1. GROUP OVERVIEW

The Group comprises the parent company, 124 consolidated subsidiaries, 30 non-consolidated subsidiaries, and 11 affiliates. A chart detailing the business structure follows.

Konica Minolta Holdings, Inc

Business Technologies Businesses: 85
(Consolidated Subsidiaries: 62, Unconsolidated Subsidiaries: 18, Affiliates: 5)

Production: 9
- Konica Minolta Supplies Manufacturing Co., Ltd.
- Toyohashi Precision Products Co., Ltd. *3
- Konica Minolta Business Technologies Manufacturing (H.K.) Ltd. (Hong Kong)
- Other Companies: 6

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Konica Minolta Business Technologies, Inc.

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Sales: 75
- Konica Minolta Business Solutions Japan Co., Ltd.
- Konica Minolta Business Solutions U.S.A., Inc. (U.S.A)
- Konica Minolta Business Solutions Europe GmbH (Germany)
- Konica Minolta Business Solutions (UK) Ltd. (U.K.)
- Konica Minolta Business Solutions France S.A.S. (France)
- Konica Minolta Business Solutions Australia Pty. Ltd. (Australia)
- Konica Minolta Business Solutions (CHINA) C0., Ltd. (China) *4
- Other Companies: 68

Medical and Graphic Imaging Businesses: 19
(Consolidated Subsidiaries: 14, Unconsolidated Subsidiaries: 3, Affiliates: 2

Production: 4
- Konica Minolta Technoproducts Co., Ltd.
- Konica Minolta Repro Co., Ltd.
- Other Companies: 2

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Konica Minolta Medical & Graphic , Inc.

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Sales: 14
- Konica Minolta Medical Co., Ltd.
- Konica Minolta ID System Co., Ltd. *5
- Konica Minolta ID Imaging Co., Ltd. *5
- Konica Minolta Medical Imaging U.S.A., Inc. (U.S.A)
- Konica Minolta Graphic Imaging Japan Co., Ltd.
- Konica Minolta Graphic Imaging U.S.A., Inc. (U.S.A)
- Other Companies: 8

Other Businesses: 14
(Consolidated Subsidiaries: 12, Unconsolidated Subsidiaries: 1, Affiliates: 1)
- Konica Minolta IJ Technologies, Inc.
- Konica Minolta Business Expert, Inc.
- Konica Minolta Technology Center, Inc.
- Konica Minolta Logistics Co., Ltd.
- Konica Minolta Sogo Service Co., Ltd.
- Konica Minolta Engineering Co., Ltd.
- Konica Minolta Information System Co., Ltd.
- Konica Minolta Technosearch Co., Ltd.
- Konica Minolta Planetarium Co., Ltd.
- Other Companies: 5

Optics Business: 7
(Consolidated Subsidiaries: 7)

Production: 5
- Konica Minolta Opto Products Co., Ltd.
- Konica Minolta Opto (DALIAN) Co., Ltd. (China)
- Other Companies: 3

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Konica Minolta Opto, Inc.

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Sales: 1
- Konica Minolta Opto (SHANGHAI) Co., Ltd. (China)

Photo Imaging Business: 37
Consolidated Subsidiaries: 26, Unconsolidated Subsidiaries: 8, Affiliates: 3)

Production: 10
- Konica Minolta Packaging Co., Ltd.
- Konica Minolta Chemical Co., Ltd.
- Konica Minolta Manufacturing U.S.A., Inc. (U.S.A)
- Konica Minolta Optical Products (SHANGHAI) Co., Ltd. (China)
- Other Companies: 6

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Konica Minolta Photo Imaging, Inc.

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Sales: 26
- Konica Minolta Marketing Co., Ltd.
- Konica Minolta Photo Solutions Co., Ltd.
- Konica Minolta Camera Service Co., Ltd.
- Konica Minolta Photo Imaging U.S.A., Inc. (U.S.A)
- Konica Minolta Photo Imaging Europe. GmbH (Germany)
- Konica Minolta Photo Imaging (UK) Ltd. (U.K.)
- Konica Minolta Photo Imaging France S.A.S. (France)
- Konica Minolta Photo Imaging Asia H.Q. Pte. Ltd. (Singapore)
- Konica Minolta Photo Imaging Australia Pty. Ltd. (Australia)
- Other Companies: 17

Sensing Business: 3
(Consolidated Subsidiaries: 3)

Konica Minolta Sensing, Inc.

