

# Konica Minolta Group Medium-Term Plan “V-5 PLAN”

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Konica Minolta Holdings, Inc.



# Management Philosophy and Vision

## Management Philosophy

The Creation of New Value

## Management Vision

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 Technology and Reliability.

## Corporate Message

The essentials of imaging

- Group management policy
- 1. Consistently execute business portfolio management
- 2. Promote Groupwide corporate governance focusing on transparency
- 3. Promote Groupwide R&D strategies and ensure penetration of the Konica Minolta brand in the field of imaging
- 4. Promote performance-oriented human resource policies
- 5. Enhance corporate social responsibilities

**Maximize  
Corporate  
Group  
Values**

# Review of Medium-Term Integration Plan

## Medium-Term Integration Plan Covering 3.5 years: Oct. 2003 through Mar. 2007

### *Mission*

Accelerate the integration process for quickly reaping integration benefits

### *Achievements*

Overall integration programs have progressed as planned. (IT, HR system, reorganization of business locations)

### *Integration benefits*

- Reduced 4,600 headcounts until Mar/05
- Rationalization benefits: Total 27 billion yen



***Established solid management base***

# V-5 PLAN's positioning

## *Current situation*

Delay in taking actions for course adjustments against rapidly changing business environment

### ■ Business Technologies

1. Sales opportunity loss due to MFP development delay
2. Increased costs due to investments in color products R&D and marketing
3. Color LBP -- Severer price drop

### ■ Photo Imaging

1. Digital camera – Extreme loss of competitiveness
2. Color film and paper -- Rapid shrinkage of market



## V-5 PLAN

Covering 4 years: Apr. 2005 through Mar. 2009

## *Mission*

Establish a strong corporate group through the enhanced “selection and concentration” policy

# V-5 PLAN: Main strategies

## Main Strategy

## Consistently execute business portfolio management

<b>[ I ]</b> <i>Further execution of “selection &amp; concentration”</i>	<b>Business Technologies</b> <ul style="list-style-type: none"> <li>• Prioritize resources to color segment</li> <li>• Enhance business strength</li> </ul>
	<b>Optics</b> <ul style="list-style-type: none"> <li>• Strengthen engineering force</li> <li>• Continue to expand operations</li> </ul>
<b>[ II ]</b> <i>New business development</i>	<b>Photo Imaging</b> <ul style="list-style-type: none"> <li>• Scale down operation size</li> <li>• Get out of the red</li> </ul>
	<b>Medical &amp; Graphic</b> <ul style="list-style-type: none"> <li>• Expand business in the medical market</li> </ul>
<b>[ III ]</b> <i>Business expansion through M&amp;A and alliance</i>	<b>Sensing</b> <ul style="list-style-type: none"> <li>• Secure stable profitability</li> </ul>
	<b>New</b> <ul style="list-style-type: none"> <li>• Develop large-scale new businesses by leveraging core technologies (optical, material, nano processing, and image processing)</li> </ul>

## V-5 PLAN: Consolidated targets

(Billions of yen)

	Mar/05	Mar/06	Mar/07	Mar/08	Mar/09
Net sales	1,060.0	1,130.0	1,210.0	1,300.0	1,410.0
Operating profit	70.0	90.0	105.0	120.0	145.0
<i>OP/Sales ratio</i>	6.6%	8.0%	8.7%	9.2%	10.3%
Net income	7.0	23.0	45.0	60.0	70.0
Investments	80.0	100.0	90.0	76.0	77.0
FCF	9.0	4.0	15.0	35.0	45.0
Interest bearing debts	250.0	250.0	230.0	195.0	145.0
Shareholders' equity	359.4	390.0	435.0	500.0	570.0
ROE	1.9%	5.9%	10.3%	12.0%	12.3%
EPS [Yen]	13.2	43.9	84.9	113.2	132.1

FOREX:      109 yen = 1\$      ←      110 yen = 1\$      →  
                  135 yen = 1Euro           130 yen = 1Euro

\* Targeted dividend payment ratio for Mar/06 and thereafter : 15% or more

## V-5 PLAN: Targets by segment

(Billions of yen)

