Notes to The Consolidated Financial Statements

Konica Minolta Holdings, Inc. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2007 and 2006

1. Basis of Presenting Financial Statements

The accompanying consolidated financial statements of Konica Minolta Holdings, Inc., (the "Company") and its consolidated subsidiaries (the "Companies") 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. Accounting principles generally accepted in Japan allow consolidation of foreign subsidiaries based on their financial statements in conformity with accounting principles generally accepted in their respective country of domicile.

The consolidated balance sheet as of March 31, 2007, which has been prepared in accordance with the new accounting standard as discussed in Note 2 (r), is presented with the consolidated balance sheet as of March 31, 2006 prepared in accordance with the previous presentation rules.

Also, as discussed in Note 2 (s), the consolidated statement of changes in net assets for the year ended March 31, 2007 has been prepared in accordance with the new accounting standard. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006 was voluntarily prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required to be filed with the Local Finance Bureau.

The accompanying consolidated financial statements incorporate certain reclassifications 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 herein as additional information.

Certain amounts have been reclassified to conform to the current year classifications.

As permitted under the Securities and Exchange Law of Japan, amounts of less than one million have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in dollars) do not necessarily agree with the sums of the individual amounts.

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 120 subsidiaries (124 subsidiaries for 2006) in which it has control. All significant intercompany transactions, balances and unrealized profits among the Companies are eliminated on consolidation.

Investments in 10 unconsolidated subsidiaries (11 unconsolidated subsidiaries for 2006) and 3 significant affiliates (3 significant affiliates for 2006) 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 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 and Balances

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 rates for the period.

Translation of Foreign Currency Financial Statements

The translation of foreign currency financial statements of overseas consolidated subsidiaries 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 withdrawable on demand and short-term investments with an original maturity of three months or less.

(d) Allowance for Doubtful Accounts

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

(e) Inventories

The company and its domestic consolidated subsidiaries' inventories are mainly stated at cost as determined by the average method. Overseas consolidated subsidiaries' inventories are mainly 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.

(g) Accounting Standard for Impairment of Fixed Assets

On August 9, 2002, the Business Accounting Deliberation Council of Japan issued a new accounting standard 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 fiscal years beginning April 1, 2005.

The Company and its domestic subsidiaries adopted these standards from the year ended March 31, 2006. As a result, operating income increased by ¥3,018 million and income before income taxes and minority interests decreased by ¥29,483 million for the year ended March 31, 2006, as compared with the amounts 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

Deferred income taxes are recognized 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

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/net assets.

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 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 held by the Company and its domestic subsidiaries, 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

The Companies have an obligation to pay retirement benefits to their employees and, therefore, the Company, their domestic consolidated subsidiaries and certain overseas consolidated subsidiaries provide accrued retirement benefits based on the estimated amount of projected benefit obligations and the fair value of plan assets.

Unrecognized prior service cost is amortized by the straight-line method over a 10-year period, which is shorter than the average remaining years of service of the eligible employees. Unrecognized net actuarial gain or loss is primarily amortized from the following year by the straight-line method over 10-year period, which is shorter than the average remaining years of service of the eligible employees.

Accrued retirement Benefits for Directors and Statutory Auditors

To provide for the payment of directors' retirement benefits, domestic consolidated subsidiaries record a reserve for retirement benefits for directors and statutory auditors based on the amount payable accumulated at the end of the period based on the Company's regulations.

(m) Accounting Standard for Stock Options

On December 27, 2005, the Accounting Standards Board of Japan issued Financial Accounting Standard No.8 "Accounting Standard for Stock Options". Further, on May 31, 2006, the Accounting Standards Board of Japan issued Financial Accounting Standards Implementation Guidance No. 11 – "Application Guidance on Accounting Standard for Stock Options".

The Company and its domestic subsidiaries adopted these standards from the year ended March 31, 2007. As a result, operating income and income before income taxes and minority interests decreased by ¥108 million ($915 thousand), for the year ended March 31, 2007 as compared with the amount which would have been reported if the previous standards had been applied consistently.

(n) Accounting standard for retirement benefits in the United Kingdom

Effective from the year ended March 31, 2006, consolidated subsidiaries Konica Minolta Business Solutions (UK) Ltd. and Konica Minolta Photo Imaging (UK) Ltd. adopted a new accounting standard for retirement benefits in the United Kingdom.