Sales:2
- Konica Minolta Sensing Europe B.V. (The Netherlands) *6
- Other company: 1

Notes

*1: Organization chart is as of March 31, 2006.
*2: Only major consolidated subsidiaries are shown.
*3: Toyohashi Precision Products Co., Ltd. merged with Sankei Precision Products Co., Ltd. on October 1, 2005.
*4: Konica Minolta Business Solutions (CHINA) Co., Ltd. was established on November 23, 2005.
*5: Accompanying the transfer (buy/sell transaction) of the shares of Konica Minolta ID System Co., Ltd., and Konica Minolta ID Imaging Co., Ltd., on November 1, 2005, these two companies were reclassified from the Photo Imaging business to the Medical and Graphics business.
*6: Konica Minolta Sensing Europe B.V. was established on January 12, 2006.

2. MANAGEMENT POLICY

(1) Basic Management Policy

With its sights set on becoming an innovative corporate group that generates new excitement in the area of imaging input/output the Konica Minolta Group is developing its business globally under the business philosophy “Creation of new value.”

Management philosophy: “Creation of new value”
Management vision: “Innovative corporation that continues to create impressions in the field of imaging”
“A global market leader that offers advanced technology and reliability.”
Corporate message: “The essentials of imaging”

(2) Medium-to Long-Term Management Strategies and Pending Issues

1. Withdrawal From the Photo Imaging Business

In recent years, the rapid deterioration of profits in the photo imaging business has made us aware of the urgent need for drastic business restructuring in order to ensure the Group's future growth. To this end, in November, 2005 we decided on the direction we would take and studied concrete strategies from a variety of angles. Nevertheless, in view of last year’s operating environment, which witnessed an increasing decline in demand for color film and intensifying price competition in digital cameras, as well as the future market outlook, we concluded that it would be extremely difficult to continue profitably operating in this business; therefore, at the January 2006 Board of Director's meeting, we resolved to withdraw from this business. We will terminate our camera and mini-lab businesses from March 31, 2006, and gradually scale back our film and photographic paper businesses, with the goal of terminating these operations by September 30, 2007.

2. Medium-Term Business Plan

The Konica Minolta Group’s fields of business are wide ranging and include office equipment, optical devices, LCD materials, and medical and graphic printing products, all of which are undergoing increasingly rapid technological changes, including greater digitization, the ever more widespread use of color, and the increasing use of broadband networks. In addition, the industry is experiencing fierce competition for survival amongst companies due to steady corporate restructuring that transcends national boundaries. At the same time, after we withdraw from the photo-related business, which has been the driver of our brand image in a business area that has existed since the company's inception, we will make additional rigorous structural changes and work to raise employee awareness in existing businesses that we must transform ourselves into a corporate group that pursues growth by leveraging collective Group resources to survive.

For the Group to successfully compete globally and achieve sustained growth in such an environment, we instituted “FORWARD 08,” a new medium-term business plan that covers the three-year period from 2006 through 2008, and are off to a new start. In light of our summary review and reflection on matters that have transpired over the period since the business integration, the Group will define the future direction of Group companies and prioritize the challenges they are to address, as well as increase the value added by Group businesses and optimize Group corporate value through the implementation of this plan. An overview of the plan follows.

Basic Strategies and Numerical Targets of the New Medium-Term Business Plan “FORWARD 08”

- Basic Strategies:
  1. Promote growth by leveraging collective Group resources
  2. Build a new corporate image
  3. Promote world-class corporate social responsibility (CSR) programs
- Numerical Targets (for Fiscal year ending March 31, 2008)
  1. Consolidated Net Sales: ¥1,100 billion
  2. Consolidated Operating Income: ¥110 billion (consolidated operating profit margin: 10%)
  3. Net Income: ¥57 billion

We consider the pursuit of business synergies beyond the Group's current framework and the increase in the added value of our businesses to be of critical importance to the improvement of our growth potential. We will accelerate Group growth in the equipment and services business group, which include the multifunctional peripherals (MFPs), laser printers (LBPs) and digital printing, and medical equipment businesses, as well as in the component business group, which comprises optical components and display materials.

