Notes to The Consolidated Financial Statements

Konica Minolta Holdings, Inc. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2006 and 2005

1. Basis of Presenting Financial Statements

Konica Minolta Holdings, Inc., (the "Company") and its consolidated subsidiaries in Japan maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan while its foreign subsidiaries maintain their records and prepare their financial statements in conformity with accounting principles generally accepted in their respective country of domicile.

The accompanying consolidated financial statements of the Company and its consolidated subsidiaries and affiliates are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

The accompanying consolidated financial statements incorporate certain reclassifications and rearrangements in order to present them in a form that is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information that is not required under generally accepted accounting principles in Japan, but which is provided here in as additional information.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and, with certain exceptions which are not material, those of its 124 subsidiaries in which it has control. All significant intercompany transactions balances and unrealized profits among the Companies are eliminated on consolidation.

Investments in 11 unconsolidated subsidiaries and 3 significant affiliates are accounted for using the equity method. Investments in other unconsolidated subsidiaries and affiliates are stated at cost, since they have no material effect on the consolidated financial statements.

The excess of cost over the underlying investments in subsidiaries is recognized as consolidation goodwill and is amortized on a straight-line basis over a period not exceeding 20 years.

(b) Translation of Foreign Currencies

Translation of Foreign Currency Transactions

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date and revenues and costs are translated using the average exchange rate for the period.

Translation of Foreign Currency Financial Statements

The translations of foreign currency financial statements of overseas consolidated subsidiaries and affiliates into Japanese yen are made by applying the exchange rates prevailing at the balance sheet dates for balance sheet items, except common stock, additional paid-in capital and retained earnings accounts, which are translated at the historical rates, and the statements of income and retained earnings which are translated at average exchange rates.

(c) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows consist of cash on hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less, which represent a minor risk of fluctuation in value.

(d) Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided from the amount of possible losses from uncollectible receivables based on the management's estimate.

(e) Inventories

The company and its domestic consolidated subsidiaries' inventories are stated at the lower of cost or market value, where cost is primarily determined using the weighted average cost method. Overseas consolidated subsidiaries' inventories are stated at the lower of cost or market value, where cost is determined using the first-in, first-out method.

(f) Property, Plant and Equipment

Depreciation of property, plant and equipment for the Company and domestic consolidated subsidiaries is computed using the declining balance method, except for depreciation of buildings acquired after April 1, 1998, based on the estimated useful lives of the assets.

Depreciation of buildings acquired after April 1, 1998 is computed using the straight-line method. Depreciation for foreign subsidiaries is computed using the straight-line method.

Ordinary maintenance and repairs are charged to income as incurred. Major replacements and improvements are capitalized. When properties are retired or otherwise disposed of, the property and related accumulated depreciation accounts are relieved of the applicable amounts and any differences are charged or credited to income.

(g) Accounting Standard for Impairment of Fixed Assets

On August 9, 2002, the Business Accounting Council of Japan issued new accounting standards entitled "Statement of Opinion on the Establishment of Accounting Standards for Impairment of Fixed Assets". Further, on October 31, 2003, the Accounting Standards Board of Japan issued Financial Accounting Standards Implementation Guidance No. 6 – "Application Guidance on Accounting Standards for Impairment of Fixed Assets". These standards are effective from the fiscal years beginning April 1, 2005.

The company and its subsidiaries adopted these standards in the fiscal year ended March 31, 2006. As a result, operating income increased by ¥3,018 million and loss before income taxes and minority interest increased by ¥29,483 million, as compared with the amount which would have been reported if the previous standards had been applied consistently. The accumulated impairment loss is deducted from net book value of each asset.

(h) Income Taxes

The income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants' taxes and enterprise taxes. Deferred income taxes are provided for based on temporary differences between the tax basis of assets and liabilities and those as reported in the consolidated financial statements.

(i) Research and Development Costs

Research and development costs are expensed as incurred.

(j) Financial Instruments

Derivatives

All derivatives are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise, except for derivatives that are designated as "hedging instruments" (see Hedge Accounting below).

Securities
Securities held by the Companies are classified into two categories:

Investments by the Companies in equity securities issued by unconsolidated subsidiaries and affiliates are accounted for using the equity method; however, investments in certain unconsolidated subsidiaries and affiliates are stated at cost because the effect of application of the equity method would be immaterial.

Other securities for which market quotations are available are stated at fair value.

Net unrealized gains or losses on these securities are reported net of tax as a separate component of shareholders' equity.

Other securities for which market quotations are unavailable are stated at cost, except in cases where the fair value of equity securities issued by unconsolidated subsidiaries and affiliates, or other securities has declined significantly and such impairment of the value is deemed other than temporary. In these instances, securities are written down to the fair value and the resulting losses are charged to income during the period.