Retained earnings decreased by ¥2,611 million 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.

(o) Accounting standard for retirement benefits in the United States

Effective from the year ended March 31, 2007, consolidated subsidiaries Konica Minolta Business Solutions U.S.A., Inc., adopted a new accounting standard for retirement benefits in the United States.

Retained earnings increased by ¥137 million and actuarial gains and losses were charged directly to retained earnings for the year ended March 31, 2007.

(p) Appropriations 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 Japanese Corporate Law.

(q) 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 year.

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

(r) Accounting standard for presentation of Net Assets in the Balance Sheet

Effective from the year ended March 31, 2007, the Company and its domestic subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting

Standards Board of Japan, on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (The Financial Accounting Standard Implementation Guidance No.8 issued by the Accounting Standards Board of Japan, on December 9, 2005).

The consolidated balance sheet as of March 31, 2007 prepared in accordance with the new accounting standards comprises three sections, which are the assets, liabilities and net assets sections. The consolidated balance sheet as of March 31, 2006 prepared pursuant to the previous presentation rules comprised the assets, liabilities, minority interests and shareholders' equity sections.

The adoption of the new accounting standards had no impact on the consolidated statement of income for the year ended March 31, 2007. If the new accounting standards had not been adopted at March 31, 2007, shareholders' equity amounting to ¥367,558 million ($3,113,579 thousand) would have been presented.

(s) Accounting standard for Statement of Changes in Net Assets

Effective from the year ended March 31, 2007, the Company and its domestic subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No.6 issued by the Accounting Standards Board of Japan, on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets" (The Financial Accounting Standard Implementation Guidance No.9 issued by the Accounting Standards Board of Japan, on December 27, 2005).

The Company prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the new accounting standards. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006, which was voluntarily prepared for inclusion in the consolidated financial statements, has not been adapted to the new net asset presentation rules.

3. U.S. Dollar Amounts

The translation of Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2007, which was ¥118.05 to U.S.$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other exchange rate.

4. Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2007 and 2006, consist of:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
Cash on hand and in banks	¥85,677	¥80,878	$725,769
Short-term investments	909	—	7,700
Cash and cash equivalents	¥86,587	¥80,878	$733,477

5. Securities

As of March 31, 2007

(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	¥11,638	¥24,836	¥13,198
(2) Bonds	24	24	—
(3) Other	214	214	—
Subtotal	¥11,877	¥25,075	¥13,198
Securities for which the amounts in the consolidated balance sheets do not exceed the original purchase value			
(1) Shares	¥ 5,697	¥ 5,057	¥ (640)
(2) Bonds	—	—	—
(3) Other	—	—	—
Subtotal	¥ 5,697	¥ 5,057	¥ (640)
Total	¥17,575	¥30,132	¥12,557
	Thousands of U.S. dollars		
Total	$148,878	$255,248	$106,370

(2) Other Securities Sold during the year ended March 31, 2007

	Millions of yen		
	Sale value	Total profit	Total loss
Other securities	¥5,629	¥2,788	¥44
	Thousands of U.S. dollars		
Other securities	$47,683	$23,617	$373

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

	Millions of yen	Thousands of U.S. dollars
Unlisted stocks	¥378	$3,202
Foreign investment fund	¥909	$7,700

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

(2) Other Securities Sold during the year ended March 31, 2006

	Millions of yen		
	Sale value	Total profit	Total loss
Other securities	¥5,215	¥1,531	¥420

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

	Millions of yen
Unlisted stocks	¥486

6. Short-Term & Long-Term Debt

Short-term debt was principally unsecured and generally represent bank overdrafts. The amounts as of March 31, 2007 and 2006 were ¥79,927 million (US$677,061 thousand) and ¥135,362 million, respectively, and the weighted-average interest rates were approximately 3.3% and 2.2%.

