# Notes to The Consolidated Financial Statements

Konica Minolta Holdings, Inc. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2005 and 2004

## 1. BASIS OF PRESENTING FINANCIAL STATEMENTS

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 consolidated financial statements for the first six months of the year ended March 31, 2004 do not include the results of Minolta Co., Ltd.

The accompanying consolidated financial statements of Konica Minolta Holdings, Inc. (the "Company") and its subsidiaries (together, referred to as the "Companies") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects to the 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.

Certain items presented in the consolidated financial statements submitted to the Director of Kanto Finance Bureau in Japan have been reclassified for the convenience of readers outside of Japan.

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

As permitted under the Securities and Exchange Law of Japan, amounts of less than one million yen 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 122 subsidiaries in which it has control. All significant intercompany transactions balances and unrealized profits among the Companies are eliminated in consolidation.

Investments in 13 unconsolidated subsidiaries and 2 significant affiliates are accounted for using the equity method. Investments in 20 other unconsolidated subsidiaries and 17 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 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 at 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, in the main, recorded at cost as determined by the periodic-average method. Overseas consolidated subsidiaries' inventories are recorded at the lower of cost or market value, with cost determined by the first-in, first-out.

### (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 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 in Japan issued "Opinion on Establishment of Asset-Impairment Accounting Standards," which requires that certain fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the criterion for impairment recognition is met, an impairment loss as the difference between the carrying amount and the higher of net discounted future cash flows or market value of the asset shall be recognized in the consolidated statements of income. In the case of the Company, this standard shall be effective for the fiscal year beginning April 1, 2005, with an earlier adoption for the fiscal year beginning April 1, 2004 being permitted. The Company is currently in the process of assessing the impact on the consolidated financial statements from the adoption of this standard.

**(h) Income Taxes**
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 Expenses**
Expenses for research and development activities are charged to income 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.

On April 1, 2004, a portion of the Minolta lump-sum payment plan was transferred to a defined contribution pension plan. As a result, the Company recorded a loss of ¥180 million included in Loss on transition to defined contribution plans from defined benefit plans for the year ended March 31, 2004 as described in Note 12, Retirement Benefit Plans.

*Retirement Benefits for Directors and Corporate Auditors*
The Companies provide for the accrued costs of retirement benefits payable to directors and corporate auditors. The amount accrued for such retirement benefits is calculated as 100% of such benefits the Companies would be required to pay on condition that all eligible directors and corporate auditors had retired at the year-end date.

The Companies amended their internal rules on retirement benefits of directors and corporate auditors as a result of the business integration between former Konica, Minolta and their subsidiaries, and adopted a new corporate governance structure, including the Companies' compensation, nomination and audit committee, during the year ended March 31, 2004. Accordingly, the Companies recorded ¥409 million in benefits expected to be paid as of March 31, 2004 as an operating expense and ¥513 million as the prior periods' expenses of accrued retirement benefits for directors and corporate auditors.

**(m) Appropriation of Retained Earnings**
Appropriation of retained earnings at the end of each fiscal year are reflected in the financial statements for the following year.

**(n) Per Share Data**

Net income 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 ¥107.39=US$1, the rate of exchange on March 31, 2005, 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:

| | Millons of yen | | Thousands of U.S. dallars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Cash on hand in banks | ¥59,330 | ¥83,574 | $552,472 |
| Marketable securities | 155 | 130 | 1,443 |
| Cash and cash equivalents | ¥59,485 | ¥83,704 | $553,916 |

## 5. SECURITIES

As of March 31, 2005

**(1) Other Securities with Quoted Market Values**

| | Millons of yen | | |
|---|---|---|---|
| | Original purchase value | Market value at the consolidated balance sheet date | Unrealized gains or losses |
| Securities for which the amounts in the consolidated balance sheets exceed the original purchase value | | | |
| (1) Shares | ¥9,908 | ¥21,391 | ¥11,483 |
| (2) Bonds | — | — | — |
| (3) Other | 19 | 20 | 1 |
| Subtotal | 9,927 | 21,412 | 11,484 |
| Securities for which the amounts in the consolidated balance sheets do not exceed the original purchase value | | | |
| (1) Shares | 5,560 | 5,519 | (40) |
| (2) Bonds | 116 | 116 | 0 |
| (3) Other | 70 | 69 | (0) |
| Subtotal | 5,747 | 5,706 | (41) |
| Total | ¥15,675 | ¥27,119 | ¥11,443 |
| | Thousands of U.S. dollars | | |
| Total | $145,963 | $252,528 | $106,556 |

