

4. Consolidated Financial Statements  
(1) Consolidated Statements of Income

[ Millions of yen ]

	Six months ended September 30, 2006		Six months ended September 30, 2005		Fiscal year ended March 31, 2006	
	Amount	% of net sales	Amount	% of net sales	Amount	% of net sales
Net sales	493,950	100.0	517,598	100.0	1,068,390	100.0
Cost of sales	256,130	51.9	278,459	53.8	575,163	53.8
Gross profit	237,819	48.1	239,138	46.2	493,227	46.2
Selling, general and administrative expenses	191,559	38.7	199,730	38.6	409,811	38.4
Operating income	46,260	9.4	39,408	7.6	83,415	7.8
Non-operating income	[ 8,675 ]	1.8	[ 7,715 ]	1.5	[ 14,879 ]	1.4
Interest income	794		584		1,269	
Dividends earned	281		342		487	
Gains on sales of securities	-		-		3	
Equity method profits	24		-		-	
Loss (gain) on foreign exchange	1,666		2,310		5,413	
Other	5,907		4,476		7,705	
Non-operating expenses	[ 10,081 ]	2.1	[ 11,877 ]	2.3	[ 21,457 ]	2.0
Interest expense	2,697		2,811		5,427	
Equity method loss	-		682		2,507	
Disposal/valuation losses of inventories	2,634		3,339		7,540	
Other	4,748		5,045		5,982	
Recurring profit	44,854	9.1	35,245	6.8	76,838	7.2
Extraordinary profit	[ 4,244 ]	0.9	[ 677 ]	0.1	[ 3,353 ]	0.3
Gain on sales of fixed assets	758		132		1,255	
Gain on sales of investment securities	1,575		545		1,528	
Gain on sale of shares in affiliates	1,200		-		569	
Reversal of allowance for loss on withdrawal from operation	710		-		-	
Extraordinary losses	[ 1,218 ]	0.3	[ 28,691 ]	5.5	[ 116,126 ]	10.9
Loss on disposal and sale of fixed assets	1,174		1,830		3,689	
Loss on sale of investment in affiliates	-		9		19	
Loss on sale of investment securities	44		-		420	
Write-down on investment securities	-		-		8	
Loss due to impairment	-		23,299		4,143	
Loss on withdrawal from operations	-		-		96,625	
Special additional severance benefits	-		-		6,484	
Restructuring expenses	-		1,179		-	
Amortization of consolidation goodwill	-		-		2,361	
Other extraordinary loss	-		2,372		2,372	
Income before income taxes and minority interests	47,880	9.7	7,231	1.4	(35,934)	(3.4)
Income taxes	13,976	2.8	9,815	1.9	24,650	2.3
Deferred income taxes	11,023	2.3	585	0.1	(7,116)	(0.7)
Minority interests in earnings of consolidated subsidiaries	372	0.0	312	0.1	837	0.1
Net Income (loss)	22,508	4.6	(3,482)	(0.7)	(54,305)	(5.1)

## (2) Consolidated Balance Sheets

[ Millions of yen ]