To ensure that we are viewed by customers as a company that fully integrates the Group' s core technologies, namely, optical, image processing, materials, and nano processing technologies, and provides innovative products and a professional level of service that contribute to our customer's business success, we will constantly maintain a customer perspective and continuously work to improve our technical capabilities in all our business fields.

In addition, to sustain corporate value it is important that we will be a company that society trusts. We will strengthen our global development not only economically but also socially and environmentally and continue to improve internal Group controls, including compliance, ensure highly transparent management, and fulfill our corporate social responsibilities.

(3) Policies Concerning Distribution of Profits

Regarding the return of a portion of profits to shareholders, the Company has set a medium- to long-term basic policy of continuing to pay stable dividends taking comprehensive account of progress toward business objectives on a consolidated basis, the Company's dividend propensity, and the improvement in retained earnings needed to support business expansion.

From the perspective of paying stable dividends, the Company has established ¥10 per share as a benchmark dividend and, from the perspective of dividend growth, has set a goal for its dividend payout ratio of 15% on a consolidated basis. To the extent possible, the Company aims to pay dividends linked to Group performance to reward shareholders for their support.

For the fiscal year under review, the Company reported a substantial loss in connection with the decision to exit the Photo Imaging business and has decided to suspend its dividend. However, going forward, the Company will exert its maximum efforts to achieve recovery and improvement as it implements its medium-term management plan and begin to pay dividends again at an early date.

(4) Policies Concerning the Reduction in Investment Units

To improve the liquidity of Konica Minolta shares in the stock market and broaden our investor base, especially among individual investors, from August 15, 2003, the date that the Group holding company was established as a result of the business integration, the Company reduced the number of shares in a single investment unit from 1,000 to 500.

3. OPERATING RESULTS AND FINANCIAL POSITION

(1) Summary

Looking back at the world economy in fiscal year ending March 31, 2006, we saw that it was on an expansionary track due to increased capital expenditures on the back of strong corporate performance in the U.S. economy, especially in the IT field, as well as continued stabilization in individual consumption supported by such factors as asset growth as a result of a strong employment environment and high stock prices. The Chinese economy remained strong thanks primarily to exports, which continue to drive its economy, and the Asian economy also experienced stable growth. In Europe, while private consumption in Germany was stagnant, Euro-based economies as a whole experienced moderate growth.

Although the Japanese economy was a subject of concern due to sharp price increases for such raw materials as crude oil, iron ore, and copper, Japanese industry witnessed overall increases in capital expenditures on the back of substantial growth in corporate earnings and a recovery trend in household consumption. With the stock market booming, the economy as a whole was on an upswing that reflected a monetary policy—which included the lifting of quantitative easing—that has, among other things, shaken off deflation.

In Company-related markets, unit shipments of copiers in 2005 amounted to 3.88 million, largely in line with last year's results; however, sales of color copiers increased steadily to 640 thousand units, a 31% year-on-year increase. In the midst of accelerated corporate capital spending, especially in the IT segment, overseas and domestic corporate demand is steadily shifting to color copiers that are capable of integrating into a networked office environment and providing high added value.

Led by the growth in the mobile PC market, PC unit shipments in 2005 were up 15% year on year, to 220 million units. Demand for LCD TVs rose sharply thanks to the 2006 Torino Olympics and the Soccer World Cup in Germany, and unit shipments in 2005 jumped 141% year on year, to 21.2 million. Growth was particularly strong for large-screen 32-inch and larger TVs. Such electronic products as mobile phones and portable music players also fared well overseas and domestically, with additional growth in demand for related components and materials, including LCD panels, hard disk drives (HDDs), and optical components that are used in these products.

Meanwhile, despite continued growth in demand for single lens reflex cameras in the digital camera market, unit shipments in 2005 grew only a moderate 8%, to 61 milion units. Prices for both compact-type and single lens reflex cameras are decreasing and the average unit price continues on a downward trend. Unit shipments in 2005 for color photographic film, for which demand is rapidly shrinking due to the saturation of the digital camera market, are expected to decline 25% from the same period of the previous fiscal year.

In the midst of these conditions, we aggressively expanded our operations in fiscal year ended March 31, 2006 especially the Business Technologies and the Optics businesses, in line with our goal of "seeking to optimize Group corporate value through increased selectivity and focus."