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

| | Millons 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

| | Millons of yen | Thousands of U.S. dallars |
|---|---|---|
| Unlisted stocks | ¥1,545 | $14,387 |
| Other | ¥155 | $1,443 |

As of March 31, 2004

**(1) Other Securities with Quoted Market Values**

| | Millons of yen | | |
|---|---|---|---|
| | Original purchase value | Market value at the consolidated balance sheet date | Unrealized gains or losses |
| Securities for which the amounts in the consolidated balance sheets exceed the original purchase value | | | |
| (1) Shares | ¥15,679 | ¥25,165 | ¥9,485 |
| (2) Other | 22 | 26 | 4 |
| Subtotal | 15,702 | 25,192 | 9,489 |
| Securities for which the amounts in the consolidated balance sheets do not exceed the original purchase value | | | |
| (1) Shares | 5,685 | 5,007 | (678) |
| (2) Other | 186 | 181 | (4) |
| Subtotal | 5,872 | 5,189 | (683) |
| Total | ¥21,574 | ¥30,381 | ¥8,806 |

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

| | Millons of yen | | |
|---|---|---|---|
| | Sale value | Total profit | Total loss |
| Other securities | ¥501 | ¥228 | ¥461 |

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

Amounts on consolidated balance sheets

| | Millons of yen |
|---|---|
| Unlisted stocks | ¥1,443 |
| Unlisted foreign bonds | 5 |
| Other | ¥130 |

## 6. SHORT-TERM & LONG-TERM DEBT WITH BANKS

Short-term and long-term debt as of March 31, 2005 and 2004 are summarized as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2005 | (Interest rate) | 2004 | 2005 |
| Short-term debt | ¥157,174 | 1.87 | ¥182,429 | $1,463,581 |
| Current portion of long-term debt | 7,261 | 2.41 | 14,251 | 67,613 |
| Long-term debt | 54,604 | 1.09 | 32,778 | 508,464 |
| Total | ¥219,040 | | ¥229,459 | $2,039,668 |

The repayment schedule of long-term debt from 2007 through 2010 is as follows:

| Years ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2007 | ¥ 8,086 | $ 75,296 |
| 2008 | 16,895 | 157,324 |
| 2009 | 6,495 | 60,480 |
| 2010 and beyond | 23,128 | 215,365 |

### *Bonds*

Bonds as of March 31, 2005 and 2004 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Bonds | ¥27,305 | ¥38,492 | $254,260 |

The annual maturities of bonds as of March 31, 2005 are as follows:

| Years ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2006 | ¥17,221 | $160,359 |
| 2007 | 5,054 | 47,062 |
| 2008 | 30 | 279 |
| 2009 | 5,000 | 46,559 |

Assets pledged as collateral for short-term debt, long-term debt and guarantees as of March 31, 2005 and 2004 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Property, plant and equipment | ¥887 | ¥3,092 | $8,260 |

## 7. INCOME TAXES

At March 31, 2005 and 2004, significant components of deferred tax assets and liabilities were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| **Gross deferred tax assets:** | | | |
| Excess of reserve for retirement benefits over deductible limit | ¥ 31,309 | ¥ 33,194 | $ 291,545 |
| Net loss carried forward | 17,112 | 19,174 | 159,344 |
| Elimination of unrealized intercompany profits | 14,651 | 14,185 | 136,428 |
| Write-down of assets | 7,119 | 5,587 | 66,291 |
| Excess of accrued bonuses over deductible limit | 5,993 | 6,101 | 55,806 |
| Excess of allowance for doubtful accounts over deductible limit | 1,693 | 1,608 | 15,765 |
| Excess of depreciation and amortization over deductible limit | 1,497 | 3,712 | 13,940 |
| Other | 13,842 | 11,660 | 128,895 |
| Subtotal | 93,220 | 95,225 | 868,051 |
| Valuation allowance | (18,264) | (19,483) | (170,072) |
| Deferred tax assets total | 74,955 | 75,742 | 697,970 |
| **Gross deferred tax liabilities:** | | | |
| Unrealized gains on securities | (4,299) | (4,991) | (40,032) |
| Gains on securities contributed to employees' retirement benefit trust | (3,353) | (3,442) | (31,223) |
| Special tax-purpose reserve for condensed booking of fixed assets | (1,440) | (3,296) | (13,409) |
| Other | (1,870) | (1,155) | (17,423) |
| Deferred tax liabilities total | (10,964) | (12,886) | (102,095) |
| Net deferred tax assets | ¥ 63,991 | ¥ 62,855 | $ 595,875 |
| Deferred tax liabilities related to revaluation of land | ¥ (3,926) | ¥ (3,925) | $ (36,558) |