Long-term debt as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
Bonds			
2.975% unsecured bonds due in 2006	¥ —	¥ 5,000	$ —
0.20–0.22% unsecured bonds due in 2006	—	8,983	—
2.3% bonds due in 2007	9	28	76
2.5% bonds due in 2007	9	28	76
2.4% bonds due in 2007	9	28	76
2.825% unsecured bonds due in 2008	5,000	5,000	42,355
Zero coupon convertible unsecured bonds due in 2009	30,266	—	256,383
Zero coupon convertible unsecured bonds due in 2016	40,000	—	338,839
Long-term loans			
Interest rate 1.0%	74,140	82,131	628,039
Less Current portion	(17,105)	(22,123)	(144,896)
	¥132,331	¥ 79,075	$1,120,974

Zero coupon convertible unsecured bonds due in 2009 and 2016 above are bonds with share subscription rights issued on December 7, 2006. Details of the share subscription rights are as follows:

	2009 bonds	2016 bonds
Class of stock	Common Stock	Common Stock
Issue price of shares (Yen)	Zero	Zero
Initial conversion prices (Yen/per Share)	¥2,175	¥2,383
Total issue price (Millions of yen)	¥30,000	¥40,000
Ratio of grant a right (%)	100	100
Period share subscription rights are to be exercised	From December 21, 2006 to December 1, 2009	From December 21, 2006 to November 22, 2016

The aggregate annual maturities of long-term debt at March 31, 2007 are as follows:

	Amount	
Years ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥17,105	$144,896
2009	11,446	96,959
2010	42,102	356,645
2011	27,502	232,969
2012 and beyond	51,013	432,130

7. Income Taxes

The income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants' taxes and enterprise taxes.

At March 31, 2007 and 2006, significant components of deferred tax assets and liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
Deferred tax assets:			
Accrued retirement benefits	¥ 28,949	¥ 32,417	$ 245,227
Net operating tax loss carried forward	25,244	23,529	213,842
Elimination of unrealized intercompany profits	18,121	14,807	153,503
Reserve for discontinued operations	12,901	14,405	109,284
Tax effects related to investments	8,720	6,054	73,867
Write-down of assets	7,658	11,457	64,871
Accrued bonuses	5,181	5,621	43,888
Depreciation and amortization	4,298	7,446	36,408
Enterprise taxes	2,148	1,728	18,196
Allowance for doubtful accounts	986	3,157	8,352
Provision for special outplacement program	—	2,638	—
Other	16,194	13,999	137,179
Gross deferred tax assets	130,405	137,265	1,104,659
Valuation allowance	(49,902)	(52,392)	(422,719)
Total deferred tax assets	80,502	84,872	681,931
Deferred tax liabilities:			
Unrealized gains on securities	(6,374)	(7,689)	(53,994)
Retained earnings of overseas subsidiaries	(3,194)	(2,185)	(27,056)
Gains on securities contributed to employees' retirement benefit trust	(3,124)	(3,161)	(26,463)
Special tax-purpose reserve for condensed booking of fixed assets	(1,086)	(1,448)	(9,199)
Other	(291)	(111)	(2,465)
Total deferred tax liabilities	(14,072)	(14,596)	(119,204)
Net deferred tax assets	¥ 66,430	¥ 70,276	$ 562,728
Deferred tax liabilities related to revaluation:			
Deferred tax liabilities on land revaluation	¥ (4,028)	¥ (4,042)	$ (34,121)

Net deferred tax assets are included in the following items in the consolidated balance sheets:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
Current assets – deferred tax assets	¥41,336	¥43,242	$350,157
Fixed assets – deferred tax assets	27,306	29,135	231,309
Current liabilities – other current liabilities	(21)	(3)	(178)
Long-term liabilities – other long-term liabilities	¥ (2,191)	¥ (2,097)	$ (18,560)
Net deferred tax assets	¥66,430	¥70,276	$562,728

At March 31, 2007 and 2006, the reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	2007	2006
Statutory income tax rate	40.7%	40.7%
(Reconciliation)		
Valuation allowance	(9.3)	(95.0)
Tax credits	(2.6)	6.5
Non-taxable income	(0.7)	—
Difference in statutory tax rates of foreign subsidiaries	(0.3)	—
Expenses not deductible for tax purposes	1.7	—
Amortization of goodwill	1.9	(9.0)
Other, net	(0.8)	8.0
Effective income tax rate per consolidated statements of income	30.6%	(48.8)%

8. Research and Development Costs

Research and development costs included in cost of sales and selling, general and administrative expenses for the year ended March 31, 2007 and 2006 are ¥72,142 million (US$611,114 thousand) and ¥67,178 million, respectively.