In the Business Technologies Business, the core of Konica Minolta Group operations, the equipment assembly plant that we had been constructing in China (Wuxi) to fortify our color MFP business went on-line in December 2005. In addition, because we anticipate increased demand for our polymerized toner, a consumable good, on the back of sales growth for color MFPs, we expanded existing facilities (Kofu City, Yamanashi Prefecture) and began construction on a new polymerized toner plant in Tatsuno, Nagano Prefecture, which is schedule for completion this fall. In our strategic Optics Business, we launched a third production line for TAC film from September 2005 at our plant in Kobe City, Hyogo Prefecture, in response to higher demand for LCD materials, and will construct a fourth production line scheduled to go on line in fall 2006. (In addition, in April 2006, we announced the planned construction of a fifth production line scheduled to operate from next fall.) Thus, we took steps to strengthen our business by strategically focusing our management resources on priority areas.

As a result, consolidated net sales in fiscal year ended March 31, 2006 came in a ¥1,068.3 billion. While there was a substantial growth in sales, including favorable color MFP sales and continued strong demand-driven sales growth for LCD materials, overall sales were in line with those of the previous year as a result of decreased sales in the Photo Imaging business, which continues to scale back as it prepares to terminate its operations. The gross profit margin in fiscal year ended March 31, 2006 rose from 44% in the previous year to 46%. Negative factors, including the sharp rise in prices for such raw materials as crude oil and falling prices for color LBPs, digital cameras, color film, and other products, were offset by improvements made to the product mix as a result of cost-cutting and new product launches. Despite higher R&D spending in the Business Technologies business, which is in the midst of a shift from black and white to color MFPs, selling, general and administrative (SG&A) expenses rose ¥7.7 billion overall year on year, thanks to rigorous selectivity and focus, including a significant reduction in various expenses in the Photo Imaging business. As a result, operating income in fiscal year ended March 31, 2006 was ¥83.4 billion, up ¥15.8 billion, 23% year on year. The operating income margin improved 2 percentage points, from 6% to 8%. Non-operating income improved ¥7.3 billion from the previous period thanks to favorable exchange rates, which resulted in a ¥23.2 billion year-on-year increase in recurring profit in fiscal year ended March, 2006, to ¥76.8 billion. These are the record high operating income and ordinary income that we have achieved.

However, as a result of a number of extraordinary losses, the Company reported a net loss of ¥54.3 billion for the fiscal year under review. These extraordinary losses included principally the loss incurred in connection with the previously-mentioned exiting of the Photo Imaging business, impairment losses of ¥96.6 billion on fixed assets in this business, and ¥6.4 billion in special additions to retirement allowances accompanying the implementation of a plan to provide incentives for certain employees to take early retirement.

In addition, the average exchange rate of the yen to the U.S. dollar was ¥113 and to the Euro was ¥138, representing a 5% depreciation of the dollar against the yen and a 2% depreciation of the Euro against the yen.

(2) Segment Information

1. Business Technologies Business
[multifunctional peripherals (MFPs), laser printers (LBPs), etc.]

(Millions of yen)

	Fiscal year ended March 31, 2006	Fiscal year ended March 31, 2005	Increase (Decrease)	Change
(1) Net sales to outside customers	606,730	564,837	41,892	7.4%
(2) Intersegment net sales	3,488	29,886	(26,398)	(88.3%)
Total net sales	610,218	594,724	15,494	2.6%
Operating income	65,120	55,832	9,288	16.6%

The Business Technologies business is taking steps to expand its market share, primarily in North America and Europe in the three priority fields of color and high-speed MFPs and color LBPs where potential market growth is high, based on the Company's "genre-top strategy" of becoming the dominant player in each of its market segments by focusing its business resources on specific markets and business areas and securing the top brand position.