Hedge Accounting
Gains or losses arising from changes in fair value of derivatives designated as "hedging instruments" are deferred as an asset or a liability and charged or credited to income in the same period that the gains and losses on the hedged items or transactions are recognized.

Derivatives designated as hedging instruments by the Companies are principally interest rate swaps, commodity swaps and forward foreign currency exchange contracts. The related hedged items are trade accounts receivable and payable, raw materials, long-term bank loans and debt securities issued by the Companies.

The Companies have a policy to utilize the above hedging instruments in order to reduce the Companies' exposure to the risk of interest rate, commodity price and exchange rate fluctuations. As such, the Companies' purchases of the hedging instruments are limited to, at maximum, the amounts of the hedged items.

The Companies evaluate the effectiveness of their hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

(k) Leases
Finance leases, other than those which are deemed to transfer the ownership of the leased assets to lessees, are accounted for using a method similar to that used for ordinary operating leases.

(l) Retirement Benefit Plans
Retirement Benefits for Employees
Pension and severance costs for employees are accrued based on the actuarial valuation of projected benefit obligations and the plan assets at the end of each fiscal year. The actuarial difference is amortized over the average remaining service period (mainly 10 years), using the straight-line method from the year subsequent to that in which the actuarial difference was incurred or determined.

Accrued retirement Benefits for Directors and Statutory Auditors
To provide for the payment of directors' retirement benefits, consolidated subsidiaries record a reserve for benefits for retired directors and statutory auditors in an actual amount equal to the amount needed at the end of the period under review based on the Company's regulations.

(Additional information)
At its Annual Meeting of Shareholders held on June 24, 2005, the company 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.

(m) Accounting standards regarding accrued retirement benefits in the United Kingdom
Effective the year ended March 31, 2006, consolidated subsidiaries Konica Minolta Business Solutions (UK) Ltd. and Konica Minolta Photo Imaging (UK) Ltd. have implemented adoption of a new accounting standard for retirement benefits in the United Kingdom.

Retained earnings decreased by ¥2,611 million ($22,227 thousand) since the net retirement benefit obligation at the transition date and actuarial gains and losses were charged directly to retained earnings for the year ended March 31, 2006.

(n) Appropriation of Retained Earnings
Appropriations of retained earnings reflected in the accompanying consolidated financial statements have been recorded after approval by the board of directors as required under the Commercial Code of Japan. In addition to year-end dividends, the board of directors may declare interim cash dividends by resolution to the shareholders of record as of September 30 of each year.

(o) Per Share Data
Net income (loss) per share of common stock has been computed based on the weighted-average number of shares outstanding during the fiscal year.

Cash dividends per share shown for each fiscal year in the accompanying consolidated statements are dividends declared as applicable to the respective fiscal years.

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥117.47=US$1, the rate of exchange on March 31, 2006, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this rate or any other rate.

4. Cash and Cash Equivalents

Cash and cash equivalents as of March 31 consist of:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	2006
Cash on hand and in banks	¥80,878	¥59,330	$688,499
Marketable securities	—	155	—
Cash and cash equivalents	¥80,878	¥59,485	$688,499

5. Securities

As of March 31, 2006

(1) Other Securities with Quoted Market Values

	Millions of yen		
	Original purchase value	Market value at the consolidated balance sheet date	Unrealized gains (losses)
Securities for which the amounts in the consolidated balance sheets exceed the original purchase value			
(1) Shares	¥13,688	¥30,417	¥16,728
(2) Bonds	—	—	—
(3) Other	120	129	8
Subtotal	13,808	30,546	16,737
Securities for which the amounts in the consolidated balance sheets do not exceed the original purchase value			
(1) Shares	2,881	2,694	(187)
(2) Bonds	—	—	—
(3) Other	16	12	(3)
Subtotal	2,897	2,706	(191)
Total	¥16,706	¥33,252	¥16,546
	Thousands of U.S. dollars		
Total	$142,215	$283,068	$140,853

(2) Other Securities Sold during the Fiscal Year under Review

	Millions of yen		
	Sale value	Total profit	Total loss
Other securities	¥5,215	¥1,531	¥420
	Thousands of U.S. dollars		
Other securities	$44,394	$13,033	$3,575

(3) Composition and Amounts on the Consolidated Balance Sheets of Other Securities without Market Quotes

