KONICA MINOLTA HOLDINGS, INC. ANNUAL REPORT 2004

KONICA MINOLTA

Profile

In August 2003, Konica Corporation and Minolta Co., Ltd. integrated their respective managements and established a holding company, Konica Minolta Holdings, Inc., founded on the concept of creating an entirely new corporate group.

The new integrated company is seeking to maximize corporate value by adopting portfolio-based strategies in the fields of business technologies, optics, photo imaging, medical and graphic imaging, and sensing. We are also actively working to cultivate new business domains through the integration of our core technologies.

Driven by its corporate message *"The essentials of imaging,"* the new corporate group plans to take the lead in delivering innovative products and services that continue to create impressions in the field of imaging, address the needs of the era, and meet the expectations of stakeholders.

Contents

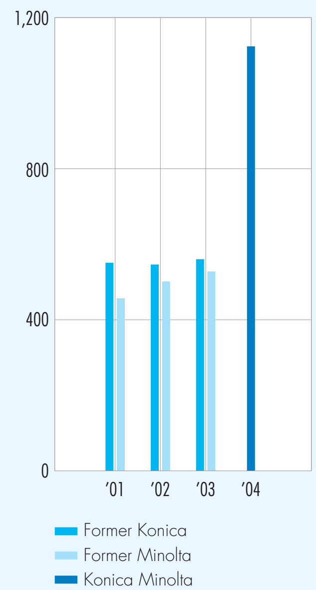
Consolidated Financial Highlights

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

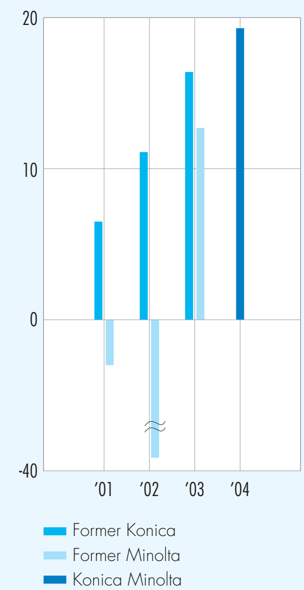
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
For the Year:			
Net sales	¥1,123,591	¥1,087,195	$10,631,006
Operating income	73,213	77,237	692,715
Net income	19,343	29,071	183,016
Capital expenditures	43,128	41,471	408,061
R&D expenditures	63,194	54,642	597,918
At Year-End:			
Total assets	¥ 969,589	¥ 883,234	$ 9,173,895
Total shareholders' equity	335,427	238,966	3,173,687
	Yen		U.S. dollars (Note 1)
Per Share of Common Stock:			
Net income—primary	¥ 36.4	¥ 45.7	$ 0.34
Shareholders' equity	631.5	506.8	5.98
Cash dividends	10.0	10.0	0.09
	Percent		
Financial Ratios:			
Equity ratio	34.6%	35.1%	
Return on assets	7.70	3.17	
Return on equity	5.77	9.05	

Notes: 1. U.S. dollar amounts above and elsewhere in this report for the Company are translated from yen, for convenience only, at the rate of ¥105.69=US$1, the approximate exchange rate prevailing at March 31, 2004.
2. Due to the integration of Konica Corporation and Minolta Co., Ltd. and to facilitate year-on-year comparisons, yen and dollar amounts above and elsewhere in this report, excluding the financial statements, are the total of both companies.

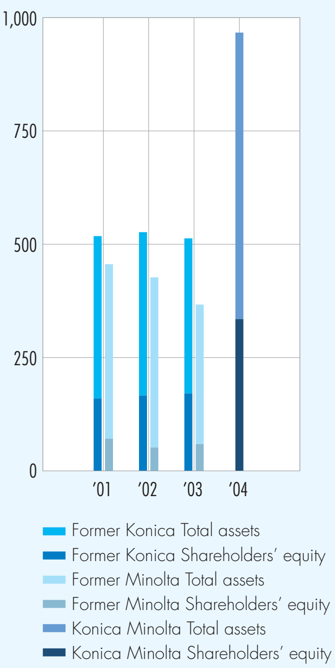
Net sales
(Billions of yen)



Net income (loss)
(Billions of yen)



Total assets/
Shareholders' equity
(Billions of yen)




KONICA MINOLTA

The concept "true growth is achieved through change" has been a recurring theme for me throughout fiscal 2003, the fiscal year ended March 31, 2004. In the fiscal year under review, Konica Minolta implemented a number of innovative initiatives in response to the challenges the Company faced and in an effort to become a highly respected corporate group to all stakeholders. We are among the first Japanese companies to simultaneously spin off operating companies, establish a holding company, and adopt a board-with-committees structure. We are proud of the speedy manner in which we have accomplished the integration of the Konica and Minolta managements. Driven by the concept of change, the Company has achieved these two major results in a very short span of time, and taken concrete steps toward attaining its goal.

Looking back at the last fiscal year with satisfaction, I am convinced that the engine for growth has been clearly established.

In the fiscal year ended March 31, 2004, consolidated net sales were ¥1,123.6 billion, operating income ¥73.2 billion, and net income ¥19.3 billion. The Group was quick to derive synergy benefits from management integration with significant contributions from the mainstay Business Technologies and Optics businesses.

The Konica Minolta Group commenced implementation of its medium-term management integration plan, which was designed to maximize the benefits of integration. For the duration of the plan, ending March 31, 2007, Konica Minolta has clarified objectives for each fiscal year. Fiscal 2003 was identified as a preparatory phase, a period in which we would promote the reorganization and integration of Group companies both in Japan and overseas. This phase is essentially complete. In fiscal 2004, we are directing Groupwide efforts toward reinforcing our business platform and shifting our focus in an effort to realize rationalization and synergy benefits created through management integration. In the final year of the program, fiscal 2006, we will leverage the benefits of the management integration and embark on a period of significant growth.

As key issues of the plan, we are stepping up efforts toward business portfolio management, working to more swiftly realize synergy and integration benefits, and fostering a corporate culture that will allow all employees to achieve their maximum potential. In the practice of business portfolio management, we are allocating management resources to those businesses earmarked for significant growth, including the core Business Technologies business and the strategic Optics business.

We have identified the Photo Imaging business segment as requiring fundamental restructuring. In the Photo Imaging business, addressing rapid changes in the market, we will promote rationalization to secure more stable earnings rather than promote the expansion of our business scale. As a part of this initiative, we consolidated the film and camera businesses in April 2004 and are accelerating efforts to establish a business capable of responding to the digitization and film-less era.

Based on a wealth of technology and expertise, the Konica Minolta Group strives to become an indispensable player in the field of imaging, and in an ever-evolving digital network society, to be recognized as essential to all stakeholders' needs.

As a corporate citizen and member of the global community, we also place high priority on ethical and transparent management and compliance while promoting the goal of sustainable growth. To this end, we will make every effort to achieve the objectives of our medium-term management integration plan, drawing on maximum benefits derived through management integration, and will endeavor to enhance the Group's corporate value.

August 2004

Fumio Iwai

President & CEO, Representative Executive Officer

Fumio Iwai *President & CEO*

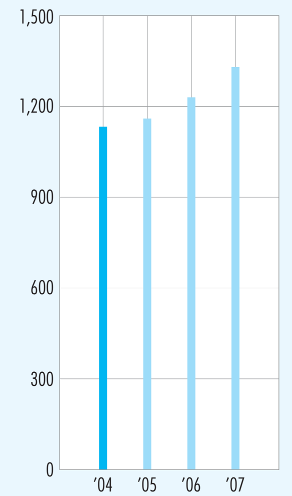
Konica Minolta's medium-term management integration plan provides guidelines for maximizing the benefits of management integration, and is scheduled for completion in the fiscal year ending March 31, 2007. The plan was formulated to clarify the Group's fundamental management strategies and to position Konica Minolta as a global leader in those fields in which it operates. In fiscal 2006, the final year of the plan, we have identified the numerical targets of consolidated net sales at ¥1,330 billion, operating income at ¥160 billion, and net income at ¥80 billion.