		V-5 PLAN			Medium-term integration plan	
		Mar/05	Mar/06	Mar/09	Mar/06	Change
Business	Net sales	560.0	620.0	860.0	680.0	-60.0
	Op. profit	59.0	71.0	107.0	90.0	-19.0
Technologies	Net sales	90.0	120.0	170.0	120.0	0.0
	Op. profit	15.0	21.0	31.0	25.0	-4.0
Photo Imaging	Net sales	267.0	230.0	160.0	270.0	-40.0
	Op. profit	-9.0	-4.0	2.0	11.0	-15.0
Medical & Graphic	Net sales	130.0	140.0	180.0	140.0	0.0
	Op. profit	8.0	9.0	12.0	12.0	-3.0
Sensing	Net sales	5.0	6.0	12.0	13.0	-7.0
	Op. profit	2.0	2.0	4.0	3.0	-1.0
Others	Net sales	8.0	14.0	28.0	7.0	7.0
	Op. profit	-5.0	-9.0	-11.0	4.0	-13.0
Total	Net sales	1,060.0	1,130.0	1,410.0	1,230.0	-100.0
	Op. profit	70.0	90.0	145.0	145.0	-55.0

# Comparison between V-5 PLAN and Medium-Term Integration Plan

## Factor analysis of discrepancy in operating profit

(Billions of yen)

	Medium-term integration plan		Change	Color products enhancement			
	V-5 PLAN	Medium-term integration plan		Price drop	Manpower rationalization	Other	
Business Technologies	71.0	90.0	-19.0	-5.5	-11.0	-2.5	0.0
Optics	21.0	25.0	-4.0	-3.0	0.0	-1.0	0.0
Photo Imaging	-4.0	11.0	-15.0	-12.0	0.0	2.0	-5.0
Medical & Graphic	9.0	12.0	-3.0	-1.5	0.0	-0.3	-1.2
Sensing	2.0	3.0	-1.0	0.0	0.0	0.0	-1.0
Other	-9.0	4.0	-13.0	0.0	0.0	-0.2	-12.8
<b>Total</b>	<b>90.0</b>	<b>145.0</b>	<b>-55.0</b>	<b>-22.0</b>	<b>-11.0</b>	<b>-2.0</b>	<b>-20.0</b>

For R&D and marketing reinforcement

Across-the-group cost-cutting project did not deliver results.

## Integration benefits

(Billions of yen)

	Medium-term integration plan		Change	Mar/04- Mar/05		Mar/06 Projection
	V-5 PLAN	Medium-term integration plan		Mar/04- Mar/05	Mar/06 Projection	
Labor cost-cut Streamlining offices & procurement	21.0	23.0	-2.0	12.0	9.0	
	6.0	9.0	3.0	2.0	4.0	
<b>Effects total</b>	<b>27.0</b>	<b>32.0</b>	<b>-5.0</b>	<b>14.0</b>	<b>13.0</b>	

- From Mar/04 through Mar/05: 14 billion yen (Projection)
- Mar/06: 13 billion yen (Projection)



## Generating consistent cash and profit as Group's core business

### ■ Targets

(Billions of yen)

	Mar/05	Mar/09	Growth
Net sales	560.0	860.0	54%
Op. profit	59.0	107.0	81%
OP/Sales %	10.5%	12.4%	

### ■ Sales targets for major products

(Billions of yen)

	Mar/05	Mar/09	Growth
MFP	467.0	700.0	50%
Printer	93.0	160.0	72%

### ■ Major strategies

#### 1. Increase color MFP ratio

- ① Strengthen R&D to expand product lineup with new models
- ② Reinforce direct sales force in Japan, US, and Europe

#### 2. Strengthen cost competitiveness

- ① New plant for digital toner (Fall 2005) : Industry-leading production capacity with 8,000 tons/year
- ② New plant in Wuxi, China (Dec. 2005) : Production capacity increase and procurement reinforcement China

#### 3. Boost own-brand color LBP business

# Business Technologies -- Increase color MFP ratio

## Color MFP sales growth strategies

- ✓ Full product lineup of tandem-engine equipped models

New products release schedule Mar/06-Mar/09 : 15 models or more  
(cf. Mar/05: 2 models released)