Amounts on consolidated balance sheets

	Millions of yen	Thousands of U.S. dollars
Unlisted stocks	¥486	$4,137

As of March 31, 2005

(1) Other Securities with Quoted Market Values

	Millions of yen		
	Original purchase value	Market value at the consolidated balance sheet date	Unrealized gains (losses)
Securities for which the amounts in the consolidated balance sheets exceed the original purchase value			
(1) Shares	¥13,010	¥21,391	¥8,381
(2) Bonds	—	—	—
(3) Other	19	20	1
Subtotal	13,029	21,412	8,382
Securities for which the amounts in the consolidated balance sheets do not exceed the original purchase value			
(1) Shares	6,428	5,519	(909)
(2) Bonds	116	116	—
(3) Other	70	69	(0)
Subtotal	6,616	5,706	(909)
Total	¥19,645	¥27,119	¥7,473
	Thousands of U.S. dollars		
Total	$182,931	$252,528	$69,587

(2) Other Securities Sold during the Fiscal Year under Review

	Millions of yen		
	Sale value	Total profit	Total loss
Other securities	¥5,128	¥2,461	¥3
	Thousands of U.S. dollars		
Other securities	$47,751	$22,916	$28

(3) Composition and Amounts on the Consolidated Balance Sheets of Other Securities without Market Quotes

Amounts on consolidated balance sheets

	Millions of yen	Thousands of U.S. dollars
Unlisted stocks	¥1,545	$14,387
Other	¥155	$1,443

6. Short-Term & Long-Term Debt with Banks

Short-term and long-term debt as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	2006
	(Interest rate)		
Short-term debt	¥135,362	¥157,174	$1,152,311
Current portion of long-term debt	8,086	7,261	68,835
Long-term debt	74,045	54,604	630,331
Total	¥217,494	¥219,040	$1,851,485

The repayment schedule of long-term debt from 2008 through 2011 and beyond is as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥17,058	$145,212
2009	6,364	54,176
2010	12,103	103,031
2011 and beyond	27,503	234,128

Bonds

Bonds as of March 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	2006
Bonds	¥19,067	¥27,305	$162,314

The annual maturities of bonds at March 31, 2006 consisted of the following:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥14,037	$119,494
2008	30	255
2009	5,000	42,564
2010	—	—

Assets pledged as collateral for short-term debt, long-term debt and guarantees at March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	2006
Property, plant and equipment	¥821	¥887	$6,989

7. Income Taxes

At March 31, 2006 and 2005, significant components of deferred tax assets and liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	2006
Deferred tax assets:			
Reserve for retirement benefits	¥ 32,417	¥ 31,309	$ 275,960
Net operating tax loss carried forward	23,529	17,112	200,298
Elimination of unrealized intercompany profits	14,807	14,651	126,049
Provision for dissolution of businesses	14,405	—	122,627
Write-down of assets	11,457	7,119	97,531
Depreciation and amortization	7,446	1,497	63,386
Tax effects related to investments	6,054	—	51,537
Accrued bonuses over deductible limit	5,621	5,993	47,851
Allowance for doubtful accounts	3,157	1,693	26,875
Provision for special outplacement program	2,638	—	22,457
Enterprise taxes	1,728	1,556	14,710
Other	13,999	12,285	119,171
Gross deferred tax assets	137,265	93,220	1,168,511
Valuation allowance	(52,392)	(18,264)	(446,003)
Total deferred tax assets	84,872	74,955	722,499
Deferred tax liabilities:			
Unrealized gains on securities	(7,689)	(4,299)	(65,455)
Gains on securities contributed to employees' retirement benefit trust	(3,161)	(3,353)	(26,909)
Retained profit of overseas subsidiaries	(2,185)	(1,870)	(18,600)
Special tax-purpose reserve for condensed booking of fixed assets	(1,448)	(1,440)	(12,327)
Other	(111)	—	(945)
Gross deferred tax liabilities	(14,596)	(10,964)	(124,253)
Net deferred tax assets	¥ 70,276	¥ 63,991	$ 598,246
Deferred tax liabilities related to revaluation:			
Deferred tax liabilities on land revaluation	¥ (4,042)	¥ (3,926)	$ (34,409)

At March 31, 2006 and 2005, the reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	2006	2005
Statutory income tax rate	40.7%	40.7%
(Reconciliation)		
Valuation allowance	(95.0)	(3.5)
Tax deduction	6.5	(8.6)
Amortization of consolidation goodwill	(9.0)	12.9
Effect of the introduction of a consolidated tax return system	—	28.6
Other, net	8.0	7.1
Income tax rate per statements of income	(48.8)	77.2%

8. Research and Development Costs

Research and development costs included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2006 and 2005 are ¥67,178 million (US$571,874 thousand) and ¥65,994 million, respectively.

9. Shareholders' Equity

As a result of huge losses of ¥116.1 billion (exiting of Photo Imaging business, loss on impairment of fixed assets and provision for special outplacement program etc.), the company reported a net loss of ¥54.3 billion and Shareholders' equity dropped ¥45.9 billion year on year, to ¥293.8 billion.

