4. Consolidated Financial Statements

(1) Consolidated Statements of Income

[Millions of yen]

	April 1, 2004 – March 31, 2005		April 1, 2005 – March 31, 2006		Change	
	Amount	% of net sales	Amount	% of net sales	Amount	YoY[%]
Net sales	1,067,447	100.0	1,068,390	100.0	942	0.1
Cost of sales	597,800	56.0	575,163	53.8	(22,637)	(3.8)
Gross profit	469,647	44.0	493,227	46.2	23,579	5.0
Selling, general and administrative expenses	402,069	37.7	409,811	38.4	7,741	1.9
Operating income	67,577	6.3	83,415	7.8	15,838	23.4
Non-operating income	[8,971]	0.8	[14,879]	1.4	[5,908]	65.9
Interest and dividend income	1,353		1,756		403	
Equity method profits	108		-		(108)	
Other	7,509		13,123		5,613	
Non-operating expenses	[22,931]	2.1	[21,457]	2.0	[(1,474)]	(6.4)
Interest expense	5,549		5,427		(122)	
Disposal/valuation losses of inventories	8,698		7,540		(1,158)	
Equity method loss	-		2,507		2,507	
Other	8,683		5,982		(2,701)	
Recurring profit	53,617	5.0	76,838	7.2	23,221	43.3
Extraordinary profit	[3,177]	0.3	[3,353]	0.3	[175]	5.5
Gain on sales of fixed assets	559		1,255		696	
Gain on sales of investment securities	2,458		1,528		(929)	
Gain on sales of investments in affiliated companies	-		569		569	
Return of the proxy portion of the national employees' pension fund	160		-		(160)	
Extraordinary losses	[21,364]	2.0	[116,126]	10.9	[94,761]	443.5
Loss on disposal and sale of fixed assets	4,569		3,689		(880)	
Loss on sale of investment in affiliates	-		19		19	
Loss on sale of investment securities	3		420		417	
Write-down on investment securities	325		8		(316)	
Loss on revaluation of investment	47		-		47	
Transition obligations due to adoption of new accounting standards for retirement benefits	521		-		(521)	
Loss on impairment of fixed assets	-		4,143		4,143	
Payment for dissolution of business	-		96,625		96,625	
Provisioning of special outplacement program	-		6,484		6,484	
Management integration rationalization expenses	4,020		-		(4,020)	
Restructuring expenses	4,851		-		(4,851)	
Transfers to allowance for doubtful accounts	1,627		-		(1,627)	
Amortization of consolidation goodwill	5,397		2,361		(3,035)	
Other extraordinary loss	-		2,372		2,372	
Income before income taxes and minority interests	35,430	3.3	(35,934)	(3.4)	(71,364)	-
Income taxes	27,947	2.6	24,650	2.3	(3,297)	(11.8)
Deferred income taxes	(594)	(0.1)	(7,116)	(0.7)	(6,521)	-
Minority interests in earnings of consolidated subsidiaries	553	0.1	837	0.1	283	51.3
Net Income (loss)	7,524	0.7	(54,305)	(5.1)	(61,829)	-

(2) Consolidated Balance Sheets

[Millions of yen]