Q. While Japan's manufacturing industry is exhibiting signs of increased capital investment activity, please tell us how you view future global economic conditions.

A. Despite uncertainty surrounding the situation in Iraq, I see global economic conditions as generally on the rise. Amid this favorable operating environment, identifying growth industries assumes critical importance. In May 2004, Japan's Ministry of Economy, Trade and Industry (METI) formulated its New Industry Promotion Strategy. In its report, METI identified home information appliances, robotics, fuel cells and contents as providing the platform for the Japanese economy's future growth. Historically, the petroleum and automobile industries have led Japan in its push onto the world stage, and I suppose this is the first time "Intelligent Capital" has assumed such a prominent position. I believe this is also representative of the major shift impacting global industries. Identified as a growth domain, digital home information appliances, a field in which we maintain close links, is of particular interest. This business is anticipated to expand significantly, representing a market of approximately ¥96 trillion by fiscal 2010. In fiscal 2003, the market was estimated at ¥54 trillion. Accordingly, we can expect growth exceeding nearly 80% over the next seven years.

Net sales targets

(Billions of yen)

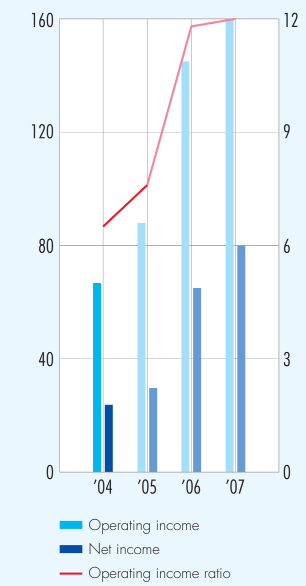


Q. Against this backdrop of continuous change, what are the objectives, numerical targets and principal underlying themes of the Company's medium-term management integration plan?

A. Konica Minolta's medium-term management integration plan provides the guidelines for maximizing the benefits of management integration, and is scheduled for completion in the fiscal year ending March 31, 2007. The plan was formulated to clarify the Group's fundamental management strategies and to position Konica Minolta as a global leader in those fields in which it operates. In fiscal 2006, the final year of the plan, we have identified the numerical targets of consolidated net sales at ¥1,330 billion, operating income at ¥160 billion, and net income at ¥80 billion. To this end, we have formulated three underlying initiatives, to implement business portfolio management, to swiftly realize synergy and integration benefits, and to create a new corporate culture. In our efforts to implement business portfolio management, we

Operating income and Net income targets

(Billions of yen) (%)

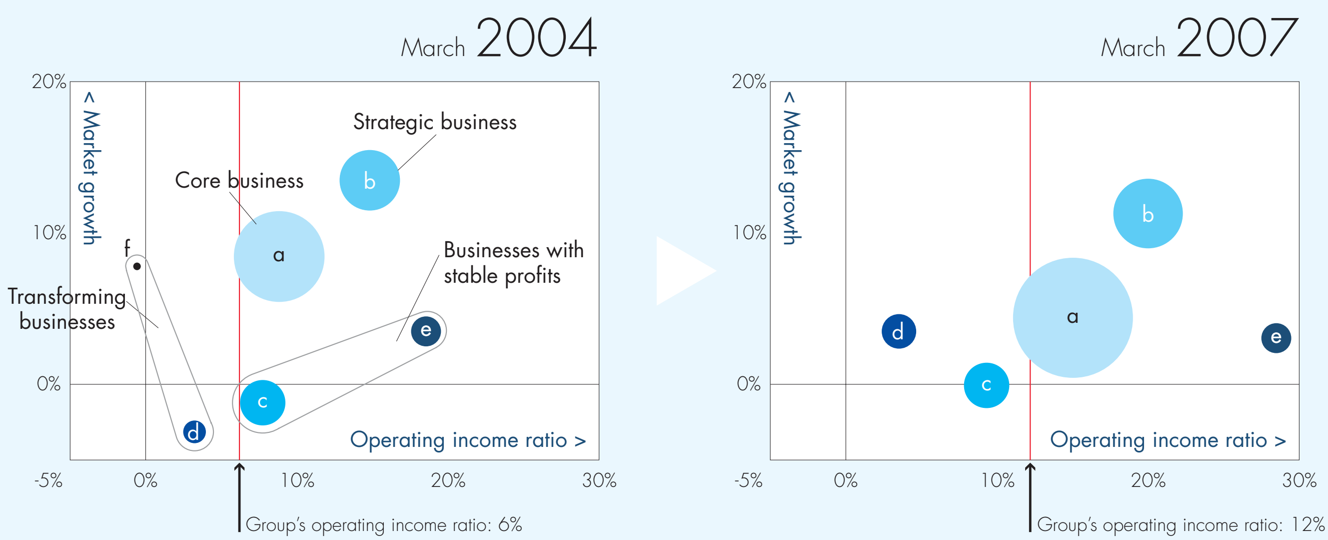


Fundamental Group Management Policy

1. Consistently execute business portfolio management.
2. Promote Groupwide corporate governance focusing on transparency.
3. Promote Groupwide R&D strategies and ensure penetration of the Konica Minolta brand in the field of imaging.
4. Promote performance-oriented human resource policies.
5. Enhance corporate social responsibilities.

→ Maximize Corporate Group Values

Business Portfolio Management



a: Business Technologies b: Optics c: Medical & Graphic Imaging d: Photo Imaging e: Sensing f: Camera

will clearly define core, strategic and stable businesses, and those businesses requiring restructuring. At the same time, we will clarify missions and objectives for each. The Business Technologies business, is a core activity and represents 55% of the Group's total sales. The Optics business is a strategic business and with its high market share and technological competitive advantage, is positioned as a driver for further growth. The Medical and Graphic Imaging and Sensing businesses are identified as stable sources of revenues and earnings, while the Photo Imaging business is recognized as requiring fundamental restructuring. Among the overall business portfolio, we will strategically allocate management resources to the Business Technologies and Optics businesses.

Q. What is your strategy for the core Business Technologies business?

A. We are not the largest player in terms of sales in the business technologies industry. The market is, however, experiencing rapid change. As digitization and colorization as well as network technology continue to advance, we are aiming for significant growth in this market. Konica Minolta will place greater emphasis on raising profitability through "genre top strategies." Put simply, our genre top strategies focus management resources on promising areas, establishing a top position in those products in which we excel such as color multifunctional peripherals (MFPs), high-speed MFPs, and color laser printers (LBPs). Our goal is to evolve from simply a supplier of hardware equipment to a total solutions provider. We will make optimal use of Konica Minolta's technical expertise, accumulated over many years, and our sales network in an effort to accurately address the needs of our customers. Through the implementation of our genre top strategies, we will increase productivity and efficiency, expand our product lineup, enhance our sales and development capabilities, and pursue strategic alliances in fields of potential growth.

> Establishing a top position in markets and regions through "genre top strategies"

Q. What is your strategy for the strategic Optics business?

A. The home information appliances market continues to exhibit strong growth as products such as liquid crystal display (LCD) TVs and digital cameras gain increasing acceptance. Given these circumstances, Konica Minolta is well placed to maintain a top position on the back of its unrivalled technical expertise, competitive advantage, and overwhelming share in optical pick-up lenses. We will also secure a leading share in growth fields such as lens units for digital cameras, lens and camera units for mobile phones, and micro lens units. In the Optics business, where we anticipate the synergy benefits of integration will be most prominent, we will maximize these synergy benefits, reinforce investment in facilities and personnel with the aim of becoming the world's leading optical device maker.

> Becoming the world's leading optical device maker

Q. Please outline your strategy for the Photo Imaging business, a field you have identified as requiring fundamental restructuring.

