1. GROUP OVERVIEW

The Group comprises the parent company, 121 consolidated subsidiaries, 34 non-consolidated subsidiaries, and 10 affiliates. A chart detailing the business structure follows.

Konica Minolta Holdings, Inc

Business Technologies Businesses: 86
(Consolidated Subsidiaries: 61, Unconsolidated Subsidiaries: 20, Affiliates: 5)

Production: 11
Konica Minolta Supplies Manufacturing Co., Ltd.
Konica Minolta Technoproducts Co., Ltd.
Sankei Precision Products Co., Ltd.
Konica Minolta Business Technologies Manufacuring (H.K.) Ltd. (H.K.)
Other Companies: 7

↓
Konica Minolta Business Technologies, Inc.
↓

Sales: 74
Konica Minolta Business Solutions Japan Co., Ltd. *3
Konica Minolta Business Solutions U.S.A., Inc. (U.S.)
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) *4
Other Companies: 68

Medical and Graphic Imaging Businesses: 12
(Consolidated Subsidiaries: 9, Unconsolidated Subsidiaries: 2, Affiliates: 1)

Production: 2
Konica Minolta Repro Co., Ltd.
Other Companies: 1

↓
Konica Minolta Medical & Graphic , Inc.
↓

Sales: 9
Konica Minolta Medical Co., Ltd. *6
Konica Minolta Medical & Graphic Technosupport Co., Ltd.
Konica Minolta Medical Imaging U.S.A., Inc. (U.S.)
Konica Minolta Graphic Imaging Japan Co., Ltd.
Konica Minolta Graphic Imaging U.S.A., Inc. (U.S.)
Other Companies: 4

Other Businesses: 13
(Consolidated Subsidiaries: 10, Unconsolidated Subsidiaries: 2, Affiliates: 1)

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 Information Systems Co., Ltd *7
Konica Minolta Technosearch Co., Ltd.
Other Companies: 6

Optics Businesses: 6
(Consolidated Subsidiaries: 6)

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

↓
Konica Minolta Opto, Inc.

Photo Imaging Businesses: 47
(Consolidated Subsidiaries: 34, Unconsolidated Subsidiaries: 10, Affiliates: 3)

Production: 14
Konica Minolta Packaging Co., Ltd.
Konica Minolta Chemical Co., Ltd.
Konica Minolta Manufacturing U.S.A., Inc. (U.S.)
Konica Minolta Optical Products (SHANGHAI) Co., Ltd. (China)
Konica Minolta Precision Engineering Malaysia Sdn. Bhd. (Malaysia)
Other Companies: 9

↓
Konica Minolta Photo Imaging , Inc. *5
↓

Sales: 32
Konica Minolta Marketing Corporation
Konica Minolta Photo Solutions Co., Ltd.
Konica Minolta ID System Co., Ltd.
Konica Minolta ID Imaging Co., Ltd.
Konica Minolta Planetarium Co., Ltd.
Konica Minolta Photo Imaging U.S.A., Inc. (U.S.)
Konica Minolta Photo Imaging Europe. GmbH (Germany)
Konica Minolta Photo Imaging (U.K.) 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) *4
Other Companies: 21

Sensing Business: 1
(Consolidated Subsidiaries: 1)

Konica Minolta Sensing , Inc.

Notes: *1: Organization chart is as of September 30, 2004.
*2: Only major consolidated subsidiaries are shown.
*3: Konica Minolta Business Solutions Japan Co., Ltd., merged with Konica Minolta Techno System Co., Ltd., on July 1, 2004.
*4: Konica Minolta Photo Imaging Australia Pty. Ltd. split off from Konica Minolta Business Solutions Australia Pty. Ltd. on April 1, 2004.
*5: On April 1, 2004, Konica Minolta Photo Imaging , Inc. and Konica Minolta Camera, Inc. merged, thereby establishing Konica Minolta Photo Imaging , Inc.
*6: On April 1, 2004, Konica Medical Inc. and Kyoritsu Medical Co., Ltd. merged, and Konica Minolta Medical Co., Ltd. was established.
*7: On April 1, 2004, Konica Information Systems Co., Ltd. and Famous Co.,Ltd. merged, and Konica Minolta Information System Co., Ltd was established.