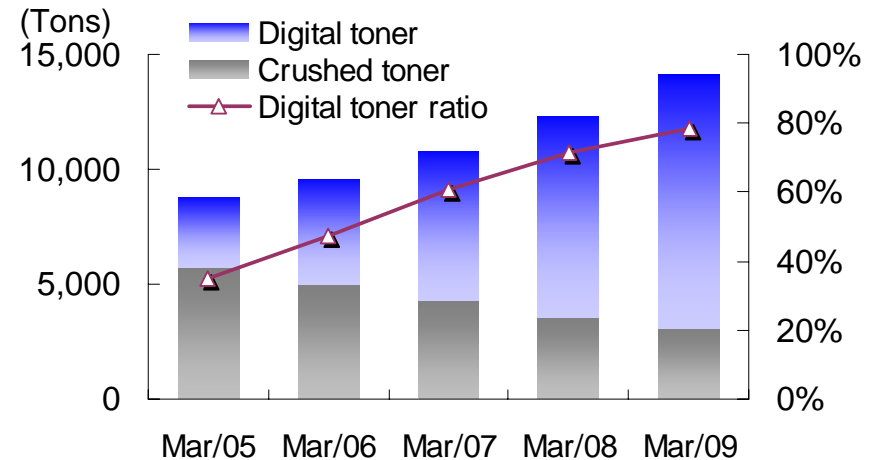
- ✓ Adoption of digital toner to all products

“High quality, high resolution, cost-efficient”

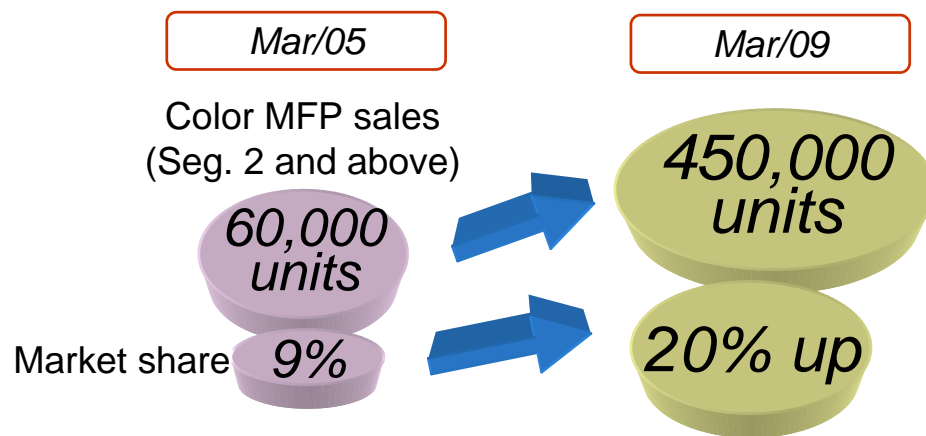
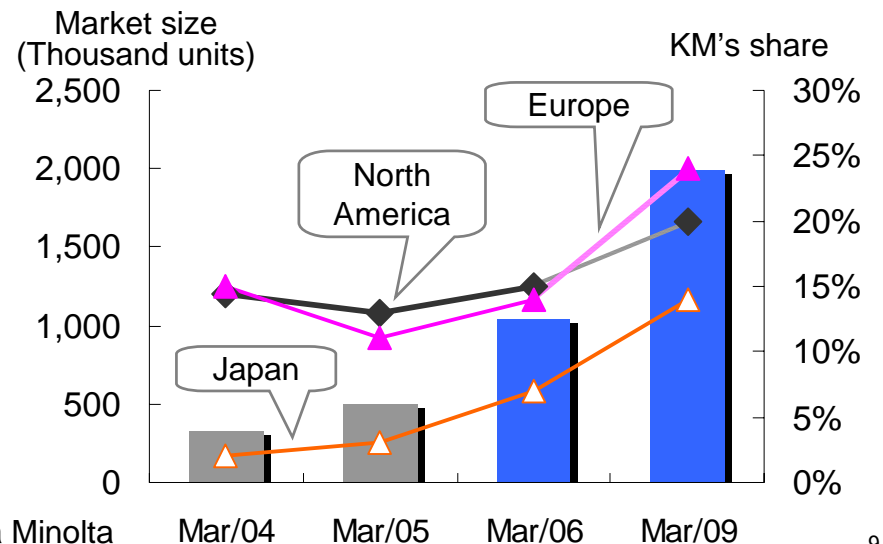
- ✓ Expansion of direct sales and dealers networks