In the area of color MFPs, where overseas and domestic demand is growing, we launched four new product models targeted at the office equipment market and worked to provide optimal solutions to customers with color documentation needs. As for our *bizhub series* of color MFPs for offices, in April 2005 we fully commenced marketing of the *bizhub C450* (35 pages per minute (ppm) color and 45 ppm black and white), in Europe and the U.S. which comes loaded with newly built integrated firmware, with the goal of improving customer satisfaction and shoring up the product line's competitive position. In June, we added the *bizhub C351*, which incorporates the same design concepts, (35 ppm for both color and black and white) to our lineup. Furthermore, in September, we released the *bizhub C250*, a strategic product aimed at aggressively promoting the shift from black and white to color copiers in office environments. In the year under review, we took vigorous action to enhance our product lineup and strengthen our products competitive position by launching the *bizhub C352* (35 ppm color and black and white), the latest model in the series, in March. Sales of all these new products are strong and the product line enjoys an excellent reputation for superb cost performance, image quality, productivity, reliability, and user-friendliness, all of which are made possible thanks to the polymerized toner, imaging technology, and tandem engine that only Konica Minolta can provide. As a result, unit sales of color MFPs in fiscal year ended March 31, 2006 doubled year on year. In segment 2 (A copier capable of producing over 21 ppm output in A4 size.), a segment that we have been actively working to improve, the percentage of color MFPs as a share of total unit MFP sales increased substantially from 21% to 36% year on year. We also raised our market share and secured the position in the top group in the key

U.S. and Western European markets. Thus, our shift from black and white to color in the MFP business has steadily paid off. In addition to the existing *bizhub PRO1050* (105 ppm black and white) and *bizhub PRO C500* (51 ppm color and black and white) in our high-speed MFP *bizhub PRO series*, in July 2005, we added the *bizhub PRO920* (92 ppm black and white). Along with the formation of a full-time sales team for the highly promising light production print market, which promises growth potential in such areas as internal corporate printing departments, data centers, and large franchised copy shop chains, the Company promoted strategic alliances with outside companies and provided products and services with the high quality and reliability that only Konica Minolta can provide.　In these high-speed MFP business, we saw substantial year-on-year unit sales growth of over 30%.

In LBP operations, which the Company has selected as an area of focus in the color equipment field, the Company continued to experience price competition from existing competitors and new entrants into this field. The Company has prepared a lineup of products that includes the “magicolor” series of color LBPs and has implemented marketing initiatives for this series, mainly in the European and American markets. This series includes the “magicolor 2400” series, a lineup of lower-speed models for the wider market using A4 size paper (with an output of five sheet per minute in color and 20 sheets in black and white) and the “magicolor 5400” series, a lineup of medium-speed models, incorporate a tandem engine, for office use which use A4 size paper (with an output of 25.6 sheets per minute in color and black and white). In addition, in February 2006, the Company strengthened its product lineup by introducing the “magicolor 7440” series in the domestic office-use market, which print A3 size sheets (with an output of 25 sheets per minute in color and black and white). We are enhancing our lineup of high value-added, high-speed LBPs targeting general corporate users and switching over to a sales strategy that more heavily emphasizes profitability than past units with the goal of increasing consumable product earnings through higher print volume. Meanwhile, in the OEM business, from the second half of fiscal year ended march 31,2006 we shipped new products to major overseas and domestic printer manufacturers and laid the foundation for future business expansion.

As a result of these activities, net sales to outside customers in this segment increased 7% year on year, to ¥606.7 billion, and operating income rose 17%, to ¥65.1 billion.

2. Optics Business
[optical devices, electronic materials, etc.]

(Millions of yen)

	Fiscal year ended March 31, 2006	Fiscal year ended March 31, 2005	Increase (Decrease)	Change
(1)) Net sales to outside customers	110,368	91,705	18,662	20.4%
(2) Intersegment net sales	1,803	4,079	(2,275)	(55.8%)
Total net sales	112,171	95,785	16,386	17.1%
Operating income	17,593	16,001	1,592	10.0%

In the Optics Business, we leveraged our strengths in optical, coating technology, materials technologies and nano technologies to the fullest possible extent, anticipated market and technological trends, and took steps to expand the scale of our business.

In the LCD materials field, the Company expanded its production capacity for TAC film to meet the increase in demand accompanying expansion of the LCD panel market. The Company has focused especially on high-performance, growth segments within LCD materials, including principally wide field of vision films for use in large-scale LCD TV sets. These products have become a major growth drivers, and, during the fiscal year under review major expansion in sales volume of more than 40% over the previous fiscal year was reported in this field.

In the glass hard disk substrate segment, there was an increase in the number of new applications, including for PCs and information appliances containing hard disk drives (HDDs). With brisk sales of 1.8-inch and 2.5-inch substrates, unit sales in this segment increased 50% year on year.