2. MANAGEMENT POLICY

(1) Basic Policy and Medium-to Long-Term Management Strategy

Konica Minolta Holdings, Inc., embarked on a three-pronged management reform strategy in 2003 when it adopted the spin-off/holding company system in April, and switched to a board-with-committees system in June, followed by the management integration between Konica Corp., and Minolta Co., Ltd. in August. These initiatives were implemented with the aim of clearly defining and strengthening group management decision making and operational execution and management supervision functions and execution functions to enable business management based on quick management decisions as well as to maximize the value of the Group through corporate governance characterized by fair and transparent management.

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

The area of imaging is a promising field that is expected to continue to grow. At the same time, we are seeing rapid technological progress in digitalization and networks, while global competition among companies is intensifying. To meet the challenges of such rapid shifts in the operating environment and ensure success against competitors worldwide, the Company, as the controlling organ of the overall Group, will pursue the management of the Group with a focus on the following policies.

- Stricter management of its business portfolio
- Execution of a corporate governance system with high transparency
- Enhancement of technical and brand strategies in the imaging field
- Use of an achievement-driven personnel system
- Intensified focus on corporate social responsibilities

Under this management strategy, in March 2004 the Company formulated the Medium-Term Management Integration Plan, effective from April, 2004 through March 31, 2007 to provide guidelines for the further strengthening and promotion of Group management. In particular, the Business Technologies Business, which is a core enterprise, and the strategic Optics Business have been designated areas of focus, and more than 70% of capital investments, R&D spending, and other management resources have been allocated to promote them. Through this initiative, the Company is seeking to boost net sales to ¥1,330.0 billion and operating income to ¥160.0 billion on a consolidated basis by March, 2007, the final year of the plan.

As the Business Technologies Business has been designated as central to the Company’s operations portfolio, Konica Minolta’s expectations for mutual benefits from corporate merger are highest for this area. In the mainstay area of office products, the Company is channeling its management resources to digital color multi-functional peripherals (MFP), color laser printers, and other areas for which substantial market growth is anticipated in an effort to dominate the market and emerge as the top brand in this field.

Furthermore, the Optics Business, which leverages the world’s most sophisticated optical device technology, has been designated a strategic enterprise for the entire Group that the Company aims to significantly expand by taking advantage of mutual benefits obtained through the integration of Konica and Minolta. In the area of optical pickup lenses for DVD and CD equipment, the Company is working to maintain its overwhelming market share, but in lens units for digital and video cameras, micro-lens and camera units for mobile camera phones, liquid crystal materials, and other growth areas, the Company is actively developing operations.

(2) Future Issues

Fiscal year ending March 31, 2005, the first year of the above mentioned medium-term plan, has been designated as a time for focusing Company efforts on reinforcing its management foundation. In addition to promptly completing the integration and reorganization of operations, the Company will steadily and quickly promote the consolidation of human resources, adjust and expand systems for IT, personnel, and other areas of management infrastructure, bolster public recognition of the Konica Minolta brand and reinforce its presence in the market, and take other initiatives to quickly reap the benefits of the corporate merger.

The Photo Imaging Business is beset by a harsh business climate characterized by receding demand for film, declining prices for digital cameras, and other adverse factors. In response, this business has undergone an organizational shift; the Company has reformed its structure centered on existing lab operations and introduced other business reforms to enable the business to adapt to the changes in the marketing environment. In particular, the sharp deterioration in business earnings for camera operations suffered in the previous period, is being treated as a high priority issue, and the Company has chosen a policy of focusing on the profitability rather than the scales of these operations, implementing a comprehensive restructuring program in the current fiscal period that addresses development, production, marketing, and expenses.

(3) Basic Policy Regarding Distribution of Profits

The Company's medium- to long-term basic policy on profit sharing is to provide stable dividends to its shareholders in comprehensive consideration of such issues as the state of consolidated earnings and the payout ratio, and the enhancement of internal reserve for future business expansion.

Although merger-related expenses will have a temporary effect on Group earnings during fiscal year ending March 2005—which the Company has designated as the term for merger-related corporate development—, the Company will still pay out its traditional annual dividend of ¥10 per share.