	As of March 31, 2005		As of March 31, 2006		Change	
	Amount	% of total	Amount	% of total	Amount	YoY[%]
Current Assets		%		%		%
Current assets	[542,728]	[56.8]	[540,152]	[57.2]	(2,576)	[(0.5)]
Cash and deposits	59,330		80,878		21,548	
Trade notes and accounts receivable	243,098		246,264		3,166	
Marketable securities	155		-		(155)	
Inventories	177,505		149,428		(28,076)	
Deferred tax assets	37,850		43,242		5,392	
Other accounts receivable	12,845		10,048		(2,796)	
Other current assets	20,045		19,681		(364)	
Allowance for doubtful accounts	(8,102)		(9,393)		(1,290)	
Fixed assets	[412,813]	[43.2]	[403,902]	[42.8]	[(8,911)]	[(2.2)]
Tangible fixed assets	[222,617]	23.3	[216,127]	22.9	[(6,489)]	(2.9)
Buildings and structures	73,978		63,426		(10,552)	
Machinery and vehicles	57,081		55,607		(1,474)	
Tools and equipment	25,857		25,227		(629)	
Land	36,374		35,871		(503)	
Construction in progress	7,672		13,128		5,456	
Rental business-use assets	21,652		22,866		1,213	
Intangible fixed assets	[109,625]	11.5	[103,483]	11.0	[(6,142)]	(5.6)
Consolidated goodwill	88,212		80,789		(7,423)	
Other intangible fixed assets	21,413		22,694		1,281	
Investments and others	[80,570]	8.4	[84,291]	8.9	[3,720]	4.6
Investment securities	33,194		37,459		4,265	
Long-term loans	1,442		1,051		(390)	
Long-term prepaid expenses	5,257		4,462		(795)	
Deferred tax assets	27,049		29,135		2,085	
Other investments	15,163		13,328		(1,834)	
Allowance for doubtful accounts	(1,536)		(1,146)		390	
Total assets	955,542	100.0	944,054	100.0	(11,488)	(1.2)

[Millions of yen]

	As of March 31, 2005		As of March 31, 2006		Change	
	Amount	% of total	Amount	% of total	Amount	YoY[%]
Liabilities						
Current liabilities	[460,047]	48.1	[476,559]	50.5	[16,511]	3.6
Notes and account payable - trade	138,074		117,974		(20,099)	
Short-term loans	157,174		135,362		(21,811)	
Long-term loans due within one year	7,261		8,086		824	
Bonds due within one year	17,221		14,037		(3,184)	
Unpaid expenses	16,163		27,948		11,785	
Accrued expenses	75,958		77,044		1,085	
Accrued income taxes	18,838		8,778		(10,060)	
Allowance for product warranty	5,137		5,084		(52)	
Provision for loss on discontinued operations	-		58,078		58,078	
Other current liabilities	24,216		24,163		(53)	
Long-term liabilities	[154,044]	16.1	[170,924]	18.1	[16,879]	11.0
Bonds	10,084		5,030		(5,054)	
Long-term loans	54,604		74,045		19,441	
Deferred tax assets on land revaluation	3,926		4,042		116	
Reserve for retirement benefits and pension plans	63,044		64,869		1,824	
Reserve for directors' retirement benefits	1,189		442		(746)	
Other long-term liabilities	21,196		22,493		1,297	
Total liabilities	614,092	[64.2]	647,483	[68.6]	33,390	[5.4]
Minority Interests	1,720	[0.2]	2,753	[0.3]	1,033	[60.1]
Capital stock	37,519	3.9	37,519	4.0	-	
Additional pain-in capital	226,069	23.7	226,069	23.9	(0)	
Retained earnings	79,491	8.3	20,088	2.1	(59,403)	
Unrealized gain on securities	4,780	0.5	10,180	1.1	5,399	
Translation adjustment	(7,339)	(0.7)	875	0.1	8,215	
Treasury stock	(791)	(0.1)	(915)	(0.1)	(123)	
Total shareholders' equity	339,729	[35.6]	293,817	[31.1]	(45,912)	[(13.5)]
Total liabilities, minority interests, and shareholders' equity	955,542	100.0	944,054	100.0	(11,488)	(1.2)

Notes:	As of March 31, 2005	As of March 31, 2006	Increase (Decrease)
1.Accumulated depreciation on tangible fixed assets (millions of yen)	456,344	460,877	4,533
2. Discounted trade notes receivable (millions of yen)	39	-	(39)
3. Number of shares of treasury stock	719,416	825,124	105,708

(3) Consolidated Statements of Retained Earnings

[Millions of yen]