Deferred tax assets relating to net losses carried forward are recorded because the Japanese accounting standard requires that the benefit be estimated and recorded as an asset, with deduction of a valuation allowance if it is expected that some portion or all of the deferred tax assets will not be realized.

At March 31, 2005 and 2004, the reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

| | 2005 | 2004 |
|---|---|---|
| Statutory income tax rate | 40.7% | 42.1% |
| Valuation allowance | (3.5) | 15.9 |
| Tax deduction | (8.6) | (6.1) |
| Tax rate change | — | 2.4 |
| Amortization of consolidation goodwill | 12.9 | 3.7 |
| Effect of the introduction of a consolidated tax return system | 28.6 | — |
| Other, net | 7.1 | 2.6 |
| Effective income tax rate | 77.2% | 60.6% |

## 8. RESEARCH AND DEVELOPMENT EXPENSE

Total amounts charged to income for the fiscal years ended March 31, 2005 and 2004 are ¥65,994 million (US$614,526 thousand) and ¥49,103 million, respectively.

## 9. SHAREHOLDER'S EQUITY

On August 5, 2003, Konica Corporation (Konica) and Minolta Co., Ltd. (Minolta) integrated their management by issuing 0.621 of a Konica share to the shareholders of Minolta in an exchange for one Minolta share. Before the share exchange, the articles of incorporation were amended and as a result the number of authorized shares increased from 800,000,000 to 1,200,000,000. The number of issued and outstanding shares increased from 357,655,368 to 531,664,337 by 174,008,969, resulting in an additional paid-in capital increase of ¥146,706 million, as a result of the integration.

On May 12, 2005, the Board of Director's meeting approved cash dividends to be paid to shareholders of record as of March 31, 2005, totaling ¥2,655 million, at a rate of ¥5 per share.

## 10. CONTINGENT LIABILITIES

The Companies were contingently liable as of March 31, 2005 for loan guarantees of ¥2,131 million (US$19,844 thousand).

## 11. 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 are as follows:

**Lessee**

**1) Finance Leases**

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Buildings and structures | ¥ 6,098 | ¥ 7,346 | $ 56,784 |
| Machinery, equipment and other | 9,725 | 4,401 | 90,558 |
| Tools and furniture | 19,111 | 20,463 | 177,959 |
| Rental business-use assets | 6,913 | 9,045 | 64,373 |
| Intangible assets | 813 | 1,187 | 7,571 |
| | 42,662 | 42,443 | 397,262 |
| Less: Accumulated depreciation | (27,538) | (23,221) | (256,430) |
| Net book value | 15,124 | 19,222 | 140,832 |
| Depreciation | ¥ 9,389 | ¥ 5,640 | $ 87,429 |

Depreciation is 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 as of March 31, 2005 and 2004 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Due within one year | ¥ 6,790 | ¥ 8,089 | $ 63,227 |
| Due over one year | 8,333 | 11,132 | 77,596 |
| Total | 15,124 | 19,222 | 140,832 |
| Lease rental expenses for the year | ¥ 9,389 | ¥ 5,640 | $ 87,429 |

**2) Operating Leases**

The scheduled maturities of future operating lease rental payments as of March 31, 2005 and 2004 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Due within one year | ¥ 9,668 | ¥ 7,151 | $ 90,027 |
| Due over one year | 21,036 | 20,412 | 195,884 |
| Total | ¥30,705 | ¥27,564 | $285,920 |

**Lessor**

**1) Finance Leases**

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Leased rental business-use assets: | | | |
| Purchase cost | ¥ 20,345 | ¥ 18,459 | $ 189,450 |
| Accumulated depreciation | (13,060) | (11,512) | (121,613) |
| Net book value | ¥ 7,284 | ¥ 6,947 | $ 67,828 |