Sales representatives: 40% increase (Mar/05 vs. Mar/09)  
Dealers: 20% increase (Mar/05 vs. Mar/09)

## Digital toner production



## Color MFP market share



# Business Technologies – Priority investments to color products

- Established new integrated firmware
  - ✓ *Improve customer satisfaction*
  - ✓ *Strengthen competitiveness*
  - 1. Development started in Jan. 2003 (just at the announcement of Konica-Minolta integration).
  - 2. Advanced functions: New security, seamless, customization (Open API\*)
  - 3. New firmware installation: bizhub C450 and other upcoming products



- ✓ **Industry-leading product competitiveness**
- ✓ **Advanced expandability for product differentiation**
- ✓ **Function standardization among products**

bizhub C450



- ✓ Released Feb. 2005
- ✓ Color 35ppm / Monochrome 45ppm
- ✓ Fax function

\*Open API = Open Application Programming Interface

## Strategies – Optics

### Becoming the world's leading optical device manufacturer as Group's strategic business

#### ■ Targets

(Billions of yen)

	Mar/05	Mar/09	Growth
Net sales	90.0	170.0	89%
Op. profit	15.0	31.0	107%
OP/Sales %	16.7%	18.2%	

#### ■ Sales targets for major products

(Billions of yen)

	Mar/05	Mar/09	Growth
Optical pickup lens	24.0	30.0	25%
Films for LCD	20.0	46.0	130%
Other items*	43.0	78.0	81%

#### ■ Major strategies

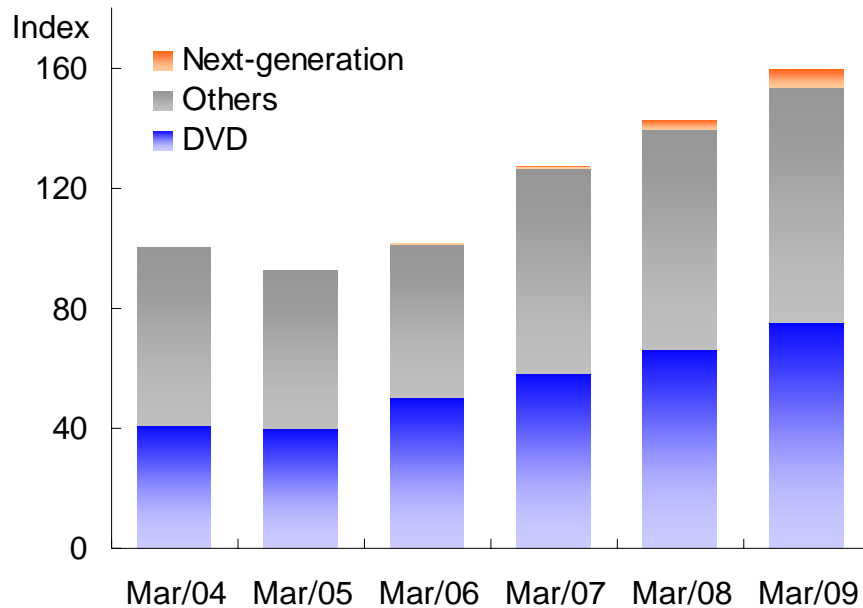
1. Optical pickup lens: Industry-leading technologies. Top market share in next-generation DVD.
2. Film for LCD: Expand business scale and production capacity in response to increasing demand
3. Micro camera/lens units for mobile phones: Capture major accounts. Develop new business opportunities.
4. DSC/VCR lens units: Develop new customers
5. Glass substrate for hard disk: Expand business focusing on small-diameter models

\*Other items: Micro camera/lens units for mobile phones, DSC/VCR lens units, Glass substrate for hard disk

