Notes to Consolidated Financial Statements

Konica Minolta Holdings, Inc. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2004 and 2003

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 year ended March 31, 2003 and 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 to 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 and accounts and unrealized profits among the Companies are eliminated in consolidation.

Investments in 14 unconsolidated subsidiaries and two significant affiliates are accounted for by the equity method. Investments in 20 other unconsolidated subsidiaries and 10 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 5 to 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 that the common stock, additional paid-in capital and retained earnings accounts 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 are composed 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 and 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

Inventories are valued principally on an average-cost basis.

(f) Property, Plant and Equipment Depreciation

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 statement of income. In the case of the Company, this standard shall be effective for the fiscal years 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 Companies' 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 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 by 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 the derivatives designated as "hedging instruments" are deferred as an asset or liability and charged or credited to income in the same period, during which the gains and losses on the hedged items or transactions are recognized.

The 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. Thus, 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 mainly by 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.

Pursuant to the Defined Benefit Enterprise Pension Plan Law, the Company and several of its consolidated subsidiaries obtained approval from the Ministry of Health, Labour and Welfare for the exemption from the payment for future benefits of the substitutional portion of the Konica Welfare Pension Fund to the government. The Company and several of its consolidated subsidiaries applied accounting for return of the substitutional portion at the date of approval, which is allowed as an alternative accounting method in accordance with article 47-2 of Accounting Committee Report No.13 "Practical Guidance for Accounting for Pensions" issued by the Japanese Institute of Certified Public Accountants. A gain on transfer to the government of the substitutional portion totaling ¥8,081 million was recorded in income for the year ended March 31, 2003 as described in Note 12, Retirement Benefit Plans.

On April 30, 2003, the Company, upon enactment of Defined Contribution Pension Plan Law, transferred a portion of its lump-sum payment plan to a defined contribution pension plan, pursuant to Financial Accounting Standards Implementation Guidance No.1 "Accounting for Transfers between Retirement Benefit Plans" issued by the Accounting Standards Board of Japan, and "Report of Practical Issues No. 2 Practical Treatment of Accounting for Transfers between Retirement Benefit Plans" issued by the Accounting Standards Board of Japan. A loss on this totaling ¥2,993 million was recorded in income for the year ended March 31, 2003 as described in Note 12, Retirement Benefit Plans.

In addition, 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 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 amounts 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 with Minolta and its subsidiaries and the adoption of a new corporate governance structure including the Companies' compensation, nomination and audit committee during the current fiscal year. Accordingly, the Companies recorded ¥409 million in benefits expected to be paid as of the fiscal year-end as an operating expense and ¥513 million in the amount for previous years as the prior periods' expenses of accrued retirement benefits for directors and corporate auditors.

(m) 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.

Effective from the year ended March 31, 2003, the Companies adopted the Statement of Financial Accounting Standard No. 2 "Earnings per Share" issued by the Accounting Standards Board of Japan. Prior to adopting the new statement, earnings per share were calculated based on the net income shown on the Income Statements. The earnings per share calculation therefore excluded bonuses to directors and statutory auditors, since under the Japanese Commercial Code, these are recognized as an appropriation of retained earnings, in the Statements of Shareholders' Equity, rather than as expenses in the Income Statements. However, the new statement requires that net income should be adjusted by deducting bonuses paid to directors and statutory auditors, as well as the payment of dividends to shareholders of preferred stocks to be recognized as an appropriation of retained earnings, from net income shown in the Income Statements, and the calculation of earnings per share be made on that adjusted net income basis.

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥105.69=US$1, the rate of exchange on March 31, 2004, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this rate or any other rate.

4. Cash and Cash Equivalents

Cash and cash equivalents as of March 31 consist of:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Cash on hand in banks	**¥83,574**	¥51,876	**$790,747**
Marketable securities	**130**	0	**1,230**
Cash and cash equivalents	**¥83,704**	¥51,876	**$791,977**

5. Securities

As of March 31, 2004

(1) Other Securities with Quoted Market Values

	Millions 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
	Thousands of U.S. dollars		
Total	$204,125	$287,454	$83,319

(2) Other Securities Sold During the Fiscal Year Under Review

	Millions of yen		
	Sale value	Total profit	Total loss
Other securities	¥501	¥228	¥461
	Thousands of U.S. dollars		
Other securities	$4,740	$2,157	$4,362

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

Amounts on consolidated balance sheets

	Millions of yen	Thousands of U.S. dollars
Unlisted stocks	¥1,443	$13,653
Unlisted foreign bonds	5	47
Other	130	1,230

