# 4. CONSOLIDATED FINANCIAL STATEMENTS
## (1) Consolidated Statements of Income

[Millions of yen]

| | April 1, 2003 – March 31, 2004 | | April 1, 2004 – March 31, 2005 | | Change | |
|---|---|---|---|---|---|---|
| | Amount | % of net sales | Amount | % of net sales | Amount | YoY[%] |
| Net Sales | 860,420 | 100.0 | 1,067,447 | 100.0 | 207,026 | 24.1 |
| Cost of sales | 498,967 | 58.0 | 597,800 | 56.0 | 98,832 | 19.8 |
| Gross profit | 361,453 | 42.0 | 469,647 | 44.0 | 108,194 | 29.9 |
| Selling, general and administrative expenses | 303,922 | 35.3 | 402,069 | 37.7 | 98,146 | 32.3 |
| **Operating income** | 57,530 | 6.7 | 67,577 | 6.3 | 10,047 | 17.5 |
| Non-operating income | [ 8,762 ] | 1.0 | [ 8,971 ] | 0.8 | [ 208 ] | 2.4 |
| Interest and dividend income | 1,003 | | 1,353 | | 350 | |
| Equity Method Profits | 61 | | 108 | | 46 | |
| Other | 7,697 | | 7,509 | | (188) | |
| Non-operating expenses | [ 23,106 ] | 2.7 | [22,931] | 2.1 | [ (174) ] | (0.8) |
| Interest expense | 5,190 | | 5,549 | | 358 | |
| Disposal/valuation losses of inventories | 5,687 | | 8,698 | | 3,011 | |
| Other | 12,228 | | 8,683 | | (3,544) | |
| **Recurring profit** | 43,186 | 5.0 | 53,617 | 5.0 | 10,430 | 24.2 |
| Extraordinary profit | [ 897 ] | 0.1 | [ 3,177 ] | 0.3 | [ 2,280 ] | 254.0 |
| Gain on sales of fixed assets | 690 | | 559 | | (131) | |
| Gain on sales of investment securities | 207 | | 2,458 | | 2,251 | |
| Return of the proxy portion of the national employees' pension fund | — | | 160 | | 160 | |
| Extraordinary losses | [ 11,721 ] | 1.3 | [ 21,364 ] | 2.0 | [ 9,643 ] | 82.3 |
| Loss on disposal and sale of fixed assets | 3,168 | | 4,569 | | 1,401 | |
| Loss on sale of investment securities | 330 | | 3 | | (327) | |
| Write-down on investment securities | 451 | | 325 | | (125) | |
| Loss on revaluation of investment | — | | 47 | | 47 | |
| Transition obligations due to adoption of new accounting standards for retirement benefits | 1,540 | | 521 | | (1,018) | |
| Reserve for directors' retirement benefits | 513 | | — | | (513) | |
| Special premium withdrawal from national employees' pension fund | 513 | | — | | (513) | |
| Expenses related to switch to defined benefit pension plan | 180 | | — | | (180) | |
| Management integration rationalization expenses | 5,022 | | 4,020 | | (1,002) | |
| Restructuring expenses | — | | 4,851 | | 4,851 | |
| Transfers to allowance for doubtful accounts | — | | 1,627 | | 1,627 | |
| Amortization of consolidation goodwill | — | | 5,397 | | 5,397 | |
| **Income before income taxes and minority interests** | 32,363 | 3.8 | 35,430 | 3.3 | 3,067 | 9.5 |
| Income taxes | 22,466 | 2.6 | 27,947 | 2.6 | 5,481 | 24.4 |
| Deferred income taxes | (2,841) | (0.3) | (594) | (0.1) | 2,246 | — |
| Minority interest in earnings of consolidated subsidiaries | 189 | 0.0 | 553 | 0.1 | 363 | 191.9 |
| **Net income** | 12,548 | 1.5 | 7,524 | 0.7 | (5,024) | (40.0) |