# Optics – Further expansion of main businesses

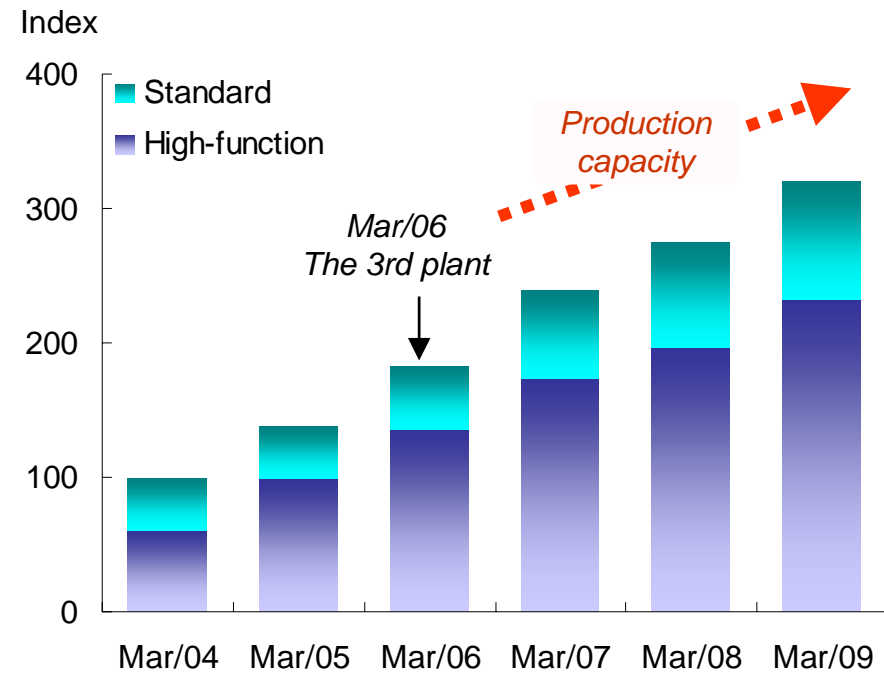
## ■ Optical pickup lens

- Optical pickup lens for next-generation DVD:
  - ✓ Reinforce patent application
  - ✓ Secure a dominant share in the objective lens market
  - ✓ Expand applications to peripheral devices
- Existing products:
  - ✓ Further cost reduction by production technology reinforcement



## ■ Film for LCD panels

- Production reinforcement:
  - ✓ The 3<sup>rd</sup> plan in operation (Oct. 2005)
- Strengthen product competitiveness by upgrading functions



## Downsizing operations to quickly break away from the deficit

### ■ Targets

(Billions of yen)

	Mar/05	Mar/09	Growth
Net sales	267.0	160.0	-40%
Op. profit	-9.0	2.0	---
OP/Sales %	-3.4%	1.3%	

### ■ Major strategies

#### 1. Scale down business size

- ① Downsize film and photo paper businesses
- ② Camera business:
  - ✓ Downsize business size
  - ✓ Concentrate on high-value-added products
  - ✓ Break away from chronic deficits
- ③ Promote “digital on site” business

#### 2. Speedy restructuring

- ① An extraordinary loss of 34 billion yen in total for 4 years from FY Mar/06 through FY Mar/09
- ② Continue to execute restructuring programs

# Strategies – Medical and Graphic

## Securing profitability in existing businesses and developing new business models in response to “filmless”

### ■ Targets

(Billions of yen)

	Mar/05	Mar/09	Growth
Net sales	130.0	180.0	38%
Op. profit	8.0	12.0	50%
OP/Sales %	6.2%	6.7%	

### ■ Sales targets for major products

(Billions of yen)

	Mar/05	Mar/09	Growth
Medical	97.0	132.0	36%
Graphic	33.0	48.0	45%

### ■ Major strategies

#### 1. Medical

- ① Strengthen dry/wet film business => Maximize FCF
- ② Expand hardware business (Image input/output, systems)

#### 2. Graphic

- ① Strengthen solutions business (eg. Color proofing)
- ② Re-entry into plate business

## Strategies – Sensing

### Securing high profitability in existing businesses and developing new businesses aiming for total expansion

#### ■ Targets

(Billions of yen)

	Mar/05	Mar/09	Growth
Net sales	5.0	12.0	140%
Op. profit	2.0	4.0	100%
OP/Sales %	40.0%	33.3%	

