14. NONCONSOLIDATED FINANCIAL STATEMENTS

(1) Statements of Income and Retained Earnings

[Millions of yen]

	April 1, 2003 – March 31, 2004		**April 1, 2004 – March 31, 2005**		Change	
	Amount	% of operating revenue	Amount	% of operating revenue	Amount	YoY (%)
Operating revenue	15,036	100.0	41,014	100.0	25,978	172.8
Operating expenses	26,113	173.7	26,852	65.5	739	2.8
Operating income (loss)	(11,076)	(73.7)	14,162	34.5	25,239	—
Non-operating income	[2,395]	16.0	[3,102]	7.6	[706]	29.5
Interest and dividend income	2,121		2,635		513	
Other	274		466		192	
Non-operating expenses	[3,324]	22.1	[2,214]	5.4	[(1,109)]	(33.4)
Interest expense	1,839		1,812		(27)	
Other	1,484		402		(1,082)	
Recurring profit (loss)	(12,005)	(79.8)	15,050	36.7	27,055	—
Extraordinary profit	[464]	3.0	[2,962]	7.2	[2,498]	538.1
Gain on sales of fixed assets	464		277		(186)	
Gain on sales of investment securities	—		2,684		2,684	
Extraordinary losses	[3,878]	25.8	[35,667]	86.9	[31,788]	819.6
Loss on disposal and sale of fixed assets	1,171		1,578		406	
Write-down on investment securities	—		278		278	
Valuation loss on stocks on associated companies	—		33,810		33,810	
Provision of reserve for past director retirement bonuses	513		—		(513)	
Variance in accounting standards for employee retirement benefits	2,169		—		(2,169)	
Expenses related to switch to defined benefit pension plan	23		—		(23)	
Income (loss) before income taxes and minority Interests	(15,419)	(102.6)	(17,654)	(43.0)	(2,234)	—
Income taxes	418		5		(412)	
Income tax refund	—		(76)		(76)	
Deferred income taxes	(3,774)		(1,987)		1,786	
Net income (loss)	(12,063)	(80.2)	(15,596)	(38.0)	(3,532)	—
Retained earnings (loss) at beginning of the period	5,435		5,466		30	
Increase in unappropriated profits received from the management integration	3,346		—		(3,346)	
Interim dividend payment	2,655		2,655		(0)	
Reversal of gain on revaluation of land	—		10		10	
Unappropriated earnings (loss) at the fiscal year-end	(5,937)		(12,774)		(6,836)	

(2) 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	[165,445]	[38.0]	[157,113]	[38.9]	[(8,331)]	[(5.0)]
Cash and deposits	21,521		14,969		(6,551)	
Trade notes receivable	28		5		(23)	
Accrued revenue	1,613		1,528		(84)	
Prepaid expenses	301		288		(12)	
Deferred tax assets	102		4,294		4,192	
Short-term loans	138,394		129,263		(9,130)	
Accrued refunded corporation tax	—		4,674		4,674	
Other current assets	3,639		2,232		(1,407)	
Allowance for doubtful accounts	(156)		(144)		11	
Fixed assets	[269,820]	[62.0]	[246,272]	(61.1)	[(23,548)]	[(8.7)]
Tangible fixed assets	[76,333]	17.5	[76,919]	19.1	[586]	0.8
Buildings	37,445		40,013		2,568	
Structures	2,962		3,243		281	
Machinery and Equipments	335		1,427		1,092	
Vehicles	0		0		0	
Equipment	598		754		156	
Land	32,940		31,381		(1,558)	
Construction in progress	2,051		98		(1,952)	
Intangible fixed assets	[5,008]	1.2	[4,697]	1.2	[(310)]	(6.2)
Software	4,114		3,914		(199)	
Other intangible fixed assets	894		782		(111)	
Investments and others	[188,479]	43.3	[164,654]	40.8	[(23,824)]	(12.6)
Investment securities	23,078		20,650		(2,427)	
Shares in affiliates	161,388		127,587		(33,800)	
Investments to affiliates	—		105		105	
Long-term loans	8		14,101		14,092	
Long-term prepaid expenses	62		176		114	
Deferred tax assets	1,753		—		(1,753)	
Other investments	2,256		2,148		(108)	
Allowance for doubtful accounts	(69)		(117)		(48)	
Total assets	435,266	100.0	403,386	100.0	(31,880)	(7.3)

[Millions of yen]

