

14. NONCONSOLIDATED FINANCIAL STATEMENTS

(1) Statements of Income and Retained Earnings

(Millions of yen)

	April 1, 2004 - March 31, 2005		April 1, 2005 - March 31, 2006		Change	
	Amount	% of operating revenue	Amount	% of operating revenue	Amount	YoY (%)
Operating revenue	41,014	100.0	55,854	100.0	14,839	36.2
Operating expenses	26,852	65.5	28,445	50.9	1,593	5.9
Operating income	14,162	34.5	27,409	49.1	13,246	93.5
Non-operating income	[3,102]	7.6	[2,875]	5.1	[(226)]	(7.3)
Interest and dividends income	2,635		2,654		19	
Other	466		221		(245)	
Non-operating expenses	[2,214]	5.4	[2,001]	3.6	[(212)]	(9.6)
Interest expense	1,812		1,470		(341)	
Other	402		531		128	
Recurring profit	15,050	36.7	28,283	50.6	13,233	87.9
Extraordinary profit	[2,962]	7.2	[1,545]	2.8	[(1,416)]	(47.8)
Gain on sales of fixed assets	277		98		(179)	
Gain on sales of investment securities	2,684		1,447		(1,237)	
Extraordinary losses	[35,667]	86.9	[68,846]	123.3	[33,179]	93.0
Loss on disposal and sale of fixed assets	1,578		1,047		(530)	
Loss due to impairment	-		5,240		5,240	
Write-down on investment securities	278		-		(278)	
Valuation loss on stocks on associated companies	33,810		-		(33,810)	
Provision for doubtful accounts	-		61,071		61,071	
Provision for loss on discontinued operations	-		1,370		1,370	
Special additional severance benefits	-		117		117	
Income before income taxes for the period under review (loss)	(17,654)	(43.0)	(39,017)	(69.9)	(21,362)	-
Income taxes	5		(6,568)		(6,574)	
Tax refunds for income and other taxes	(76)		-		76	
Deferred income taxes	(1,987)		1,792		3,779	
Interim net income (loss)	(15,596)	(38.0)	(34,240)	(61.3)	(18,643)	-
Retained earnings (loss) at beginning of the period	5,466		3,886		(1,580)	
Interim dividend payment	2,655		-		(2,655)	
Reversal of valuation reserve of land	10		666		655	
Unappropriated earnings (loss) at the fiscal year-end	(12,774)		(29,688)		(16,914)	

(2) Balance Sheets

(Millions of yen)

	As of March 31, 2005		As of March 31, 2006		Change	
	Amount	% of total	Amount	% of total	Amount	YoY (%)
Current assets	[157,113]	[38.9]	[136,391]	[35.4]	[(20,722)]	[(13.2)]
Cash and deposits	14,969		27,902		12,933	
Trade notes receivable	5		-		(5)	
Accrued revenue	1,528		1,448		(80)	
Prepaid expenses	288		934		646	
Deferred tax assets	4,294		354		(3,940)	
Other receivables	547		21,784		21,237	
Tax receivable	4,674		-		(4,674)	
Short-term loans	129,263		143,521		14,257	
Other current assets	1,684		1,667		(17)	
Allowance for doubtful accounts	(144)		(61,221)		(61,077)	
Fixed assets	[246,272]	[61.1]	[248,792]	[64.6]	[2,520]	[1.0]
<i>Tangible fixed assets</i>	[76,919]	19.1	[73,095]	19.0	[(3,824)]	(5.0)
Buildings	40,013		37,475		(2,538)	
Structures	3,243		3,086		(157)	
Machinery and Equipments	1,427		1,228		(198)	
Vehicles	0		0		0	
Equipment	754		579		(174)	
Land	31,381		30,669		(712)	
Construction in progress	98		56		(42)	
<i>Intangible fixed assets</i>	[4,697]	1.2	[3,623]	0.9	[(1,074)]	(22.9)
Software	3,914		3,214		(700)	
Other intangible fixed assets	782		409		(373)	
<i>Investments and others</i>	[164,654]	40.8	[172,073]	44.7	[7,419]	4.5
Investment securities	20,650		24,978		4,327	
Shares in affiliates	127,587		126,632		(955)	
Company concerned investment	105		3,794		3,689	
Company concerned long-term loans	14,100		14,100		-	
Long-term prepaid expenses	176		732		555	
Other investments	2,150		1,932		(217)	
Allowance for doubtful accounts	(117)		(96)		20	
Total assets	403,386	100.0	385,184	100.00	(18,201)	(4.5)

(Millions of yen)