A. The silver halide photos sector faces harsh operating conditions impacted by the growth in digital cameras. There are of course the die-hard fans of film cameras, however their numbers remain fixed and there appears to be little hope for future growth. Under these circumstances, we will review our strategies and create a profit-oriented business structure in development, manufacture and marketing, even as the market shrinks, while also searching for new opportunities in digital photo imaging, such as in net printing and inkjet paper. We will also pursue development of the digital camera business, a market, which is attracting increasing attention and wider acceptance as digital camera functions continue to evolve. Price, however, is a major issue. Intense competition is placing significant downward pressure on prices. To offset these difficult conditions, we implemented restructuring measures and consolidated our Group film and camera businesses, integrating operations to Konica Minolta Photo Imaging, Inc. While conducting comprehensive cost reductions, we will develop unique cameras leveraging our unrivalled lens and anti-shake, superior auto-focusing technologies. Through these means, we aim to restructure our Photo Imaging business and to secure a platform for sustainable profit.

> Restructuring the Photo Imaging business to secure a platform for sustainable profit

Q. What benefits have you seen from the management integration and in which business areas?

A. As we had first envisaged, the benefits to flow from management integration are most noticeable in the Business Technologies and Optics businesses. In the Business Technologies business we have successfully consolidated the development expertise of Konica and Minolta and enhanced our product lineup. The impact on revenues from an overlap in sales networks was of considerable concern to us, however, we have promptly addressed this issue and maintained the strengths of each companies' marketing capabilities to the benefit of sales. I believe this reflects the positive response by our overseas sales network and customers to the integration. On the earnings front, I believe the full-scale effects of our rationalization program will emerge from and after April 2006. In our Optics business the signs of reinforcement to the development function are just now coming to light. For example, the new organization has been strengthened by the integration of the former Konica's superior expertise in the field of

plastic lenses and the former Minolta's competitive advantage in glass lenses, lens drive systems and zoom technologies. In combining the strengths of each company, we are able to meet highly extensive customer needs with high-value-added products and create new markets in which we maintain an overwhelming market share. As the trend toward more compact and lightweight personal computers (PCs) and personal digital assistance (PDA) devices increase, demands for glass hard-disk substrates are anticipated to grow. In this context, management integration has successfully merged the technological expertise of Minolta with the sales capabilities of Konica, resulting in a substantial contribution to profits.

> Realizing concrete benefits in the Business Technologies and Optics businesses through management integration

Q. What issues have you identified in your efforts to generate additional integration benefits?

A. I believe the key to realizing additional integration benefits is to create a new corporate culture. We conducted a survey among employees in major Group companies. Overall, we found a positive attitude toward management integration exists, however, we remain convinced that further efforts are necessary to generate additional integration benefits. I feel we must break the shackles of the past and introduce new schemes related to human resource management that allow employees to attain their maximum potential. In this context, we are building an infrastructure that will support implementation of these initiatives. As a result of integration, the number of highly capable marketing staff and engineers with sophisticated technologies has increased. I believe that in providing an environment that allows employees to fulfill their potential, we will see additional benefits from management integration. In this context, employees are encouraged to engage in free and vigorous debate in an effort to achieve our common goal. This is the corporate climate we are working to establish.

On another front, in the first year of our management integration plan, we have met all targets for personnel rationalization. We anticipate meeting our targets for the second and ensuing years.

> Realizing additional integration benefits through the creation of a new corporate culture

Q. Please outline your thoughts on brand strategy.

A. If we are to truly secure long-term sustainable growth through greater acceptance of the Konica Minolta brand, I believe we must first abandon preconceived ideas about the brand concept. Prior to management integration, the former Konica was closely associated with film and cameras while the Minolta brand was widely known for cameras. Put another way, both brands penetrated the BtoC market. Our future, however, lies in the Business Technologies and Optics businesses and accordingly we must make the fundamental shift toward a BtoB business model. In recognizing this necessity, it is imperative that we develop the optimal brand strategy. An example is the commercial launch of "bizhub," Konica Minolta's new brand for MFPs. The fundamental concept of bizhub, is to put business people at the hub of their business. Konica Minolta's brand strategy will play an increasingly important role in identifying new markets to secure positive contributions to our business overall. We launched bizhub as a global brand in Spring 2004 and plan to introduce 20 new models over the three years through March 2007.

> Promoting brand strategy in clearly defined markets

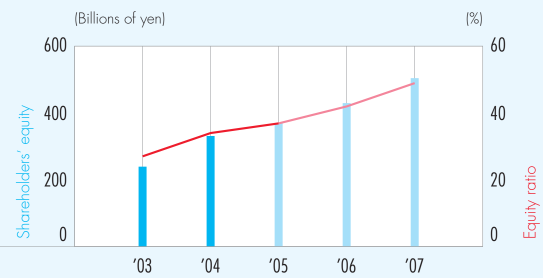
Q. Please outline improvements to your financial position.

A. We have taken concrete steps to improve the Company's financial position and have reduced interest-bearing debt to ¥268 billion as of March 31, 2004. On the other hand, in order to secure acceptable growth, we recognize the need for capital and R&D investment, particularly in the Business Technologies and Optics businesses. Our goals are to further reduce interest-bearing debt to ¥175 billion through the use of internal cash flows and to secure a robust shareholders' equity ratio. With this as our platform, we will embark on an aggressive investment program with the aim of achieving dynamic growth.

Strengthen Financial Position

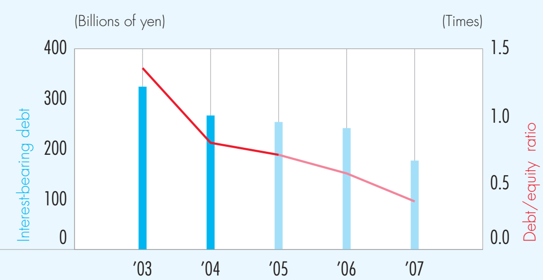
Shareholders' equity & Equity ratio

	Results		Targets		
	Mar '03	Mar '04	Mar '05	Mar '06	Mar '07
Shareholders' equity (Billions of yen)	239.0	335.4	370.0	430.0	505.0
Equity ratio (%)	27.1	34.6	37.4	42.0	49.0



Interest-bearing debt & Debt/equity ratio

	Results		Targets		
	Mar '03	Mar '04	Mar '05	Mar '06	Mar '07
Interest-bearing debt (Billions of yen)	322.8	268.0	255.0	240.0	175.0
Debt/equity ratio (Times)	1.35	0.80	0.71	0.56	0.35



Q. What is your strategy for the growing Chinese market?

A. China represents not only a manufacturing base, but also a vast and lucrative market in its own right. Currently, China is the Konica Minolta Group's largest production base. In terms of marketing, we are still in the early stages of development. China is clearly recognized, however, as a strategic region for Konica Minolta and its importance extends beyond the individual business company level, impacting the fortunes of the Group overall. We allocated specialist staff to assist in developing marketing strategies in China for each business company, whose missions include formulating and implementing business strategies specific to China, promoting management integration, and actively building a dynamic brand for the Chinese market. While a number of issues require clarification, we will continue to focus on China and its market trends with the aim of establishing a leading position.

> Positioning China as a strategic region

Q. Konica Minolta simultaneously undertook corporate reorganization through a company spin-off, established a holding company, and soon after adopted a board-with-committees system. What have been the results?

A. The example of a Japanese company simultaneously incorporating corporate reorganization through a company spin-off, the establishment of a holding company, and the adoption of a board-with-committees system is indeed quite rare. The merits on the other hand are significant and I believe we are seeing positive effects throughout the entire Group. In particular, executive officers are able to focus entirely on executive functions, while directors concentrate on managerial supervisory functions. I believe our current structure provides the optimal foundation for improving corporate value. With our shareholders very much in mind, we are working to boost our performance by enhancing the executive function and maintaining the highest standards in corporate governance.

