Scope of Consolidated Financial Statements

The Konica Minolta Group comprises Konica Minolta Holdings, Inc. and its 124 subsidiaries, 30 unconsolidated subsidiaries and 11 affiliated companies.

The business segments of the Group are organized and segmented by type of product and the markets in which these products are sold. These five segments are: Business Technologies, Optics, Photo Imaging, Medical and Graphic Imaging and Other Businesses.

In addition, the Group decided to exit the Photo Imaging business in stages by the end of September 2007.

Consolidated Business Results

Consolidated Net Sales

Consolidated sales for the fiscal year ended March 31, 2006 reflected the decision to exit the Photo Imaging business and increased ¥0.9 billion over the previous fiscal year to ¥1,068.4 billion. However, strong business performance was recorded in the main three business segments of Business Technologies, Optics and Medical and Graphics Imaging, which recorded an increase of ¥77.3 billion over the previous fiscal year.

Cost of Sales, Selling, General and Administrative Expenses

The cost of sales for the fiscal year was ¥575.2 billion, reflecting in a shrinkage in the Photo Imaging segment, a change in business structure from growth in other segments and the effects of cost reductions. As a result, gross profit was ¥493.2 billion and the gross profit margin was 46%, which represented a 2 percentage point improvement over the previous fiscal year.

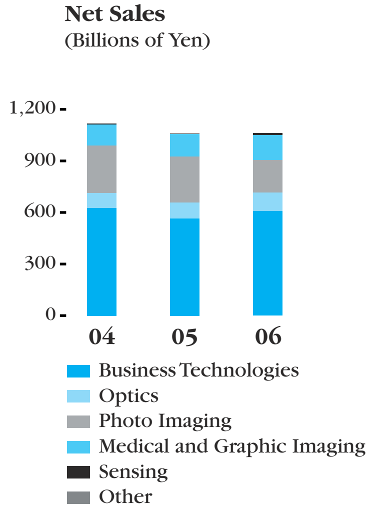
Selling, general and administrative expenses increased ¥7.7 billion over the previous fiscal year to ¥409.8 billion. In addition to a ¥6.7 billion increase owing to the effects of a weaker yen, research and development expenses for new product development in the Group's three major business segments were also a factor.

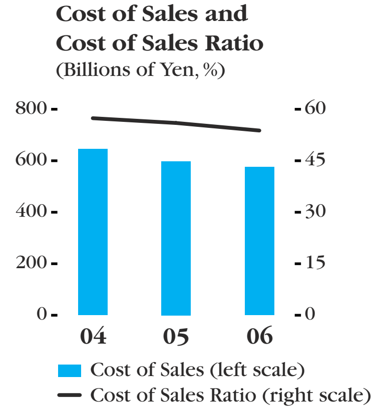
Research and Development Expenses

Total research and development expenditures were ¥67.2 billion. In Business Technologies, R&D expenses primarily for software and applications for the provision of total network solutions were ¥38.1 billion, which was higher than in the previous fiscal year. In Optics, R&D expenses centering on next generation pickup lenses and LCD-use film were ¥8.9 billion and higher than in the previous fiscal year. In Medical & Graphic Imaging, R&D expenses primarily for high resolution X-ray input/output equipment and development of software for internal hospital networks were ¥8.5 billion and higher than in the previous fiscal year.

Segment Information

Sales in Business Technologies rose 7.4% year-on-year to ¥606.7 billion and operating income increased 16.6% year-on-year to ¥65.1 billion. The main reasons for the increases were strong sales growth from the introduction of new color MFP products, where demand is





expanding in the major regions of Japan, the U.S. and Europe, in addition to sales growth in light production printing domains such as in-house printing divisions of large corporations, data centers and large scale franchise copy shops. On the other hand, LBP sales and earnings declined year-on-year reflecting more intense price competition.

Optics segment sales increased 20.4% year-on-year to ¥110.4 billion, while operating income also increased 10.0% year-on-year to ¥17.6 billion. The segment total reflected growth in LCD-use TAC film sales as a result of the diffusion of LCD TVs, as well as strong growth in glass hard disk substrates for notebook PCs and digital home appliances. As a result, both sales and operating income recorded growth for the fiscal year.