	As of March 31, 2005		As of March 31, 2006		Change	
	Amount	% of total	Amount	% of total	Amount	YoY (%)
Current liabilities	[102,513]	25.4	[101,402]	26.3	[(1,110)]	(1.1)
Trade notes payable	186		54		(132)	
Short-term loans	79,044		71,585		(7,458)	
Long-term loans due within one year	4,919		8,085		3,166	
Bonds due within one year	10,000		5,000		(5,000)	
Account payable - other	4,662		9,660		4,998	
Accrued expenses	3,500		5,135		1,635	
Accrued income taxes	102		450		348	
Advances received	49		17		(32)	
	-		1,370		1,370	
Other current liabilities	48		42		(6)	
Long-term liabilities	[78,123]	19.4	[94,052]	24.4	[15,928]	20.4
Bonds	10,000		5,000		(5,000)	
Long-term loans	54,342		73,752		19,409	
Deferred tax liabilities	485		1,660		1,175	
Deferred tax liabilities related to revaluation	5,960		5,591		(368)	
Reserve for retirement benefits and pension plans	6,240		7,033		793	
Reserve for directors' retirement benefits	822		-		(822)	
Other long-term liabilities	274		1,014		740	
Total liabilities	180,637	[44.8]	195,454	[50.7]	14,817	[8.2]
<i>Capital stock</i>	37,519	9.3	37,519	9.7	-	-
<i>Additional paid-in capital</i>	[157,521]	39.0	[157,521]	40.9	[(0)]	(0.0)
Capital reserve	157,501		157,501		-	
Other additional paid-in capital	[20]		[19]		[(0)]	
Gain on disposal of treasury stock	20		19		(0)	
<i>Retained earnings</i>	[14,301]	3.5	[(21,928)]	(5.7)	[(36,229)]	(253.3)
Legal reserves	7,760		7,760		-	
Voluntary reserves	[19,315]		[-]		[(19,315)]	
Deduction entry surplus reserve	2,350		-		(2,350)	
Other surplus reserve	16,964		-		(16,964)	
Unappropriated earnings including net income	(12,774)		(29,688)		(16,914)	
[Includes interim net income (loss)]	[(15,596)]		(34,240)		(18,643)	
Gain on revaluation of land	8,687	2.2	7,896	2.1	(791)	(9.1)
Revaluation difference of other marketable securities	5,511	1.4	9,636	2.5	4,125	74.8
Treasury stock	(791)	(0.2)	(915)	(0.2)	(123)	15.6
Total shareholders' equity	222,749	[55.2]	189,729	[49.3]	(33,019)	[(14.8)]
Total liabilities and shareholders' equity	403,386	100.0	385,184	100.0	(18,201)	(4.5)

Note:	Fiscal year ended March 31, 2005	Fiscal year ended March 31, 2006	Year-on-year change
1. Accumulated depreciation on tangible fixed assets (millions of yen)	71,579	74,425	2,845
2. Balance of guaranteed obligations <including guarantee> (millions of yen)	30,416 <7,147>	23,844 <9,000>	(6,571) <1,852>
For the term under review, a joint guarantee of ¥6,575 million between Konica Minoruta Holdings and its operating companies has been included, and Konica Minoruta 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	719,416	825,124	105,708

3) Statement of Appropriation of Profit and Loss

(Millions of yen)

Prior fiscal year: Appropriation of Profit		Fiscal year under review: Appropriation of loss	
Item	Amount	Item	Amount
Unappropriated loss for the fiscal year	12,774	Appropriation of loss at the end of the fiscal year>	
Reversal of discretionary reserve		Loss for the period	29,688
Reversal of reserve for write-down of book value	2,350	Appropriation of the loss	
Reversal of contingent reserve	16,964	Amount transferred from other capital surplus	19
Total	6,540	Reversal of earned reserve	7,760
Profit appropriated		Reversal of capital reserve	21,908
Cash dividends	2,654	Loss carried forward to the next period	-
Dividends per share [yen]	(5)	<Appropriation of other capital surplus>	
Profit carried forward to the next period	3,886	Other capital surplus	19
		Amount appropriated from other capital surplus	
		Transferred to unappropriated loss for the period	19
		Other capital surplus carried over the next period	-

BASIS OF PRESENTING FINANCIAL STATEMENTS

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 year-end 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. Criteria and methods for evaluating derivatives

Valuation at market price

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

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) Provision for loss on discontinued businesses

To provide for losses when the Company exits a business, provisions to this reserve are made in the amount of the estimated losses. This provision for losses on withdrawal from businesses is classified as a reserve under Article 43 of the Implementation Rules of the former Commercial Code of Japan.

(3) Reserve for Retirement Benefits

To prepare for employee retirement benefits, the Company has calculated the amount recognized to have been incurred at the end of the consolidated accounting period based on projected benefit obligations and pension assets at the end of the current fiscal year.

For treatment of expenses related to prior service obligations, we apply the straight-line method based on a fixed number of years (10) within the average remaining service period of the employee at the time of occurrence.

Regarding actuarial loss/gain, expenses are treated from the following fiscal year of business, based on the straight-line method based on a fixed number of years (10) within the average remaining service period of the employee at the time of occurrence.