	As of September 30, 2006		As of September 30, 2005		As of March 31, 2006	
	Amount	% of total	Amount	% of total	Amount	% of total
<b>Current Assets</b>		%		%		%
Current assets	[ 520,639 ]	56.3	[ 547,403 ]	57.6	[ 540,152 ]	[ 57.2 ]
Cash and deposits	72,222		64,023		80,878	
Trade notes and accounts receivable	237,318		245,203		246,264	
Marketable securities	-		152		-	
Inventories	143,676		181,410		149,428	
Deferred tax assets	35,165		34,772		43,242	
Other accounts receivable	12,540		7,799		10,048	
Other current assets	26,572		23,236		19,681	
Allowance for doubtful accounts	(6,855)		(9,194)		(9,393)	
<b>Fixed assets</b>	[ 404,541 ]	[ 43.7 ]	[ 402,546 ]	[ 42.4 ]	[ 403,902 ]	[ 42.8 ]
<b>Tangible fixed assets</b>	[ 228,014 ]	24.7	[ 214,954 ]	22.6	[ 216,127 ]	22.9
Buildings and structures	65,421		66,863		63,426	
Machinery and vehicles	66,447		53,887		55,607	
Tools and equipment	27,177		26,609		25,227	
Land	35,160		36,134		35,871	
Construction in progress	12,508		9,469		13,128	
Rental business-use assets	21,298		21,990		22,866	
<b>Intangible fixed assets</b>	[ 100,305 ]	10.8	[ 105,923 ]	11.2	[ 103,483 ]	11.0
Goodwill	84,966		-		-	
Consolidated goodwill	-		85,411		80,789	
Other intangible fixed assets	15,339		20,512		22,694	
<b>Investments and others</b>	[ 76,221 ]	8.2	[ 81,668 ]	8.6	[ 84,291 ]	8.9
Investment securities	33,263		32,126		37,459	
Long-term loans	893		1,546		1,051	
Long-term prepaid expenses	4,197		4,496		4,462	
Deferred tax assets	26,130		30,449		29,135	
Other investments	12,781		14,558		13,328	
Allowance for doubtful accounts	(1,045)		(1,508)		(1,146)	
<b>Total assets</b>	925,180	100.0	949,949	100.0	944,054	100.0

[ Millions of yen ]

	As of September 30, 2006		As of September 30, 2005		As of March 31, 2006	
	Amount	% of total	Amount	% of total	Amount	% of total
<b>Liabilities</b>						
<b>Current liabilities</b>	[ 460,610 ]	49.8	[ 453,218 ]	47.7	[ 476,559 ]	50.5
Notes and account payable - trade	121,626		142,327		117,974	
Short-term loans	138,404		160,199		135,362	
Long-term loans due within one year	16,082		8,216		8,086	
Bonds due within one year	8,027		12,038		14,037	
Account payable - other	50,129		12,839		27,948	
Accrued expenses	37,049		76,770		77,044	
Accrued income taxes	8,397		6,628		8,778	
Allowance for bonus	12,639		-		-	
Allowance for product warranty	5,068		5,397		5,084	
Allowance for loss on withdrawal from operation	43,556		-		-	
Notes payable-equipment	5,565		6,347		6,035	
Other current liabilities	14,062		22,453		18,128	
<b>Long-term liabilities</b>	[ 146,234 ]	15.8	[ 157,739 ]	16.6	[ 170,924 ]	18.1
Bonds	5,000		10,030		5,030	
Long-term loans	62,978		51,405		74,045	
Deferred tax assets on land revaluation	4,042		4,290		4,042	
Reserve for retirement benefits and pension plans	61,013		67,596		64,869	
Reserve for directors' retirement benefits	412		360		442	
Other long-term liabilities	12,787		24,056		22,493	
<b>Total liabilities</b>	606,845	[ 65.6 ]	610,957	[ 64.3 ]	647,483	[ 68.6 ]

[ Millions of yen ]

	As of September 30, 2006		As of September 30, 2005		As of March 31, 2006	
	Amount	% of total	Amount	% of total	Amount	% of total
<b>Minority Interests</b>	-	-	2,129	0.2	2,753	0.3
Capital stock	-	-	37,519	3.9	37,519	4.0
Additional paid-in capital	-	-	226,069	23.8	226,069	23.9
Retained earnings	-	-	71,679	7.5	20,088	2.1
Unrealized gain on securities	-	-	6,148	0.7	10,180	1.1
Translation adjustment	-	-	(3,722)	(0.3)	875	0.1
Treasury stock	-	-	(832)	(0.1)	(915)	(0.1)
<b>Total shareholders' equity</b>	-	-	336,862	[ 35.5 ]	293,817	[ 31.1 ]
<b>Total liabilities, minority interests, and shareholders' equity</b>	-	-	949,949	100.0	944,054	100.0
Shareholder's equity	[ 305,723 ]	[ 33.1 ]	-	-	-	-
Capital stock	37,519	4.1	-	-	-	-
Additional paid-in capital	204,142	22.1	-	-	-	-
Retained earnings	65,052	7.0	-	-	-	-
Treasury stock	(990)	(0.1)	-	-	-	-
Revaluation and translation adjustment	[ 10,227 ]	[ 1.1 ]	-	-	-	-
Unrealized gain on securities	8,092	0.9	-	-	-	-
Gain (loss) on deferred hedges	156	0.0	-	-	-	-
Translation adjustment	1,979	0.2	-	-	-	-
Subscription warrant	15	0.0	-	-	-	-
Minority interests	2,368	0.2	-	-	-	-
<b>Total shareholder's equity</b>	318,335	[ 34.4 ]	-	-	-	-
<b>Total liabilities and shareholder's equity</b>	925,180	100.0	-	-	-	-