#### ■ Major strategies

1. Expand 3-D digitizer business
2. Expand color measurement business

#### ■ Sales targets for major products

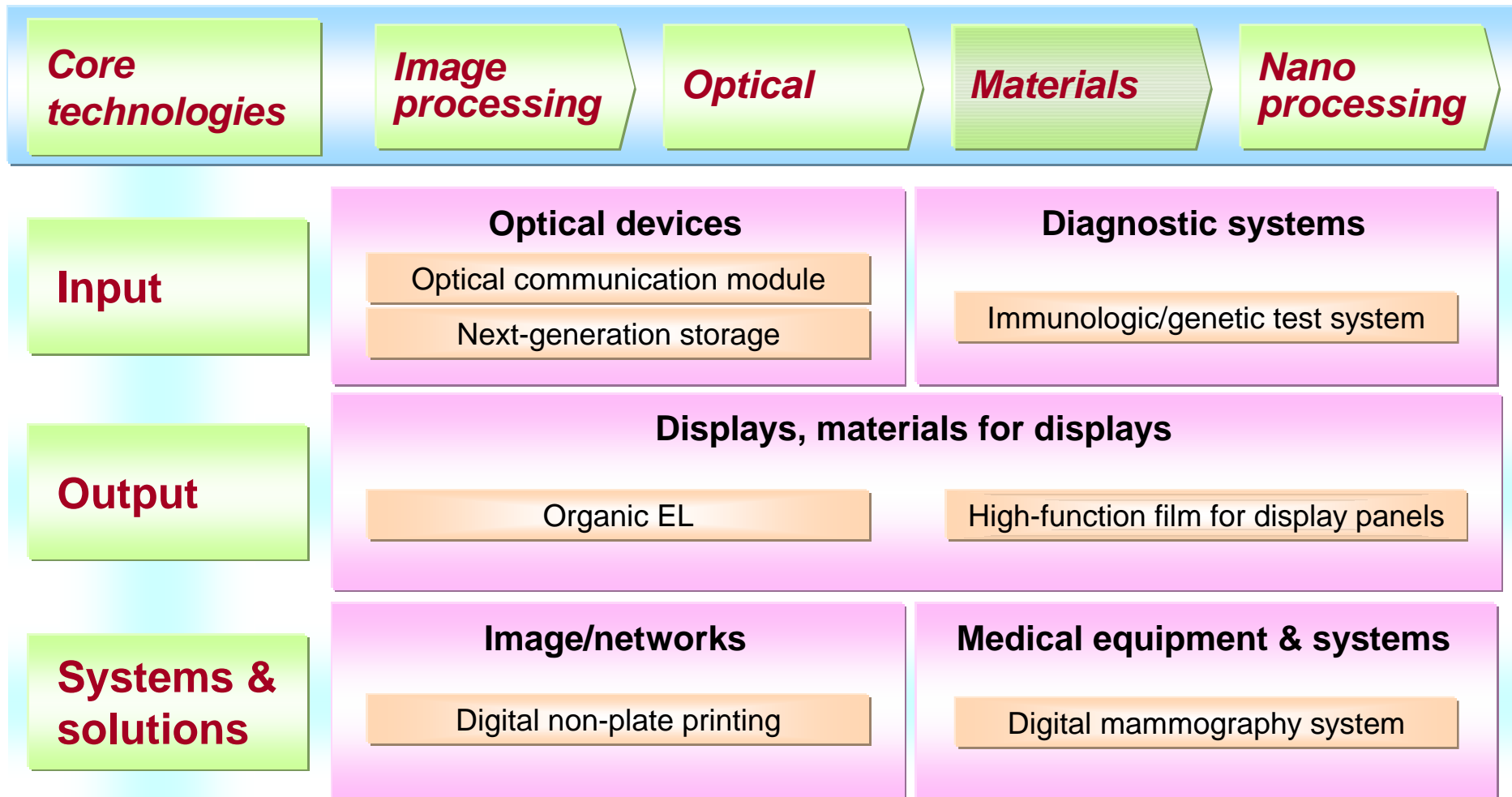
(Billions of yen)