In fiscal year ending March 2006 and beyond, in addition to completing initiatives for building up its business foundation, the Konica Minolta will compensate its shareholders for their untiring support by fully reflecting the effects of the merger in Group earnings and, based on expectations of substantial improvement and expansion in profitability, aim to achieve a payout ratio of 15% on a consolidated earnings basis.

(4) Views and Policies Regarding Lowering of Minimum Investment Unit

To bolster its stock liquidity and expand the shareholder base, the Company obtained approval at its general shareholders meeting in June 2003 to reduce the number of shares in its trading unit. Consequently, when the holding company was created in August 2003, the number of company shares per trading unit was reduced from 1,000 to 500.

(5) Views and Policies Regarding Corporate Governance

The Company recognizes the strengthening of corporate governance as a crucial management issue. As such, the Company has implemented measures to clarify and strengthen auditing functions and policy execution functions to ensure that management conducts business in a transparent and impartial manner.

In April 2003, the Company adopted a spin-off/holding company system. Furthermore, in June 2003, to improve the holding company's corporate governance system, the Company put in place a board-with-committees system, under which an audit committee, a compensation committee, and a nominating committee were established. No executive officers are elected either of these committees' members, all of which are also chaired by outside directors. More over, of the 12 directors on the board, four are external to the Company, and care has been taken to ensure that no external directors selected has any direct vested interest in the Company. Although few Japanese firms have adopted these two systems—a spin-off/holding company system and a board-with-committees system—simultaneously, Konica Minolta believes that they are the most appropriate form of business organization for raising enterprise value.

In addition, to enhance management auditing and supervisory functions, the Konica Minolta has made its auditing committee a fixed organization composed of full-time staff. What’s more, the Company has established a risk management committee and a compliance committee in addition to the installation of a management auditing office as an internal auditing body. Through these and other measures, the Company has augmented its Group internal control systems and configured its auditing committee into an organization fully capable of effective and appropriate auditing functions.

3. OPERATING RESULTS AND FINANCIAL POSITION

(1) Operating Results

1. Summary

During the interim period, the global economy was buoyed by an active economy in the United States driven by ongoing robust consumer spending and vigorous capital spending in such areas as computers, semiconductors, and IT products. Growth also continued in China and the rest of Asia, while in Europe the exports of manufactured goods by Germany, France, Italy, and other countries continued to be strong and their economies recovered and grew.

In Japan, exports supported upward momentum in corporate earnings that, in turn, boosted capital spending, and the economy showed an overall gradual rebound. However, in light of the anxiety over unemployment and stagnant incomes, it is still unclear as to whether personal consumption has turned the corner. Other sources of concern include the continued excessively strong yen and the weak U.S. dollar that manifested at the end of the prior term as well as persistently high crude oil prices during the period, all of which have cast a shadow of uncertainty on the outlook for the economy.

Operating in this environment in its second year since the merger, the Group has implemented various policies to integrate human resources and worked to adjust and expand IT and personnel systems as well as other management infrastructure, while at the same time conducting effective management of operations with the aim of achieving mutual benefits to underpin Group earnings amid ever intensifying market competition. In particular, in the Business Technologies Business, the Company's core enterprise, Konica Minolta has devoted its energies to the marketing of color MFPs and color printers and has sought to protect and expand its market share in Europe and North America. Moreover, in the Optics Business, the Company focused its management resources on liquid crystal materials and optical pickup lenses, working to expand operations and improve earnings. In photography-related operations, the operating environment continues to be dampened by the shrinking market for film, the sinking prices for digital cameras, and other adverse factors, and Konica Minolta is expediting structural reform to improve business earnings. As a result, consolidated net sales were ¥535.1 billion, operating income was ¥32.5 billion, and recurring profit was ¥28.2 billion. With regard to extraordinary items, in addition to management integration rationalization expenses totaled ¥2.7 billion and other costs, corporate income tax, residence tax, and business tax were larger than usual at ¥15.7 billion, and net income for the period was only ¥8.2 billion.

Furthermore, the average exchange rate for the yen against the U.S. dollar was ¥110, while the yen to the euro rate averaged ¥133, representing a ¥8 slide against the dollar (7%) and no significant change in value against the euro compared with the interim period of the previous fiscal year.