**Notes:**

	As of September 30, 2006	As of September 30, 2005	As of March 31, 2006
1. Accumulated depreciation on tangible fixed assets (millions of yen)	465,660	465,475	460,877
2. Discounted trade notes receivable ( millions of yen )	-	6	-

## (4) Consolidated Statements of Retained Earnings

[ Millions of yen ]

	Six months ended September 30, 2006	Six months ended September 30, 2005
	Amount	Amount
(Additional paid-in capital portion)		
Additional paid-in capital at beginning of period	[ 226,069 ]	[ 226,069 ]
Decrease in additional paid-in capital	[ 0 ]	[ 0 ]
Reversal of the provision for gain on disposal of treasury stock	0	0
Additional paid-in capital at period end	226,069	226,069
(Retained earnings portion)		
Retained earnings at beginning of period	[ 79,491 ]	[ 79,491 ]
Increase in retained earnings	[ 200 ]	[ 200 ]
Increase resulting from newly consolidated subsidiaries	200	200
Decrease in retained earnings	[ 8,012 ]	[ 59,603 ]
Dividends	2,654	2,654
Bonuses to directors and corporate auditors	32	32
Net loss	3,482	54,305
Retirement allowance payments for U.K. subsidiaries	1,842	2,611
Retained earnings at period end	71,679	20,088

## (5) CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

[ Millions of yen ]

	Shareholders' Equity				
	Capital stock	Additional paid-in capital	Retained earning	Treasury stock	Total shareholders' equity
<b>Balance at March 31, 2006</b>	37,519	226,069	20,088	(915)	282,761
Changes during the period					
Net income for the period			22,508		22,508
Increase in retained earnings associated with the transfer of consolidated subsidiaries			527		527
Transfer of additional paid-in capital to retained earnings to compensate for losses		(21,928)	21,928		-
Purchases of treasury stock				(80)	(80)
Disposal of treasury stock		1		5	7
Changes, net, in items other than shareholders' equity					-
Total changes during the period	-	(21,926)	44,964	(75)	22,962
<b>Balance at September 30, 2006</b>	37,519	204,142	65,052	(990)	305,723

[ Millions of yen ]

	Revaluation and Translation Adjustments				Subscription Warrants	Minority interests	Total net assets
	Unrealized gains on securities	Gain (loss) on deferred hedges	Translation adjustments	Total revaluations and translation adjustments			
<b>Balance at March 31, 2006</b>	10,180	-	875	11,055	-	2,753	296,571
Changes during the period							-
Net income for the period							22,508
Increase in retained earnings associated with the transfer of consolidated subsidiaries							527
Transfer of additional paid-in capital to retained earnings to compensate for losses							-
Purchases of treasury stock							(80)
Disposal of treasury stock							7
Changes, net, in items other than shareholders' equity	(2,087)	156	1,103	(828)	15	(385)	(1,198)
Total changes during the period	(2,087)	156	1,103	(828)	15	(385)	21,764
<b>Balance at September 30, 2006</b>	8,092	156	1,979	10,227	15	2,368	318,335

## (6) Consolidated Statement of Cash Flow Highlights

[Millions of yen]

