FINANCIAL REVIEW

GROUP OVERVIEW

The Konica Minolta Group (the Group) consists of the Company, Konica Minolta Holdings, Inc., 89 consolidated subsidiaries, 17 non-consolidated subsidiaries, and 5 affiliated companies. The Group's core business operations are Business Technologies, Optics and Healthcare, all of which the Group operates on a global basis.

BUSINESS ENVIRONMENT

Looking at economic circumstances in Japan and overseas for the year ended March 31, 2011, economies in both the United States and Europe continued to recover moderately, despite uncertain factors, reflecting governments' successful pump-priming measures and monetary policies. Asian economies continued to expand steadily overall, led by China and India. The Japanese economy recovered moderately in the first half thanks to the effect of economic measures, but the pace of the recovery slowed in the second half as the effect of economic measures came to a halt, and exports weakened. The unprecedented earthquake that hit the Pacific coast of the Tohoku region and other regions in March 2011 wrought enormous economic damage, disrupting supply chains that depended on production bases in the devastated areas and prompting concerns over electric power shortages.

MANAGEMENT POLICY <09-10>

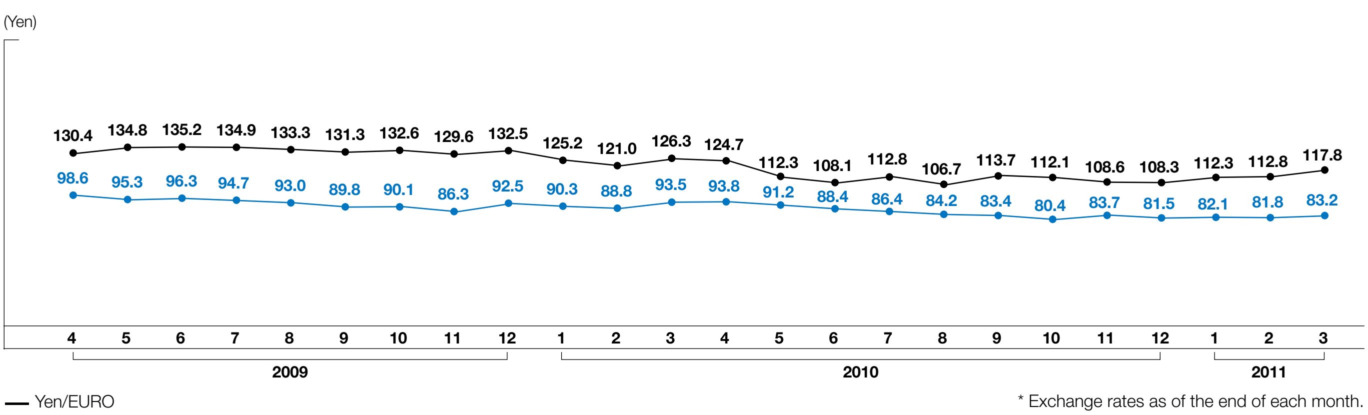
The Konica Minolta Group adopted Management Policy <09-10> in April 2009, with the aim of harnessing major changes in the business environment brought about by the global financial crisis in the fall of 2008 as opportunities to achieve stronger growth. The Group viewed this consolidated fiscal year, the second year of the Management Policy, as a turning point for putting itself on a growth track and pursued a more aggressive strategy that aims to achieve growth five to ten years from now. In the growth field of production printing in the Group's mainstay Business Technologies business, the Group entered a cross-distribution agreement with U.S.-based Eastman Kodak Company, and took steps to further enhance sales capabilities by reorganizing divisions involved in digital color printing. In the field of office equipment, the Group vigorously advanced measures, including the acquisition of IT vendors, designed to gain orders from major customers and promote service business expansion on a global basis. Elsewhere, in fall 2010, the Group built a pilot plant based on a thin-film coating production method in the OLED lighting business, an area expected to become a pillar of future earnings. The Group also entrusted major lighting manufacturer Royal Philips Electronics of the Netherlands with production via the vapor-deposition method of OLED lighting panels designed to use blue phosphorous materials developed independently by Konica Minolta. Sales of the panels are scheduled to begin in the fall of 2011. In this way, the Group moved preparations forward for realizing growth over the long term.

OPERATING RESULTS

NET SALES

In the fiscal year ended March 31, 2011, net sales decreased ¥26.5 billion, or 3.3% year on year, to ¥777.9 billion. Sales of new products in the mainstay Business Technologies business were steady, with unit sales above those of the previous fiscal year. But with over 80% of the segment's sales generated overseas, the yen's appreciation throughout the fiscal year had a strong affect on sales. In the Optics business, growth in sales of glass substrates for HDDs, optical pickup lenses for Blu-ray Discs and other products began to slow overall once clients prolonged the downward adjustments in output they began in the summer of 2010. By contrast, sales of TAC films remained strong due to the fact that such adjustments among clients for this product were shorter lived. In the Healthcare business, a decline in sales of film products for medical use was only partially offset by an increase in sales of digital medical input equipment.