> Implementing a board-with-committees system as the ideal management model to enhance corporate value

Q. What are your thoughts on Konica Minolta's corporate social responsibility (CSR)?

A. CSR is a core issue for any corporate entity. Of equal importance however, is to clarify exactly what that responsibility is. Our raison d'etre is to deliver products and services beneficial to customers and society as a whole for an acceptable profit and at the same time to increase our corporate value. Konica Minolta is active in environmental conservation and community relations activities in its efforts to contribute to society as a corporate citizen. These must go hand in hand with its raison d'etre. In the area of corporate governance, strict adherence to the highest standards of ethical conduct is an integral feature of every facet of our operations. We have established and continue to implement a Groupwide global compliance system that promotes adherence with statutory regulations and ordinances as well as corporate ethics as the basis for ensuring sustainable growth.

> Promoting comprehensive compliance systems to ensure sustainable growth

Q. Please summarize your dividend policy in relation to management integration.

A. Our goals are to increase corporate value and to consistently raise business performance for the benefit of all our stakeholders, including our shareholders. The Company's medium- to long-term policy on profit sharing is to provide stable dividends to its shareholders after giving due consideration to the state of consolidated earnings, the payout ratio, and the level of internal reserves, a key source for future business expansion. For the fiscal year ending March 31, 2006 and thereafter, upon completion of our integration initiatives, Konica Minolta will aim for a dividend payout ratio in excess of 15% on a consolidated earnings basis, reflecting the benefits of management integration.

The Group's First Medium-Term Management Plan

In August 2003, the Konica Minolta Group announced details of its fundamental management policy. Under its current format, and based on this fundamental policy, Konica Minolta formulated its medium-term management integration plan, covering the period from April 1, 2004 through March 31, 2007.

In identifying the objectives for management integration under the medium-term plan, we looked to maximize the full potential of the Group, to accelerate the integration process, secure concrete results at each stage of consolidation, and to optimize synergy and rationalization benefits. In an era of megacompetition, we are making every effort to establishing a corporate entity capable of competing on the world stage.

Group Operating Targets

Based on management benchmarks that are clearly set each fiscal year, Konica Minolta is targeting consolidated net sales of ¥1,330 billion, operating income of ¥160 billion, and net income of ¥80 billion in the fiscal year ending March 31, 2007. Of equal importance are efforts to reinforce the Group's financial position. As of the March 2007 fiscal year-end, we are targeting shareholders' equity of ¥505 billion and a shareholders' equity ratio of 49%. Other indictors include interest-bearing debt of ¥175 billion as of March 31, 2007, compared with ¥268 billion as of March 31, 2004. Accordingly, Konica Minolta has established a debt-to-equity ratio target of 0.35 times.

Fundamental Tenets of the Medium-Term Management Integration Plan

Konica Minolta has identified three underlying initiatives as the basis for its medium-term management integration plan:

- business portfolio management
- the swift realization of synergy and integration benefits
- the creation of a new corporate culture

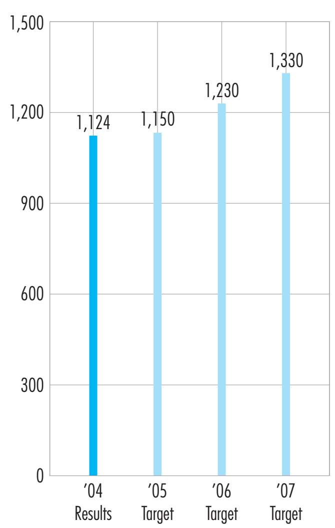
In implementing effective business portfolio management, Konica Minolta will strive to achieve the Group's sustainable growth, and maximize return as well as minimize risks by establishing stable earnings capabilities. We will also reduce the volatility in profitability due to changes in the business environment, and differences in the earnings capacity of each business. To this end, we will:

- clarify the position and standing of each business and establish an optimal business mix.
- prioritize the allocation of management resources to growth areas.

In more specific terms, we will concentrate more than 70% of the Group's resources over the term of the plan to the core Business Technologies business and the strategic Optics business.

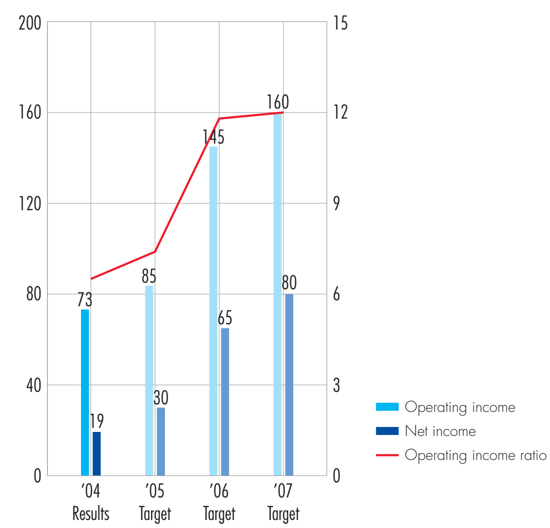
Net sales

(Billions of yen)



Operating income, Net income, and Operating income ratio

(Billions of yen) (%)



Business Technologies

Reinforcing Profitability in the Core Business Technologies Business

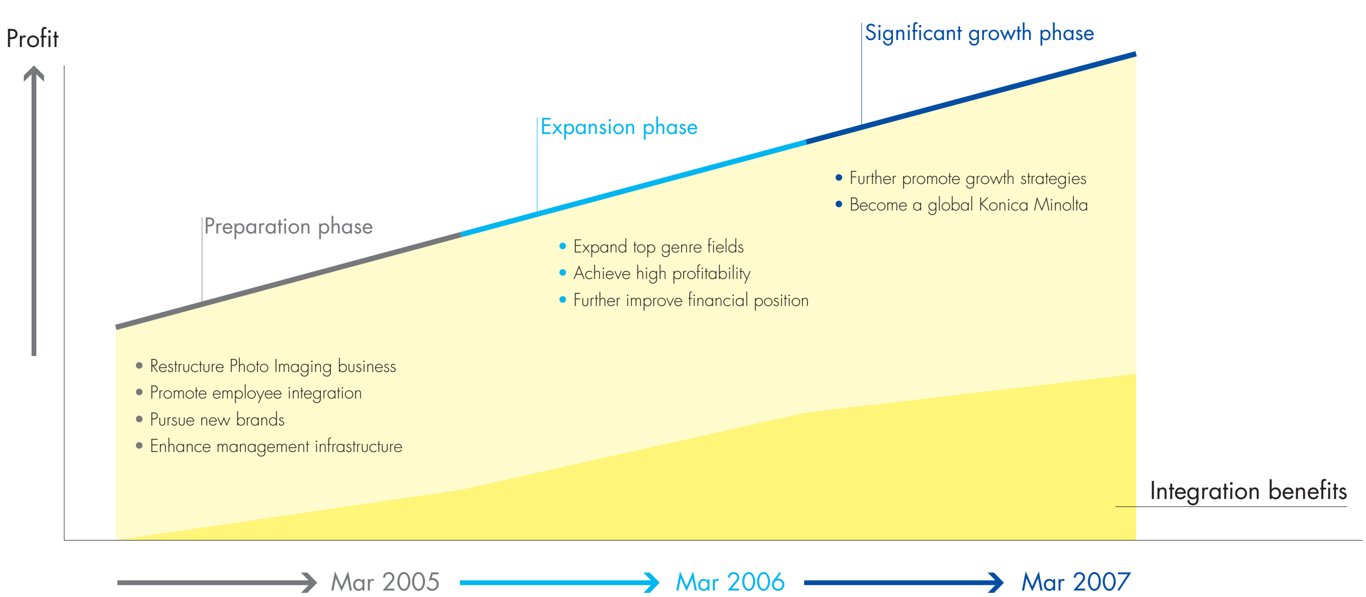
Konica Minolta has positioned the Business Technologies business as a core Group business and will work to expand its activities while raising profitability. To this end, we will accomplish the objectives of our genre top strategy, the purpose of which is to acquire a top position in specific regions and markets where we can fully demonstrate our strength. To secure these top positions, we are especially focusing on making use of our competitive advantage in the fields of color MFPs, high-speed MFPs, and color LBPs. As a result, this will enable us to acquire a dominant position in a broad cross-section of the market. At the same time, we will increase efficiency by accelerating efforts to realize integration benefits and secure a major role in the production print sector by leveraging the undeniable shift toward colorization and strengthening our capabilities in network solutions. Furthermore, we will reinforce our competitive advantage through proprietary products such as our polymerized toner and expand business scale by embracing alliance initiatives with strategic partners. On the back of these measures, we are targeting segment sales of ¥740 billion and operating income of ¥103 billion in the fiscal year ending March 31, 2007.