Because Konica and Minolta exchanged shares and merged their operations to form the Company on August 5, 2003, separate statements of income for the two parent companies were drafted for the interim period of the previous year, because Konica and Minolta were regarded as integrated only from the end of September on the basis of account consolidation, in accordance with standard consolidated financial statement reporting principles. Accordingly, the data for the interim period of the previous year is that of Konica alone and does not include Minolta's performance data and thus comparison and analysis is not possible; however, the following chart covers the change from the fiscal year ended March 2004 interim period with Minolta's performance data simply added to Konica's for reference.

(Millions of yen)

	Six months ended September 30, 2004	Six months ended September 30, 2003	Six months ended September 30, 2003 (Konica and Minolta combined)	Increase (Decrease)	% change
Sales	535,115	278,429	541,600	(6,484)	(1.2%)
Operating Income	32,524	24,329	40,012	(7,488)	(18.7%)
Recurring profit	28,166	19,092	28,444	(277)	(1.0%)
Net income	8,200	8,379	15,174	(6,974)	(46.0%)

Note: Combined totals of Konica and Minolta earnings are calculated on a gross basis and do not include consolidation adjustments.

This comparison indicates a decrease in net sales and in every other gauge of performance; however, with regard to net sales, once the aforementioned foreign exchange rate losses due to the strong yen as well as losses accounted for by trading between the two parent companies and other factors that inflated net sales in the previous interim period are accounted for, actual net sales rose nearly ¥5.5 billion. Moreover, taking into account the adverse effects of foreign exchange rates, the amortization of consolidation goodwill accounts due to management integration, which was an expense incurred in the interim period, and one-time expenses accompanying integration, actual operating income for this interim period was nearly unchanged from the interim period of the prior year, and recurring profit edged up approximately ¥1.5 billion. However, with regard to net income, the influence of corporate income taxes and other factors was substantial, for an actual decline of approximately ¥3.3 billion.

Furthermore, the “actual base” in the operating conditions by corporate division section below, indicates the adjustments against the change from the same period of the previous year taking into account foreign currency levels and other factors.

Segment Information

Business Technologies Business [multi-function photocopiers (MFP), printers, etc.]

(Millions of yen)

	Six months ended September 30, 2004	Six months ended September 30, 2003	Six months ended September 30, 2003 (Konica and Minolta combined)	Increase (Decrease)	% change
(1) External sales	281,394	103,644	298,280	(16,885)	(5.7%)
(2) Intersegment sales	14,500	11,346	11,432	3,067	26.8%
Total sales	295,894	114,991	309,712	(13,817)	(4.5%)
Operating income	26,733	13,100	29,548	(2,815)	(9.5%)

Note: Combined totals of Konica and Minolta earnings are calculated on a gross basis and do not include consolidation adjustments.

Sales to external customers were ¥281.4 billion and operating income was ¥26.7 billion. A comparison with the combined sales of Konica and Minolta in the interim period of the prior fiscal year reveals a decline in sales, but on an actual basis, external sales increased roughly ¥3.8 billion and operating income grew approximately ¥1.7 billion.

In the market for MFPs, the use of color printing for office documents in the markets of the industrially developed nations of Japan, North America, and Europe increased, and the trend to replace black and white copiers with color models continued. In the market for printers, sales of black and white models remained strong, while demand in the market for color models expanded amid declining prices.

In MFP operations, Konica Minolta strove to expand sales of high-value-added models, including color and medium- and high-speed black and white models. The Company worked to maintain and expand its market share in North America, and Europe focusing on the most advanced polymerization toner technologies in the industry compatible with high- and slow-speed output as a part of its strategy to gain dominance in this area of specialty. With regard to the market for color MFPs, which is experiencing particularly healthy growth, the Company launched bizhub C350—a strategic product superior both in image quality and reliability—and actively promoted it with media advertising that is contributing to strong sales. Volume sales of bizhub C350 and other color MFPs climbed 72% compared with the interim period of the previous year. As a result, color units accounted for 11% of all MFP sales, up from 7% in the previous year’s interim period and in line with the growing trend toward using color MFPs in business.