	April 1, 2004 - March 31, 2005	April 1, 2005 - March 31, 2006	Increase/(Decrease)
	Amount	Amount	Amount
(Additional paid-in capital portion)			
Additional paid-in capital at beginning of period	[226,065]	[226,069]	[4]
Increase in additional paid-in capital	[4]	[-]	[(4)]
Gain on disposal of treasury stock	4	-	(4)
Decrease in retained earnings	[-]	[0]	[0]
Reversal of profit on disposition of treasury stock	-	0	0
Additional paid-in capital at period end	226,069	226,069	0
(Retained earnings portion)			
Retained earnings at beginning of period	[77,254]	[79,491]	[2,237]
Increase in retained earnings	[7,579]	[200]	[(7,379)]
Net income	7,524	-	(7,524)
Increase resulting from newly consolidated subsidiaries	55	200	144
Decrease in retained earnings	[5,342]	[59,603]	[54,261]
Net loss	-	54,305	54,305
Dividends	5,310	2,654	(2,655)
Bonuses to directors and corporate auditors	22	32	10
Increase resulting from newly consolidated subsidiaries	9	-	(9)
Other decreases in retained earnings	-	2,611	2,611
Retained earnings at period end	79,491	20,088	(59,403)

(4) Consolidated Statement of Cash Flow

[Millions of yen]

	April 1, 2004 - March 31, 2005	April 1, 2005 - March 31, 2006
I. Cash flows from operating activities		
Net income before income taxes and minority interests	35,430	(35,934)
Depreciation and amortization	52,953	51,198
Impairment losses	-	4,143
Amortization of consolidated goodwill	5,906	5,595
Increase (decrease) in allowance for doubtful accounts	101	465
Interest and dividend income	(1,353)	(1,756)
Interest expense	5,549	5,427
Loss (gain) on sale and disposals of tangible fixed assets	4,010	2,434
Loss (gain) on sale and disposals of investment securities	(2,129)	(1,099)
Transition obligations due to adoption of new accounting standards	521	-
Management integration rationalization expenses	4,020	-
Gain (loss) related to switch of defined contribution benefit plan	(160)	-
Restructuring expenses	4,851	-
Transfers to allowance for doubtful accounts	1,627	-
Amortization of consolidated goodwill	5,397	2,361
Other extraordinary losses	-	2,372
Payment for dissolution of business	-	96,625
Special additional severance benefits	-	6,484
(Increase) decrease in trade notes and accounts receivable	(14,056)	7,257
(Increase) decrease in inventories	128	22,032
Increase (decrease) in trade notes and accounts payable	(9,239)	(31,855)
Increase (decrease) in accrued consumption tax payable	646	400
Increase (decrease) on transfer of lease assets used in sales activities	(16,731)	(11,278)
Other	13,761	(11,821)
Subtotal	91,235	113,051
Interest and dividends received	1,417	1,524
Interest paid	(5,524)	(5,488)
Income taxes paid	(31,447)	(30,162)
Net cash provided by operating activities	55,680	78,924
II . Cash flows from investing activities		
Payment for acquisition of tangible fixed assets	(46,585)	(51,904)
Proceeds from sale of tangible fixed assets	3,604	5,551
Payment for acquisition of intangible fixed assets	(9,088)	(8,809)
Proceeds from sale of business	-	8,599
Payment for acquisition of new consolidated subsidiary	-	(1,729)
Payment for loans receivable	(1,670)	(541)
Proceeds from return of loan receivable	1,431	1,556
Payment for acquisition of investment securities	(348)	(42)
Proceeds from sale of investment securities	4,976	5,057
Payment for other investments	(3,395)	(3,236)
Other	1,732	2,352
Net cash used in investing activities	(49,343)	(43,146)
III . Cash flows from financing activities		
Net (decrease) increase in short-term loans payable	(29,640)	(25,819)
Proceeds from long-term loans payable	29,257	27,502
Repayment of long-term loans payable	(14,535)	(7,396)
Proceeds from issuing of bonds	13,694	9,184
Redemption of bonds	(24,870)	(17,536)
Proceeds from sale of Company's stock	24	10
Payment to execute buyback of Company's stock	(233)	(135)
Dividend payments	(5,310)	(2,661)
Net Cash used in financing activities	(31,614)	(16,850)
IV. Effect of exchange rate changes on cash and cash equivalents	642	2,463
V. Increase (decrease) in cash and cash equivalents	(24,635)	21,391
VI. Cash and cash equivalents at beginning of the period	83,704	59,485
VII. Increase in cash and cash equivalents due to newly consolidated subsidiaries and others	416	1
VIII. Cash and cash equivalents at end of the period	59,485	80,878

BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

1. Scope of Consolidation

Number of consolidated subsidiaries: 124

*Principal consolidated subsidiarie*s:

Konica Minolta Business Technologies, Inc.
Konica Minolta Opto, Inc.
Konica Minolta Photo Imaging, Inc.
Konica Minolta Medical & Graphic , Inc.
Konica Minolta Sensing, Inc.
Konica Minolta Technology Center, Inc.
Konica Minolta Business Expert, Inc.
Konica Minolta Business Solutions Japan Co., Ltd.
Konica Minolta Medical Co., Ltd.
Konica Minolta Marketing Corporation
Konica Minolta Supplies Manufacturing Co., Ltd.
Konica Minolta Business Solutions U.S.A., Inc.
Konica Minolta Business Solutions Europe GmbH
Konica Minolta Photo Imaging U.S.A., Inc.
Konica Minolta Manufacturing U.S.A., Inc.
Konica Minolta Photo Imaging Europe GmbH

Unconsolidated subsidiaries have not been included in consolidation because they are relatively small and their assets, sales, net income, and retained earnings (in proportion to scale of equity ownership) do not have a material influence on interim consolidated results.

2. Scope of the Use of Equity Accounting

Number of unconsolidated subsidiaries accounted for by the equity method: 11

*Principal unconsolidated subsidiarie*s: Konica Minolta Photochem (Thailand) Co., Ltd.

Number of affiliates accounted for by the equity method: 3

The total net income (loss) and retained earnings of non-equity-method non-consolidated subsidiaries and affiliates were limited and have no material impact on the consolidated financial statements.

3. Accounting Standards and Methods

(1) Asset valuation

1. Securities

Other securities

Securities with fair market value are stated using the mark-to-market method based on the market price at the balance sheet date. (Total net unrealized gains or losses after tax effect adjustments are directly recorded in shareholders' equity, and the cost of securities sold is computed based on the moving-average method.) Other securities that do not have fair market values are primarily stated at cost using the moving value average.

2. Derivatives

Derivatives are stated using the mark-to-market method.

3. Inventories

Domestic consolidated subsidiaries’ inventories are, in the main, recorded at cost as determined by the periodic-average method. Overseas consolidated subsidiaries' inventories are recorded at the lower of cost or market value, with cost determined by the first-in, first-out method.

(2) Depreciation and amortization of major depreciable assets

1. Tangible fixed assets

In general, the parent company and domestic consolidated subsidiaries adopt the declining balance method for computing depreciation, and overseas consolidated subsidiaries use the straight-line method. However, for buildings (excluding related equipment) acquired on or after April 1, 1998, the parent company and domestic consolidated subsidiaries adopt the straight-line method of depreciation.

2. Intangible fixed assets

Depreciation is computed according to the straight-line method. For software used internally, depreciation is computed by the straight-line method based on the useful life (five years) of the software within the Company.

(3) Reserves

1. Allowance for doubtful receivables

To prepare for possible losses on uncollectable receivables, for general receivables, an amount is provided according to the historical percentage of uncollectables. For specific receivables for which there is some concern regarding collectability, an amount is recorded by investigating the possibility of collection for each individual account.

2. Reserves for product warranty

The provisioning of free after-sales service for products is recorded based on past after-sales service expenses as a percentage of net sales.

3. Provision for loss on discontinued operations

To provide for losses when the Company exits a business, provisions to this reserve are made in the amount of the estimated losses.

4. Reserves for retirement benefits

In order to provide employee retirement benefits, the amount recorded by the Company is based on projected benefit obligations and pension assets at the end of the fiscal year.

Prior service cost is being amortized as incurred by the straight-line method over periods (principally 10 years) which are shorter than the average remaining years of service of the employees.

Actuarial gains and losses are amortized in the year following the year in which the gains or losses are recognized, primarily by the straight-line method over periods (principally 10 years) which are shorter than the average remaining years of service of the employees.

5. *Allowance for Directors' Retirement Benefits*

Consolidated subsidiaries, to provide for the payment of directors' retirement benefits, record reserve for benefits for retired directors and auditors in an actual amount equal to the need at the end of the year period under review based on the Company's regulations.