9. Net Assets

The Japanese Corporate Law effective from May 1, 2006 provides that earnings in an amount equal to 10% of dividends of retained earnings shall be appropriated as a capital surplus or a legal reserve on the date of distribution of retained earnings until the aggregated amount of capital surplus and legal reserve equals 25% of stated capital. The legal reserve is included in retained earnings in the accompanying consolidated balance sheets. The Japanese Commercial Code, effective until the enforcement of the Japanese Corporate Law, provided that earnings in an amount equal to at least 10% of appropriations of retained earnings that were paid in cash shall be appropriated as a legal reserve until the aggregated amount of capital surplus and legal reserve equaled 25% of stated capital.

The Board of Directors decided not to pay cash dividend for the interim period ended September 30, 2006, due to the considerable extraordinary losses incurred in the previous year in connection with the exit from the Photo Imaging business.

On May 10, 2007, the Board of Directors approved cash dividends to be paid to shareholders of record as of March 31, 2007, totaling ¥5,307 million, at a rate of ¥10 per share.

10. Contingent Liabilities

The Companies were contingently liable at March 31, 2007 for loan and lease guarantees of ¥2,236 million (US$18,941 thousand) and as of March 31, 2006 for loan and lease guarantees of ¥2,620 million.

11. Loss on Impairment of Fixed Assets

The Companies have recognized loss on impairment of ¥640 million ($5,421 thousand), for the following groups of assets as of March 31, 2007 and 2006:

Description	Classification	Amount		
		Millions of yen		Thousands of U.S. dollars
		March 31		March 31
		2007	2006	2007
Rental assets	Land, Buildings and structures	¥ —	¥ 4,412	$ —
	Rental business-use assets	117	—	991
Idle assets	Land, Buildings and structures, Others	522	287	4,422
Manufacturing and sales of photographic paper, Film, etc.	Buildings and structures, Machinery and equipment, Tools and furniture, Others	—	24,756	—
Manufacturing and sales of except above	Land, Buildings and structures	—	3,296	—
Total		¥640	¥32,752	$5,421

(1) Identifying the cash-generating unit to which an asset belongs
Each cash-generating unit is identified based on the product line and geographical area as a group of assets. For rental assets, cash-generating unit is identified by the rental contract and the geographical area. Each idle assets is also identified as a cash-generating unit.

(2) The events and circumstances that led to the recognition of the impairment loss
Due to the decline in real estate value and poor performance, profitability of rental and idle assets has worsened.
Therefore, the Companies have marked the assets down to the recoverable value.

(3) Details of Impairment of fixed assets

	Amount		
	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
Buildings and structures	¥ 87	¥13,464	$ 737
Rental business-use assets	117	—	991
Machinery and equipment	—	11,006	—
Tools and furniture	—	1,539	—
Leased asset	—	3,972	—
Others	435	2,769	3,685

(4) Measuring recoverable amount
The recoverable amount of a cash-generating unit is the fair value less costs to sell. It is supported by an appraisal report for land and buildings and structures, or the rational estimate for rental business–use assets.

12. Loss on Discontinued Operations

In the fiscal year ended March 31, 2006, the Companies recorded ¥96,625 million of loss on discontinued operations, which was incurred in connection with the exit from the Photo Imaging business.

This loss included a 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).

During the year ended March 31, 2007 the reserve for discontinued operations declined by ¥29,980 million ($253,960 thousand) to ¥28,097 million ($238,009 thousand).

On the statement of income for the year ended March 31, 2007 the Companies posted ¥935 million ($7,920 thousand) of loss on discontinued operations. It is the net amount of ¥17,567 million ($148,810 thousand) of income from the reversal of reserve and ¥18,502 million ($156,730 thousand) of loss on discontinued operations due to the changes various conditions and environment.

