Scope of Consolidated Financial Results

The Konica Minolta Group comprises Konica Minolta Holdings, Inc., 122 consolidated subsidiaries, 34 unconsolidated subsidiaries, and 12 affiliated companies.

The business segments of the Konica Minolta Group are organized and segmented by the similarity of the products and the markets in which the products are sold. The six business segments in which the Group operates include: Business Technologies; Optics; Photo Imaging; Medical and Graphic Imaging; Sensing, and Other Businesses.

Consolidated Business Results

Scope of Consolidated Business Results

On April 1, 2003, the former Konica Corporation spun off its operating activities and shifted to a holding company structure. Shortly thereafter, Konica Minolta Holdings, Inc. was established on August 5, 2003, through a share exchange with Minolta Co., Ltd. For accounting purposes, the integration with Minolta Co., Ltd. became effective September 30, 2003. Accordingly, the Group's consolidated financial results for the fiscal year ended March 31, 2004 do not include Minolta's first-half performance results for the fiscal year under review.

In order to provide a comparison with the previous fiscal year's results, however, Minolta's first-half performance for the fiscal year ended March 31, 2004 has been included below and elsewhere in this report, excluding the financial statements on pages 40 through 55. Furthermore, the consolidated financial results for the fiscal year ended March 31, 2003 include the combined financial results of Konica Corporation and Minolta Co., Ltd. for the year then ended.

Billions of yen

	'04	'03	change
Net Sales	**1,123.6**	1,087.2	36.3
Operating Income	**73.2**	77.2	–4.0
Net Income	**19.3**	29.1	–9.8

In the fiscal year ended March 31, 2004, net sales totaled ¥1,123.6 billion, an increase of ¥36.3 billion, or 3.3%, compared with the previous fiscal year. While the appreciation of the yen against the U.S. dollar pushed net sales down by ¥10.6 billion, this was more than offset by an increase in net sales of ¥32.7 billion due to adjustments for overseas sales subsidiaries whose balance dates do not coincide with the parent company.

Gross profit was ¥478.7 billion, a year-on-year increase of ¥5.9 billion, or 1.3%, which translated to a gross profit margin of 42.6%.

Operating income amounted to ¥73.2 billion, a decrease of ¥4.0 billion, or 5.2%, while the operating income margin was 6.5%, down by 0.6 percentage points. Despite the positive effects of the yen's depreciation against the euro, which drove operating income up by ¥8.8 billion, operating income was negatively impacted by downward pressure on gross margins due to increasingly intense competition, one-off integration expenses totaling ¥8.8 billion, including cost of sales and SG&A expenses, and an additional ¥2.4 billion in goodwill amortization due to management integration.

Accounting for non-operating income and expenses, ordinary income for the fiscal year under review totaled ¥52.5 billion, down ¥1.8 billion, or 3.3%, compared with the previous fiscal year. Net non-operating expense improved ¥2.2 billion and was attributed to the reduction in interest expense in connection with the repayment of a portion of interest-bearing debt and a decline in losses relating to the disposal of inventories, notwithstanding a rationalization expense of ¥3.1 billion in connection to management integration.

Income before income taxes and after extraordinary items increased ¥0.5 billion, or 1.2%, to ¥40.5 billion. Extraordinary items improved ¥2.3 billion due to the significant drop in expenses relating to the shift to a defined contribution pension plan and unrealized loss in investment securities, notwithstanding a rationalization expense of ¥5.8 billion in connection with management integration. In the fiscal year under review, net income after taxes and minority interests totaled ¥19.3 billion, a decline of ¥9.7 billion, or 33.5%. The major factors contributing to this decline included an increase in income tax expense and a reversal of certain deferred tax assets brought about by the non-recognition of Group company losses for taxation purposes.

Segment Information

An overview of the Company's performance by business segment is provided on pages 26 through 30. The impact of movements in foreign currency exchange rates and integration expenses on operating income for the fiscal year ended March 31, 2004 as compared to the previous fiscal year is summarized as follows.

Billions of yen

	Net Sales		Operating Income (Loss)	
	'04	'03	'04	'03
Business Technologies	**618.8**	594.7	**62.9**	52.6
Optics	**85.9**	54.1	**15.3**	12.4
Photo Imaging	**278.2**	280.7	**(6.7)**	10.4
Medical & Graphic Imaging	**125.6**	117.4	**7.9**	9.3
Sensing	**9.7**	9.7	**1.8**	2.0
Other Businesses	**5.4**	30.6	**(7.9)**	(9.5)

Billions of yen

	Impact of Foreign Currency Exchange Rates	Integration Expenses
Business Technologies	+8.5	–4.1
Optics	–0.8	–0.2
Photo Imaging	+1.8	–0.5
Medical & Graphic Imaging	–0.6	–0.2
Sensing	–0.1	–0.1
Other Businesses	0.0	–3.7

Cash Flows

In the fiscal year ended March 31, 2004, net cash provided by operating activities totaled ¥86.1 billion, while net cash used in investing activities, primarily for capital expenditure, was ¥31.9 billion. As a result, free-cash flows for the fiscal year ended March 31, 2004 totaled ¥54.2 billion.