Shareholders' equity per share was ¥553.50 and the equity ratio was 31.1%.

In view of this situation, on May 11, 2006, the Board of Director's meeting approved to continue the suspension of cash dividends.

10. Contingent Liabilities

The companies were contingently liable at March 31, 2006 for loan guarantees of ¥2,620 million (US$22,304 thousand), and as of March 31, 2005 for loan guarantees of ¥2,195 million.

11. Loss on Impairment of Fixed Assets

The companies have recognized loss on impairment of ¥32,752 million ($278,812 thousand), for the following group of assets as of March 31, 2006. Loss on impairment of fixed assets ¥28,609 million ($243,543 thousand) concerning manufacturing and sales of photographic paper, film, etc was included in "Loss on discontinued operations".

Description	Classification	Location	Amount	
			Millions of yen	Thousands of U.S. dollars
Manufacturing and sales of photographic paper, Film, etc.	Buildings and structures, Machinery and equipment, Tools and furniture, Others	Hino-shi, Tokyo-to	¥ 4,353	$ 37,056
		Odawara-shi, Kanagawa-ken	3,774	32,127
		North Carolina, U.S.A.	9,611	81,817
		Other manufacturing and sales base, 20 locations	7,017	59,734
		Subtotal	24,756	210,743
Manufacturing and sales except above	Land, Buildings and structures	New York, U.S.A. etc, 2 locations	3,296	28,058
Rental assets	Land, Buildings and structures	Sakai-shi, Osaka-fu etc, 10 locations	4,412	37,559
Idle assets	Land, Buildings and structures, Others	Kanazawa-shi, Ishikawa-ken etc, 13 locations	287	2,443
Total			¥32,752	$278,812

(1) Identifying the cash-generating unit to which asset belongs
Each cash-generating unit is identified by the product line and the geographical area as group of assets. For rental assets, cash-generating unit is identified by the rental contact and the geographical area. The assets becoming idle are also identified as cash-generating unit respectively.

(2) The events and circumstances that led to the recognition of the impairment loss
Due to market circumstance deterioration and by decision of exiting the Photo Imaging business operation, operating profitability of manufacturing and sales base of photographic paper, film, etc. has worsened substantially.

Due to poor performance, profitability of other manufacturing and sales base has worsened.

Due to the decline in real estate value and poor performance, profitability of rental and idle assets has worsened.

Therefore, the companies have decided to mark the assets down to the recoverable value.

(3) Details of Impairment of fixed asset

Years ended March 31	Millions of yen	Thousands of U.S. dollars
Buildings and structures	13,464	114,616
Machinery and equipment	11,006	93,692
Tools and furniture	1,539	13,101
Lease asset	3,972	33,813
Others	2,769	23,572

(4) Measuring recoverable amount
The recoverable amount of a cash-generating unit is the higher of its fair value less costs to sell and value in use. Fair value less costs to sell is supported by the appraisal report. The discount rate used for estimation of value in use is 5.26% as weighted average cost of capital.

12. Loss on Discontinued Operations

The loss on discontinued operations was incurred in connection with the exit from the Photo Imaging business.

It includes the reserve for discontinued operations (¥58,078 million), impairment loss on fixed assets of Photo Imaging business (¥28,609 million) and the cost for disposal of inventories (¥18,536 million), less the proceeds from the sale of business (–¥8,599 million).

13. Lease Transactions

Information on the Companies' finance lease transactions (except for those which are deemed to transfer the ownership of the leased assets to the lessee) and operating lease transactions is as follows:

Lessee

1) Finance Leases

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	2006
Buildings and structures	¥10,598	¥ 6,098	$ 90,219
Machinery, equipment and other	15,110	9,725	128,629
Tools and furniture	13,230	19,111	112,624
Rental business-use assets	6,590	6,913	56,099
Intangible fixed assets	694	813	5,908
	46,224	42,662	393,496
Less: Accumulated depreciation	(28,572)	(27,538)	(243,228)
Loss on impairment of lease assets	3,972	—	33,813
Net book value	13,679	15,124	121,563
Depreciation	¥ 9,175	¥ 9,389	$ 78,105

Depreciation is calculated based on the straight-line method over the lease terms of the leased assets.