Medical and Graphic Imaging sales grew 12.9% year-on-year to ¥146.6 billion and operating income increased 75.6% year-on-year to ¥11.7 billion. Growth here was supported by strong sales of X-ray digital input/output equipment and dry film for such digital equipment owing to the growing shift to digitization and networking in Japan and overseas markets. In the graphic imaging area on the other hand, the digitization of printing processes is accelerating the shift to film-less processes. Sales limited to a slight decline from the previous fiscal year and operating income increased year-on-year particularly as the result of a special emphasis on film sales in the Asian region.

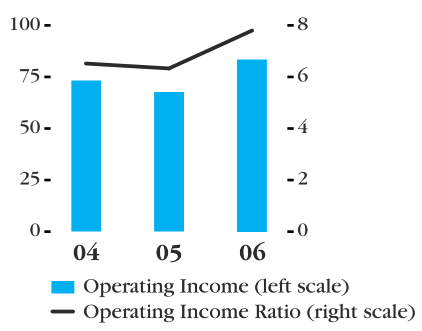
Photo Imaging sales reflected the Group's decision in January 2006 to exit the business and preparations for this exit in each related product area. As a result, sales for the segment declined 30.3% year-on-year to ¥187.1 billion and the operating in loss was ¥7.1 billion, which represents a ¥1.5 billion improvement over the previous fiscal year.

Earnings Analysis

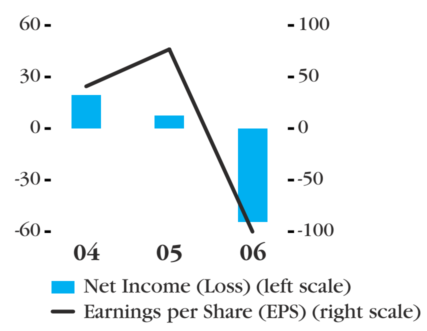
As explained above, while earnings were impacted by the decision to exit the Photo Imaging business, this was covered by revenue and earnings growth in other businesses. As a result, operating income for the fiscal year ended March 31, 2006 increased 23.4% year-on-year to ¥83.4 billion.

Net other expenses (income) deteriorated ¥87.2 billion from the previous fiscal year to ¥119.4 billion. The major reasons for this were the decision to exit the Photo Imaging business and related business withdrawal costs, and collective liquidation expenses for obligations incurred as a result of the management integration, including special retirement allowances under the special retirement transition assistance program. Earnings contributors included foreign exchange gains of ¥5.4 billion due to a weaker yen and a gain of ¥1.5 billion on the sale of investment securities. In addition, foreign exchange gains of ¥0.7 billion were recorded in the previous fiscal year. In terms of factors detracting from earnings, special losses related to discontinud operations

Operating Income and Operating Income Ratio
(Billions of Yen, %)



Net Income (Loss) and Earnings per Share (EPS)
(Billions of Yen, Yen)



were ¥96.6 billion, including goodwill amortization of ¥2.4 billion and special retirement payments of ¥6.5 billion. A loss of ¥2.5 billion was also recorded related to the equity in investment losses arising from the decision to exit the Photo Imaging business. Moreover, interest paid declined owing to a reduction in interest-bearing debt.

As a result of the above, a loss before income taxes and minority interests of ¥35.9 billion was recorded for income before taxes, while the net loss for the period was ¥54.3 billion. The net loss per share of common stock was ¥102.29, while ROE was minus 17.1%.

Liquidity and Financial Position

Total Assets, Liabilities and Shareholders' Equity

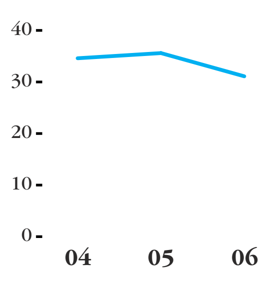
Total assets at the end of the period were ¥944.1 billion and ¥11.5 billion lower than at the end of the previous fiscal year. In current assets, cash and cash equivalents rose ¥21.5 billion as the result of preparations for the exit from the Photo Imaging business. On the other hand, inventories declined by ¥28.1 billion due to inventory liquidations as a result of the decision to exit the Photo Imaging business.

Total impairment losses of ¥32.8 billion were recorded mainly in relation to the decision to exit the Photo Imaging business. On the other hand, there were active capital expenditures in the Business Technologies and Optics segments. In addition, a ¥7.4 billion charge was made for consolidation goodwill including ¥2.4 billion one-time amortization of goodwill arising from the prior management integration. In investments and other assets, investment securities increased ¥4.3 billion reflecting a rise in the current value of stocks held.