Furthermore, sales of black and white MFPs grew 7% over last year’s interim sales. With regard to black and white models in the high-speed segment (60-90 pages/minute output), and in particular the markets for units of special focus offering print-on-demand (POD) and other applications in which the Company excels, Konica Minolta was able to more than double its sales compared with the interim period of the previous year by increasing marketing personnel and other initiatives to augment sales as well as developing an original equipment manufacturer (OEM) business with sales to U.S. computer giant Hewlett-Packard and other companies.

In printer operations, the Company continued to work to expand sales of low-speed color printers in Europe and North America, consolidating its position as the number two company in the color printer market. The business environment grew more challenging, with new players in the market and other factors exacerbating price competition. However, our strategic magicolor 2300 series, which has been particularly well received in the SOHO market on account of superior imaging achieved through polymerized toner and superb cost performance, helped volume sales of color units jump roughly 60% from the interim period of the previous year. As a result, color units accounted for 31% of all printer sales, up 5 percentage points in last year’s interim period, reflecting the trend toward the increased use of color copiers. Moreover, the Company expanded its product lineup in August with the market launch of the magicolor 5400 series, a high-speed color model that can print 21 pages/minute to further lift its market share.

Optics Business (optical devices, electronic materials)

(Millions of yen)

	Six months ended September 30, 2004	Six months ended September 30, 2003	Six months ended September 30, 2003 (Konica and Minolta combined)	Increase (Decrease)	% change
(1) External sales	44,008	30,091	39,205	4,803	12.3%
(2) Intersegment sales	2,418	8,968	9,190	(6,771)	(73.7%)
Total sales	46,427	39,059	48,395	(1,968)	(4.1%)
Operating income	7,200	7,396	6,509	691	10.6%

Note: Combined totals of Konica and Minolta earnings are calculated on a gross basis and do not include consolidation adjustments.

Income and sales to external customers were both strong with sales at ¥44.0 billion and operating income was ¥7.2 billion. On an actual basis, external sales rose approximately ¥5.4 billion, and operating income increased ¥1.6 billion.

The core optical pickup lenses segment maintained its dominant market position with broad applications, but final product and set manufacturers who buy our products for use in consumer DVD equipment, PCs, and other electronic devices conducted inventory adjustments in the summer, and volume sales languished somewhat.

In the lens unit business, sales in the interim period failed to surpass levels achieved in the interim period of the previous year as demand for digital cameras, which had been expected to continue to grow, dipped sharply in the second quarter, and the market for final products for video cameras slumped.

However, in the market for micro-lenses for mobile phones, the Company aggressively launched high-performance products equipped with 1.3 megapixel and better high resolution, auto-focus, and optical zoom features and sales vastly exceeded those of the prior interim period. In addition, the Company leveraged the burgeoning market for large liquid crystal monitors, liquid crystal televisions, and other liquid crystal products, focusing its energies on expanding sales of TAC film and other liquid crystal display film, and sales greatly improved on the back of continued strong demand.

Photo Imaging and Camera Business
(photosensitive materials, digital cameras, and ink-jet media etc.)

(Millions of yen)

	Six months ended September 30, 2004	Six months ended September 30, 2003	Six months ended September 30, 2003 (Konica and Minolta combined)	Increase (Decrease)	% change
(1) External sales	142,824	83,635	137,824	5,000	3.6%
(2) Intersegment sales	6,433	7,550	7,776	(1,343)	(17.3%)
Total sales	149,257	91,185	145,601	3,656	2.5%
Operating income	(4,004)	3,028	1,756	(5,761)	—

Note: Combined totals of Konica and Minolta earnings are calculated on a gross basis and do not include consolidation adjustments.

Sales to external customers were ¥14.3 billion and the operating loss was ¥4.0 billion. Compared with combined Konica and Minolta figures, sales improved from the prior interim period and operating income declined, but on a real basis external sales actually declined approximately ¥5.6 billion due to an extraordinary loss associated with the change in the accounting period of overseas subsidiaries and operating income declined ¥4.5 billion.