The scheduled maturities of future lease rental payments on such lease contracts at March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	2006
Due within one year	¥ 5,949	¥ 6,790	$ 50,643
Due over one year	11,701	8,333	99,608
Total	17,651	15,124	150,260
Lease rental expenses for the year	¥10,045	¥ 9,389	$ 85,511
Accrued impairment loss	¥3,102	—	$26,407

2) Operating Leases

The scheduled maturities of future operating lease rental payments as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	2006
Due within one year	¥ 5,350	¥ 9,668	$ 45,544
Due over one year	11,670	21,036	99,345
Total	¥17,021	¥30,705	$144,897

Lessor

1) Finance Leases

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	2006
Leased rental business-use assets:			
Purchase cost	¥ 22,569	¥ 20,345	$ 192,126
Less: Accumulated depreciation	(14,830)	(13,060)	(126,245)
Net book value	¥ 7,738	¥ 7,284	$ 65,872

The scheduled maturities of future finance lease rental income as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	2006
Due within one year	¥3,780	¥3,379	$32,178
Due over one year	4,236	4,484	36,060
Total	8,017	7,863	68,247
Lease rental income for the year	4,496	5,054	38,274
Depreciation for the year	¥4,174	¥4,271	$35,532

2) Operating Leases

The scheduled maturities of future lease rental income on such lease contracts as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	2006
Due within one year	¥3,045	¥3,094	$25,922
Due over one year	2,690	1,575	22,899
Total	¥5,735	¥4,669	$48,821

14. Retirement Benefit Plans

The Companies have defined benefit retirement plans that include corporate defined benefit pensions plans (CDBPs), which are governed by the Japanese Welfare Pension Insurance Law, tax-qualified pension plans and lump-sum payment plans. In addition, the Company may pay additional retirement benefits to employees at its discretion.

The Company and certain of its consolidated subsidiaries recently changed their retirement plans, which are summarized as follows.

On April 1, 2003, Konica's tax-qualified benefit plan was transferred to a CDBP.

On April 30, 2003, a portion of the Konica lump-sum payment plan was transferred to a defined contribution pension plan.

On February 1, 2004, the Ministry of Health, Labour and Welfare permitted the substitutional portion of the Konica Welfare Pension Fund to be returned to the government, and the remaining portion of the Fund was integrated into a CDBP.

On March 1, 2004, the Ministry of Health, Labour and Welfare permitted that the substitutional portion of the Minolta Welfare Pension Fund be returned to the government, and the remaining portion of the Fund be integrated into a CDBP. A portion of the Minolta lump-sum payment plan was transferred to a CDBP on the same date.

On April 1, 2004, a portion of the Minolta lump-sum payment plan was transferred to a defined contribution pension plan.

The reserve for retirement benefits as of March 31, 2006 and 2005 is analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	2006
a. Retirement benefit obligations	¥(154,221)	¥(142,123)	$(1,312,854)
b. Plan assets	108,320	76,808	922,108
c. Unfunded retirement benefit obligations (a+b)	(45,901)	(65,315)	(390,747)
d. Unrecognized actuarial differences	(5,572)	14,638	(47,433)
e. Unrecognized prior service costs	(11,768)	(10,345)	(100,179)
f. Net amount on consolidated balance sheets (c+d+e)	(63,241)	(61,022)	(538,359)
g. Prepaid pension costs	1,627	2,021	13,850
h. Accrued retirement benefits (f-g)	¥ (64,869)	¥ (63,044)	$ (552,218)

Notes: 1. Certain subsidiaries use a simplified method for the calculation of benefit obligation.

Net retirement benefit costs for the years ended March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	2006
a. Service costs	¥ 5,024	¥ 7,426	$42,768
b. Interest costs	4,107	2,947	34,962
c. Expected return on plan assets	(2,046)	(736)	(17,417)
d. Amortization of transition amounts	—	521	—
e. Actuarial differences that are accounted for as expenses	3,220	2,042	27,411
f. Prior service costs that are accounted for as expenses	(1,536)	(1,233)	(13,076)
g. Retirement benefit costs (a+b+c+d+e+f)	8,769	10,968	74,649
h. Loss on transition to defined contribution plans from defined benefit plans	—	(160)	—
i. Contribution to defined contribution pension plans	2,895	1,257	24,645
Total (g+h+i)	¥11,665	¥12,065	99,302

Note: Retirement benefit costs of consolidated subsidiaries using a simplified method are included in "a. Service costs."
In addition to the above net retirement benefit costs, a provision for a special outplacement program of ¥6,484 million (US$55,198 thousand) was recorded as other expenses.

Assumptions used in the calculation of the above information are as follows:

	2006	2005
a. Method of attributing the retirement benefits to periods of service	Periodic allocation method for projected benefit obligations	Periodic allocation method for projected benefit obligations
b. Discount rate	Mainly 2.5%	Mainly 2.5%
c. Expected rate of return on plan assets	Mainly 1.25%	Mainly 1.25%
d. Amortization of unrecognized prior service cost	Mainly 10 years	Mainly 10 years
e. Amortization of unrecognized actuarial differences	Mainly 10 years	Mainly 10 years
f. Amortization of transition amount due to changes in accounting standards	—	Mostly 5 years for subsidiaries

15. Derivatives

The Companies utilize derivative instruments including forward foreign currency exchange contracts, interest rate swaps and commodity futures, to hedge against the adverse effects of fluctuations in foreign currency exchange rates, interest rates and material prices. The Companies utilize these derivatives as hedges to effectively reduce the risks inherent in their assets and liabilities. These transactions are not likely to have a material impact on the performance of the Companies. Additionally, the Companies have a policy of limiting the purpose of such transaction to hedging identified exposures only and they are not held for speculative or trading purposes.