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

Short-term and long-term debt as of March 31, 2004 and 2003 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2004		2003	2004
		(Interest rate)		
Short-term debt	¥182,429	1.46	¥ 90,592	$1,726,076
Current portion of long-term debt	14,251	2.14	5,121	134,838
Long-term debt	32,778	1.29	24,126	310,133
Total	¥229,459		¥119,840	$2,171,057

The repayment schedule of long-term debt from 2006 through 2009 is as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥ 7,054	$ 66,742
2007	5,908	55,899
2008	12,406	117,381
2009	2,005	18,971

Bonds

Bonds as of March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Bonds	¥38,492	¥32,246	$364,197

The annual maturities of long-term debt as of March 31, 2004 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥18,354	$173,659
2006	10,054	95,127
2007	5,054	47,819
2008	30	284
2009	5,000	47,308

Assets pledged as collateral for short-term debt, long-term debt and guarantees as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Property, plant and equipment	¥3,044	¥2,199	$28,801

7. Income Taxes

The statutory income tax rate used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2004 and 2003 were 40.7% for the year ended March 31, 2004 and 42.1% (current) and 40.5% (non-current) for the year ended March 31, 2003.

At March 31, 2004 and 2003, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Gross deferred tax assets:			
Excess of reserve for retirement benefits over deductible limit	¥ 33,194	¥15,046	$ 314,069
Net loss carried forward	19,174	4,820	181,417
Elimination of unrealized intercompany profits	14,185	8,170	134,213
Excess of accrued bonuses over deductible limit	6,101	2,718	57,725
Write-down on assets	5,587	6,970	52,862
Excess of depreciation and amortization over deductible limit	3,712	—	35,122
Excess of allowance for doubtful accounts over deductible limit	1,608	1,418	15,214
Other	11,660	11,940	110,323
Subtotal	95,225	51,085	900,984
Valuation allowance	(19,483)	(6,587)	(184,341)
Deferred tax assets total	75,742	44,497	716,643
Gross deferred tax liabilities:			
Unrealized gains on securities	(4,991)	(540)	(47,223)
Gains on securities contributed to employees' retirement benefit trust	(3,442)	(3,592)	(32,567)
Special tax-purpose reserve for condensed booking of fixed assets	(3,296)	(3,340)	(31,186)
Other	(1,155)	(43)	(10,928)
Deferred tax liabilities total	(12,886)	(7,517)	(121,923)
Net deferred tax assets	¥ 62,855	¥36,980	$ 594,711
Deferred tax liabilities related to revaluation of land	¥ (3,925)	¥ —	$ (37,137)

Deferred tax assets relating to net losses are recorded because the Japanese accounting standard requires that the benefit of net loss carry-forwards 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.

The change in the statutory income tax rate resulted in a reduction in net deferred tax assets at March 31, 2004 by ¥788 million ($7,456 thousand) and an increase in income taxes—deferred for the year ended March 31, 2004 by ¥788 million, compared with those that would have been recognized if effective income tax rates 42.1% and 40.5% had been fully applied to the temporary differences.

At March 31, 2004 and 2003, the reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	2004	2003
Statutory income tax rate	42.1%	42.1%
Valuation allowance	15.9	—
Tax Deduction	(6.1)	—
Tax Rate Change	2.4	—
Amortization of consolidation goodwill	3.7	—
Unrecognized tax effect	—	(8.5)
Other, net	2.6	(0.5)
Effective income tax rate	60.6%	33.1%

8. Research and Development Expenses

Total amounts charged to income for the fiscal years ended March 31, 2004 and 2003 are ¥49,103 million (US$464,595 thousand) and ¥30,308 million, respectively.

9. Shareholders' Equity

On August 5, 2003, Konica Corp. (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 after the integration. The amount of common stock did not change whereas additional paid-in capital increased by ¥146,706 million as a result of the integration.

On May 20, 2004 the Board of Directors' meeting approved a cash dividend to be paid to shareholders of record as of March 31, 2004 totaling ¥2,655 million, at a rate of ¥5 per share.

Effective for the year ended March 31, 2003, the Company and its domestic consolidated subsidiaries adopted the Statement of Financial Accounting Standard No.1 "Accounting for Treasury Stock and Reversal of Capital and Legal Reserves" issued by the Accounting Standards Board of Japan. However, the effect on net income for the period of adopting this new statement was immaterial.