Optics

Intensively Allocating Management Resources to Accelerate Growth in the Strategic Optics Business

In addition to the Business Technologies business, we have positioned the strategic Optics business as a core source of the Group's earnings. Accordingly, we will strengthen our activities in this segment through the implementation of a number of initiatives. First, we will secure a dominant market share in next-generation optical pickup lenses through efficient technology investment. Second, we will increase our business scale and profitability in lens units and camera units for digital cameras and mobile phones. Third, Konica Minolta will work to accelerate the business development of high-value-added triacetyl cellulose (TAC) film for large-size LCDs. Next, we will increase business opportunities, thereby raising profitability by maximizing the synergy benefits of integration. Finally, we will endeavor to expand production capacity in line with growth in our business markets. Based on these initiatives, we anticipate achieving sales in the Optics business of ¥130 billion and operating income of ¥28 billion in the fiscal year ending March 31, 2007.

Maximizing Management Integration Benefits

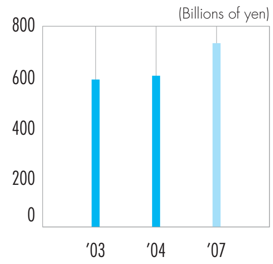


Business Technologies

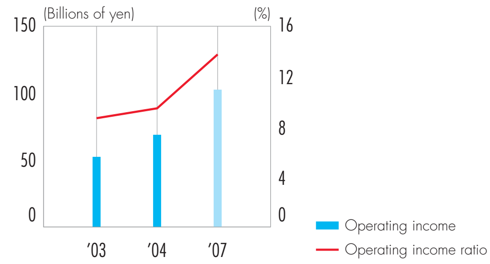
(Billions of yen)

	Mar '03	Mar '04	Mar '07 Target
Net sales	594.7	618.8	740.0
Operating income	52.6	62.9	103.0
Operating income ratio (%)	8.8	10.2	13.9

Net sales



Operating income and
Operating income ratio

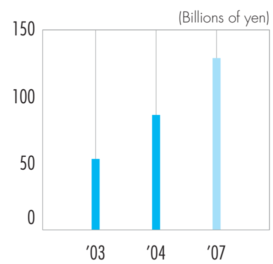


Optics

(Billions of yen)

	Mar '03	Mar '04	Mar '07 Target
Net sales	54.1	85.9	130.0
Operating income	12.4	15.3	28.0
Operating income ratio (%)	22.9	17.8	21.5

Net sales



Operating income and
Operating income ratio

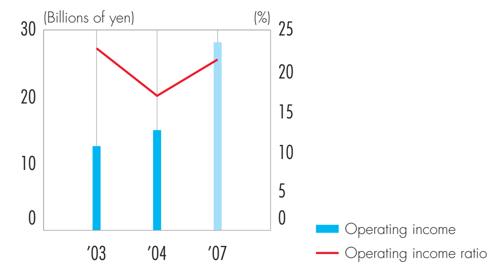
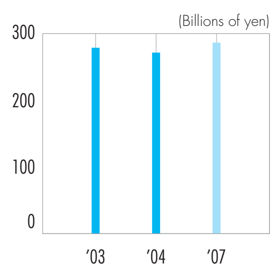


Photo Imaging

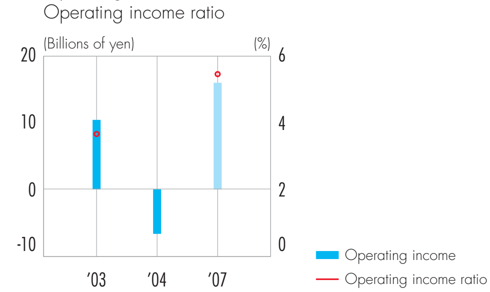
(Billions of yen)

	Mar '03	Mar '04	Mar '07 Target
Net sales	280.7	278.2	290.0
Operating income (loss)	10.4	(6.7)	16.0
Operating income ratio (%)	3.7	—	5.5

Net sales



Operating income and
Operating income ratio

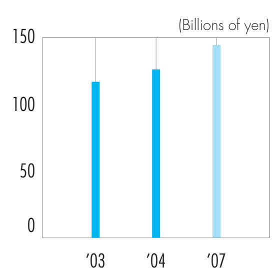


Medical and Graphic Imaging

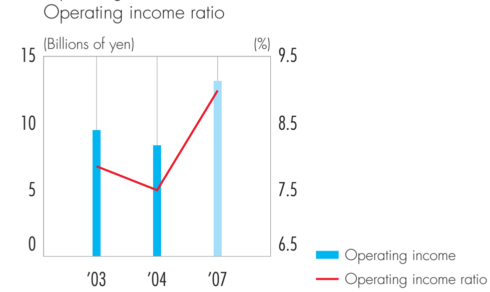
(Billions of yen)

	Mar '03	Mar '04	Mar '07 Target
Net sales	117.4	125.6	145.0
Operating income	9.3	7.9	13.0
Operating income ratio (%)	7.9	6.3	9.0

Net sales



Operating income and
Operating income ratio

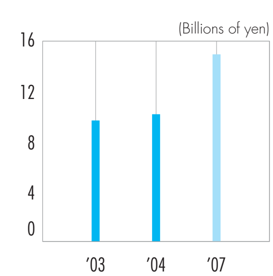


Sensing

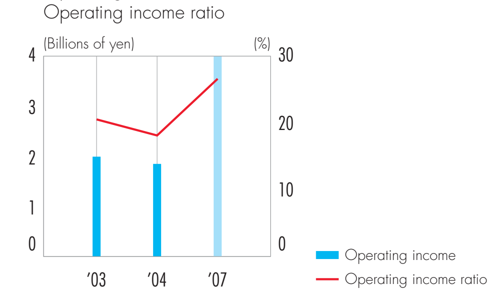
(Billions of yen)

	Mar '03	Mar '04	Mar '07 Target
Net sales	9.7	9.7	15.0
Operating income	2.0	1.8	4.0
Operating income ratio (%)	20.6	18.6	26.7

Net sales



Operating income and
Operating income ratio

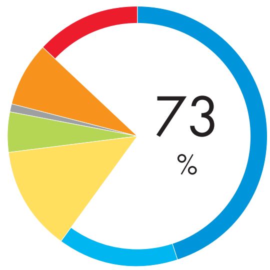


Allocation of Management Resources *(Three-year total through March 2007)*

More than 70% of the Group's capital investment and R&D expenditures are allocated to the Business Technologies and Optics businesses.

Investment

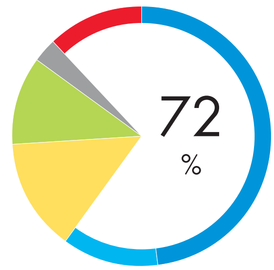
Total Capital Investment: ¥230.0 billion



- Business Technologies (includes equipment leasing) 45%
- Optics 15%
- Strategic investments 13%
- Photo Imaging 13%
- Medical & Graphic Imaging 5%
- Sensing 1%
- Others 8%

Research and Development Expenditures

Total Research & Development Expenditures: ¥220.0 billion



- Business Technologies 48%
- Optics 12%
- Basic and advanced technologies 12%
- Photo Imaging 14%
- Medical & Graphic Imaging 11%
- Sensing 3%

Photo Imaging

Promoting Earnings-Centric Structural Reform in the Photo Imaging Business

The Company is implementing total structural reform to establish profit-oriented operations focusing on comprehensive cost reduction. At the same time, we are establishing a business structure, placing digital cameras and digital photo-related products at the core, based on our unrivalled expertise and know-how, in an effort to deliver products and services from input to output.