In the optical pickup lenses segment, despite our continued retention of a high share of sales in this market, we suffered negative effects from inventory adjustments and falling unit prices, and other factors in the first half of fiscal ended March 31, 2006.　Nevertheless, from the beginning of the next fiscal year, we have been laying the foundation for the beginning of mass-production of Blu-ray Disc and HD-type DVDs, second-generation DVD technologies developed and perfected at other companies.

Unit sales of micro-cameras for use in camera-equipped mobile phones doubled, especially for

high-resolution units. In the micro-lens segment, we also took steps to expand our business by providing high value-added products that only we can provide, such as the world's first 5-megabyte compatible lens unit with an auto-focus function. Sales of lens units for digital cameras were in line with those of the previous period, however, although the market for lens units for video cameras heated up thanks to products that employed new standards, including those that are high-vision compatible and equipped with HDDs, and sales of lens units for use in these new products was strong overall.
As a result, net sales to outside customers in this segment increased 20%, to ¥110.3 billion, and operating income rose 10%, to ¥17.5 billion.

3. Medical and Graphic Imaging Business
[medical and graphic products, etc.]

(Millions of yen)

	Fiscal year ended March 31, 2006	Fiscal year ended March 31, 2005	Increase (Decrease)	Change
(1) Net sales to outside customers	146,600	129,872	16,727	12.9%
(2) Intersegment net sales	27,269	19,918	7,350	36.9%
Total net sales	173,869	149,791	24,078	16.1%
Operating income	11,689	6,656	5,033	75.6%

In the medical segment, we took steps to expand sales of digital-related equipment and systems, including the *REGIUS* series of digital image radiography reader units, the *DRYPRO* imaging output series, and networked *NEOVISTA* series, in response to the growing trend toward digitization and the networking of products in diagnostic and medical settings, especially in large hospitals overseas and in Japan. Sales of equipment for overseas markets, particularly in the U.S. and China, were strong, as were sales of dry film compatible with these digital units. Moreover, we are working to strengthen the digital imaging diagnostic field by expanding sales of our *PCM System*, a mammography system that incorporates world-class high-definition imaging using a phase contrast method developed in house for the diagnosis of breast cancer in women, a product for which demand has grown in recent years.
In the graphic segment, the printing process, both in Japan and overseas, is becoming increasingly digital and filmless. At Konica Minolta, we are switching over to a business structure that is adapted to changes in the market environment and have focused on the sale of such digital equipment as the digital color proofing system *Digital Consensus PRO* and special proofing paper as well as the digital color printer *Pagemaster PRO*, which permits small lot printing. In October of last year, we acquired American Litho Inc., a major print plate maker, and are working to expand the CTP field (which utilizes systems that construct print plates directly from digital data without the use of print film) as a new business foundation.
As a result, net sales to outside customers in this segment increased 13%, to ¥146.6 billion, and operating income rose 76%, to ¥11.6 billion.

4. Sensing Business
[colorimeters, 3D digitizers, etc.]

(Millions of yen)

	Fiscal year ended March 31, 2006	Fiscal year ended March 31, 2005	Increase (Decrease)	Change
(1) Net sales to outside customers	5,822	5,293	528	10.0%
(2) Intersegment net sales	2,352	2,425	(7.2)	(3.0)%
Total net sales	8,174	7,719	455	5.9%
Operating income	1,855	1,593	262	16.5%

In the sensing business, sales in the area of color measurement, which targets the auto and flat panel display industries, were strong. In the 3D digitizer field, we are concentrating our business resources in product and application development and working to develop and acquire new customers. As a result, net sales to outside customers in this segment were ¥5.8 billion and operating income was ¥1.8 billion.
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5. Photo Imaging Business
[photographic materials, digital cameras, etc.]

(Millions of yen)

	Fiscal year ended March 31, 2006	Fiscal year ended March 31, 2005	Increase (Decrease)	Change
(1) Net sales to outside customers	187,117	268,471	(81,354)	(30.3%)
(2) Intersegment net sales	12,179	12,782	(602)	(4.7%)
Total net sales	199,296	281,253	(81,956)	(29.1%)
Operating income	(7,115)	(8,651)	1,535	-%

As for the Photo Imaging business, as mentioned previously, we have made a decision to terminate all businesses in this segment by September 30, 2007.