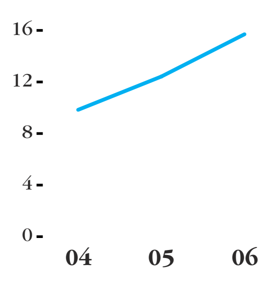
Under liabilities, interest-bearing debt declined ¥9.8 billion to ¥236.6 billion compared to the end of the previous fiscal year. Short-term debt declined ¥21.8 billion, and outstanding corporate bonds declined ¥8.2 billion from the end of the previous fiscal year as the result of efforts to promote redemption. On the other hand, long-term debt including that portion due within one year increased ¥20.3 billion. This increase reflected a shift from short-term debt to long-term debt as a strategy for future proactive investments. In addition, the decision to exit the Photo Imaging business resulted in the recognition of ¥58.1 billion in reserves for discontinued operations as well as special retirement payments of ¥6.5 billion under a special outplacement program that were recorded under other current liabilities.

In shareholders' equity, as net loss for the period was ¥54.3 billion, retained earnings declined ¥59.4 billion from the end of the previous fiscal year. On the other hand, unrealized gains on securities increased ¥5.4 billion as a result of higher stock prices, while the foreign currency translation adjustment account improved ¥8.2 billion because of the weaker yen at the end of the period. As a result of the above, shareholders' equity declined ¥45.9 billion from the end of the previous fiscal year, while shareholders' equity ratio declined 4.5 percentage points to 31.1%.

Equity Ratio
(%)



Interest Coverage Ratio
(times)



Capital Expenditure, Depreciation and Amortization

Capital expenditure increased ¥11.1 billion year-on-year to ¥67.6 billion

Business Technologies-related capital expenditure was ¥28.8 billion and included the construction of an equipment assembly plant in Wuxi, China, construction of a new polymerized toner plant and purchases of dies for new products. Optics-related capital expenditures were ¥21.8 billion and included the expansion of the manufacturing line for the Group's third TAC film plant. Medical and Graphic Imaging-related expenditure was ¥6.7 billion and included the acquisition of American Litho Inc., a major U.S. plate manufacturer, as part of efforts for an early expansion in the plate business. In Photo Imaging, capital expenditure declined 59.6% year-on-year to ¥3.0 billion reflecting the decision to exit the business.

Cash Flows

Net cash provided by operating activities in the fiscal year was ¥78.9 billion. While the loss before income taxes and minority interests was ¥35.9 billion, cash was provided by recorded losses of ¥96.6 billion related to the decision to exit the Photo Imaging business, depreciation expenses, impairment losses and amortization of consolidation goodwill that did not involve the use of cash.

Net cash used in investing activities was ¥43.1 billion, largely as the result of purchases of property, plant and equipment. Property, plant and equipment expenditures included investment in dies mainly for new products, and production capacity expansion for the assembly of business technology equipment, polymerized toner, aspherical plastic object lenses for optical disks and LCD-use TAC film.

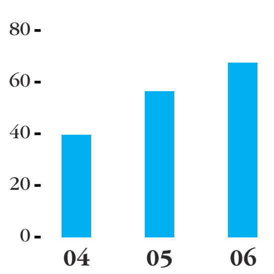
Net cash used in financing activities was ¥16.9 billion, mainly reflecting efforts to further reduce interest-bearing debt, centering on the redemption of corporate bonds.

Future Financial Strategies

In making a new start, the Group has created a new medium-term management plan called **FORWARD08** that covers the three fiscal years beginning from April 2006 and is aimed at winning the global competition and achieving sustainable growth. **FORWARD08** sets the future direction for the Group's businesses, clarifies priority issues, and through its unfailing execution, the Group aims to provide for the expanding value of new businesses and a maximization of the Group's corporate value.

The financial strategies in order to achieve this place first priority on increasing sales as a means of creating cash, and includes the reduction of interest-bearing debt which was ¥236.6 billion at the end of the fiscal year under review to less than ¥200 billion. On the other hand, short-term debt has been shifted to long-term debt as a countermeasure for rising interest rates, and in order to provide for proactive investment in growth areas, while the Group also plans to increase its shareholders' equity ratio which has temporarily declined as a result of losses recorded because of the decision to exit the Photo Imaging business.

Capital Expenditure
(Billions of Yen)



Total Assets, Shareholders' Equity and Return on Equity (ROE)
(Billions of Yen, %)