(4) Allowance for Directors' Retirement Benefits

Konica Minolta, at its Annual Meeting of Shareholders held on June 24, 2005, abolished its directors' retirement benefits system with the aim of raising morale and increasing the willingness of its directors and operating officers to work toward improving performance, as well as to clarify management responsibility. This system was replaced with a stock option compensation scheme. The funding for directors' retirement benefits was consequently halted after June 24, 2005. The total value of existing accumulated reserves has been frozen and recorded as "Other fixed liabilities (long-term accrued amount payable).

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

Interest rate swaps are used as the hedge method.

The hedge targets are scheduled corporate bonds and borrowings

(3) Hedge policy

The Company enters into interest rate swaps to make interest rates on bonds and borrowings stable or reduce the risk of costs fluctuations for future capital procurement, 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 cash flows.

7. Land revaluation

Land for industrial purposes that had been revaluated based on the Law Concerning Land Revaluation (Law No. 34 implemented on March 31, 1998) was received from Minolta on October 1, 2003, at the time of the merger. The amount corresponding to taxes on the amount of the land revaluation is included under the item deferred tax liabilities related to land revaluation. An amount equivalent to the amount of the revaluation less the deferred tax liability has been entered in shareholders' equity as the differential on revaluation of land.

(1) Method of revaluation

The value of the land has been evaluated according to the value appraisal method for land fronting major roads, as provided for in Article 2-4 of the Enforcement Orders for the Law Concerning Land Revaluation (Enforcement Orders No. 119, implemented on March 31, 1998) and the method for valuation of fixed assets provided for in Article 2-3 of the Enforcement Orders.

(2) Date of revaluation

March 31, 2002

(3) The difference between the market value of the revalued land at the end of the fiscal year under review and the book value following revaluation

−¥681.9 billion

8. Other important items regarding the preparation of consolidated financial statements

(1) Consumption tax

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

(2) Consolidated tax payment system

From the subject fiscal year, consolidated tax payment system was applied.

Discrepancies between methods recognized in the most recent consolidated fiscal accounting year and accounting procedures for the fiscal year under review.

(Accounting standards pertaining to the impairment of fixed assets)

Accounting standards pertaining to the impairment of fixed assets “Written Opinion Concerning the Establishment of Accounting Standards Pertaining to the Impairment of Fixed Assets” (Corporate Accounting Commission, August 9, 2002) and “Guidelines for the Application of Accounting Standards Pertaining to the Impairment of Fixed Assets” (Corporate Accounting Standards Application Guidelines, Issue 6, October 31, 2003) were applied from this fiscal year.

As a result, operating income and recurring profit increased by ¥20 million each and income before income taxes declined by ¥5,219 million.

Regarding accumulated impairment losses, the total amount of each asset was directly written off in accordance with revised regulations regarding consolidated financial statements.

15. LEASE TRANSACTIONS

Notation has been omitted due to disclosure through EDINET.

16. Tax-Effect Accounting

1. Breakdown by cause of deferred tax assets and liabilities

	<u>As of March 31, 2005</u>	<u>As of March 31, 2006</u>
	Millions of yen	Millions of yen
Deferred tax assets		
Excess of allowance for doubtful accounts over deductible limit	40	24,952
Losses on stock of affiliated companies	13,757	13,757
Amount of reserve for retirement benefits and pension exceeding the allowance limit for inclusion in losses	5,303	5,949
Net loss carried forward	5,847	2,729
Excess of depreciation and amortization over deductible limit	481	2,028
Provision for loss on discontinued operations	-	557
Excess of accrued bonuses over deductible limit	64	72
Other	411	984
Deferred tax assets subtotal	<u>25,907</u>	<u>51,030</u>
Valuation allowance	<u>(17,241)</u>	<u>(44,714)</u>
Total deferred tax assets	8,665	6,316
Deferred tax liabilities		
Revaluation difference of marketable securities	(3,781)	(6,611)
Gain on establishment of employee pension trust	<u>(1,075)</u>	<u>(1,011)</u>
Total deferred tax liabilities	(4,856)	(7,622)
Net deferred tax assets	<u>3,809</u>	<u>(1,306)</u>
Deferred tax liabilities related to revaluation	Millions of yen	Millions of yen
Deferred tax liabilities related to revaluation of land	(5,960)	(5,591)

2. Reconciliation between the statutory income tax rate and the effective income tax rate after the adoption of tax effect accounting

	<u>As of March 31, 2005</u>	<u>As of March 31, 2006</u>
	%	%
Statutory income tax rate	40.7	40.7
(Adjustments)		
Temporary differences for which no write off can be scheduled	(83.1)	(71.4)
Exclusion from gross revenue of dividends received	53.6	40.1
R&D tax credit	-	0.5
Refunds for past fiscal year income taxes, etc.	0.4	-
Other	0.1	1.3
Effective income tax rate after the adoption of tax effect accounting	<u>11.7</u>	<u>12.2</u>