In the camera business, we transferred a portion of the assets related to the development, design, and manufacture of digital single lens reflex cameras compatible with the Alpha mount system to Sony Corporation at the end of March 2006. Consequently, business activities related to Konica Minolta cameras came to an end on March 31, 2006. We also terminated our mini-lab business activities from March 31, 2006.

In addition, to ensure that customers who are using these Konica Minolta products are not inconvenienced as a result of the termination of this business, from April, 2006 we entrusted camera after-sales service to Sony Corporation and mini-lab maintenance and after-sales service to Noritsu Koki Co., Ltd., and Tetenal Photowerk GmbH (to cover parts of Europe).

Meanwhile in color film and paper business, we will terminate all production activities by the end of March 2007 while gradually scaling back the variety and volumes of products we produce, and all business activities will be terminated by the end of September 2007.

As for the Photo Imaging business, as a result of our efforts to withdraw from businesses in certain fields, net sales to outside customers in this segment were ¥187.1 billion and we recorded an operating loss of ¥7.1 billion.

6. Other Business

In the industrial inkjet printer business, the Company established a new operating company in January 2005 to take initiatives in this business. During the fiscal year, steady expansion was reported in sales to leading printer manufacturers of high precision printer heads making use of the Company's inkjet printer technology and chemistry and its original ink technology as well as ink products. In addition, major gains in sales of large-scale inkjet printers for the textile industry were reported, mainly to user in the European market.

(3) Dividends

In view of the previously-described conditions, the Company has regrettably decided to continue the suspension of cash dividends as in the interim period.

(4) Outlook for Fiscal Year Ending March 31, 2007

The strong U.S. economy continues to drive the world economy, and, while overall overseas and domestic economic conditions are expected to continue on an expansionary track, the future remains uncertain with respect to the further intensifying competition for digital and related products, skyrocketing raw material prices as exemplified by the high price of crude oil, exchange rate trends for the dollar, euro, yuan, and other currencies, as well as other factors, and we recognize that the situation is highly unpredictable.

In the Business Technologies business, we believe that the willingness of the average company to invest in IT equipment remains on an expansionary track thanks to the rebound in corporate earnings and that we will continue to experience strong demand for high-function, high-performance color MFPs that are adapted to office networks. On the other hand, prices for color LBPs continue to fall, and, while we expect the market to grow, at the same time we are concerned about the deterioration of business profits due to intensifying price competition. The demand for TAC film and other LCD materials in the Optics business is expected to continue on an upswing, and with the release of next-generation DVD products and the gathering momentum in overseas markets for mobile phones equipped with high resolution cameras, as well as other factors, the market environment for components for use in digital appliances is expected to improve.

In the midst of this environment, we are steadily implementing a variety of measures set forth in our medium-term business plan “FORWARD 08,” and in fiscal year ending March 31, 2007, the initial year of the new plan, we will leverage Group resources and vigorously push ahead to achieve the earnings targets listed below.

<Consolidated basis> (Billions of yen)

	Fiscal year ended March 31, 2007		Fiscal year ended March 31, 2006		Increase (Decrease)	
	Interim	Full year	Interim	Full year	Interim	Full year
Net sales	4,800	9,800	5,175	10,683	(375)	(883)
Operating income	300	800	394	834	(94)	(34)
Recurring profit	260	700	352	768	(92)	(68)
Net income (loss)	110	300	(34)	(543)	144	843

Please note that the following foreign currency exchange rates have been assumed in this outlook:

U.S. dollar: ¥115
Euro: ¥135

*The above performance forecasts are expectations based on predications, outlooks, and plans related to the future at the time of this announcement and, as such, are subject to risks and uncertainties. Various significant factors may cause actual results to differ materially from these forecasts.

(5) Payment of Dividends in Fiscal Year Ending March 31, 2007

In fiscal year ending March 31, 2007, although some factors remain that could impact earnings as we approach the closing of our Photo Imaging business, we project an overall increase in Group revenue and expect earnings to recover. Nevertheless, we must consider the overall picture, such as the strengthening of our financial position and the acquisition of retained earnings, and, while assessing progress made toward achieving future earnings targets, we will examine the timing for the resumption of dividend payments and the amount of any such payments.