## (2) Consolidated Balance Sheets

[Millions of yen]

| | As of March 31, 2004 | | **As of March 31, 2005** | | Change | |
|---|---|---|---|---|---|---|
| | Amount | % of total | Amount | % of total | Amount | YoY (%) |
| **Current assets** | [ 535,769 ] | [ 55.3 ] | [ 542,728 ] | [ 56.8 ] | [ 6,959 ] | [ 1.3 ] |
| Cash and deposits | 83,574 | | 59,330 | | (24,243) | |
| Trade notes and accounts receivable | 223,032 | | 243,098 | | 20,065 | |
| Marketable securities | 130 | | 155 | | 25 | |
| Inventories | 173,9 | | 177,5 | | 3,556 | |
| Deferred tax assets | 31,033 | | 37,850 | | 6,817 | |
| Other accounts receivable | 13,574 | | 12,845 | | (729) | |
| Other current assets | 18,889 | | 20,045 | | 1,156 | |
| Allowance for doubtful accounts | (8,414) | | (8,102) | | 312 | |
| **Fixed assets** | [ 433,820 ] | [ 44.7 ] | [ 412,813 ] | [ 43.2 ] | [ (21,006) ] | [ (4.8) ] |
| *Tangible fixed assets* | [ 220,204 ] | 22.7 | [ 222,617 ] | 23.3 | [ 2,412 ] | 1.1 |
| Buildings and structures | 71,760 | | 73,978 | | 2,218 | |
| Machinery and vehicles | 58,694 | | 57,081 | | (1,613) | |
| Tools and equipment | 24,520 | | 25,857 | | 1,336 | |
| Land | 38,514 | | 36,374 | | (2,139) | |
| Construction in progress | 5,785 | | 7,672 | | 1,886 | |
| Rental business-use assets | 20,928 | | 21,652 | | 723 | |
| *Intangible fixed assets* | [ 120,204 ] | 12.4 | [ 109,625 ] | 11.5 | [ (10,578) ] | (8.8) |
| Consolidation goodwill | 98,716 | | 88,212 | | (10,503) | |
| Other intangible fixed assets | 21,488 | | 21,413 | | (75) | |
| *Investments and others* | [ 93,411 ] | 9.6 | [ 80,570 ] | 8.4 | [ (12,840) ] | (13.7) |
| Investment securities | 37,424 | | 33,194 | | (4,230) | |
| Long-term loans | 2,672 | | 1,442 | | (1,230) | |
| Long-term prepaid expenses | 4,429 | | 5,257 | | 827 | |
| Deferred tax assets | 31,926 | | 27,049 | | (4,876) | |
| Other investments | 18,281 | | 15,163 | | (3,117) | |
| Allowance for doubtful accounts | (1,323) | | (1,536) | | (212) | |
| **Total assets** | 969,589 | 100.0 | 955,542 | 100.0 | (14,047) | (1.4) |

[Millions of yen]