YEN/USD AND YEN/EURO EXCHANGE RATES*



* Exchange rates as of the end of each month.

OPERATING INCOME

Operating income declined ¥3.9 billion, or 9.0% year on year, to ¥40.0 billion. This outcome stemmed mainly from reduced profits accompanying lower sales and foreign exchange impact of a stronger yen in the Business Technologies business.

NET INCOME

Net income increased ¥8.9 billion, or 53.0% year on year, to ¥25.8 billion, because a positive impact on profits from tax effects regarding the dissolution of a subsidiary of the Photo Imaging business offset losses incurred in foreign exchange from the yen's appreciation, business structure improvement expenses and in the revaluation of investment securities.

SEGMENT INFORMATION

Sales in the Business Technologies business fell ¥1.1 billion, or 0.2% year on year, to ¥539.6 billion, while segment profit declined ¥1.5 billion, or 3.9%, to ¥37.4 billion. Unit sales of both color and monochrome models in the *bizhub* series of MFPs, designed to reduce TCO (total cost of ownership) compared with previous models, were strong in U.S. and European markets, but the stronger yen significantly affected sales in monetary terms. In the Optics business, sales declined ¥6.9 billion, or 5.1%, to ¥129.8 billion, while segment profit fell ¥1.5 billion, or 11.0%, to ¥12.8 billion. In the display materials segment, sales volumes of VA-TAC film for increasing viewing angle and thin-film, in which the Company excels, rose from the previous fiscal year. On the other hand, sales volumes of pickup lenses for optical discs and glass substrates for HDDs rose, but failed to reach initially expected levels, affected by prolonged, downward adjustments in the manufacturing of digital home electronics equipment as a whole from the summer of 2010 onward. In the Healthcare business, sales declined ¥19.3 billion, or 18.6%, to ¥84.9 billion and segment profit fell ¥1.2 billion, or 88.3%, to ¥0.1 billion. Not only did the sales of film products for medical use decline in tandem with a shift to diagnostic imaging systems, the segment incurred upfront expenses in the development of new products and was affected by the yen's appreciation. On the upside, sales volumes domestic and overseas of digital medical input equipment rose.

CAPITAL EXPENDITURE AND DEPRECIATION

Total capital expenditure for the fiscal year under review increased 16.4%, or ¥6.0 billion year on year, to ¥42.9 billion. Of this expenditure, the Business Technologies business accounted for ¥12.9 billion, the Optics business for ¥19.6 billion, the Healthcare business for ¥3.0 billion, and other businesses for ¥7.3 billion. Capital expenditure for the year was used mainly for investment in casting molds for new products in the Business Technologies business, and to boost production capacity for TAC films and glass substrates for HDDs in the Optics business.

Depreciation was ¥55.1 billion, down ¥6.0 billion, or 9.9%, from the previous fiscal year. This decrease was attributable mainly to a ¥6.6 billion decline in depreciation and amortization expenses in the Business Technologies business that was partially offset by a ¥2.2 billion increase in those expenses in the Optics business resulting from the startup of a new TAC film factory, among other factors.

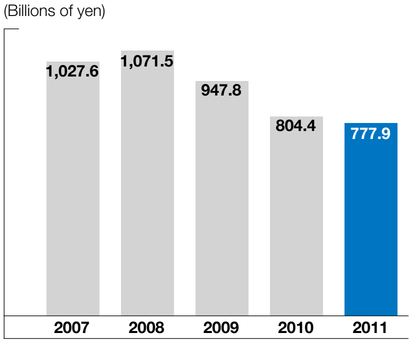
RESEARCH AND DEVELOPMENT COSTS

R&D costs increased ¥4.1 billion year on year, or 6.0%, to ¥72.6 billion. The Group concentrated expenditures on investments in areas of future growth and in business technologies, among other fields. R&D costs by business segment were as follows.

R&D costs increased 12.1% year on year in the Business Technologies business to ¥43.1 billion. In contrast, they declined 6.0% in the Optics business to ¥10.3 billion and 7.0% in the Healthcare business to ¥7.2 billion. R&D costs in other business rose 6.1% to ¥11.8 billion.