The scheduled maturities of future finance lease rental income as of March 31, 2005 and 2004 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Due within one year | ¥3,379 | ¥ 4,065 | $31,465 |
| Due over one year | 4,484 | 3,439 | 41,754 |
| Total | 7,863 | 7,505 | 73,219 |
| Lease rental income for the year | 5,054 | 2,890 | 47,062 |
| Depreciation for the year | ¥4,271 | ¥2,285 | $39,771 |

**2) Operating Leases**

The scheduled maturities of future lease rental income on such lease contracts as of March 31, 2005 and 2004 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Due within one year | ¥3,094 | ¥3,857 | $28,811 |
| Due over one year | 1,575 | 4,198 | 14,666 |
| Total | ¥4,669 | ¥8,055 | $43,477 |

## 12. 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 to be returned to the government, and the remaining portion of the Fund was 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, 2005 and 2004 are analyzed follws:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| a. Retirement benefit obligations | ¥(142,123) | ¥(138,418) | $(1,323,429) |
| b. Plan assets | 76,808 | 72,427 | 715,225 |
| c. Unfunded retirement benefit obligations (a+b) | (65,315) | (65,991) | (608,204) |
| d. Unrecognized transition amounts | — | 521 | — |
| e. Unrecognized actuarial differences | 14,638 | 14,425 | 136,307 |
| f. Unrecognized prior service costs | (10,345) | (11,808) | (96,331) |
| g. Net amount on consolidated balance sheets (c+d+e+f) | (61,022) | (62,853) | (568,228) |
| h. Prepaid pension costs | 2,021 | 2,061 | 18,819 |
| i. Accrued retirement benefits (g-h) | ¥ (63,044) | ¥ (64,915) | $ (587,057) |

Notes: 1. The Company and certain consolidated subsidiaries made amendments to their welfare pension fund plans and tax-qualified pension plans in order to reduce their benefit payments. In addition, as described above, they changed some of the pension plans and transferred certain funds between the plans. As a result of these transactions, prior service costs were generated.

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

3. The transition from a portion of the Minolta lump-sum payment plan to a defined contribution pension plan resulted in the following changes for the year ended March 31, 2005:

| | Millons of yen | Thousands of U.S. dallars |
|---|---|---|
| Decrease of the retirement benefit obligations | ¥1,667 | $15,523 |
| Unrecognized actuarial differences | 243 | 2,263 |
| Unrecognized prior service costs | (250) | (2,328) |
| Decrease of accrued retirement benefits | ¥1,660 | $15,458 |

The assets to be transferred to the defined contribution pension plan equal ¥1,500 million and will be transferred over 4 years. The amount of ¥1,161 million is recorded as other long-term liabilities at March 31, 2005.

4. The transition from a portion of the Konica lump-sum payment plan to a defined contribution pension plan resulted in the following changes for the year ended March 31, 2004:

| | Millons of yen |
|---|---|
| Decrease of the retirement benefit obligations | ¥4,721 |
| Unrecognized actuarial differences | (769) |
| Unrecognized prior service costs | 658 |
| Decrease of accrued retirement benefits | ¥4,610 |

The assets to be transferred to the defined contribution pension plan equal ¥4,790 million and will be transferred over 4 years. The amount of ¥4,790 million is recorded as accrued expenses and other long-term liabilities at March 31, 2004.

Net retirement benefit costs for the years ended March 31, 2005 and 2004 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| a. Service costs | ¥ 7,426 | ¥ 5,645 | $ 69,150 |
| b. Interest costs | 2,947 | 2,670 | 27,442 |
| c. Expected return on plan assets | (736) | (358) | (6,854) |
| d. Amortization of transition amounts | 521 | 1,540 | 4,851 |
| e. Actuarial differences that are accounted for as expenses | 2,042 | 1,968 | 19,015 |
| f. Prior service costs that are accounted for as expenses | (1,233) | (519) | (11,482) |
| g. Retirement benefit costs (a+b+c+d+e+f) | 10,968 | 10,946 | 102,132 |
| h. Loss on the transition to defined contribution plans from defined benefit plans | (160) | 180 | (1,490) |
| i. Contribution to defined contribution pension plans | 1,257 | 1,488 | 11,705 |
| Total (g+h+i) | ¥12,065 | ¥12,615 | $112,348 |

Note: Retirement benefit costs of consolidated subsidiaries using a simplified method are included in "a. Service costs."