In response to the decline in demand in the film business, the Company is pursuing a fundamental shift from a business focusing on film to products related to digital printing such as inkjet media. In the camera business, Konica Minolta will work to concentrate on higher quality and high-value-added digital cameras, and at the same time, strengthen development of key devices including lenses that incorporate our technology. In this segment, we have identified the numerical targets of ¥290 billion in sales and ¥16 billion in operating income for the final year of the management plan.

Medical and Graphic Imaging

Actively Developing Digital Products and Solutions in the Medical and Graphic Imaging Business, Shifting from Film-Based to Digital Products and Services in an Effort to Secure Increased Earnings

In medical imaging, sales of our digital X-ray image input/output systems help expand demand for dry film. The Company is working to develop its solutions business and to expand activities in contrast media and medical supplies. In graphic imaging, Konica Minolta strives to expand sales of its color proofing systems in Japan and to increase its market share in film overseas. At the same time, we will continue to develop mainstay products for next-generation computer reproduction systems and systems for small-lot printing. In the Medical and Graphic Imaging business, Konica Minolta is targeting sales of ¥145 billion and operating income of ¥13 billion for the fiscal year ending March 31, 2007.

Initiatives for Human Resource Integration

Employee Visions

Konica Minolta values people who...
...are committed to sharing corporate goals of becoming a global company with market leadership in the imaging business domain.
...always strive for continuing innovation with a customer-oriented approach, not adhering to successful achievements of the past or established customs.

Human resources (HR) systems
- Guiding principles for candidacy qualifications for executive officers
- New HR system for managers
- New HR system for general staff

HR management
- HR career database
- HR development
- HR liquidation

Organization and infrastructure
- Establish an optimum organization
- The right person for the right place
- Improve internal network environment
- Consolidate internal portal site

Develop a new identity
- Conduct employee surveys

Human Resource Integration

Sensing

Increasing the Business Scale of the Sensing Business Through Strategic Alliance With the Aim of Securing High Profitability

Konica Minolta will increase sales by expanding its lineup in non-contact 3-D digitizers and by strengthening its software and solutions development capabilities. At the same time, we will leverage our strengths in industrial-use color measuring systems and establish the de facto standard in an effort to secure a captive customer base. Furthermore, we will secure a high market share and high profitability in medical-use measuring instruments and cultivate new businesses. We will expand our overall business scale through strategic alliances. Konica Minolta is endeavoring to explore all avenues in its efforts to create new business fields and will establish a sales network in the lucrative Chinese market. In promoting these initiatives, we are targeting sales of ¥15 billion and operating income of ¥4 billion in the final year of the current management plan.

Swiftly Realizing Synergy and Integration Benefits by Creating a New Corporate Culture

In the three-year period ending March 31 2006, Konica Minolta is expecting to incur integration costs totaling ¥45.4 billion. Against this expenditure, the Company is projecting cost savings of ¥64 billion over the same period directly related to rationalization and synergy benefits. In the area of personnel, our target is to reduce the number of employees as of March 31, 2006 by 4,700 for a total staff complement of 32,600.

Essential to realizing the benefits of integration is a complete restructuring of our personnel systems. As a new entity, Konica Minolta is not prepared to rest on previous successes and experiences. Adopting a customer-first approach, we will emphasize change and innovation in all facets of personnel, including systems, management, organization and mind-set. In reshaping the mind-set of our employees, we will move away from the fixed procedures and customs of both Konica and Minolta and encourage a lively exchange of ideas and opinions. For our systems, we will formulate clear selection criteria for executive officers and introduce human resource systems for managers and general staff based on performance. To this end, we will work to establish a human resource database, career development and a system that promotes mobilization of human resources. In implementing reorganization, we will focus on ensuring the right people are placed in the right area to ensure that maximum potential is realized. We will upgrade our in-house communication systems and consolidate employee communication activities into a single portal site. Finally, based on the employee surveys conducted, we will clarify those issues that most effect our business and our efforts toward sustained growth, and formulate solutions to maximize the synergy benefits from integration.

Company President

Interviews 1

Konica Minolta Business Technologies, Inc.

Yoshikatsu Ota *President*

Our goal is to strategically develop a leading position in target regions and business segments such as color MFPs, high-speed MFPs, and color LBPs. Furthermore, we look to reinforce our technical capabilities and expand sales opportunities through strategic business alliances.

Q. How do you view market conditions in the Business Technologies business and what are your strategies?

A. The business environment is undergoing considerable change impacted by increasingly diverse workplace needs and a sharp rise in the volume of information. In an effort to address the growing trend toward digitization and the demands of an information network society, information equipment manufacturers are seeking cutting-edge technologies in their efforts to deliver products, services and solutions. In addition, as we enter an era of megacompetition, global operation assumes a more critical role for ongoing survival. Amid this business environment, we developed genre top strategies as a means by which to achieve our medium-term management integration plan, which was designed to maximize the benefits of integration. Our goal is to strategically develop a leading position in target regions and business segments such as color MFPs, high-speed MFPs, and color LBPs. Furthermore, we look to reinforce our technical capabilities and expand sales opportunities through strategic business alliances.

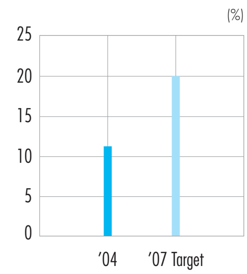
Q. How do you assess market conditions in the color MFP business? What are your principal initiatives and objectives for this business?

A. The growth of the monochrome machine market is expected to stall, as the evolution of color peripherals continues to advance. Compared with the fiscal year ended March 31, 2004, the color MFP market is expected to triple by March 2007. Under these circumstances, we are targeting a market share in fiscal 2006 of 20%, placing us at the forefront of the industry. To this end, we will actively promote the shift from monochrome to color with the aim of substantially rearranging industry composition and product share. Our competitive advantage will include the capability to realize total cost reductions in both hardware and consumables. We will bolster our lineup of color models offering functionality on par with monochrome MFPs. We will also promote our proprietary polymerized toner and color imaging technology to improve picture quality and pixilization. Furthermore, we will pursue development of the light production printing market, an area earmarked for future expansion.

Color MFP

Color MFP global market share in unit sales

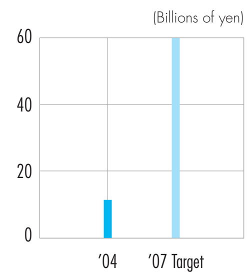
11 % > 20 %



High-Speed MFP

Light production printing global business sales

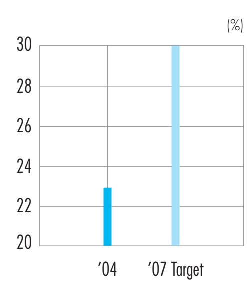
10 billion yen > 60 billion yen



Color LBP

Color LBP global market share in unit sales

23 % > 30 %



Q. What kind of future do you see for the light production printing market?

A. We are anticipating an increase in demand for monochrome and color high-speed MFPs in the light production printing markets that includes print-on-demand products. Our target is to increase sales sixfold to more than ¥60 billion between fiscal 2003 and fiscal 2006 and to establish a solid position within the market. To this end, we will introduce both monochrome and color high-speed MFPs and deliver a product lineup in tune with professional needs. Following our success in the Japanese market, we are targeting Europe and the United States. We will establish a designated local sales structure for each region and commence full-fledged initiatives to expand our business scale. In addition, we will pursue every opportunity in light production printing by effectively utilizing office equipment, and graphic printing sales channels.