In the market for photography-related products, the rate of growth in digital camera sales slowed somewhat in Japan and other countries, with experts concluding that the market has entered a gradual growth phase. Digital single lens reflex (SLR) and other high end products in the digital camera market rapidly expanded, while price competition in the compact class further intensified. As a result of the increasing prevalence of digital cameras in the highly sophisticated markets of Japan, North America, and Europe, demand for color film continued to taper. However, demand for digital prints at retail outlets centered on digital mini-labs is growing, and sales of mini-lab equipment and photographic printing paper were robust.

In the area of photographs, the mainstay color film business was hit by diminishing demand in the markets of Japan, North America, and Europe and both sales and income suffered. However, the reinforcement of our regional strategies for China, India, Russia, the Middle East, and other areas where stable or growing demand is forecast, the large proportion of private branding in the markets of developed nations (marketing conducted using the brand of retail distributors where our products are sold), and other factors contributed to a 9% decline in sales volume in comparison with the fiscal interim period of the previous year. However, we followed up on the R1 Super digital mini-lab, which was launched in previous term and has enjoyed strong sales, with the launch of its successor, the R2 Super, in May 2004, and sales of mini-labs have grown approximately 50% from the prior interim period. Buoyed by the brisk sales of these devices, Konica Minolta is seeking to expand sales and earnings in the photographic paper business by actively encouraging retailers to offer digital printing services. The Company continues to channel its energies to support inkjet media, ID photograph systems, and other products in the non-silver halide photograph business with the aim of adapting our business structure to meet the needs of the digital age.

With regard to the digital camera business, which suffered substantial losses in the in the previous period, the Company revised its business program in the current term and is now pursuing a policy of emphasis on profitability rather than business scale. In line with its new thinking, the Company has streamlined its market lineup and has shifted the focus of its marketing to high-value-added products. However, as a result of increased overhead from the disposal of superannuated inventories during a time of intensified price competition, losses continued in the interim period under review. The Company has also raised the bar on performance with the August launch of new products that include its 5 megapixel CCD, ultra-slim DiMAGE 50 digital camera and the DiMAGE Z3 equipped with a 12x optical zoom lens and Konica Minolta's own anti-shake system, which has contributed to vigorous sales. In addition, we are striving to improve the profitability of our camera business through dramatic reforms to our business structure and the launch of the deluxe digital single-reflex α-7 DIGITAL camera in the latter half of the fiscal year.

Medical and Graphic Imaging Business (medical and graphic products)

(Millions of yen)

	Six months ended September 30, 2004	Six months ended September 30, 2003	Six months ended September 30, 2003 (Konica and Minolta combined)	Increase (Decrease)	% change
(1) External sales	60,900	58,751	58,751	2,148	3.7%
(2) Intersegment sales	10,302	12,488	12,488	(2,185)	(17.5%)
Total sales	71,202	71,239	71,239	(37)	(0.1%)
Operating income	4,311	4,673	4,673	(362)	(7.7%)

Note: Combined totals of Konica and Minolta earnings are calculated on a gross basis and do not include consolidation adjustments.

Sales to external customers amounted to ¥60.9 billion, and operating income was ¥4.3 billion. On an actual basis, external sales increased approximately ¥3.4 billion, while operating income was virtually unchanged from the interim period of the previous year.

In the medical segment, the Company reinforced its marketing capabilities through a merger of its two Japanese marketing companies, which is Konica Minolta's primary market, and actively developed a solutions business to better meet user needs. In overseas markets, the Company aggressively implemented policies to expand business in the United States, China, and other countries. In China in particular, Konica Minolta established a medical device marketing company in Shanghai as part of an effort to set up sales channels in the Chinese market. As a result of our endeavors, sales of the REGIUS Model 170 radiography units, dry imagers, and other digital devices as well as dry film that is compatible with these products were strong, and performance surpassed that of the interim period.

With regard to printing, demand declined as a result of the steady adoption of the computer-to-plate (CTP) system—a preprinting procedure in which a digital image is transmitted directly from a computer to a plate used on a press, eliminating the need for printing film—in Japan, North America, and Europe. In the graphic segment, demand for film has dissipated both in Japan and overseas, leading to lackluster volume sales of film. However, the Company has strengthened the marketing of its digital color proofing system, Digital Consensus Pro, a product that responds to the trend toward not using film. The Digital Consensus Pro has received plaudits for its high quality and performance, and the number of units installed has been steadily expanding domestically. In addition to strong device sales, sales of proof sheets were strong. The Company is actively pursuing an operational shift toward the marketing of digital equipment and in fiscal year ended March 2005 launched Konica Minolta's Pagemaster Pro high-speed output laser proofing equipment and the LD5100 digital printer, which responds to the trend to diversification in printed matter and small lot jobs, both of which can readily handle color comprehensive layouts and color drafts.