| | As of March 31, 2004 | | As of March 31, 2005 | | Change | |
|---|---|---|---|---|---|---|
| | Amount | % of total | Amount | % of total | Amount | YoY (%) |
| **Current liabilities** | [ 484,842 ] | 50.0 | [ 460,047 ] | 48.1 | [ (24,794) ] | (5.1) |
| Trade notes and accounts payable | 141,783 | | 138,074 | | (3,709) | |
| Short-term loans | 182,429 | | 157,174 | | (25,254) | |
| Long-term loans due within one year | 14,251 | | 7,261 | | (6,989) | |
| Bonds due within one year | 18,354 | | 17,221 | | (1,132) | |
| Accrued expenses | 71,480 | | 75,9 | | 4,478 | |
| Accrued income taxes | 16,736 | | 18,838 | | 2,102 | |
| Allowance for product warranty | 5,164 | | 5,137 | | (27) | |
| Other current liabilities | 34,641 | | 40,380 | | 5,738 | |
| **Long-term liabilities** | [ 148,076 ] | 15.3 | [ 154,044 ] | 16.1 | [ 5.967 ] | 4.0 |
| Bonds | 20,138 | | 10,084 | | (10,054) | |
| Long-term loans | 32,778 | | 54,604 | | 21,826 | |
| Deferred tax assets on land revaluation | 3,925 | | 3,926 | | 0 | |
| Reserve for retirement benefits and pension plans | 64,915 | | 63,044 | | (1,870) | |
| Reserve for directors' retirement benefits | 922 | | 1,189 | | 266 | |
| Other long-term liabilities | 25,397 | | 21,196 | | (4,200) | |
| **Total liabilities** | 632,919 | [ 65.3 ] | 614,092 | [ 64.2 ] | (18,826) | [ (3.0) ] |
| **Minority interests** | 1,242 | [ 0.1 ] | 1,720 | [ 0.2 ] | 477 | [ 38.5 ] |
| **Capital stock** | 37,519 | 3.9 | 37,519 | 3.9 | — | |
| **Additional paid-in capital** | 226,065 | 23.3 | 226,069 | 23.7 | 4 | |
| **Retained earnings** | 77,254 | 8.0 | 79,491 | 8.3 | 2,237 | |
| **Unrealized gain on securities** | 4,886 | 0.5 | 4,780 | 0.5 | (105) | |
| **Translation adjustment** | (9,721) | (1.0) | (7,339) | (0.7) | 2,381 | |
| **Treasury stock** | (576) | (0.1) | (791) | (0.1) | (215) | |
| **Total shareholders' equity** | 335,427 | [ 34.6 ] | 339,729 | [ 35.6 ] | 4,301 | [ 1.3 ] |
| **Total liabilities, minority interests, and shareholders' equity** | 969,589 | 100.0 | 955,542 | 100.0 | (14,047) | (1.4) |

| Notes: | As of March 31, 2004 | As of March 31, 2005 | Increase(Decrease) |
|---|---|---|---|
| 1. Accumulated depreciation on tangible fixed assets (million yen) | 440,481 | 456,344 | 15,863 |
| 2. Discount on trade notes receivable (million yen) | 190 | 39 | (151) |
| 3. Number of shares of treasury stock | 568,877 | 719,416 | 150,539 |

## (3) Consolidated Statement of Retained Earnings

[Millions of yen]

| | April 1, 2003<br>March 31, 2004 | April 1, 2004<br>March 31, 2005 | Increase/(Decrease) |
|---|---|---|---|
| | Amount | Amount | Amount |
| (Additional paid-in capital portion) | | | |
| Additional paid-in capital at beginning of period | [ 79,342 ] | [ 226,065 ] | [ 146,722 ] |
| Increase in Additional paid-in capital | [ 146,722 ] | [ 4 ] | [ (146,717) ] |
| Issuance of new shares due to share exchange | 146,706 | — | (146,706) |
| Gain on disposal of treasury stock | 15 | 4 | (10) |
| Additional paid-in capital at end of period | 226,065 | 226,069 | 4 |
| (Retained earnings portion) | | | |
| Retained earnings at beginning of period | [ 69,052 ] | [ 77,254 ] | [ 8,201 ] |
| Increase in retained earnings | [ 12,688 ] | [ 7,579 ] | [ (5,108) ] |
| Net income | 12,548 | 7,524 | (5,024) |
| Increase resulting from newly consolidated subsidiaries | 139 | 55 | (84) |
| Decrease in retained earnings | [ 4,487 ] | [ 5,342 ] | [ 854 ] |
| Dividends | 4,442 | 5,310 | 868 |
| Bonuses to directors and corporate auditors | 45 | 22 | (22) |
| Decrease resulting from newly consolidated subsidiaries | — | 9 | 9 |
| Retained earnings at end of period | 77,254 | 79,491 | 2,237 |