Q. How would you describe conditions in the color LBP market? What are your business targets in this area and how will you achieve them?

A. We maintain high hopes for the principal A4/letter size color LBP market and expect to increase profits and our share from 23% in fiscal 2003 to 30% in fiscal 2006. In fiscal 2006, color LBP sales are expected to remain strong. In particular, our consumables sales will increase considerably, resulting from the spread of our LBPs in the market. We will strengthen our own sales channels with the aim of increasing the number of machines in the field as well as enhance our product lineup to ensure ongoing competitive advantage.

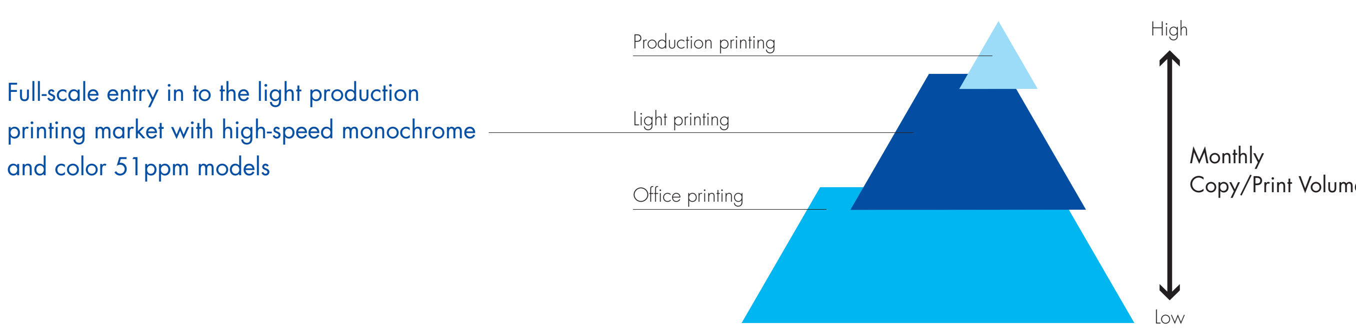
Q. Please outline the distinctive advantages of Konica Minolta's polymerized toner.

A. Konica Minolta's proprietary polymerized toner can reproduce minute lines, characters, photos, illustrations, and half-tones with greater precision and richness and at a lower cost. For these reasons, this product is held in high regard by the market and we are seeing an increasing number of models equipped with our polymerized toner, which has led to a sharp jump in production volume. Another distinct advantage is the overwhelming number of patents linked to this product, providing significant protection against imitation by our competitors. In addition, plans for a new plant are on track and we anticipate production to commence during fiscal 2005. While maintaining the industry's top manufacturing capacity, we will aggressively load polymerized toner into a broader range of products. Through our technological advantages and proactive product development, we are targeting the No. 1 position in the polymerized toner industry by fiscal 2005.

Q. In what areas are you seeing the benefits of integration?

A. On the development side, integration benefits have been felt through consolidation of development teams allowing greater efficiency and speed in the development and commercialization of new software and hardware. On the production front, we are anticipating significant benefits from the new polymerized toner production plant as well as an increase in hardware production in China. But perhaps the greatest benefits have been seen in marketing. The integration of sales companies in Japan, Europe and the United States has strengthened and enhanced our sales structure.

Position of the Light Production Printing Market in Terms of Monthly Copy/Print Volume

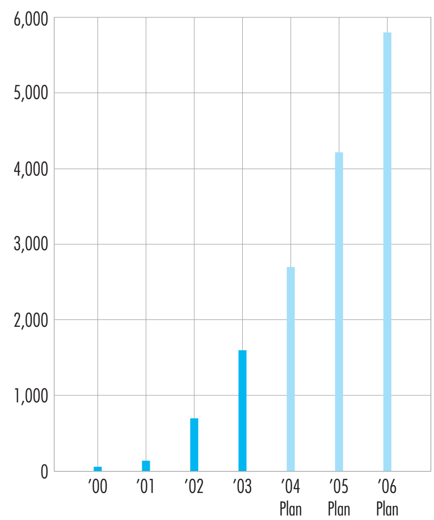


Distinctive Advantages of Konica Minolta's Polymerized Toner

Distinctive Advantages	Benefits
• Small particles	• High definition • Low cost
• Highly uniform size and shape	• Low volatility in image quality • Easy to control
• Possibility for applying unique layers to particles	• Low glare, easy to write on, improved machine reliability, longer product life
• Low-heat fixing	• No curling, short start-up time, downsizing of heaters and cooling fans, quiet, energy-saving, low cost
• Low production emissions of environmental load substances	• Low environmental impact

Polymerized Toner Production

(Tons)

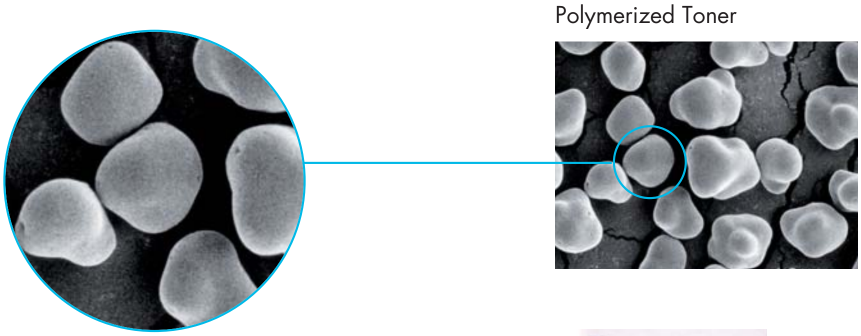


Note: Calendar years

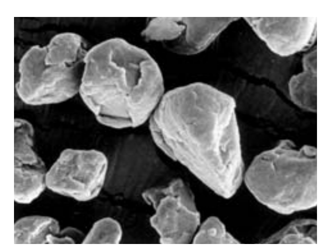
With the rationalization of sales bases and elimination of duplication, we have also experienced cost savings and increased efficiency. On an even more positive note, we are excited by the launch of Konica Minolta's new brand for MFPs, bizhub, and are anticipating great benefits from this unified brand. In those areas where integration has had less of an impact, such as in technical expertise, product lineup and sales channels, we will supplement measures by actively pursuing strategic alliances. In the fiscal year ending March 31, 2005, we will continue efforts to reduce costs while at the same time build a quality global brand and raise brand awareness.

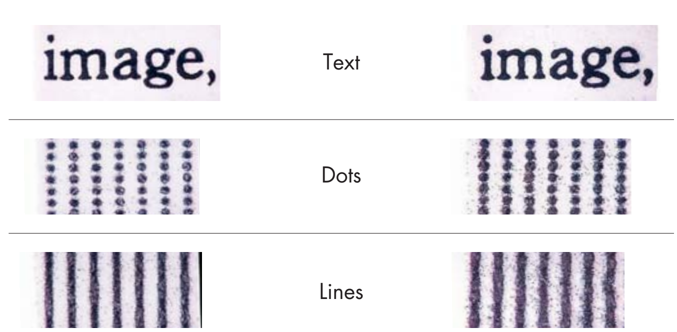
Polymerized Toner

Conventional Toner



Particles are uniform in size and shape





Company President

Interviews 2

Konica Minolta Opto, Inc.

Takashi Matsumaru *President*

Our goal is to become the world's leading optics manufacturer, backed by our superior technology to garner the unwavering trust of customers.

Q. How do you view market conditions in the Optics business?

A. The market continues to experience strong growth. Home electric appliance manufacturers, our principal customers, are focusing more and more on digital information home appliances. This augurs well for our four business fields, namely optic recording devices, optic imaging devices, communications equipment, and digital cameras. In the field of optic recording devices, demands for higher density are rapidly increasing, driven by the shift from gigabyte technology to terabyte technology. In the optic imaging device field we are expanding production facilities for the highly versatile TAC film, as demand for LCD polarizing plates increases. Our focus on the development and sale of high-value-added, highly functional films, reflects the sharp growth in the LCD TV and large-size LCD monitor markets. Sales of microcamera units have skyrocketed in the communications field as demand for mobile phones equipped with cameras continues to surge. As the shift toward digital cameras takes hold, sales of lens units in the component business also climb.