Risks associated with derivative instruments

Although the Companies are exposed to credit-related risks and risks associated with the changes in interest rates and foreign exchange rates, such derivative instruments are limited to hedging purposes only and the risks associated with these transactions are limited. All derivative contracts entered into by the Companies are with selected major financial institutions based upon their credit ratings and other factors. Such credit-related risks are not anticipated to have a significant impact on the Companies results.

Risk control system on derivative instruments

In order to manage the market and credit risks, the Finance Division of the Company is responsible for setting or managing the position limits and credit limits under the Company's internal policies for derivative instruments. Resources are principally assigned to the functions, including transaction execution, administration, and risk management, independently, in order to clarify the responsibility and the role of each function.

The principal policies on foreign currency exchange instruments and other derivative instruments of the Company and its major subsidiaries are approved by the Management Committee of the Company. Additionally, the Expert Committee, which consists of management from the Company and its major subsidiaries meets regularly, at which time the principal policies on foreign currency exchange instruments and other derivative instruments are reaffirmed and the market risks are assessed. All derivative instruments are reported monthly to the respective officers. Market risks and credit risks for other subsidiaries are controlled and assessed based on the internal rules, and the derivative instruments are approved by the respective President of each subsidiary.

Interest rate swap contracts are approved by the Finance Manager of the President of the Company and other subsidiaries, respectively.

Commodity futures contracts are approved by the respective President of each subsidiary based on internal rules.

A summary of derivative instruments at March 31, 2006 and 2005 is as follows:

(1) Currency-Related Derivatives

	Millions of yen						Thousands of U.S. dollars		
	March 31						March 31		
	2006			2005			2006		
	Contract value (notional principal amount)	Fair value	Unrealized gain (loss)	Contract value (notional principal amount)	Fair value	Unrealized gain (loss)	Contract value (notional principal amount)	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:									
To sell foreign currencies:									
US$	¥30,849	¥31,081	¥(231)	¥39,233	¥40,358	¥(1,124)	$262,612	$264,587	$(1,966)
EURO	33,433	33,928	(494)	28,960	29,268	(308)	284,609	288,823	(4,205)
Other	—	—	—	1,075	1,082	(7)	—	—	—
Total	¥64,283	¥65,009	¥(726)	¥69,269	¥70,710	¥(1,440)	$547,229	$553,409	$(6,180)
To buy foreign currencies:									
US$	¥ 6,672	¥ 6,682	¥ 10	¥ 4,342	¥ 4,515	¥ 173	$ 56,797	$ 56,883	$ 85
EURO	—	—	—	614	622	7	—	—	—
Other	—	—	—	127	123	(3)	—	—	—
Total	¥ 6,672	¥ 6,682	¥ 10	¥ 5,084	¥ 5,261	¥ 177	$ 56,797	$ 56,883	$ 85

Notes: 1. Fair value is calculated based on the forward foreign currency exchange rates prevailing as of March 31, 2006 and 2005, respectively.
2. Derivative instruments with hedge accounting applied are excluded from the above table.

(2) Interest Rate-Related Derivatives

	Millions of yen						Thousands of U.S. dollars		
	March 31						March 31		
	2006			2005			2006		
	Contract value (notional principal amount)	Fair value	Unrealized gain (loss)	Contract value (notional principal amount)	Fair value	Unrealized gain (loss)	Contract value (notional principal amount)	Fair value	Unrealized gain (loss)
Interest rate swaps:									
Receive fixed, pay floating	¥ —	¥—	¥—	¥ —	¥ —	¥ —	$ —	$ —	$ —
Pay fixed, receive floating	7,285	32	32	6,943	(36)	(36)	62,016	272	272
Total	¥7,285	¥32	¥32	¥6,943	¥(36)	¥(36)	$62,016	$272	$272

Notes: 1. Fair value is provided by the financial institutions with whom the derivative contracts were concluded.
2. Derivative transactions with hedge accounting applied are excluded from the above table.
3. Contract value (notional principal amount) does not show the size of the risk of interest rate swaps.