13. Lease Transactions

Proforma information on the Company and its domestic subsidiaries 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
	2007	2006	2007
Buildings and structures	¥ 8,841	¥ 10,598	$ 74,892
Machinery, equipment and other	2,435	15,110	20,627
Tools and furniture	11,348	13,230	96,129
Rental business-use assets	4,173	6,590	35,349
Intangible fixed assets	358	694	3,033
	27,158	46,224	230,055
Less: Accumulated depreciation	(16,037)	(28,572)	(135,849)
Loss on impairment of lease assets	15	3,972	127
Net book value	¥ 11,106	¥ 13,679	$ 94,079

The scheduled maturities of future lease rental payments on such lease contracts at March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
Due within one year	¥ 2,913	¥ 5,949	$24,676
Due over one year	8,236	11,701	69,767
Total	¥11,150	¥17,651	$94,452

Lease rental expenses and depreciation equivalents under the finance leases which are accounted for in the same manner as operating leases for the years ended March 31, 2007 and 2006 were as follows:

Lease rental expenses for the period	¥ 4,168	¥10,045	$35,307
Depreciation equivalents	¥ 1,081	¥ 9,175	$ 9,157

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

Reserve for loss on impairment of leased assets as of March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
Reserve for loss	¥ 15	¥ 3,102	$ 127

Reversals of reserve for loss on impairment of leased assets for the years ended March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
Reversals of reserve for loss	¥ 3,087	¥ 869	$26,150

2) Operating Leases

The scheduled maturities of future operating lease rental payments as of March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
Due within one year	¥ 5,052	¥ 5,350	$ 42,795
Due over one year	14,676	11,670	124,320
Total	¥19,728	¥17,021	$167,116

Lessor

1) Finance Leases

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
Leased rental business-use assets:			
Purchase cost	¥ 28,524	¥ 22,569	$ 241,626
Less: Accumulated depreciation	(17,940)	(14,830)	(151,970)
Net book value	¥ 10,584	¥ 7,738	$ 89,657

The scheduled maturities of future finance lease rental income as of March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
Due within one year	¥5,089	¥3,780	$43,109
Due over one year	3,953	4,236	33,486
Total	¥9,043	¥8,017	$76,603

Lease rental income and depreciation under the finance leases which are accounted for in the same manner as operating leases for the years ended March 31, 2007 and 2006 were as follows:

Lease rental income for the period	¥5,638	¥4,496	$47,759
Depreciation	¥5,312	¥4,174	$44,998

2) Operating Leases

The scheduled maturities of future lease rental income on such lease contracts as of March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
Due within one year	¥1,694	¥3,045	$14,350
Due over one year	1,677	2,690	14,206
Total	¥3,372	¥5,735	$28,564

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 domestic subsidiaries changed their retirement plans, 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 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 was integrated into a CDBP. A portion of the Minolta lump-sum payament plan was transferred to a CDBP on the same date.

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

The reserve for retirement benefits as of March 31, 2007 and 2006 is analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
a. Retirement benefit obligations	¥(149,936)	¥(154,221)	$(1,270,106)
b. Plan assets	108,766	108,320	921,355
c. Unfunded retirement benefit obligations (a+b)	(41,170)	(45,901)	(348,751)
d. Unrecognized actuarial differences	(4,528)	(5,572)	(38,357)
e. Unrecognized prior service costs	(9,557)	(11,768)	(80,957)
f. Net amount on consolidated balance sheets (c+d+e)	(55,256)	(63,241)	(468,073)
g. Prepaid pension costs	2,690	1,627	22,787
h. Accrued retirement benefits (f-g)	¥ (57,947)	¥ (64,869)	$ (490,868)

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

Net retirement benefit costs for the years ended March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
a. Service costs	¥ 6,383	¥ 5,024	$ 54,070
b. Interest costs	4,244	4,107	35,951
c. Expected return on plan assets	(2,887)	(2,046)	(24,456)
d. Amortization of actuarial differences	338	3,220	2,863
e. Amortization of prior service costs	(1,529)	(1,536)	(12,952)
f. Retirement benefit costs (a+b+c+d+e)	6,549	8,769	55,476
g. Contribution to defined contribution pension plans	2,745	2,895	23,253
Total (f+g)	¥ 9,295	¥11,665	$ 78,738

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 was recorded as other expenses for the year ended March 31, 2006.

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

	2007	2006
Method of attributing the retirement benefits to periods of service	Periodic allocation method for projected benefit obligations	Periodic allocation method for projected benefit obligations
Discount rate	Mainly 2.5%	Mainly 2.5%
Expected rate of return on plan assets	Mainly 1.25%	Mainly 1.25%
Amortization of unrecognized prior service cost	Mainly 10 years	Mainly 10 years
Amortization of unrecognized actuarial differences	Mainly 10 years	Mainly 10 years

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. Additionally, the Companies have a policy of limiting the purpose of such transactions 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, a 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 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 Company and the President of other subsidiaries, respectively.