## (4) Consolidated Statements of Cash Flows

[Millions of yen]

| | April 1, 2003 – March 31, 2004 | April 1, 2004 – March 31, 2005 |
|---|---|---|
| | Amount | Amount |
| **I. Cash flows from operating activities** | | |
| Net income before income taxes and minority interests | 32,363 | 35,430 |
| Depreciation and amortization | 44,386 | 52,953 |
| Amortization of consolidated goodwill | 2,869 | 5,906 |
| Increase(decrease) in allowance for doubtful accounts | (3,874) | 1,728 |
| Interest and dividend income | (1,003) | (1,353) |
| Interest expense | 5,190 | 5,549 |
| Loss (gain) on sales or disposals of tangible fixed assets | 2,477 | 4,010 |
| Loss (gain) on valuation loss (gain) on investment securities | 574 | (2,129) |
| Transition obligations due to adoption of new accounting standards for retirement benefits | 1,540 | 521 |
| Special premium for withdrawal from national employee’s pension fund | 513 | — |
| Transfers to reserve for deferred pension and past service recognition payments to directors | 513 | — |
| Management integration rationalization expenses | 5,022 | 4,020 |
| Gain(loss) related to switch of defined contribution benefit plan | 180 | (160) |
| Restructuring expenses | — | 4,851 |
| Transfers to allowanse for doubtful accounts | — | 1,627 |
| Amortization of consolidation goodwill | — | 5,397 |
| Decrease (increase) in trade notes and accounts receivable | (3,210) | (14,056) |
| Decrease (increase) in inventories | (2,914) | 128 |
| Increase (decrease) in trade notes and accounts payable | (1,060) | (9,239) |
| Increase (decrease) in accrued consumption tax payable | (738) | 646 |
| Other | (4,585) | (4,598) |
| **Subtotal** | 78,243 | 91,235 |
| Interest and dividends received | 1,363 | 1,417 |
| Interest paid | (5,263) | (5,524) |
| Income taxes paid | (18,385) | (31,447) |
| **Net cash provided by operating activities** | 55,957 | 55,680 |
| **II. Cash flows from investing activities** | | |
| Payment for acquisition of tangible fixed assets | (24,935) | (46,585) |
| Proceeds from sale of tangible fixed assets | 6,102 | 3,604 |
| Payment for acquisition of intangible fixed assets | (6,383) | (9,088) |
| Payment for loans receivable | (1,451) | (1,670) |
| Proceeds fromreturn of loan receivable | 460 | 1,431 |
| Payment for acquisition of investment securities | (39) | (348) |
| Proceeds from sale of investment securities | 225 | 4,976 |
| Payment for other investments | (3,296) | (3,395) |
| Other | 533 | 1,732 |
| **Net cash used in by investing activities** | (28,784) | (49,343) |
| **III. Cash flows from financing activities** | | |
| Net (decrease) increase in short-term loans payable | (11,090) | (29,640) |
| Proceeds from long-term loans payable | 674 | 29,257 |
| Repayment of long-term loans payable | (13,006) | (14,535) |
| Proceeds from issuing of bonds | — | 13,694 |
| Redemption of bonds | (5,054) | (24,870) |
| Proceeds from sale of Company's stock | 44 | 24 |
| Payment to execute buyback of Company's stock | (286) | (233) |
| Dividend payments | (4,430) | (5,310) |
| **Net cash used in financing activities** | (33,149) | (31,614) |
| **IV. Effect of exchange rate changes on cash and cash equivalents** | (1,317) | 642 |
| **V. Increase in cash and cash equivalents** | (7,292) | (24,635) |
| **VI. Cash and cash equivalents at beginning of the period** | 51,876 | 83,704 |
| **VII. Increase in cash and cash equivalents due to newly consolidation subsidiaries** | 667 | 416 |
| **VIII. Increase in cash and cash equivalents due to exchange of shares** | 38,453 | — |
| **IX. Cash and cash equivalents at end of the period** | 83,704 | 59,485 |

# BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

## 1. Scope of Consolidation

Number of consolidated subsidiaries: 122

*Principal consolidated subsidiarie*s:

Konica Minolta Business Technologies, Inc.
Konica Minolta Opto, Inc.
Konica Minolta Photo Imaging, Inc.
Konica Minolta Medical & Graphic , Inc.
Konica Minolta Sensing, Inc.
Konica Minolta Technology Center, Inc.
Konica Minolta Business Expert, Inc.
Konica Minolta Business Solutions Japan Co., Ltd.
Konica Minolta Medical Co., Ltd.
Konica Minolta Marketing Corporation
Konica Minolta Supplies Manufacturing Co., Ltd.
Konica Minolta Business Solutions U.S.A., Inc.
Konica Minolta Business Solutions Europe GmbH
Konica Minolta Photo Imaging U.S.A., Inc.
Konica Minolta Manufacturing U.S.A., Inc.
Konica Minolta Photo Imaging Europe GmbH

Number of unconsolidated subsidiaries: 33

Unconsolidated subsidiaries have not been included in consolidation because they are relatively small companies and their assets, sales, net income, and retained earnings do not have a material influence on consolidated results.

## 2. Scope of the Use of Equity Accounting

Number of unconsolidated subsidiaries accounted for by the equity method: 13

*Principal unconsolidated subsidiarie*s: Konica Minolta Photochem (Thailand)Co., Ltd.

Number of affiliates accounted for by the equity method: 2

The total net income (loss) and retained earnings of the 20 equity-method non-consolidated subsidiaries and 7 affiliates were of small value and had a negligible effect on consolidated financial statements.

## 3. Accounting Standards and Methods

### (1) Asset valuation

*1. Securities*

*Other securities*

Securities with fair market value are stated using the mark-to-market method based on the market price at the balance sheet date. (Total net unrealized gains or losses after tax effect adjustments are directly recorded in shareholders' equity, and the cost of securities sold is computed based on the moving-average method.) Other securities that do not have fair market values are primarily stated at cost using the moving value average.

*2. Derivatives*

Derivatives are stated using the mark-to-market method.

*3. Inventories*

Parent company inventories are, in the main, recorded at cost as determined by the periodic-average method. Domestic consolidated subsidiaries' inventories are, in the main, recorded at cost as determined by the last purchase price method. Overseas consolidated subsidiaries' inventories are recorded at the lower of cost or market value, with cost determined by the first-in, first-out method.

### (2) Depreciation and amortization of major depreciable assets

The depreciable assets of the Company and its domestic consolidated subsidiaries are depreciated using the declining-balance method. Overseas consolidates subsidiaries adopt the straight-line method for depreciation. However, the parent and its domestic consolidated subsidiaries have used the straight-line method for their buildings (excluding annexed structures) acquired since April 1, 1998.

**(3) Reserves**

*1. Allowance for doubtful receivables*

To prepare for possible losses on uncollectable receivables, for general receivables, an amount is provided according to the historical percentage of uncollectables. For specific receivables for which there is some concern regarding collectability, an amount is recorded by investigating the possibility of collection for each individual account.

*2. Reserves for product warranty*

Regarding the provision of after-sales service for cameras, facsimiles, and copiers, reserves for product warranties for cameras and facsimiles are calculated based on the estimated amount of service costs during the warranty period. For copiers, the amount is recorded based on past after-sales service expenses as a percentage of net sales.

*3. Reserves for retirement benefits*

Reserves for employees' retirement benefits are provided on an accrual basis based on the projected retirement benefit obligation and the pension fund assets calculated using various actuarial assumptions as of the end of the fiscal year.

The variance in accounting standards was primarily wholly written off in the case of consolidated subsidiaries.

Prior service cost is being amortized as incurred by the straight-line method over periods (principally 10 years) which are shorter than the average remaining years of service of the employees.

Actuarial gains and losses are amortized in the year following the year in which the gains or losses are recognized, primarily by the straight-line method over periods (principally 10 years) which are shorter than the average remaining years of service of the employees.