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

| | 2005 | 2004 |
|---|---|---|
| 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 | Mostly 5 years for subsidiaries |

## 13. DERIVATIVES

The Companies enter into derivative instruments including forward foreign currency exchange contracts, interest rate swaps and commodity swaps, 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 to hedging identified exposures only and not 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 and would not be expected 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. The 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 at 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 swap contracts are approved by the respective President of each subsidiary based on internal rules.

The derivative instruments as of March 31, 2005 and 2004 are summarized as follows:

### (1) Currency-Related Derivatives

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2005 | | | 2004 | | | 2005 | | |
| | 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$ | ¥39,233 | ¥40,358 | ¥(1,124) | ¥20,091 | ¥19,664 | ¥ 426 | $365,332 | $375,808 | $(10,467) |
| EURO | 28,960 | 29,268 | (308) | 29,709 | 28,505 | 1,204 | 269,671 | 272,539 | (2,868) |
| Other | 1,075 | 1,082 | (7) | 489 | 483 | 5 | 10,010 | 10,075 | (65) |
| Total | ¥69,269 | ¥70,710 | ¥(1,440) | ¥50,289 | ¥48,652 | ¥1,635 | $645,023 | $658,441 | $(13,409) |
| To buy foreign currencies: | | | | | | | | | |
| US$ | ¥ 4,342 | ¥ 4,515 | ¥ 173 | ¥ 3 | ¥ 3 | ¥ 0 | $ 40,432 | $ 42,043 | $ 1,611 |
| EURO | 614 | 622 | 7 | 671 | 679 | 7 | 5,717 | 5,792 | 65 |
| Other | 127 | 123 | (3) | 967 | 886 | (81) | 1,183 | 1,145 | (28) |
| Total | ¥ 5,084 | ¥ 5,261 | ¥ 177 | ¥ 1,641 | ¥ 1,568 | ¥ (74) | $ 47,341 | $ 48,990 | $ 1,648 |

Notes: 1. Fair value is calculated based on the forward foreign currency exchange rates prevailing as of March 31, 2005 and 2004, 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 | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2005 | | | 2004 | | | 2005 | | |
| | 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 | ¥ — | ¥ — | ¥ — | ¥1,056 | ¥(51) | ¥(51) | $ — | $ — | $ — |
| Pay fixed, receive floating | 6,943 | (36) | (36) | — | — | — | 64,652 | (335) | (335) |
| Total | ¥6,943 | ¥(36) | ¥(36) | ¥1,056 | ¥(51) | ¥(51) | $64,652 | $(335) | $(335) |

Notes: 1. Fair value is provided by the financial institutions with whom the derivative contracts were transacted.
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 risks of interest-rate swaps.

## 14. SEGMENT INFORMATION

### (1) Business Segment Information

Business segment information of the Companies for the years ended March 31, 2005 and 2004 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 term, 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 |
| 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 |

| | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Business Technologies | Optics | Photo Imaging | Medical and Graphic Imaging | Sensing | Other | Total | Elimination and Corporate | Consolidation |
| 2004: Net sales | | | | | | | | | |
| Outside | ¥431,118 | ¥76,711 | ¥223,962 | ¥120,871 | ¥2,657 | ¥ 5,100 | ¥ 860,420 | ¥ — | ¥860,420 |
| Intersegment | 24,594 | 17,948 | 15,057 | 23,461 | 1,236 | 43,909 | 126,207 | (126,207) | — |
| Total | 455,712 | 94,660 | 239,019 | 144,332 | 3,893 | 49,009 | 986,628 | (126,207) | 860,420 |
| Operating expenses | 409,303 | 78,491 | 244,392 | 136,426 | 3,092 | 40,831 | 912,538 | (109,647) | 802,890 |
| Operating income | ¥ 46,408 | ¥16,168 | ¥ (5,372) | ¥ 7,906 | ¥ 801 | ¥ 8,177 | ¥ 74,090 | ¥ (16,559) | ¥ 57,530 |
| Assets | ¥431,374 | ¥86,726 | ¥196,027 | ¥106,930 | ¥7,703 | ¥479,901 | ¥1,308,664 | ¥(339,074) | ¥969,589 |
| Depreciation | 22,151 | 4,846 | 7,229 | 4,698 | 72 | 5,390 | 44,386 | — | 44,386 |
| Capital expenditure | 11,660 | 4,976 | 7,815 | 4,529 | 70 | 6,257 | 35,307 | — | 35,307 |