Sensing Business (colorimeters, 3D digitizers, and others)

(Millions of yen)

	Six months ended September 30, 2004	Six months ended September 30, 2003	Six months ended September 30, 2003 (Konica and Minolta combined)	Increase (Decrease)	% change
(1) External sales	2,643	—	4,915	(2,271)	(46.2%)
(2) Intersegment sales	1,200	—	114	1,085	944.8%
Total sales	3,843	—	5,030	(1,186)	(23.6%)
Operating income	873	—	972	(99)	(10.2%)

Note: Combined totals of Konica and Minolta earnings are calculated on a gross basis and do not include consolidation adjustments.

Sales to external customers amounted to ¥2.6 billion, and operating income was ¥0.9 billion.

In our mainstay illuminant color measurement equipment, ravenous capital spending among producers of Liquid Crystal Display(LCD) televisions and other flat panel displays (FPDs) supported strong sales. The Company's CA200 series of display color analyzers has become the de facto color evaluation equipment for work management in the FPD industry.

With object color measuring equipment, the Company developed business activities targeting the automotive industry in an effort to expand the marketing of spectrum measuring equipment. Konica Minolta is also channeling management resources to 3D digitizers, which is a new business, and in August the Company launched VIVID 9i, a new product that improves measurement accuracy from conventional models, and is also working to expand its customer base in the area of industrial instrumentation.

The classification of businesses in the preceding segment information is on a business unit basis. In contrast, pre-merger Minolta segment information was classified on an individual product basis. Combined Konica and Minolta figures for the same quarter of the previous fiscal year have been simply totaled without integrating the two approaches to business classification

The Sensing Business was the most significantly affected by the differing classification approach, resulting in a substantial decline compared with the first half of the previous fiscal year. If reexamined using the previous business classification, sales to external customers would amount to ¥2,598 million and operating income would be ¥780 million—both approximately in line with their performance in the interim period of the previous year.

Dividends

The management environment is projected to continue to be challenging for Konica Minolta, but the Company will continue to pay ¥5 per share at the interim, unchanged from the interim dividend payment for the fiscal year ending March 31, 2005, to reward shareholder support, while giving due regard to retained earnings in accordance with the aforementioned policies.

(2) Outlook for Fiscal year ending March 31,2005

With regard to the business environment for the second half of fiscal 2005, the remarkable recovery in the U.S. economy is expected to drive growth in the world economy overall. However, expected intensification of competition in the digital product market in Japan and overseas, instability in the Middle East, skyrocketing crude oil prices, further weakening of the U.S. dollar/yen, and other causes for concern persist, and difficult conditions are forecast to continue.

Konica Minolta's outlook for consolidated earnings in the fiscal year ending March 31, 2005, is as follows:

<Consolidated basis>

(Billions of yen)

	New Performance Forecast	Previous Performance Forecast Announced May 20, 2004	Increase (Decrease)
Net sales	1,100	1,150	(50)
Operating income	80	85	(5)
Recurring profit	70	70	—
Net profit	25	30	(5)

These projections are premised on the following exchange rates in the fiscal year ending March 31,2005:

US$ ¥107 (Previous forecast was ¥105)

Euro ¥130 (Previous forecast was ¥127)

*The above forecasts are estimates and incorporate elements of risk and uncertainty. Actual results may differ due to various significant factors.

Dividends for Fiscal Year ending March 31,2005

With regard to dividend payments at the end of the fiscal year, March 31, 2005, Konica Minolta plans to pay ¥5 per share, setting cash dividends applicable to the full fiscal year at ¥10 per share, in accordance with its policy of maintaining stable dividend payments while retaining the reserves needed for future business development as well as the structuring and strengthening of its post-merger management base.