10. Contingent Liabilities

The Companies were contingently liable as of March 31, 2004 for loan guarantees of ¥2,030 million (US$19,207 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
	2004	2003	2004
Buildings and structures	¥ 7,346	¥ 36	$ 69,505
Machinery and equipment	4,401	10,724	41,641
Tools and furniture	20,564	9,369	194,569
Rental business-use assets	9,045	—	85,580
Intangible assets	1,085	471	10,266
	42,443	20,601	401,580
Less: Accumulated depreciation	(22,392)	(10,570)	(211,865)
Net book value	20,051	10,031	189,715
Depreciation	¥ 5,640	¥ 4,311	$ 53,364

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, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Due within one year	¥ 8,089	¥ 3,564	$ 76,535
Due over one year	11,961	6,466	113,171
Total	20,051	10,031	189,715
Lease rental expenses for the year	¥ 5,640	¥ 4,311	$ 53,364

2) Operating Leases

The scheduled maturities of future lease rental payments on such lease contracts as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Due within one year	¥26,951	¥ 4,940	$255,000
Due over one year	51,323	14,745	485,599
Total	¥78,275	¥19,685	$740,609

Lessor

Finance Leases

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Leased rental business-use assets:			
Purchase cost	¥ 25,232	¥ 576	$ 238,736
Accumulated depreciation	(14,938)	(537)	(141,338)
Net book value	¥ 10,294	¥ 38	$ 97,398

The scheduled maturities of future lease rental income on such lease contracts as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Due within one year	¥ 6,221	¥ 44	$ 58,861
Due over one year	5,616	—	53,137
Total	11,838	44	112,007
Lease rental income for the year	17,178	618	162,532
Depreciation for the year	¥14,938	¥537	$141,338

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, 2004 and 2003 are analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
a. Retirement benefit obligations	¥(138,418)	¥(79,163)	$(1,309,660)
b. Plan assets	72,427	34,853	685,278
c. Unfunded retirement benefit obligations (a+b)	(65,991)	(44,309)	(624,383)
d. Unrecognized transition amounts	521	2,391	4,930
e. Unrecognized actuarial differences	14,425	19,645	136,484
f. Unrecognized prior service costs	(11,808)	(65)	(111,723)
g. Net amount on consolidated balance sheets (c+d+e+f)	(62,853)	(22,337)	(594,692)
h. Prepaid pension costs	2,061	1,965	19,500
i. Accrued retirement benefits (g–h)	¥ (64,915)	¥(24,303)	$ (614,202)

Notes: 1. The Company and certain of its consolidated subsidiaries amended 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. Some subsidiaries adopt 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 at March 31, 2004:

	Millions of yen	Thousands of U.S. dollars
Decrease of the retirement benefit obligations	¥4,721	$44,668
Unrecognized actuarial differences	(769)	(7,276)
Unrecognized prior service costs	658	6,226
Decrease of accrued retirement benefits	¥4,610	$43,618

4. The transition from a portion of the Konica lump-sum payment plan to a defined contribution pension plan resulted in the following changes at March 31, 2003:

	Millions of yen	Thousands of U.S. dollars
Decrease of the retirement benefit obligations	¥6,182	$58,492
Unrecognized actuarial differences	(371)	(3,510)
Decrease of accrued retirement benefits	¥5,810	$54,972

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. The assets to be transferred from the Konica lump-sum payment plan to a defined contribution plan was recorded as other long-term liabilities at March 31, 2003.

Net pension expenses related to the retirement benefits for the year ended March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
a. Service costs	¥ 5,645	¥ 4,776	$ 53,411
b. Interest costs	2,670	2,975	25,263
c. Expected return on plan assets	(358)	(545)	(3,387)
d. Amortization of transition amounts	1,540	1,325	14,571
e. Actuarial differences that are accounted for as expenses	1,968	1,285	18,620
f. Prior service costs that are accounted for as expenses	(519)	(156)	(4,911)
g. Retirement benefit costs (a+b+c+d+e+f)	10,946	9,662	103,567
h. Gain on transfer to the government of the substitutional portion	—	(8,081)	—
i. Loss on the transition to defined contribution plans from defined benefit plans	180	2,993	1,703
j. Contribution to defined contribution pension plans	1,488	—	14,079
Total (g+h+i+j)	¥12,615	¥ 4,574	$119,359

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

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

	2004	2003
a. Method of attributing the retirement benefits to periods of service	Straight-line basis	Straight-line basis
b. Discount rate	Mainly 2.5%	Mainly 3.0%
c. Expected rate of return on plan assets	Mainly 1.25%	Mainly 1.5%
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		
The Company:	Fully amortized	Fully amortized
Subsidiaries:	Mainly 5 years	Mainly 5 years

13. Derivatives

The Companies enter into derivative transactions 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 transactions

Although the Companies are exposed to credit-related risks and risks associated with the changes in interest rates and foreign exchange rates, such derivative transactions 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.