A portion of these funds were used to repay certain borrowings and corporate bonds. Interest-bearing debt as of March 31, 2004 totaled at ¥268 billion, while the debt-to-equity ratio fell from 0.84 to 0.80. Net cash used in financing activities in the fiscal year ended March 31, 2004 was ¥55.3 billion.

After considering the cash flows from operating, investing, and financing activities and the ¥1.6 billon decrease for the effect of exchange rate changes, cash and cash equivalents at March 31, 2004 declined ¥2.7 billion as compared to March 31, 2003. Due to the integration with Minolta Co., Ltd. and new subsidiaries included in the Company's scope of consolidation, cash and cash equivalents increased by ¥33.5 billion and ¥1.0 billion, respectively. As a result, the balance of cash and cash equivalents at March 31, 2004 was ¥83.7 billion.

Assets, Liabilities, and Equity

As of March 31, 2004, total assets were ¥969.6 billion and included current assets of ¥535.8 billion and fixed assets of ¥433.8 billion.

The principal components of current assets were notes and accounts receivable—trade of ¥223.0 billion, inventories of ¥173.9 billion, and cash and cash equivalents of ¥83.6 billion before adding ¥0.1 billion of marketable securities.

The significant components in fixed assets at March 31, 2004 included property, plant and equipment, consolidation goodwill, investment securities and noncurrent deferred tax assets of ¥220.2 billion, ¥98.7 billion, ¥37.4 billion, and ¥31.9 billion, respectively. The consolidation goodwill account is being amortized on a straight-line basis over 5 to 20 years. Amortization expense of the consolidation goodwill amount in the fiscal year ended March 31, 2004 was ¥2.4 billion.

As of March 31, 2004, total liabilities were ¥632.9 billion and included current liabilities of ¥484.8 billion and long-term liabilities of ¥148.1 billion. The balance of liabilities, as of March 31, 2004, was impacted by repayments of interest-bearing debt through free-cash flows generated for the period.

Current liabilities comprised mainly short-term debt, notes and accounts payable—trade, and accrued expenses with balances of ¥182.4 billion, ¥141.8 billion, and ¥71.5 billion, respectively. The principal components of long-term liabilities included long-term debt of ¥52.9 billion and accrued retirement benefits of ¥65.8 billion. Minority interests as of March 31, 2004 were ¥1.2 billion.

The primary components of shareholders' equity at March 31, 2004 include common stock, additional paid-in capital, and retained earnings, with balances of ¥37.5 billion, ¥226.1 billion and ¥77.3 billion, respectively. Additional shareholders' equity components include unrealized gains on securities of ¥4.9 billion and foreign currency translation adjustments, which reflect cumulative translation losses of ¥9.7 billion. The total shareholders' equity balance at the March 31, 2004 was ¥335.4 billion.

Driven by efforts to streamline assets, the equity ratio was 34.6%, while equity per share totaled ¥631.54.

Capital Expenditures and Research and Development Expenditures

During the fiscal year ended March 31, 2004, the Company incurred capital expenditures totaling ¥43.1 billion with the aim of developing new products, increasing production capacity, implementing rationalization measures, and promoting labor efficiency and power conservation. These expenditures by business segment include ¥15.2 billion for Business Technologies, ¥6.3 billion for Optics, ¥9.9 billion for Photo Imaging, ¥4.5 billion for Medical and Graphic Imaging, ¥0.1 billion for Sensing and ¥7.1 billion for all other business segments combined.

Research and development expenditure totaled ¥63.2 billion during the fiscal year ended March 31, 2004 and included ¥29.6 billion for the Business Technologies segment, ¥7.0 billion for Optics, ¥9.7 billion for Photo Imaging, ¥7.7 billion for Medical and Graphic Imaging, and ¥1.0 billion for Sensing. Expenditures not allocated to a specific business segment, but used for the development of basic research totaled ¥8.2 billion.

Outlook

The outlook for future economic conditions remains mixed. On the one hand, an overall global economic recovery is anticipated, fueled by a noticeable surge in U.S. business conditions. This positive scenario is in part offset by concerns over the situation in the Middle East, and particularly Iraq, and the continued appreciation of the yen against the U.S. dollar. Against this backdrop, we will accelerate the implementation of business integration measures and work to quickly realize the underlying benefits.