(Additional information)

Konica Minolta, at its Annual Meeting of Shareholders held on June 24, 2005, abolished its directors' retirement benefits system, with the aim of raising morale and increasing the willingness of its directors and executive officers to work toward improving performance, as well as to clarify management responsibility. This system was replaced with a stock option compensation scheme.

The total value of existing accumulated reserves has been frozen and recorded as "Other fixed liabilities (long-term accrued amount payable).

(4) Lease transactions

Finance leases are principally accounted for as operating leases that do not transfer ownership rights of the leased property to the lessee.

(5) Principal accounting methods for hedge transactions

1. Hedge accounting methods

The deferred hedge method is used. Special accounting methods are used for interest rate swaps.

2. Hedge methods and hedge targets

The hedge methods are forward exchange contracts, interest rate swaps, and commodity future trading.

The hedge targets are scheduled foreign currency denominated transactions, corporate bonds, borrowings, and raw materials

3. Hedge policy

The Company and consolidated subsidiaries enter into forward foreign exchange contracts as hedging instruments only, not for trading purpose to make profits, within the limit of actual foreign transactions to reduce risk arising from future fluctuations of foreign exchange rates with respect to export and import.

In addition, the Company and consolidated subsidiaries enter into interest rate swaps to make interest rates on bonds and borrowings stable or reduce costs fluctuations for future capital procurement and enter into commodity future trading to make material costs stable, both as hedging instruments only, not for speculation purpose, within the limit of actual financial or operating transactions.

4. *Methods for evaluating the effectiveness of hedges*
Verification is made to ascertain a high correlation between value fluctuations of hedged items and hedging instruments.

(6) Other important items regarding the preparation of consolidated financial statements

1. Consumption tax
National and local consumption taxes are accounted for by the tax excluded method.

2. Consolidated tax payment system
From the fiscal year under review, the consolidated tax payment system was applied.

4. Valuation of consolidated subsidiary's assets and liabilities

The market value method is used to value the assets and liabilities of consolidated subsidiaries.

5. Amortization of consolidation goodwill

Consolidation goodwill is amortized uniformly over 5-, 10-, and 20-year periods.

6. Appropriation of earnings

Consolidated statements of retained earnings are generated based on earnings appropriated during the consolidated company's fiscal year

7. Range of Cash within Consolidated Cash Flow Statements

Cash (cash and cash equivalents) in the interim consolidated cash flow statements comprises cash on hand and short-term investments easily converted into cash with little risk to a change in value.

Discrepancies between methods recognized in the most recent consolidated fiscal accounting year and accounting procedures for the fiscal year under review.

● *Accounting standards pertaining to the impairment of fixed assets*
Accounting standards pertaining to the impairment of fixed assets—The "Written Opinion Concerning the Establishment of Accounting Standards Pertaining to the Impairment of Fixed Assets" (Corporate Accounting Commission, August 9, 2002), and "Guidelines for the Application of Accounting Standards Pertaining to the Impairment of Fixed Assets" (Corporate Accounting Standards Application Guidelines, Issue 6, October 31, 2003), were applied from the fiscal year under review.

As a result, operating income increased by ¥3,018 million, recurring profit declined by ¥2,210 million, and income before income taxes and minority interests declined by ¥29,483million. The impact on segment results is showed in the segment information section.
Regarding accumulated impairment losses, the total amount of each asset was directly written off in accordance with revised regulations regarding interim consolidated financial statements.

● *Accounting standards regarding retirement allowance payments in the United Kingdom*
In the past, consolidated subsidiaries Konica Minolta Business Solutions (UK) Ltd. and Konica Minolta Photo Imaging (UK) Ltd. had applied accounting standards (UK Accounting Standard SSAP24) regarding retirement allowance payments in the U.K. However, from the consolidated fiscal year under review, these subsidiaries have applied a new accounting standard (UK Accounting Standard

FRS17) regarding retirement allowance payments in the U.K. As a result, in the fiscal year under review, an accumulated deficit of ¥2,611 million was directly written off from retained earnings, causing retained earnings to decrease by said same amount.