	Six months ended September 30, 2006	Six months ended September 30, 2005	Fiscal year ended March 31, 2006
<b>I. Cash flows from operating activities</b>			
Net income before income taxes and minority interests	47,880	7,231	(35,934)
Depreciation and amortization	24,618	25,380	51,198
Impairment loss	-	23,299	4,143
Amortization of consolidated goodwill	-	2,801	5,595
Amortization of goodwill	2,868	-	-
Increase (decrease) in allowance for doubtful accounts	(2,863)	931	465
Increase (decrease) in reserve for employees' retirement benefits	(3,901)	-	-
Increase (decrease) in allowance for business withdrawal losses	(16,036)	-	-
Interest and dividend income	(1,076)	(927)	(1,756)
Interest expense	2,697	2,811	5,427
Loss (gain) on disposals and sale of tangible fixed assets	415	1,698	2,434
Valuation loss (gain) on investment securities	(1,531)	(545)	(1,099)
Gains (losses) on the sale of stock of affiliated companies	(1,200)	-	-
Restructuring expenses	-	1,179	-
Other extraordinary loss	-	2,372	2,372
Loss on withdrawal from operations	-	-	96,625
Special additional severance benefits	-	-	6,484
Lump-sum amortization of consolidated goodwill	-	-	2,361
(Increase) decrease in trade notes and accounts receivable	15,732	289	7,257
(Increase) decrease in inventories	7,115	(1,391)	22,032
Increase (decrease) in trade notes and accounts payable	(832)	695	(31,855)
Increase (decrease) in accrued consumption tax payable	(1,619)	(341)	400
Increase (decrease) due to the transfer of lease assets for business use	(4,676)	(7,580)	(11,278)
Other	(21,670)	(1,371)	(11,821)
<b>Subtotal</b>	<b>45,919</b>	<b>56,533</b>	<b>113,051</b>
Interest and dividends received	1,356	950	1,524
Interest paid	(2,748)	(2,841)	(5,488)
Income taxes paid	(17,629)	(17,428)	(30,162)
<i>Net cash provided by operating activities</i>	<b>26,898</b>	<b>37,213</b>	<b>78,924</b>
<b>II. Cash flows from investing activities</b>			
Payment for acquisition of tangible fixed assets	(29,695)	(26,534)	(51,904)
Proceeds from sale of tangible fixed assets	2,127	461	5,551
Payment for acquisition of intangible fixed assets	(2,410)	(2,897)	(8,809)
Proceeds from the transfer of operations	-	-	8,599
Payments for the acquisition of newly consolidated subsidiaries	-	-	(1,729)
Income from the sale of subsidiaries due to changes in the scope of consolidation	2,331	-	-
Expenditures for the purchase of additional stock of consolidated subsidiaries	(1,444)	-	-
Payment for loans receivable	(623)	(101)	(541)
Proceeds from return of loan receivable	461	719	1,556
Payment for acquisition of investment securities	(401)	(25)	(42)
Proceeds from sale of investment securities	2,616	3,213	5,057
Payment for other investments	(924)	(1,264)	(3,236)
Other	1,217	719	2,352
<i>Net cash used in investing activities</i>	<b>(26,745)</b>	<b>(25,707)</b>	<b>(43,146)</b>
<b>III. Cash flows from financing activities</b>			
Net (decrease) increase in short-term loans payable	523	2,798	(25,819)
Proceeds from long-term loans payable	-	-	27,502
Repayment of long-term loans payable	(3,229)	(2,356)	(7,396)
Proceeds from issuing of bonds	-	6,032	9,184
Redemption of bonds	(6,411)	(11,284)	(17,536)
Proceeds from sale of Company's stock	7	7	10
Payment to buyback of Company's stock	(80)	(48)	(135)

	Six months ended September 30, 2006	Six months ended September 30, 2005	Fiscal year ended March 31, 2006
Dividend payments	(7)	(2,653)	(2,661)
Dividend payments to minority shareholders	(70)	-	-
<i>Net Cash used in financing activities</i>	(9,268)	(7,505)	(16,850)
<b>IV. Effect of exchange rate changes on cash and cash equivalents</b>	221	687	2,463
<b>V. Increase (decrease) in cash and cash equivalents</b>	(8,894)	4,688	21,391
<b>VI. Cash and cash equivalents at beginning of the period</b>	80,878	59,485	59,485
<b>VII. Increase in cash and cash equivalents due to newly consolidated subsidiaries and others</b>	2	1	1
<b>VIII. Cash and cash equivalents at end of the period</b>	72,222	64,175	80,878



## BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

### 1. Scope of Consolidation

Number of consolidated subsidiaries: 122

*Principal consolidated subsidiaries:*

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

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 subsidiaries:* ECS Buero-und Datensysteme GmbH

Number of affiliates accounted for by the equity method: 3

The total net income and retained earnings of equity-method non-consolidated subsidiaries and affiliates were of small scale and had negligible effect on interim consolidated financial statements. Therefore they have been excluded from the scope of the equity method

### 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

The depreciable assets of the Company and its domestic consolidated subsidiaries are depreciated using the declining-balance method. Overseas consolidated subsidiaries adopt the straight-line method for depreciation. However, the parent and its domestic consolidated subsidiaries have used the straight-line method for their buildings (excluding annexed structures) acquired since April 1, 1998.

##### 2. Intangible fixed assets

We have adopted the straight-line method based on an estimated in-house working life of five years for the software we use.

### **(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 Bonuses*

To prepare for the payment of employee bonuses, an amount corresponding to the current interim portion of estimated bonus payments to employees in the latter half of the consolidated fiscal year is recorded.

#### *3. 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.

#### *4. 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.

#### *5. 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.

#### *6. 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.

### **(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, and interest rate swaps.

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

#### *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, 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. 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.

## **Changes between methods recognized in the most recent consolidated fiscal accounting year and accounting procedures for the interim period under review.**

(Accounting standard for stock options)

As of the interim period under review, the Company adopted the “Accounting Standard for Stock Options” (Corporate Accounting Standard No.8, issued by the Accounting Standards Board of Japan on December 27, 2005) and the “Guidelines for Application of the Accounting Standard for Stock Options” (Corporate Accounting Standard Guidelines No.11, issued by the Accounting Standards Board of Japan on May 31, 2006). As a result, operating income, recurring income, and income before income taxes for the interim period under review declined ¥15 million. In addition, the impact of the adoption of these standards on various business segments is discussed in the relevant sections of this report.

(Accounting standard for presentation of net assets in the balance sheet)

As of the interim period under review, the Company adopted the “Accounting Standard for Presentation of New Assets in the Balance Sheet” (Corporate Accounting Standard No. 5, issued by the Accounting Standards Board of Japan on December 9, 2005) and the “Guidelines for Application of the Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Corporate Accounting Standard Guidelines No.8, issued by the Accounting Standards Board of Japan on December 9, 2005). Total assets as presented previously would amount to approximately ¥315,795 million. In addition, as of the interim period under review, net assets in consolidated financial statements for interim periods have been presented according to the revised rules pertaining to consolidated financial statements for interim periods.

### **Changes in presentation methods**

(Balance sheet)

1. Heretofore, outstanding expenses have been presented as “accrued expenses;” however, as of the interim period under review, the portion of these expenses determined to be liabilities have been presented as “accounts payable” to ensure more appropriate presentation. In addition, “accrued expenses,” including outstanding expenses determined to be liabilities, amounted to ¥38,640 million for the interim period of the previous fiscal year.
2. Estimated bonus payments to employees were previously included in “accrued expenses” under current liabilities; however, as of the interim period under review, this figure is presented as “reserve for bonuses.” In addition, estimated bonus payments to employees included in “accrued expenses” amounted to ¥13,189 million for the interim period of the previous fiscal year.
3. Items recorded as consolidation goodwill in intangible fixed assets in the interim period of the previous fiscal year have been presented as goodwill as of the interim period under review.

### **Explanatory Notes**

(Items pertaining to consolidated statements of income for the interim period under review)

Income from the reversal of provisions for business withdrawal losses

In the interim period under review, allowance for loss on withdrawal from operation—losses stemming from the decision to terminate the operations of the Photo Imaging Business—posted at the end of the previous fiscal year were reversed and added to in light of various conditions and changes in the environment. Net income from the reversal of the said provisions and net additions to the said provisions are presented below.

Income from the reversal of allowance for loss on withdrawal from operation: ¥8,808 million

Loss on withdrawal from operation: ¥8,098 million