higher revenues and operating income growth rates compared to competitors. Moreover, market share for color MFP is also growing. Tell us the reasons for this good business performance and your strategy going into the second quarter.

A: Our MFP business accounted for 90% of Business Technologies business revenue in the first quarter, showing a 17% increase in revenue year-on-year and a significant operating income increase of 37% year-on-year. Moreover, the operating income ratio rose from 11.7% to 13.7%. We worked to strengthen such categories as segment 4 color MFPs for general offices (41 ppm to 69 ppm) and production printing segment, which are expected to make a major contribution to consumables revenues. In particular we focused on the US market.

Last fiscal year, due to the old product lineup (without adding new models), market share decreased, while in the first quarter this year the bizhub C550 and other newly introduced products contributed to increased revenues, boosting the ratio of segment 4 products in terms of units sold of the total color MFPs from 22% to 29% compared to the same period of the previous year. Moreover, with the addition of the high-speed color MFP bizhub C6500, production printing segment revenues increased 60% compared to a year ago. As a result, color MFP unit sales by region increased from 24% to 26% for the US market.

Color MFP sales are now generating 50% of the total MFP revenues. Moreover, the substantial growth in non-hard product revenues is a clear indication that our MFP business strategies are showing results.

From the second quarter we will be releasing new color MFP products in the medium/low-speed segment, we look to increase unit sales in Europe, our largest market, as well as Asia, which is rapidly shifting to the color segment. We will also introduce new products in the production printing segment with the aim of further increasing revenues for color MFPs and consumables.

Q: Based on your statements on MFP revenue growth and future strategies, do you think it possible that Business Technologies business results will exceed your initial expectation for the first half and full fiscal year?

A: As we stated earlier, we are achieving solid results by focusing on the high-speed color MFP segment. Moreover, for the production printing segment profitability has risen on par with the office color MFP segment. So we think that profitability for color MFP and production printing segments will continue to grow.

Optics

Q: Tell us about earnings for principle optical products and the outlook for the second quarter.

A: In the first quarter, the display materials market recovery was slower than anticipated and shipment volume for our viewing angle expansion film was somewhat weak. As a result, display materials sales slightly decreased compared to the same quarter of the previous year. Nonetheless, recovery has been seen since late May, and we are focusing on attaining our second quarter plan and feel optimistic that we will do so.

On the other hand, next-generation DVD optical pickup lens sales have generated higher profit for the memory-related products segment compared to a year ago, but the performance was slightly under our initial forecast. Here as well, a solid market recovery is expected in the second quarter.

Moreover, for the image input/output component segment, growing sales for mobile phone micro-camera modules and digital camera lens units created the potential for generating profits.

Q: You stated a second quarter recovery for viewing angle expansion film for the display materials segment. Could you give guidance about your outlook for the third quarter?

A: At this point in time, we anticipate solid performance for the second and third quarters, but the fourth quarter could be an adjustment phase and so we will want to assess the supply and demand environment as we go forward.

Other

Q: Looking at first quarter profit and loss results, one would expect better earnings given the weak yen. Your operating income analysis shows that the gain from exchange rate effect is larger than the operating income increase. Is this because of increasing price competition?

A: The yen has been weak against the Euro since last year. Moreover, we are continuing to make marketing efforts in Europe, so are our competitors. Considering such situation, we did not expect any major change in the first quarter conditions.

While the foreign exchange rate effect accounts for about 5 billion yen of the total increase in operating profit for the Business Technologies business, negative factors such as falling sale prices and increasing marketing costs are about the same. So given an increase of 5.3 billion yen compared to last year, we recorded an increase in real terms even considering the foreign exchange rate effect.

Q: You give guidance of a 5 billion yen increase for the depreciation allowance associating with accelerated depreciation due to Japanese tax law changes. Give us the current situation and your outlook.

A: Only a small sum was generated this quarter with most depreciation costs usually being generated starting from the second quarter. Depreciation costs for this quarter are in line with our initial projection.

Q: The effective tax rate applied to the first quarter was 41% whereas your projected tax rate for full year was 46%. Give us your opinion.

A: There are some unfinished items to be processed related to the exit from Photo Imaging business, and this unrealized portion resulted in a lower tax rate than the initial forecast for the first quarter. We cannot say the tax rate will stay the same all year, but we think our initial forecast of 46% was slightly higher than the actual tax rate.

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