	As of March 31, 2004		**As of March 31, 2005**		Change	
	Amount	% of total	Amount	% of total	Amount	YoY (%)
Current liabilities	[127,916]	29.4	[102,513]	25.4	[(25,403)]	(19.9)
Trade notes payable	91		186		95	
Short-term loans	91,521		79,044		(12,477)	
Long-term loans due within one year	9,014		4,919		(4,095)	
Bonds due within one year	18,300		10,000		(8,300)	
Other payables	2,671		4,662		1,990	
Accrued expenses	5,800		3,500		(2,300)	
Accrued income taxes	5		102		97	
Advances received	137		49		(87)	
Other current liabilities	373		48		(325)	
Long-term liabilities	[63,520]	14.6	[78,123]	19.4	[14,603]	23.0
Bonds	20,000		10,000		(10,000)	
Long-term loans	30,274		54,342		24,067	
Deferred tax liabilities	—		485		485	
Deferred tax liabilities related to revaluation	5,967		5,960		(7)	
Reserve for retirement benefits and pension plans	5,985		6,240		254	
Reserve for directors' retirement benefits	801		822		20	
Other long-term liabilities	490		274		(216)	
Total liabilities	191,436	[44.0]	180,637	[44.8]	(10,799)	[(5.6)]
Capital stock	37,519	8.6	37,519	9.3	—	—
Additional paid-in capital	[157,516]	36.2	[157,521]	39.0	[4]	0.0
Capital reserve	157,501		157,501		—	
Other additional paid-in capital	[15]		[20]		[4]	
Gain on disposal of treasury stock	15		20		4	
Retained earnings	[35,197]	8.1	[14,301]	3.5	[(20,896)]	(59.4)
Legal reserves	7,760		7,760		—	
Voluntary reserves	[33,375]		[19,315]		[(14,059)]	
Special reserve for redemptions	120		—		(120)	
Deduction entry surplus reserve	4,790		2,350		(2,439)	
Other surplus reserve	28,464		16,964		(11,500)	
Unappropriated earnings (including net income for the period)	(5,937)		(12,774)		(6,836)	
Gain on revaluation of land	8,698	2.0	8,687	2.2	(10)	(0.1)
Revaluation difference of other marketable securities	5,473	1.2	5,511	1.4	37	0.7
Treasury stock	(576)	(0.1)	(791)	(0.2)	(215)	37.5
Total shareholders' equity	243,829	[56.0]	222,749	[55.2]	(21,080)	[(8.6)]
Total liabilities and shareholders' equity	435,266	100.0	403,386	100.0	(31,880)	(7.3)

Note:	Fiscal year ended March 31,2004	Fiscal year ended March 31,2005	Year-on-year change
1. Accumulated depreciation on tangible fixed assets (millions of yen)	70,278	71,579	1,301
2. Balance of guaranteed obligations <including guarantee> (millions of yen)	44,054 < 7,663>	30,416 <7,147>	(13,637) < (515) >

For the term under review, a joint guarantee of ¥8,652 million between Konica Minolta Holdings and its operating companies has been included, and Konica Minolta Holdings reserves to right, in the event of payment of the obligation for this guarantee, to claim compensation from its subsidiaries for the entire amount.

3. Number of shares of treasury stock	568,877	719,416	150,539

(3) Proposed appropriations of retained earnings

[Millions of yen]

	April 1, 2003 – March 31, 2004	April 1, 2004 – March 31, 2005	Change
Unappropriated earnings (loss) for the year	(5,937)	(12,774)	(6,836)
Unappropriated reserve			
Reversal of reserve for special depreciation	120	—	(120)
Reversal of reserve for advanced depreciation	2,439	2,350	(88)
Reversal of general reserve	11,500	16,964	5,464
Total	8,122	6,540	(1,581)
Appropriation earnings:			
Dividends to shareholders	2,655	2,654	(0)
(Per share)	[5 yen]	[5 yen]	
Unappropriated earnings carried forward	5,466	3,886	(1,580)

Note: Other than the above, interim dividends of ¥2,655million (¥5 per share) were paid during the year under review.

BASIS OF PRESENTING NONCONSOLIDATED FINANCIAL STATEMENTS

Accounting Standards and Methods

1. Asset Valuation

(1) Shares of subsidiaries and affiliates

Shares of subsidiaries and affiliates are stated at cost using the moving-average method.

(2)Other securities

Securities with fair market value are stated using the mark-to-market method based on the market price at the interim settlement date. (Total net unrealized gains or losses after tax effect adjustment 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 value are primarily stated at cost using the moving-average method.

2. Derivatives

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

3. Depreciation and amortization of major depreciable assets

(1)Tangible fixed assets

The declining-balance method is used. However, the straight-line method is used for buildings (excluding annexed structures) acquired since April 1, 1998.

(2)Intangible fixed assets

The straight-line method is used. For software for internal use, the straight-line method is adopted based on a licensing period of five years.

4. Reserves

(1)Allowance for doubtful receivables

For general receivables, an amount is provided according to the historical percentage of uncollectables. (The legal provision rate will be used when the legal provision rate specified by the transitional measure of the Corporation Tax Law exceeds the historical percentage.) 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 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 interim period.

The variance in accounting standards was wholly written off.

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.