| | Thousands of U.S. dollars | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Business Technologies | Optics | Photo Imaging | Medical and Graphic Imaging | Sensing | Other | Total | Elimination and Corporate | Consolidation |
| 2005: Net sales | | | | | | | | | |
| Outside | $5,259,680 | $853,944 | $2,499,963 | $1,209,349 | $49,288 | $ 67,660 | $ 9,939,911 | $ — | $9,939,911 |
| Intersegment | 278,294 | 37,983 | 119,024 | 185,474 | 22,581 | 565,760 | 1,209,135 | (1,209,135) | — |
| Total | 5,537,983 | 891,936 | 2,618,987 | 1,394,832 | 71,878 | 633,430 | 11,149,055 | (1,209,135) | 9,939,911 |
| Operating expenses | 5,018,084 | 742,928 | 2,699,553 | 1,332,843 | 57,035 | 526,027 | 10,376,497 | (1,065,853) | 9,310,634 |
| Operating income | $ 519,899 | $148,999 | $ (80,557) | $ 61,980 | $14,834 | $ 107,394 | $ 772,558 | $ (143,281) | $ 629,267 |
| Assets | $4,203,194 | $886,619 | $1,578,778 | $ 968,088 | $72,791 | $4,129,817 | $11,839,315 | $(2,941,438) | $8,897,868 |
| Depreciation | 254,763 | 52,817 | 82,913 | 40,656 | 1,238 | 60,685 | 493,091 | — | 493,091 |
| Capital expenditure | 225,887 | 133,886 | 68,591 | 34,407 | 1,658 | 61,188 | 525,636 | — | 525,636 |

### (2) Geographic Segment Information

| | 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 |

| | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Japan | North America | Europe | Asia and Other | Total | Elimination and Corporate | Consolidation |
| 2004: Net sales | | | | | | | |
| Outside | ¥405,787 | ¥215,554 | ¥190,178 | ¥ 48,901 | ¥ 860,420 | ¥ — | ¥860,420 |
| Intersegment | 223,931 | 9,678 | 2,069 | 95,247 | 330,928 | (330,928) | — |
| Total | 629,719 | 225,233 | 192,247 | 144,148 | 1,191,348 | (330,928) | 860,420 |
| Operating expenses | 565,964 | 220,802 | 187,730 | 139,638 | 1,114,136 | (311,245) | 802,890 |
| Operating income | ¥ 63,754 | ¥ 4,430 | ¥ 4,517 | ¥ 4,510 | ¥ 77,212 | ¥ (19,682) | ¥ 57,530 |
| Assets | ¥835,472 | ¥148,317 | ¥146,841 | ¥ 66,459 | ¥1,197,091 | ¥(227,501) | ¥969,589 |

| | Thousands of U.S. dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | Japan | North America | Europe | Asia and Other | Total | Elimination and Corporate | Consolidation |
| **2005: Net sales** | | | | | | | |
| **Outside** | $4,474,551 | $2,329,891 | $2,590,223 | $ 545,228 | $ 9,939,911 | $ — | $9,939,911 |
| **Intersegment** | 2,922,544 | 79,756 | 15,122 | 1,356,141 | 4,373,582 | (4,373,582) | — |
| **Total** | 7,397,104 | 2,409,656 | 2,605,354 | 1,901,369 | 14,313,502 | (4,373,582) | 9,939,911 |
| **Operating expenses** | 6,702,561 | 2,387,671 | 2,573,508 | 1,870,,342 | 13,534,100 | (4,223,457) | 9,310,634 |
| **Operating income** | $ 694,543 | $ 21,976 | $ 31,837 | $ 31,027 | $ 779,393 | $ (150,126) | $ 629,267 |
| **Assets** | $7,631,008 | $1,434,892 | $1,471,468 | $ 699,376 | $11,236,754 | $(2,338,886) | $8,897,868 |

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 |
|---|---|---|---|
| **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 |
| 2004: Sales to | | | |
| North America | ¥235,270 | $ — | 27.3% |
| Europe | 210,899 | — | 24.5 |
| Asia and Other | 157,038 | — | 18.3 |

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.