(2) Financial Position

1. Overview

	As of September 30, 2004	As of March 31,2004	Increase (Decrease)
Total assets (millions of yen)	979,904	969,589	10,315
Shareholders' equity (millions of yen)	342,896	335,427	7,468
Shareholders' equity per share(yen)	645.71	631.54	14.17
Equity ratio (%)	35.0	34.6	0.4

Total assets rose ¥10.3 billion, to ¥979.9 billion, compared with the end of fiscal year ended March 31,2004, due to increases in trade notes and accounts receivable and inventories.

With regard to shareholders' equity, earned surplus calculated from interim net income increased and foreign currency translation adjustments in the shareholders' equity section of the balance sheet shrank as a result of the progressive weakening of the yen. As a result, shareholders' equity increased ¥7.5 billion, to

¥342.9 billion. Shareholders' equity per share was ¥645.71, and the equity ratio was 35.0%, up 0.4 percentage point from the end of the fiscal year ended March 31,2004.

Cash Flows

	Six months ended September 30, 2004	Six months ended September 30, 2003	Six months endedSeptember 30, 2003 (Konica and Minolta combined)	Increase (Decrease)
Cash flows from operating activities	22,543	8,165	38,345	(15,801)
Cash flows from investing activities	(27,325)	(8,806)	(11,946)	(15,378)
Total (Free cash flow)	(4,781)	(641)	26,399	(31,180)
Cash flows from financing activities	(9,278)	(745)	(22,913)	13,635

Cash flows from operating activities

Despite income before income taxes of ¥23.2 billion and depreciation and amortization amounting to ¥25.2 billion, net cash provided by operating activities totaled ¥22.5 billion, largely reflecting the increase in working capital that resulted from an increase in trade notes and accounts receivable and inventories as well as a decline in trade notes and accounts payable, income tax payments of ¥19.3 billion, and other factors.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥27.3 billion. This was primarily due to ¥24.0 billion used in the acquisition of tangible fixed assets such as dies for new products, aspherical plastic lenses for optical disks, polymerization toner, and other investments to bolster production capacity as well as the construction of materials research facilities to conduct state-of-the-art material technology development.
As a result, free cash flows, computed from the total of cash flows from operating activities and cash flows from investing activities, amounted to an outflow of ¥4.8 billion.

Cash flows from financing activities

Net cash used in financing activities totaled ¥9.3 billion. In addition to dividend payments of ¥2.7 billion, the Company paid ¥7.1 billion toward the redemption of bonds and other interest-bearing debt. As a result, the balance of interest-bearing debt at the end of the interim period was ¥266.4 billion, down ¥1.6 billion from the end of the fiscal year ended March 31,2004.

After considering the cash flows from operating, investing, and financing activities and a ¥0.9 billion increase from the effect of foreign exchange rate changes, cash and cash equivalents at the end of the interim period declined ¥13.2 billion. Moreover, due to cash and cash equivalents of ¥0.4 billion from newly consolidated subsidiaries, cash and cash equivalents stood at ¥71.0 billion on September 30, 2004.

Cash Flow Indicators

	March 2001	March 2002	March 2003	March 2004	Six months ended September 30, 2004
Shareholders' equity ratio (%)	30.9	32.5	35.1	34.6	35.0
Market price-based shareholders' equity ratio (%)	53.1	55.5	65.0	81.5	81.7
Debt redemption period (years)	3.6	3.7	2.3	3.1	5.9
Interest coverage ratio	5.5	7.1	14.3	11.1	7.8

Notes:

Shareholders' equity ratio: Shareholders' equity/total assets

Market price-based shareholders' equity ratio: Market capitalization/total assets

Years of debt redemption: interest-bearing liabilities/cash flows from operating activities (for the interim period, cash flows from operating activities x 2)

Interest coverage ratio: cash flows from operating activities/interest payments

The above ratios are calculated based on the figures at the end of the previous interim period

1. Each of these indicators is calculated based on consolidated financial data.
2. Market capitalization is calculated as share price at period-end multiplied by the number of shares outstanding at period-end (excluding treasury stock).
3. Net cash flows 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.

2. Outlook for the Entire Fiscal Year Cash flows

Konica Minolta projects that free cash flow, the net of cash flows from operating and investing activities, will amount to an inflow of approximately ¥15.0 billion.