Risk control system on derivative transactions

In order to control 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 transactions. 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 transactions and other derivative transactions 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 transactions and other derivative transactions are reaffirmed and the market risks are assessed. All derivative transactions 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 transactions are approved by the respective President of each subsidiary.

Interest rate swap or swaption 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 transactions as of March 31, 2004 and 2003 are summarized as follows:

(1) Currency-Related Derivatives

		Millions of yen						Thousands of U.S. dollars		
		2004			2003			2004		
		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$	¥20,091	¥19,664	¥ 426	¥ 8,167	¥ 8,235	¥ (68)	$190,094	$186,054	$ 4,031
	EURO	29,709	28,505	1,204	5,869	6,013	(143)	281,096	269,704	11,392
	Other	489	483	5	1,278	1,299	(21)	4,627	4,570	47
	Total	¥50,289	¥48,652	¥1,635	¥15,314	¥15,547	¥(232)	$475,816	$460,327	$15,470
To buy foreign currencies:										
	US$	¥ 3	¥ 3	¥ 0	¥ 137	¥ 147	¥ 10	$ 28	$ 28	$ 0
	EURO	671	679	7	—	—	—	6,349	6,424	66
	Other	967	886	(81)	—	—	—	9,149	8,383	(766)
	Total	¥ 1,641	¥ 1,568	¥ (74)	¥ 137	¥ 147	¥ 10	$ 15,527	$ 14,836	$ (700)

Notes: 1. Market rate represents the forward foreign currency exchange rate prevailing as of March 31, 2004.
2. Derivative transactions with hedge accounting applied are excluded from the above table.

(2) Interest-Rate-Related Derivatives

	Millions of yen						Thousands of U.S. dollars		
	2004			2003			2004		
	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)	¥ —	¥ —	¥ —	$9,991	$(483)	$(483)
Interest-rate swaptions:									
Sold, call-swaptions	—	—	—	4,796	(174)	(174)	—	—	—
Total	¥1,056	¥(51)	¥(51)	¥4,796	¥(174)	¥(174)	$9,991	$(483)	$(483)

Notes: 1. The market value is provided by the financial institutions with whom the derivative contracts were transacted.
2. Derivative transactions with hedge accounting applied are excluded in the above table.
3. Contract value (notional principal amount) does not show the size of the risks of interest-rate swaps and swaptions.

14. Segment Information

(1) Business Segment Information

Historically, Konica had classified its business into the two segments of the photographic related business (Photographic Materials) and the business technologies related business (Business Machines). Such categorization was based on product type similarity and the product market. Effective April 1, 2003, Konica established a holding company and transferred its business operations to newly established subsidiaries (business companies) under the holding company. In accordance with the changes in the organization and in order to better strengthen the effectiveness of its segment information, the Company determined to change its segments into the following five business segments: Business Technologies, Optics, Photo Imaging, Medical and Graphic Imaging and Other. After the merger with Minolta, the Company added the Sensing segment. As of March 31, 2004, the Company operates in six reportable business segments.

Business segment information of the Companies for the years ended March 31, 2004 and 2003 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	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

The business segment information by the former method of industry segmentation as of and for the year ended March 31, 2003 is as follows:

	Millions of yen				
	Business Machines	Photographic Materials	Total	Elimination and Corporate	Consolidation
2003: Net sales					
Outside	¥264,721	¥294,319	¥559,041	¥ —	¥559,041
Intersegment	1,290	3,958	5,249	(5,249)	—
Total	266,012	298,278	564,290	(5,249)	559,041
Operating expenses	229,513	282,412	511,925	4,260	516,185
Operating income	¥ 36,499	¥ 15,866	¥ 52,365	¥ (9,510)	¥ 42,855
Assets	¥183,358	¥271,641	¥455,000	¥60,956	¥515,956
Depreciation	11,516	14,143	25,659	2,839	28,497
Capital expenditure	6,661	6,528	13,190	8,435	21,625

The business segment information based on the six business segments as of and for the year ended March 31, 2003 is as follows:

	Millions of yen								
	Business Technologies	Optics	Photo Imaging	Medical and Graphic Imaging	Sensing	Other	Total	Elimination and Corporate	Consolidation
2003: Net sales									
Outside	¥204,594	¥44,200	¥190,901	¥117,420	¥ —	¥ 1,924	¥559,041	¥ —	¥559,041
Intersegment	1,149	269	1,363	210	—	12,639	15,632	(15,632)	—
Total	205,744	44,470	192,264	117,630	—	14,563	574,673	(15,632)	559,041
Operating expenses	183,363	31,084	185,493	108,300	—	6,866	515,018	1,077	516,185
Operating income	¥ 22,381	¥13,385	¥ 6,771	¥ 9,330	¥ —	¥ 7,696	¥ 59,565	¥(16,709)	¥ 42,855
Assets	¥151,278	¥50,822	¥140,490	¥103,994	¥ —	¥95,122	¥541,708	¥(25,752)	¥515,956
Depreciation	9,332	3,941	6,699	5,687	—	2,838	28,497	—	28,497
Capital expenditure	3,840	3,660	4,946	744	—	8,435	21,625	—	21,625

	Thousands of U.S. dollars (Note 3)								
	Business Technologies	Optics	Photo Imaging	Medical and Graphic Imaging	Sensing	Other	Total	Elimination and Corporate	Consolidation
2004: Net sales									
Outside	$4,079,080	$725,811	$2,119,046	$1,143,637	$25,140	$ 48,254	$ 8,140,978	$ —	$8,140,978
Intersegment	232,699	169,817	142,464	221,979	11,695	415,451	1,194,124	(1,194,124)	—
Total	4,311,780	895,638	2,261,510	1,365,616	36,834	463,705	9,335,112	(1,194,124)	8,140,978
Operating expenses	3,872,675	742,653	2,312,347	1,290,813	29,255	386,328	8,634,100	(1,037,440)	7,596,651
Operating income	$ 439,095	$152,976	$ (50,828)	$ 74,804	$ 7,579	$ 77,368	$ 701,012	$ (156,675)	$ 544,328
Assets	$4,081,503	$820,570	$1,854,736	$1,011,732	$72,883	$4,540,647	$12,382,099	$(3,208,194)	$9,173,895
Depreciation	209,585	45,851	68,398	44,451	681	50,998	419,964	—	419,964
Capital expenditure	110,323	47,081	73,943	42,852	662	59,201	334,062	—	334,062

(2) Geographic Segment Information

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

	Millions of yen						
	Japan	North America	Europe	Asia and Other	Total	Eliminations and Corporate	Consolidation
2003: Net sales							
Outside	¥323,524	¥124,964	¥83,474	¥27,077	¥559,041	¥ —	¥559,041
Intersegment	121,857	8,424	674	41,243	172,200	(172,200)	—
Total	445,382	133,388	84,148	68,321	731,241	(172,200)	559,041
Operating expenses	401,412	128,325	82,644	66,508	678,890	(162,705)	516,185
Operating income	¥ 43,969	¥ 5,063	¥ 1,504	¥ 1,813	¥ 52,350	¥ (9,495)	¥ 42,855
Assets	¥340,141	¥ 83,806	¥60,770	¥22,810	¥507,528	¥ 8,427	¥515,956

	Thousands of U.S. dollars (Note 3)						
	Japan	North America	Europe	Asia and Other	Total	Eliminations and Corporate	Consolidation
2004: Net sales							
Outside	$3,839,408	$2,039,493	$1,799,394	$ 462,683	$ 8,140,978	$ —	$8,140,978
Intersegment	2,118,753	91,570	19,576	901,192	3,131,119	(3,131,119)	—
Total	5,958,170	2,131,072	1,818,971	1,363,875	11,272,098	(3,131,119)	8,140,978
Operating expenses	5,354,944	2,089,148	1,776,232	1,321,204	10,541,546	(2,944,886)	7,596,651
Operating income	$ 603,217	$ 41,915	$ 42,738	$ 42,672	$ 730,552	$ (186,224)	$ 544,328
Assets	$7,904,930	$1,403,321	$1,389,356	$ 628,811	$11,326,436	$(2,152,531)	$9,173,895

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 (Note 3)	Percentage of net sales
2004: Sales to			
North America	¥235,270	$2,226,038	27.3%
Europe	210,899	1,995,449	24.5
Asia and Other	157,038	1,485,836	18.3
2003: Sales to			
North America	¥137,930	$ —	24.7%
Europe	91,589	—	16.4
Asia and Other	94,990	—	17.0

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