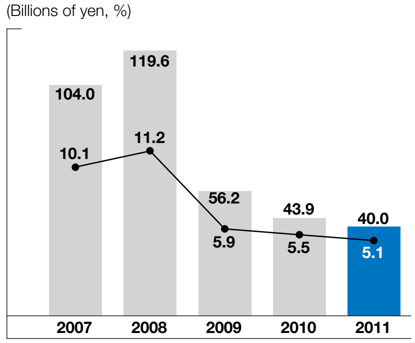
NET SALES

(Billions of yen)



OPERATING INCOME AND OPERATING INCOME RATIO

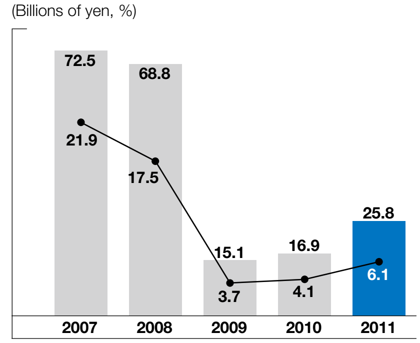
(Billions of yen, %)



Operating Income
Operating Income Ratio

NET INCOME AND ROE

(Billions of yen, %)



Net Income
ROE

FINANCIAL POSITION AND LIQUIDITY

ASSETS

Current assets at March 31, 2011, amounted to ¥501.8 billion, up ¥12.6 billion, or 2.6%, from the previous fiscal year-end. Cash on hand and in banks was up ¥2.3 billion to ¥87.8 billion and short-term investment securities rose ¥8.2 billion to ¥87.2 billion, for an increase in cash and cash equivalents of ¥11.0 billion to ¥175.1 billion. Affected by lower sales and the impact of a higher yen, notes and accounts receivable-trade fell by ¥14.3 billion to ¥163.3 billion, but at the same time deferred tax assets increased by ¥11.3 billion.

Property, plant and equipment decreased ¥14.3 billion to ¥190.7 billion. This was attributable to a decline in depreciation and amortization expenses for the Company as a whole, which worked to offset an increase in property, plant and equipment in the Optics business. Intangible fixed assets fell ¥10.7 billion to ¥88.3 billion as a result of amortization of goodwill and other intangible assets.

In investments and other assets, deferred tax assets declined by ¥4.8 billion, while investment securities fell ¥1.1 billion. Consequently, investments and other assets amounted to ¥64.5 billion, down ¥7.9 billion from a year earlier.

As a result of these factors, total assets at March 31, 2011 declined ¥20.3 billion, or 2.3% year on year, to ¥845.4 billion.

LIABILITIES

Total liabilities at March 31, 2011 amounted to ¥416.4 billion, down ¥28.5 billion, or 6.4%, from the previous fiscal year-end.

Notes and accounts payable–trade declined by ¥8.4 billion due to reduced output, cost reductions and other factors, while accrued retirement benefits also fell by ¥9.5 billion due in part to a special contribution in premiums. In addition, provision for loss on business liquidation of the Photo Imaging business declined ¥4.6 billion once operations were shut down completely to close the business.

Interest-bearing Debt (Sum of short-term/long-term loans and corporate bonds)

Interest-bearing debt declined ¥4.7 billion to ¥192.5 billion due to the repayment of loans in lieu of the issuance of corporate bonds.

NET ASSETS

Retained earnings increased by ¥17.6 billion over the end of the previous fiscal year, to ¥211.4 billion, mainly due to net income of ¥25.8 billion and payment of ¥7.9 billion in dividends. At the same time, foreign currency translation adjustments declined ¥9.2 billion due to the higher yen. As a result, net assets per share increased ¥15.26 yen year on year to ¥806.53 yen, while the equity ratio rose 2.1 percentage points to 50.6%.

CASH FLOWS

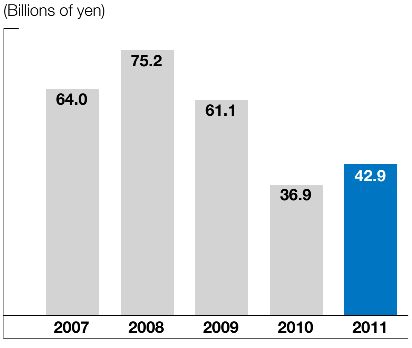
CASH FLOWS FROM OPERATING ACTIVITIES

Net cash provided by operating activities was ¥67.9 billion, compared to ¥113.3 billion a year ago. Cash inflows consisted of income before income taxes and minority interests of ¥28.1 billion and depreciation and amortization of ¥55.1 billion. This was partially offset by a ¥8.3 billion decrease in accrued retirement benefits and pension plans chiefly due to special contribution in premiums, a ¥3.9 billion decline in working capital and ¥9.4 billion in income taxes paid, among other factors.