	Mar/05	Mar/09	Growth
3-D digitizer	0.5	3.0	500%
Color measurement	3.0	7.0	133%



# New business development scheme

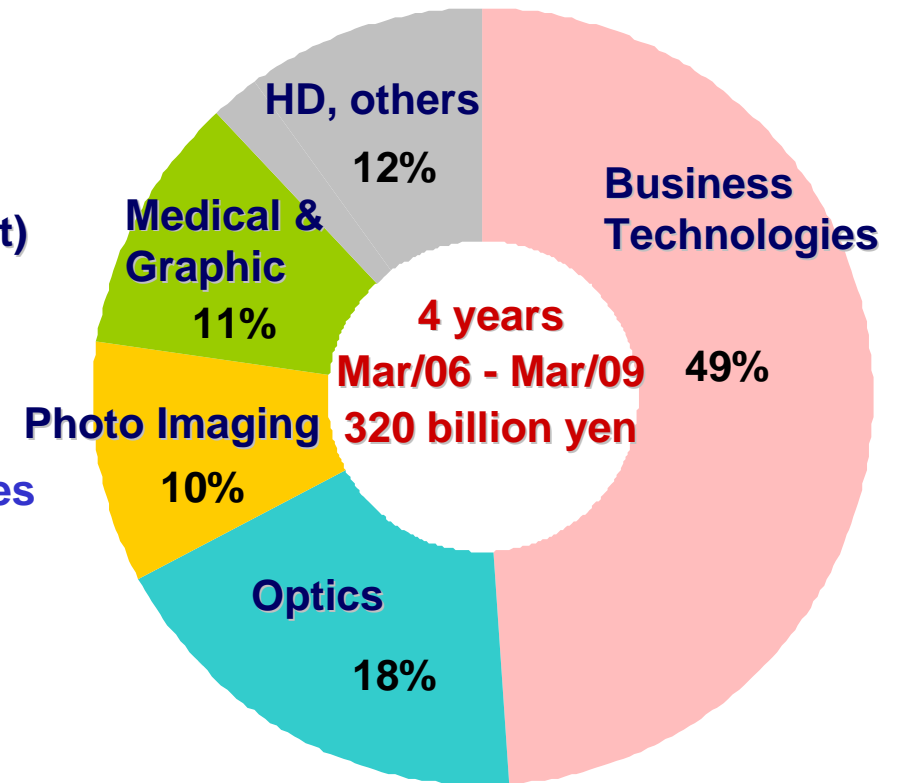
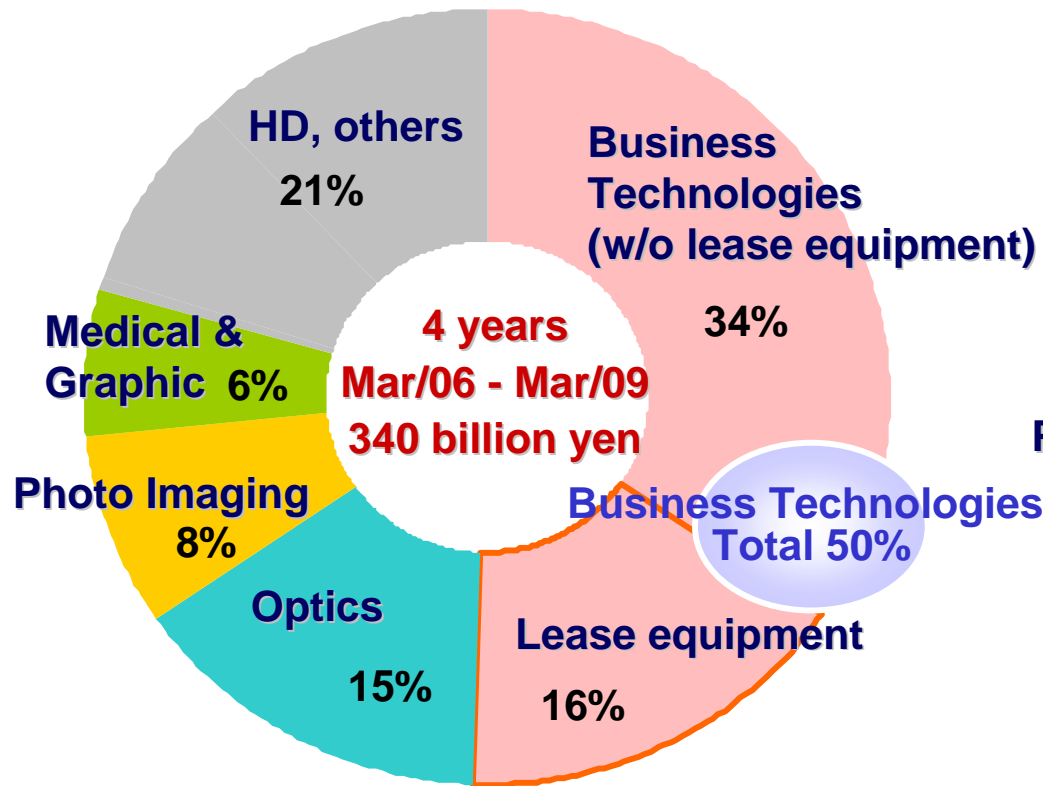
Target revenues for new businesses Mar/09 : 100 billion yen