A summary of derivative instruments at March 31, 2007 and 2006 is as follows:

(1) Currency-Related Derivatives

	Millions of yen						Thousands of U.S. dollars		
	March 31						March 31		
	2007			2006			2007		
	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$	¥36,861	¥36,817	¥ 44	¥30,849	¥31,081	¥(231)	$312,249	$311,876	$ 373
EURO	25,352	25,664	(311)	33,433	33,928	(494)	214,756	217,399	(2,634)
To buy foreign currencies:									
US$	¥ 8,354	¥ 8,508	¥ 153	¥ 6,672	¥ 6,682	¥ 10	$ 70,767	$ 72,071	$ 1,296
EURO	1,277	1,286	9	—	—	—	10,817	10,894	76
Total	¥71,846	¥72,276	¥(104)	¥70,955	¥71,692	¥(715)	$608,607	$612,249	$ (881)

Notes: 1. Fair value is calculated based on the forward foreign currency exchange rates prevailing as of March 31, 2007 and 2006, respectively.
2. Derivative instruments for which hedge accounting is applied are excluded from the above table.

(2) Interest Rate-Related Derivatives

	Millions of yen						Thousands of U.S. dollars		
	March 31						March 31		
	2007			2006			2007		
	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:									
Pay fixed, receive floating	¥8,022	¥34	¥34	¥7,285	¥32	¥32	$67,954	$288	$288

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

16. Stock Option Plans

The following tables summarize details of stock option plans as of March 31, 2007.

Position and number of grantee	Directors and Executive Officers: 26
Class and number of stock	Common Stock: 194,500
Date of issue	August 23, 2005
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	From August 23, 2005 to June 30, 2006
Period share subscription rights are to be exercised	From August 23, 2005 to June 30, 2025

Position and number of grantee	Directors and Executive Officers: 23
Class and number of stock	Common Stock: 105,500
Date of issue	September 1, 2006
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	From September 1, 2006 to June 30, 2007
Period share subscription rights are to be exercised	From September 2, 2006 to June 30, 2026

The following tables summarize and movement of outstanding stock options for the year ended March 31, 2007.

Not exercisable stock options	
Stock options outstanding at March 31, 2006	—
Stock options granted	105,500
Forfeitures	—
Conversion to exercisable stock options	105,500
Stock options outstanding at March 31, 2007	—

Exercisable stock options	
Stock options outstanding at March 31, 2006	194,500
Conversion from not exercisable stock options	105,500
Stock options exercised	—
Forfeitures	3,000
Stock options outstanding at March 31, 2007	297,000

The following tables summarize price information of stock options as of March 31, 2007.

Not exercisable stock options	Outstanding balance
Price of stock options exercised (Yen)	¥ 1
Average market price of the stock at the time of exercise (Yen)	—
Exercise price (Yen)	¥1,453

17. Segment Information

(1) Business Segment Information

Business segment information of the Companies for the years ended March 31, 2007 and 2006 is presented as follows:

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	Eliminations and Corporate	Consolidated
2007: Net sales									
Outside	¥658,693	¥138,960	¥47,752	¥158,705	¥10,003	¥13,516	¥1,027,630	¥—	¥1,027,630
Intersegment	3,955	1,396	9,700	12,249	859	58,313	86,476	(86,476)	—
Total	662,648	140,356	57,453	170,955	10,863	71,830	1,114,106	(86,476)	1,027,630
Operating expenses	582,666	119,355	58,278	162,074	9,213	60,164	991,753	(68,129)	923,624
Operating income (loss)	¥79,982	¥21,000	¥(825)	¥8,880	¥1,649	¥11,665	¥122,353	¥(18,346)	¥104,006
Assets	¥479,938	¥155,413	¥47,704	¥124,727	¥10,046	¥486,872	¥1,304,702	¥(353,650)	¥951,052
Depreciation	30,050	10,806	—	5,138	210	6,487	52,692	—	52,692
Impairment losses	537	46	—	—	—	56	640	—	640
Capital expenditure	24,510	24,464	—	8,793	400	5,831	64,000	—	64,000

	Millions of yen								
	Business Technologies	Optics	Photo Imaging	Medical and Graphic Imaging	Sensing	Other	Total	Eliminations and Corporate	Consolidated
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 (loss)	¥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