(6) Financial Position

I. Fiscal Year ended March 31, 2006

Overview

	As of March 31, 2006	As of March 31, 2005	Increase (Decrease)
Total assets (millions of yen)	944,054	955,542	(11,488)
Shareholders' equity (millions of yen)	293,817	339,729	(45,912)
Shareholders' equity per share (yen)	553.50	639.80	(86.30)
Equity ratio (%)	31.1	35.6	(4.5)

Regarding total assets, as a result of measures taken following the decision to exit the Photo Imaging business, inventories declined ¥28.0 billion from the previous year, to ¥149.4 billion and tangible fixed assets were down ¥6.4 billion, to ¥216.1 billion, as a result of the reporting of impairment losses and other factors. In addition, the Company continued to reduce its interest-bearing debt during the fiscal year under review, and, at the end of the fiscal year interest-bearing debt amounted to ¥236.5 billion, ¥9.7 billion lower than for the previous fiscal year-end.
As a result, total assets were down ¥11.4 billion, to ¥944.0 billion. Shareholders' equity dropped ¥45.9 billion year on year, to ¥293.8 billion, due to the recording of a net loss of ¥54.3 billion. Shareholders' equity per share was ¥553.50, and the equity ratio was 31.1%.

Cash Flows

	As of March 31, 2006	As of March 31, 2005	Increase (Decrease)
Cash flows from operating activities	78,924	55,680	23,244
Cash flows from investing activities	(43,146)	(49,343)	6,197
Total (Free cash flow)	35,778	6,336	29,442
Cash flows from financing activities	(16,850)	(31,614)	14,763

Cash flows from operating activities

The Company reported a net loss before income taxes of ¥35.9 billion for the fiscal year under review and losses of ¥96.6 billion as a result of the decision to exit the Photo Imaging business. However, the impact of items that are not accompanied by cash outflows, including depreciation and amortization, impairment losses, and amortization of consolidated differences was substantial, and cash flows from operating activities amounted to ¥78.9 billion.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥43.1 billion. This was primarily owing to acquisition of tangible fixed assets amounting to ¥51.9 billion, consisting primarily of purchases of metal molds for manufacturing new products and expenditures for expansion in production capacity, including assembly of business equipment as well as facilities for increasing production of polymerization toner, aspheric plastic lenses for optical disk use, LCD TAC film, and other items.

As a result, free cash flows, calculated from the total of cash flows from operating activities and cash flows from investing activities, amounted to ¥35.7billion.

Cash flows from financing activities

Net cash used in investing activities totaled ¥16.8 billion. This was primarily the result of efforts to further reduce interest-bearing debt, mostly through the redemption in bonds.

As a result of the previous-mentioned cash flows, cash and cash equivalents rose ¥21.3 billion from the end of the previous fiscal year, to ¥80.8 billion at the end of the fiscal year under review.

Cash Flow Indicators

	FY ended March 31, 2002	FY ended March 31, 2003	FY ended March 31, 2004	FY ended March 31, 2005	FY ended March 31, 2006
Shareholders' equity ratio (%)	32.5	35.1	34.6	35.6	31.1
Market price-based shareholders' equity ratio (%)	55.5	65.0	81.5	60.2	84.5
Debt redemption period (years)	3.7	2.3	3.1	4.4	3.0
Interest coverage ratio	7.1	14.3	11.1	10.1	14.4

Notes:

Shareholders' equity ratio:	Shareholders' equity divided by total assets
Market price-based shareholders' equity ratio:	Market capitalization divided by total assets
Years of debt redemption:	Interest-bearing debt divided by cash flow from operating activities
Interest coverage ratio:	Cash flow from operating activities divided by interest payments

1. Market capitalization is calculated as the share price at period-end multiplied by the number of shares outstanding at period-end (excluding treasury stock).
2. Net cash flow from operating activities are those stated in the consolidated statements of cash flows. Interest-bearing debt is all liabilities reflected on the consolidated balance sheets that are subject to interest payments. Interest payments are those stated in the consolidated statements of cash flows.

II. Cash Flow Outlook for the Fiscal Year Ending March 31, 2007

Free cash flow, which is the sum of cash flow from operating activities and cash flow from investing activities, is expected to amount to an outflow of ¥50 billion, as major cash outlays are made in connection with the implementation of the decision to fully exit the Photo Imaging business.

* Figures given in the text have been rounded off.