# Resource allocation

■ Investments

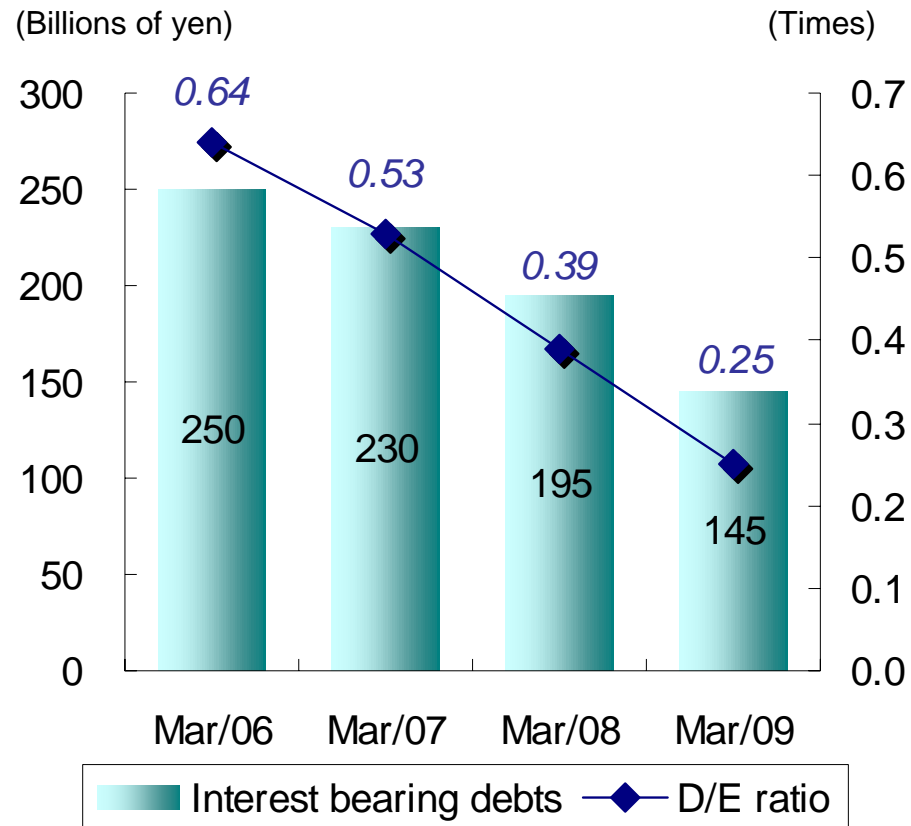
■ R&D expenditures



80% of Group's resources to Business Technologies and Optics

# Interest-bearing debts

## ■ Interest-bearing debts



✓ *Generate free cash to pay off debts*

# Headcounts



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	Result Sep/02	Result Mar/04	Projection Mar/05	Plan Mar/06	Plan Mar/09
Total # of employees	37,300	34,710	34,100	35,200	37,200
<i>For Business Technologies' reinforcement</i>			1,360	1,770	3,930
<i>Reduction</i>		-2,590	-1,970	-670	-1,930

← Total 4,600 reduction →

Mar/07 through Mar/09

- **Define functions .....**
  - Reinforced functions (R&D, marketing, Business Technologies)
  - Rationalized functions (indirect divisions, production in Japan)
- **Qualitative improvement .....**
  - Improve quality while maintaining optimum staff size
- ✓ **Achievement of medium-term target Mar/05.....**
  - Realized appropriate staff size through rationalization measures
- ✓ **Reinforcement .....**
  - Reinforce manpower and eliminate redundant functions starting 2005 in Business Technologies

# The essentials of imaging



KONICA MINOLTA

### ***Cautionary Statement***

***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.***

*Remarks:*

*Yen amounts are rounded to the nearest 0.1 billion.*