16. Segment Information

(1) Business Segment Information

Business segment information of the Companies for the years ended March 31, 2006 and 2005 is presented as follows:

Although the Company (the former Konica Corporation) became a new holding company, Konica Minolta Holdings, Inc., on August 5, 2003, through an exchange of shares with Minolta Co., Ltd. for accounting purposes, this merger is deemed as occurring at the end of the interim period, and as such, figures for Minolta Co., Ltd. have not been included in consolidated earnings for the first half of the fiscal year ended March 31, 2004.

Business segment	Related business segment products
Business Technologies:	Copy machines, printers and others
Optics:	Optical devices, electronic materials and others
Photo Imaging:	Photographic film and materials, ink-jet products, cameras and others
Medical and Graphic Imaging:	X-ray or graphic film, equipment for medical or graphic use and others
Sensing:	Industrial or medical measurement instruments
Other:	Others products not categorized in the above segments

	Millions of yen								
	Business Technologies	Optics	Photo Imaging	Medical and Graphic Imaging	Sensing	Other	Total	Elimination and Corporate	Consolidation
2006: Net sales									
Outside	¥606,730	¥110,368	¥187,117	¥146,600	¥5,822	¥ 11,752	¥1,068,390	¥ —	¥1,068,390
Intersegment	3,488	1,803	12,179	27,269	2,352	58,734	105,828	(105,828)	—
Total	610,218	112,171	199,296	173,869	8,174	70,486	1,174,218	(105,828)	1,068,390
Operating expenses	545,098	94,578	206,412	162,180	6,319	60,041	1,074,630	(89,655)	984,974
Operating income	¥ 65,120	¥ 17,593	¥ (7,115)	¥ 11,689	¥1,855	¥ 10,445	¥ 99,588	¥ (16,172)	¥ 83,415
Assets	¥462,534	¥119,174	¥102,061	¥122,610	¥8,813	¥430,648	¥1,245,842	(301,787)	¥ 944,054
Depreciation	27,214	7,593	4,070	5,128	141	7,050	51,198	—	51,198
Impairment losses	704	—	24,756	2,659	—	4,632	32,752	—	32,752
Capital expenditure	28,765	21,835	2,975	6,704	141	7,146	67,570	—	67,570

	Millions of yen								
	Business Technologies	Optics	Photo Imaging	Medical and Graphic Imaging	Sensing	Other	Total	Elimination and Corporate	Consolidation
2005: Net sales									
Outside	¥564,837	¥91,705	¥268,471	¥129,872	¥5,293	¥ 7,266	¥1,067,447	¥ —	¥1,067,447
Intersegment	29,886	4,079	12,782	19,918	2,425	60,757	129,849	(129,849)	—
Total	594,724	95,785	281,253	149,791	7,719	68,024	1,197,297	(129,849)	1,067,447
Operating expenses	538,892	79,783	289,905	143,134	6,125	56,490	1,114,332	(114,462)	999,869
Operating income	¥ 55,832	¥16,001	¥ (8,651)	¥ 6,656	¥1,593	¥ 11,533	¥ 82,965	¥ (15,387)	¥ 67,577
Assets	¥451,381	¥95,214	¥169,545	¥103,963	¥7,817	¥443,501	¥1,271,424	¥(315,881)	¥ 955,542
Depreciation	27,359	5,672	8,904	4,366	133	6,517	52,953	—	52,953
Capital expenditure	24,258	14,378	7,366	3,695	178	6,571	56,448	—	56,448

	Thousands of U.S. dollars								
	Business Technologies	Optics	Photo Imaging	Medical and Graphic Imaging	Sensing	Other	Total	Elimination and Corporate	Consolidation
2006: Net sales									
Outside	$5,164,978	$ 939,542	$1,592,892	$1,247,978	$49,562	$ 100,043	$ 9,095,003	$ —	$9,095,003
Intersegment	29,693	15,349	103,678	232,136	20,022	499,991	900,894	(900,894)	—
Total	5,194,671	954,891	1,696,569	1,480,114	69,584	600,034	9,995,897	(900,894)	9,095,003
Operating expenses	4,640,317	805,125	1,757,147	1,380,608	53,792	511,118	9,148,123	(763,216)	8,384,898
Operating income	$ 554,354	$ 149,766	$ (60,569)	$ 99,506	$15,791	$ 88,916	$ 847,774	$ (137,669)	$ 710,096
Assets	$3,937,465	$1,014,506	$ 868,826	$1,043,756	$75,023	$3,666,025	$10,605,618	$(2,569,056)	$8,036,554
Depreciation	231,668	64,638	34,647	43,654	1,200	60,015	435,839	—	435,839
Impairment losses	5,993	—	210,743	22,636	—	39,431	278,812	—	278,812
Capital expenditure	244,871	185,877	25,326	57,070	1,200	60,833	575,211	—	575,211

Notes: Accounting standards for the impairment of fixed assets were adopted in the fiscal year ended March 31, 2006 (consolidated). This has led to a decline in depreciation expenses and other categories, and increases in operating income for the Photo Imaging business (up ¥2,997 million) and other business (up ¥20 million).