	Thousands of U.S. dollars								
	Business Technologies	Optics	Photo Imaging	Medical and Graphic Imaging	Sensing	Other	Total	Eliminations and Corporate	Consolidated
2007: Net sales									
Outside	$5,579,780	$1,177,128	$404,507	$1,344,388	$84,735	$114,494	$8,705,040	$—	$8,705,040
Intersegment	33,503	11,825	82,169	103,761	7,277	493,969	732,537	(732,537)	—
Total	5,613,283	1,188,954	486,684	1,448,158	92,020	608,471	9,437,577	(732,537)	8,705,040
Operating expenses	4,935,756	1,011,055	493,672	1,372,927	78,043	509,648	8,401,127	(577,120)	7,824,007
Operating income (loss)	$677,526	$177,891	$(6,989)	$75,222	$13,969	$98,814	$1,036,451	$(155,409)	$881,033
Assets	4,065,548	$1,316,501	$404,100	$1,056,561	$85,100	$4,124,286	$11,052,114	$(2,995,765)	$8,056,349
Depreciation	254,553	91,537	—	43,524	1,779	54,951	446,353	—	446,353
Impairment losses	4,549	390	—	—	—	474	5,421	—	5,421
Capital expenditure	207,624	207,234	—	74,485	3,388	49,394	542,143	—	542,143

(2) Geographic Segment Information

	Millions of yen						
	Japan	North America	Europe	Asia and Other	Total	Eliminations and Corporate	Consolidated
2007: Net sales							
Outside	¥460,196	¥246,786	¥263,702	¥ 56,945	¥1,027,630	¥ —	¥1,027,630
Intersegment	292,774	2,247	969	183,885	479,877	(479,877)	—
Total	752,970	249,033	264,672	240,830	1,507,507	(479,877)	1,027,630
Operating expenses	639,740	244,932	254,632	239,016	1,378,321	(454,697)	923,624
Operating income	¥113,230	¥ 4,100	¥ 10,040	¥ 1,814	¥ 129,186	¥ (25,179)	¥ 104,006
Assets	¥865,962	¥179,007	¥155,426	¥ 92,420	¥1,292,817	¥(341,765)	¥ 951,052

	Millions of yen						
	Japan	North America	Europe	Asia and Other	Total	Eliminations and Corporate	Consolidated
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

	Thousands of U.S. dollars						
	Japan	North America	Europe	Asia and Other	Total	Eliminations and Corporate	Consolidated
2007: Net sales							
Outside	$3,898,314	$2,090,521	$2,233,816	$ 482,380	$ 8,705,040	$ —	$8,705,040
Intersegment	2,480,085	19,034	8,208	1,557,687	4,065,032	(4,065,032)	—
Total	6,378,399	2,109,555	2,242,033	2,040,068	12,770,072	(4,065,032)	8,705,040
Operating expenses	5,419,229	2,074,816	2,156,984	2,024,701	11,675,739	(3,851,732)	7,824,007
Operating income	$ 959,170	$ 34,731	$ 85,049	$ 15,366	$ 1,094,333	$ (213,291)	$ 881,033
Assets	$7,335,553	$1,516,366	$1,316,612	$ 782,889	$10,951,436	$(2,895,087)	$8,056,349

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

(3) Overseas Sales

	Millions of yen		Thousands of U.S. dollars	Percentage of net sales
	2007	2006	2007	2007
Overseas Sales				
North America	¥257,160	¥274,218	$2,178,399	25.0%
Europe	279,324	281,418	2,366,150	27.2
Asia and Other	204,623	199,529	1,733,359	19.9

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.

18. Net Income (loss) per share

Calculations of net income per share for the years ended March 31, 2007 and 2006, are as follows.

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
Net income (loss) attributable to common shares	¥72,542	¥(54,305)	$614,502
	Thousands of shares		
Weight average number of common shares outstanding:			
Basic	530,778	530,898	530,778
Diluted	541,168	—	541,168
	Yen		U.S. dollars
Net income per share:			
Basic	¥136.67	¥(102.29)	$1.16
Diluted	134.00	—	1.14

Diluted net income per share for the year ended March 31, 2006 was not disclosed due to the company's loss position (anti-dilutive).