(3) 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 the Company's regulations.

5. Lease Transactions

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

6. 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 meet certain conditions.

(2)Hedging instruments

Derivative trading is used as a hedging method (interest rate swaps).
Items being hedged are corporate bonds and borrowings.

(3)Hedge policy

The Company and consolidated subsidiaries enter into interest rate swaps to stabilize interest rates on bonds and borrowings and to avoid volatility risks expected for future capital procurement 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.

7. Revaluation of Land

As a result of the merger with Minolta on October 1,2003, the Company has land that has been acquired land that has been re-evaluated in accordance with the Law Concerning Revaluation of Land (Law No. 34, October 31, 1998). The Company handled revaluation excess by recording the value of tax on corresponding revaluations as deferred tax assets related to revaluation and recording the sum minus these deferred tax assets as variation on land revaluation in shareholders' equity.

(1)Method of revaluation

Calculated by value of land facing a thoroughfare as stipulated in Item 4 of Article 2, or assessed value of fixed assets as stipulated in Item 3 of Article 2, of the Enforcement Order for the Land Revaluation Law (Cabinet Order No. 19, published on March 31, 1998).

(2)Revaluation date March 31, 2002

(3) Loss on the difference between the market value of revaluated land at fiscal year-end and book value:
(¥ 6,748) million

8. Other important items included in the basis for preparing financing statements

Accounting for consumption taxes

National and local consumption taxes are accounted for by the net-of-tax method.

Additional Information

Accounting Treatment of Dividend Income from Subsidiaries

On April 1, 2003, the Company spun off all businesses, making them subsidiaries and transforming to a holding company structure. Accordingly, during the period under review, the Company started receiving dividends from its subsidiaries that are accounted as operating income.

Presentation Method of Standard Operating Tax as a Part of the 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 March 31, 2003, and, together with the introduction of the standard operating tax that came into effect for corporate fiscal accounting years beginning on or after April 1, 2004, the Company calculated ¥166 million in the capital portion and the value added portion of the corporate enterprise tax as a part of operating expenses, in accordance with "The Handling of Business Practices with Regard to Presentation of the Standard Operating Tax 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).

15. LEASE TRANSACTIONS

Notation has been omitted due to disclosure through EDINET

16. TAX EFFECT ACCOUNTING

Breakdown by cause of deferred tax assets and liabilities.

	Fiscal year ended March 31, 2004	Fiscal year ended March 31, 2005
Deferred tax assets	Millions of yen	Millions of yen
Assessment losses on affiliates' stock	—	13,757
Net loss carried forward	5,001	5,847
Excess of reserve for retirement benefits over deductible limit	4,976	5,303
Excess of depreciation and amortization over deductible limit	374	481
Excess of accrued bonuses over deductible limit	92	64
Write-down on investment securities	354	—
Other	81	452
Deferred tax assets subtotal	10,881	25,907
Valuation allowance	(2,575)	(17,241)
Total deferred tax assets	8,305	8,665
Deferred tax liabilities		
Revaluation difference of other marketable securities	(3,755)	(3,781)
Gain on establishment of employee pension trust	(1,082)	(1,075)
Reserve for deferred fixed assets	(1,612)	—
Total deferred tax liabilities	(6,450)	(4,856)
Net deferred tax assets	1,855	3,809

Deferred tax liabilities related to revaluation	Millions of yen	Millions of yen
Deferred tax liabilities related to revaluation of land	(5,967)	(5,960)

2. The reconciliation between the statutory income tax rate and the effective income tax rate after the adoption of tax effect accounting is as follows.

	As of March 31, 2004	As of March 31, 2005
	%	%
Statutory income tax rate	42.1	40.7
(Adjustments)		
Temporary discrepancies due to scheduling problems	(17.8)	(83.1)
Exclusion of dividends received from gross revenue	0.6	53.6
Corrected returns from income taxes, etc., from past fiscal years	(2.7)	0.4
Other	(0.4)	0.1
Effective income tax rate after the adoption of tax effect accounting	21.8	11.7

17. Important Post-Balance Sheet Events

The Company established an investment company (umbrella company) in China on March 16, 2005 and completed equity financing on April 11, 2005.

1.Company name:	Konica Minolta (CHINA) Investment, Ltd.
2.Business Activities:	Investment and Information research activities within China, promotion of the Konica Minolta brand establishment, and common function assistant and support to the Konica Minolta Group companies within China
3.Paid-in capital:	US$35 million
4.Shareholders:	100% owned by Konica Minolta Holdings, Inc.
5.Other:	Konica Minolta (CHINA) Investment, Ltd., provided US$29,750,000 in equity financing to Konica Minolta Business Technologies (WUXI) Co., Ltd. The Company's subsidiary Konica Minolta Business Technologies, Inc., established this company to produce and develop digital printer/copiers, laser printers, and other information equipment products and components.