(2) Geographic Segment Information

	Millions of yen						
	Japan	North America	Europe	Asia and Other	Total	Elimination and Corporate	Consolidation
2006: Net sales							
Outside	¥476,720	¥262,288	¥270,566	¥ 58,815	¥1,068,390	¥ —	¥1,068,390
Intersegment	294,586	5,898	1,302	185,488	487,276	(487,276)	—
Total	771,307	268,186	271,868	244,304	1,555,666	(487,276)	1,068,390
Operating expenses	685,718	261,121	267,633	243,206	1,457,681	(472,706)	984,974
Operating income	¥ 85,588	¥ 7,065	¥ 4,235	¥ 1,097	¥ 97,985	¥ (14,569)	¥ 83,415
Assets	¥821,766	¥183,772	¥144,887	¥ 86,231	¥1,236,657	¥(292,603)	¥ 944,054

	Millions of yen						
	Japan	North America	Europe	Asia and Other	Total	Elimination and Corporate	Consolidation
2005: Net sales							
Outside	¥480,522	¥250,207	¥278,164	¥ 58,552	¥1,067,447	¥ —	¥1,067,447
Intersegment	313,852	8,565	1,624	145,636	469,679	(469,679)	—
Total	794,375	258,773	279,789	204,188	1,537,127	(469,679)	1,067,447
Operating expenses	719,788	256,412	276,369	200,856	1,453,427	(453,557)	999,869
Operating income	¥ 74,587	¥ 2,360	¥ 3,419	¥ 3,332	¥ 83,699	¥ (16,122)	¥ 67,577
Assets	¥819,494	¥154,093	¥158,021	¥ 75,106	¥1,206,715	¥(251,173)	¥ 955,542

	Thousands of U.S. dollars						
	Japan	North America	Europe	Asia and Other	Total	Elimination and Corporate	Consolidation
2006: Net sales							
Outside	$4,058,228	$2,232,808	$2,303,277	$ 500,681	$ 9,095,003	$ —	$9,095,003
Intersegment	2,507,755	50,209	11,084	1,579,024	4,148,089	(4,148,089)	—
Total	6,565,991	2,283,017	2,314,361	2,079,714	13,243,092	(4,148,089)	9,095,003
Operating expenses	5,837,388	2,222,874	2,278,309	2,070,367	12,408,964	(4,024,057)	8,384,898
Operating income	$ 728,595	$ 60,143	$ 36,052	$ 9,339	$ 834,128	$ (124,023)	$ 710,096
Assets	$6,995,539	$1,564,416	$1,233,396	$ 734,068	$10,527,428	$(2,490,874)	$8,036,554

Note: Major countries or areas other than Japan are as follows:
North America ............U.S.A. and Canada
Europe ....Germany, France and U.K.
Asia and Other ....Australia, China and Singapore
Accounting standards for the impairment of fixed assets were adopted in the fiscal year ended March 31, 2006 (consolidated). This has led to a decline in depreciation expenses and other categories. Operating income in Japan, North America, Europe, and Asia and Others (excluding Japan) increased ¥1,840 million, ¥1,077 million, ¥64 million, and ¥35 million, respectively.

(3) Overseas Sales

	Millions of yen	Thousands of U.S. dollars	Percentage of net sales
2006: **Sales to**			
North America	¥274,218	$2,334,366	25.7%
Europe	281,418	2,395,658	26.3
Asia and Other	199,529	1,698,553	18.7
2005: Sales to			
North America	¥264,718	$2,465,015	24.8%
Europe	282,475	2,630,366	26.5
Asia and Other	213,435	1,987,476	20.0

Notes: 1. Major countries or areas are as follows:
North America ............U.S.A. and Canada
Europe ....Germany, France and U.K.
Asia and Other ....Australia, China and Singapore
2. "Overseas sales" represents sales recognized outside of Japan by the Companies.

17. Net Income per share

Caluculations of net income per share for the years ended March 31, 2006 and 2005, are as follows.

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	2006
Net income attributable to common shares	(¥54,305)	¥7,491	($462,288)
Weight average number of common shares outstanding:			
Basic	530,898	531,017	530,898
Diluted	—	—	—
	Yen		U.S. dollars
Net income per share:			
Basic	(¥102.29)	14.11	$0.87
Diluted	—	—	—

The Company had no dilutive potential common shares for the year ended March 31, 2005.
Diluted net income per share for the ended March 31, 2006 is not disclosed due to the company's loss position (anti-dilutive).