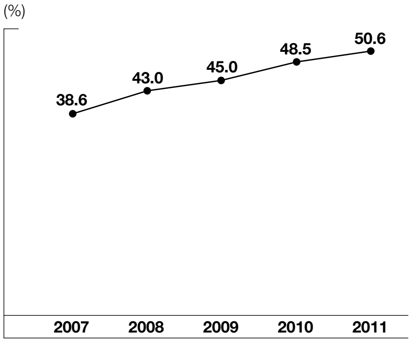
CASH FLOWS FROM INVESTING ACTIVITIES

Net cash used in investing activities was ¥44.7 billion, compared to ¥40.4 billion in the previous fiscal year. Cash used consisted largely of ¥37.0 billion for payments for the purchase of molds for new products in the Business Technologies business and for payments for acquisition of property, plant and equipment to augment production capacity in the Optics business.

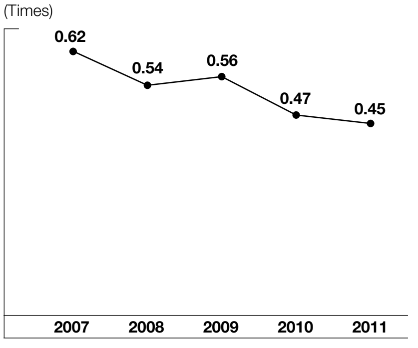
CAPITAL EXPENDITURE



EQUITY RATIO



D/E RATIO



As a result, free cash flow (the sum of operating and investing activities) was a positive ¥23.2 billion, compared to a positive ¥72.9 billion in the previous fiscal year.

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash used in financing activities was ¥12.9 billion, compared to ¥43.8 billion used in the previous fiscal year. Uses of cash included ¥35.9 billion for repayment of loans payable and lease obligations, and dividend payments of ¥7.9 billion. The issuance of bonds provided cash of ¥30.0 billion.

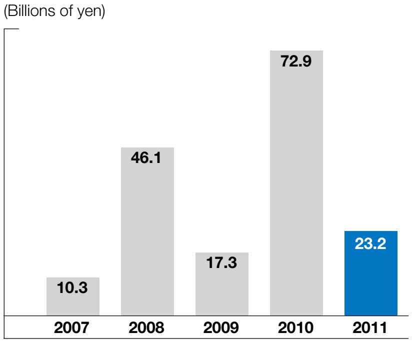
DIVIDEND POLICY AND DIVIDENDS FOR FY MARCH 2011 AND 2012

In the consolidated fiscal year under review (fiscal year ended March 31, 2011), the Group continued to face a challenging situation across its businesses, affected by intensifying market competition, the appreciation of the yen, and production adjustments. However, after posting a tax effect associated with the liquidation of a photo imaging business company which was terminating its business, net income achieved the initial forecast. Based on this situation, the Company will distribute a year-end dividend of 7.5 yen per share as planned.

With respect to dividends for the fiscal year ending March 31, 2012, given that the business environment demands prudence, the Group has yet to determine whether it will distribute interim dividends, but it does plan to distribute an annual dividend of 15.0 yen per share, assuming it attains the earnings it forecasts for the year ending March 31, 2012.

FREE CASH FLOWS

(Billions of yen)



OUTLOOK

Looking at economic circumstances in Japan and abroad, the global economy is expected to continue to recover moderately, led by emerging economies such as China and India. However, there are concerns about risks such as high crude-oil prices associated with political uncertainty in the Middle East and North Africa and credit insecurity in parts of Europe. We expect there will be strong concern about a downturn in the Japanese economy for some time to come because of the effect of the Great East Japan Earthquake, which wrought enormous damage to supply chains and power supply.

Since the Group does not have any production sites in areas affected by the Great East Japan Earthquake, there have been no casualties among employees, and its production facilities have not been damaged. The production activities of the Group therefore have not been directly disrupted by the earthquake. However, we have factored in ¥13.0 billion in net sales and ¥5.0 billion in operating income as risks associated with possible disruption in the supply chains and limits on power supplies caused by the earthquake that can be calculated at the time of publication of the financial results. We will continue to gather and analyze information on reconstruction and will take appropriate action to minimize the effects of the earthquake on the Group's business activities.

We assume exchange rates of 85 yen against the US dollar and 115 yen against the euro.

FORECASTS FOR FY MARCH 2012 (ANNOUNCED MAY 12, 2011)

(Billions of yen)

	Full Year FY March 2012
Net Sales	810
Operating Income	42
Net Income	20

Free Cash Flow	8

※ This forecast is estimated based on various tentative assumptions the Company has made on the continuously changing disorderly impacts arising from the damage of the earthquake and tsunami. The Company has thus chosen to omit the cumulative forecast for the second half of the fiscal year ending March 31, 2012.

CURRENCY EXCHANGE RATE ASSUMPTIONS

(Yen)

Exchange rate USD	85.00
EUR	115.00