

Interview *with the President*

Masatoshi Matsuzaki

Innovation

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How did Konica Minolta perform in FY March 2009?

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We faced completely different situations in the first and second halves.

In the first half, we did well under our genre-top strategy, particularly in color MFP and production printing fields in our Business Technologies business. The strong performers in the Optics business were VA-TAC films for large-size LCD televisions, optical pickup lenses for Blu-ray format, and glass hard disk substrates. Optics business generated record earnings on the half-year basis.

But the operating climate changed for the worse in the second half, as the bankruptcy of a leading U.S. financial institution in September 2008 triggered financial instability worldwide, which hit the real economy hard. Corporate customers for our MFPs responded by slashing costs and significantly reducing capital investments, while financial market turmoil prompted leasing firms to tighten credit standards. New installations of our MFPs thus slackened.

For Optics business, digital appliance makers, our key customers, responded to a chill in consumer demand by suddenly slashing production. Order volumes thus plunged. To make matters worse, the yen surged from the second half, so our businesses and results suffered significantly.

We acted urgently to reduce costs to safeguard profitability for the fiscal year under review and set



about bolstering our operations to tackle the business climate in FY March 2010 and beyond. These initiatives remain a top priority in the current fiscal year.

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As the business environment in the coming year is expected to be challenging, what initiatives are you pursuing in FY March 2010?

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Our most important task is to not only survive but also thrive in the currently severe operating environment. To ensure this, we must continue strengthening our corporate constitution.

There are few prospects for increasing revenues and earnings in FY March 2010. Management will thus focus on improving the breakeven point and generating sufficient free cash flow. We plan to lower our breakeven point by executing a ¥30 billion or more reduction in fixed expenses, thereby trimming our balance sheet to boost free cash flow by the same amount. We will continue to pursue selection and concentration in unprofitable businesses and use resources even more efficiently. We will defend ourselves fiercely in this adverse climate.

Still, you cannot get far just by going on the defensive. You certainly cannot build a future if downsizing is all there is to management. That is why we are proactively reviewing all business processes and overhauling our business model from the customer perspective.

Our commitment to defending while attacking will be pivotal to strengthen our corporate capabilities and achieving strong growth. If we do these things

FORWARD 08 Medium-Term Plan Business Achievements

(from April 2006 through March 2009)

- We consistently implemented our genre-top strategy focus on growth areas.
- We accelerated this strategy with proactive M&A and strategic alliances.
- We thoroughly executed selection and concentration in deploying management resources into growth businesses.

properly, we should position ourselves for revenue and earnings gains in FY March 2011. We have acted swiftly before to restructure, and we will move even more quickly to strengthen our corporate constitution. FY March 2010 is the first year of *MANAGEMENT POLICY <09-10>*, a time that will test our mettle as a prospectively powerful player.

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Exactly how do you intend to consistently deliver strong growth?

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For a start, we will build on our genre-top strategy to reinforce existing businesses and establish an unassailable market position. In office MFPs, we will bolster our product capabilities by introducing more color models and will strengthen marketing and cost-competitiveness. We should thus maintain our top group positioning in the European and U.S. markets. In production printing, we will introduce new upmarket offerings, not only expanding light production segment

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but also getting ready to enter the medium- and heavy-duty segments. To achieve this, we will draw on our strategic business alliance with Océ. In Optics, we will maintain our dominant positions by bringing out next-generation VA-TAC films and strengthening cost-competitiveness while becoming even more cost-competitive in optical pickup lenses.

Secondly, we plan to grow existing businesses and create new customer value. We will focus on production printing and optics devices. In production printing, we will draw on our world-leading polymerized toner technologies and the product planning capabilities we have accumulated in light production areas to build new core businesses, concentrating on expansion in the medium-to-heavy and commercial printing segments. To do this, it is important for us to utilize the expertise we gain in workflow and color management from our own printing operations to provide easy-to-use, unique solutions to our customers.

In optical devices, we will integrate core optics, image processing, and sensing technologies, expand their applications, and enter markets other than information appliances.

Thirdly, looking further ahead, we will cultivate opportunities in areas where there are increasing social needs, notably the environment and energy and health, security, and safety. We will further improve and integrate core materials, optics, nano-fabrication, and imaging technologies to create new businesses, thereby contributing significantly to society. In the environment and energy, for example, we are pushing ahead in a strategic alliance with GE to commercialize next-generation OLED lighting. Such initiatives should help us to generate strong growth once the economy recovers.

To achieve the solid expansion we seek, it is critical for us to build a corporate culture that triggers

paradigm shifts. We will build a bright new future once we ensure the complete dedication of each Group employee to the cause and transform the internal culture and attitudes.



Given that OLED lighting is a key to growth, what are Konica Minolta's strengths in this area?



We developed a phosphorescence-type OLED device using the evaporation method. It is the fruit of proprietary technologies from our photo film and copier photoconductors, notably for organic materials, synthetics, and multilayer design and optical design.

Several companies have previously commercialized fluorescent OLED devices using the evaporation method. But these offerings were inferior to current fluorescent lights in terms of luminous efficiency and durability. Tests have shown that our phosphorescence-type OLED device performs much better on both those scores. The power savings over fluorescent and incandescent lights are roughly 30% and 85%, respectively. Moreover, OLED lightings are far more easily recyclable, as they do not contain mercury and other hazardous substances. Considering all the merits, phosphorescence-type OLED lightings are expected to be the next-generation standard for lighting.

OLED lightings are attracting attention because of their environmental benefits, but price will be the key to them becoming mainstream. The challenge will be to lower the pricing to the level of conventional lighting. We aim to overcome the price barrier by developing phosphorescence-type OLED devices by adopting the coating method that is suitable for mass

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production. While price is an admittedly high hurdle, we believe it is nevertheless achievable through the application of our powerful coating, organic materials, and multilayer design technologies we amassed in our photo film business.

Under the partnership with GE, we aim to commercialize our new lights by March 2011. It will probably take five to ten years for that business to contribute significantly to our consolidated results. But it will become a pillar of operations for us down the track.



What are the main features of your corporate governance setup?



Strengthening corporate governance will make management more transparent and accelerate decision-making, thereby enhancing corporate value. We maintain a company-with-committees system that separates management supervision and execution. The Board of Directors comprises internal and outside personnel. The majority are non-executive directors, including the Board's chair. Independence is a key attribute in candidate directors, and we require that none of these people have significant business ties with our organization. We have a holding company structure, and by formulating a setup that can respond flexibly to dramatic changes in the business climate we have been able to accelerate decision-making and bolster our competitiveness.



What's your stance on CSR management?



Working on corporate social responsibility tasks is what management is about. We aim to win the trust of diverse stakeholders and meet their expectations by fulfilling our environmental preservation responsibilities. Safeguarding the global environment is a top priority. We have undertaken groupwide efforts to cut our CO₂

emissions and conserve resources. At the same time, we have harnessed proprietary OLED lighting and other technologies so that we can contribute to society through the environment and energy field. This CSR approach is what we believe is required of us as a manufacturer in this day and age.



Briefly explain your policy on dividends.



We comprehensively consider such factors as our consolidated results and strategic investments in growth areas in deciding on dividends, and our basic policy is to ensure ongoing profit returns to shareholders. Regarding specific dividend indicators, our medium-to-long-term goal is to maintain a dividend payout ratio of over 25%. In FY March 2009, we declared a cash dividend of ¥20 per share.

