

TO OUR SHAREHOLDERS



### **Taking the Lead in Driving Reforms**

Fiscal 2005, ended March 31, 2006, was an epoch-making year for the Konica Minolta Group following our management integration in that we decided to exit the Photo Imaging business, which is a business that both Konica and Minolta have been involved in since their establishment. Based on this transformation, we now face a phase in which we pursue growth. As I have been appointed President and CEO as we move forward to this new stage, I feel a great sense of responsibility. At the same time, I am taking the lead for all executive officers and employees in renewing our determination to exert all effort in moving forward.

There are two important factors in the Group's realization of further growth. The first is to strengthen our solutions business. The shift toward digital and networks in many areas is fundamentally changing the state of the business. There is now a strong need for a business that can provide the solutions that customers desire within the context of digital networks. This has pushed development of solution businesses into the forefront.

The other factor is the keen mega-competition we face. In addition to continued globalization, cross-border corporate reorganization is becoming the norm. Given this environment, we are indeed facing an era where corporations must compete for their very survival. Thorough changes in structure and mindset are required to win this severe competition as well as reforms aimed at creating a corporate group that utilizes its integrated capabilities in pursuing growth. I intend to take the lead in driving this transition.

### **Fiscal Year Results and Exit from the Photo Imaging Business**

The fiscal year ended March 2006 was a year of major restructuring, and our goal was to "maximize Group corporate value through selection and concentration". As a result, we emphasized the Business Technologies and Optics segments as we proactively promoted our business. Previous initiatives to strengthen our business have steadily produced results. Sales of new color MFP products were strong both domestically and overseas, and expanded production capacity for LCD materials resulted in sharp growth in sales. Consolidated sales for the fiscal year were ¥1,068.4 billion, while operating income reached ¥83.4 billion, which represented a new historical high.

On the other hand, while we have implemented various measures to stem profit deterioration in the Photo Imaging business in recent years, profitability has continued to deteriorate. Given the future outlook for the business, we determined that it would be difficult to maintain profitable operations because of accelerating shrinkage in demand for color film amid intensifying competition in digital cameras. We therefore decided to exit the camera business as of March 2006 and to gradually shrink photo-related businesses with the aim of discontinuing all operations in the Photo Imaging business by the end of September 2007. This decision resulted in extraordinary losses of ¥116.1 billion for the fiscal year, including ¥96.6 billion of Photo Imaging related asset impairment losses, which in turn resulted in a net loss of ¥54.3 billion for the period. While truly regrettable, we therefore chose to forego both the interim and the year-end dividend for the fiscal year.

### **The New "FORWARD08" Medium-Term Management Plan**

To remain a winner in increasingly severe global competition and achieve continuous growth, we have further clarified the Group's business direction and major priorities needed to achieve stable, sustainable growth and have made a new start with our "FORWARD08" medium-term management plan, which covers the three-year period beginning from April 2006.

By unflinchingly achieving this plan, we intend to increase new business value-added in seeking to maximize the corporate value of the Group, and we will be exerting every effort in working to achieve this goal. Please refer to the following pages of this report for further details regarding the Plan.

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President & CEO