(Additional information)

Accounting treatment of the transition from a defined benefits pension plan to a defined contribution pension plan

With the enforcement of the Defined Contribution Pension Law, on April 1, 2004, the Company and a portion of its domestic subsidiaries changed certain portions of the former Minolta Co., Ltd.'s defined benefit pension plan to a defined contribution pension plan.

The Company and a portion of its domestic subsidiaries have applied "Accounting for Transfers among Retirement Benefit Plans"(issue No. 1 of Application Guidelines in Accounting Standards for Business Enterprises and "Handling of Practices Regarding Accounting for the Transfers among Retirement Benefit Plans" (issue No.2 of the Report on the Handling of Professional Practices).

The transfer of pension plan resulted in the recording of a ¥ 160 million extraordinary loss.

*4. Allowance for Directors' Retirement Benefits*

To provide for the payment of directors' retirement benefits, reserve for benefits for retired directors and auditors is recorded in an actual amount equal to the need at the current fiscal year-end based on Konica Minolta's regulations.

**(4) Lease transactions**

Finance leases are principally accounted for as operating leases that do not transfer ownership rights of the leased property to the lessee.

**(5) Principal accounting methods for hedge transactions**

*1. Hedge accounting methods*

The deferred hedge method is used. Special accounting methods are used for interest rate swaps that

*2. Hedge methods and hedge targets*

Derivatives are used as the hedge method (forward exchange contracts, interest rate swaps, and commodity swaps)

The hedge targets are scheduled foreign currency denominated transactions, corporate bonds, borrowings, and raw materials

*3. Hedge policy*

The Company and consolidated subsidiaries enter into forward foreign exchange contracts as hedging instruments only, not for trading purpose to make profits, within the limit of actual foreign transactions to reduce risk arising from future fluctuations of foreign exchange rates with respect to export and import.

In addition, the Company and consolidated subsidiaries enter into interest rate swaps to reduce interest rates on bonds and borrowings or costs for future capital procurement and enter into commodity swaps to make material costs stable, both as hedging instruments only, not for speculation purpose, within the limit of actual financial or operating transactions.

4. *Methods for evaluating the effectiveness of hedges*

Verification is made to ascertain a high correlation between value fluctuations of hedged items and hedging instruments.

**(6) Other important items regarding the preparation of consolidated financial statements**

*Consumption tax*

National and local consumption taxes are accounted for by the tax excluded method.

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**4. Evaluation of Assets and Liabilities of Consolidated Subsidiaries**

The assets and liabilities of consolidated subsidiaries are all valued using based on the current market price method.

**5. Amortization of Consolidated Goodwill**

The consolidation goodwill is amortized uniformly over 5-year, 10-year, or 20-year periods.

**6. Treatment of Appropriation of Earnings Items**

Statements of consolidated retained earnings for consolidated subsidiaries are prepared based on the profit distribution confirmed for the fiscal year.

**7. Range of Cash within Consolidated Cash Flow Statements**

Cash (cash and cash equivalents) in the consolidated cash flow statements comprises cash on hand and short-term investments easily converted into cash with little risk to a change in value.

Presentation Method for uniform basis for the levying of taxes as a Part of Corporate Enterprise Tax in the Consolidated Statements of Income

“The Law Amending One Part of the Regional Tax Law, Etc.” (enacted 2003, law #9), was officially announced on March 31, 2003, and together with the introduction of uniform basis for the levying of taxes that came into effect for corporate fiscal accounting years beginning on or after April 1, 2004, the Company calculated ¥1,472 million in the capital portion and the value-added portion of the corporate enterprise tax as a part of selling, general and administrative expenses, in accordance with “The Handling of Business Practices with Regard to Presentation of uniform basis for the levying of taxes as a Part of the Corporate Enterprise Tax on the Consolidated Statements of Income (February 13, 2004, Accounting Standards Board, Business Practice Response Report #12).