Backed by the technological and competitive advantage we enjoy in each of our four business fields, essential in an era of digital home electric appliances, I am confident we will record significant growth in concert with the explosive expansion forecast for this area.

Q. What are the strengths of the Optics business?

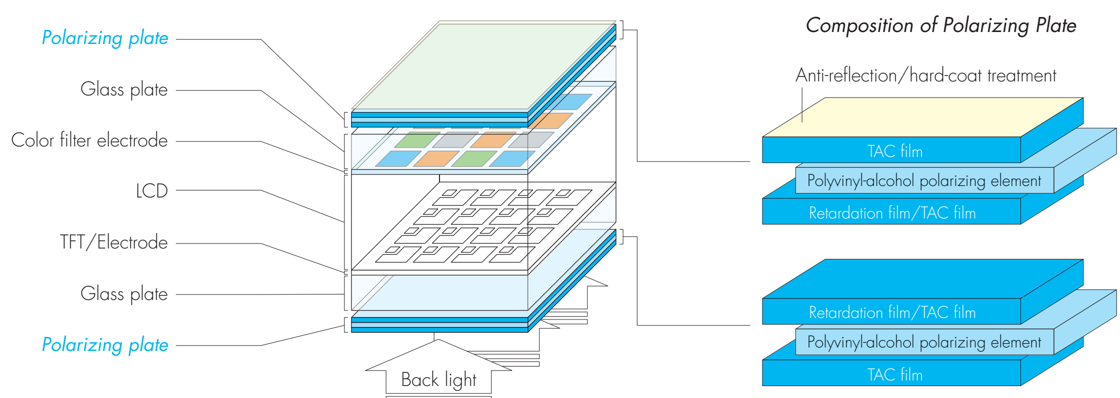
A. Our wealth of intellectual property accumulated over many years is a major strength of the Optics business.

We are constantly requested to deliver cost reductions and in particular raise specifications. For example, laser wavelength for the use of optical pickup units in CDs and DVDs has shifted from 780 nanometers to 650 nanometers and further to 400 nanometers, while demands for increased precision continue to rise. Essential to the development of such high-precision components is the development of proprietary inspection systems and processing equipment. Konica Minolta is well positioned, protected from the two perspectives of technical expertise and its wealth of intellectual property. This competitive advantage also serves as a substantial deterrent to new entrants in this field.

Q. What do you perceive are the most significant merits of integration?

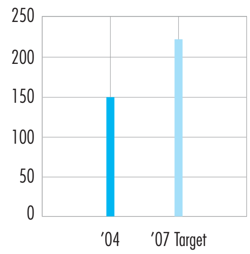
A. I believe the merits are significant. Primarily on the technical side, we have seen a significant upgrade in our capabilities as the former Konica's expertise in specialized fields is balanced with the former Minolta's broad base of technologies. The Company has significantly increased its competitiveness through management integration of its optical lens technology. As a result, Konica Minolta is well positioned to experience new synergy benefits from the integration of respective expertise in plastic lens technology and glass lens technology. This integration has created new opportunities for microcamera unit applications in mobile phones and lens units for digital cameras. In optical design, the former Minolta employed engineers recognized as leaders in the industry. This is now generating new business development and the potential for growth. Finally, the integration also delivers a complementary mix between the marketing expertise of the former Konica and the R&D focus brought by the former Minolta. We are already seeing the benefits of harmonious coexistence.

Composition of Liquid Crystal Panel



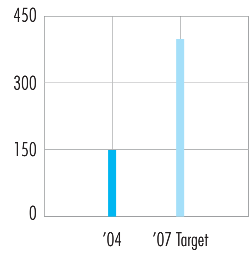
Lens units for digital cameras and camcorders

(Billions of yen)



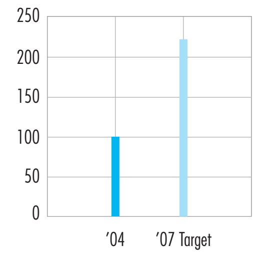
Microlens units/microcamera units for mobile phones with camera functions

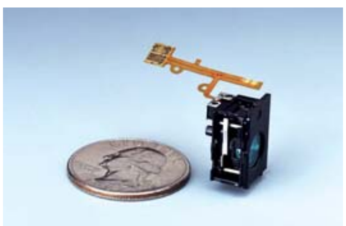
(Billions of yen)



Electronic materials including LCD film

(Billions of yen)





Micro-Zoom Camera Unit

Applying a unique piezoelectric actuator, Konica Minolta's micro-zoom camera unit realizes a compact precision-drive mechanism, and is applied in mobile phones with zoom-camera functions and in other products.

Q. What progress has been made in achieving targets identified in the medium-term management integration plan?

A. We are working tirelessly to achieve our targets. In the fiscal year ended March 31, 2004, the Optics business recorded significant increases in sales of lens units for mobile phones, lens units for digital cameras, and TAC film. In fiscal 2004, we are planning for even more growth. Particularly in the lens market for mobile phones, we anticipate our competitive advantage in quality and costs will contribute to an improvement in sales as the trend toward megapixels continues.

Konica Minolta strives to strengthen the foundation for cost competitiveness. We have identified measures and processes that encourage employees to examine business from the management's perspective. I believe this is essential to realizing a business platform that is cost competitive and one that consistently generates high profitability.

Beyond our medium-term objectives, we are looking at ways to achieve the next major stage of growth. In order to ensure continuous and consistent growth, we need to establish R&D themes for the next 10 and 20 years. To this end, we have established a specialist section to pursue R&D in futuristic technologies and the development of new business.

Q. Please outline the status of your capital investment.

A. Konica Minolta will step up capital investment for LCD TAC film and lens-related products in response to robust increases in demand for LCD TVs, digital cameras, and DVD players. In particular, we will focus on meeting demand for large-screen LCD TVs. In October 2005, a third plant for TAC film production is scheduled to come on line in Kobe, Japan. We will continue to invest in TAC film and related products as the market expands.

Looking ahead, we will retain our dominant position by focusing our investment strategies in line with trends and market demand for blue-lasers. At the same time, we will pursue additional cost reductions and increased productivity.

Q. What are your aspirations for the future?

A. Economic development throughout most of the 20th century was fueled by technological innovation in the fields of semiconductors and CPUs. I am confident the 21st century is the era of optics technology. Until recently, the optics field had been limited in its scope and potential. In the future, however, optics is expected to drive the development of society and humankind in general. Konica Minolta, a leader in optics technology, is endeavoring to promote business development and growth. Our goal is to become the world's leading optics manufacturer, backed by our superior technology to garner the unwavering trust of customers.

At a Glance
(As of March 31, 2004)

Business Technologies

Share of Group total sales
55.1%

Number of employees
20,523

Main Products:
MFPs, LBPs, microfilm systems, consumables, software, system solutions, service, etc.

Optics

Share of Group total sales
7.7%

Number of employees
2,113

Main Products:
Optical pickup lenses, lens units, microcamera units, electronic materials, etc.

Photo Imaging

Share of Group total sales
24.8%

Number of employees
6,878

Main products:
Digital cameras, film cameras, film scanners, film, inkjet media, on-line lab, ID photo system, planetarium equipment, etc.

Medical and Graphic Imaging

Share of Group total sales
11.2%

Number of employees
2,669

Main products:
X-ray image processing systems, X-ray film, contrast media for diagnostic purposes, digital color proofing systems, graphic film etc.

Sensing

Share of Group total sales
0.9%

Number of employees
232

Main products:
3-D digitizers; color, light, and heat measuring instruments; medical measuring instruments; photometers, etc.

Business activities: Business Technologies is the largest business within the Group, offering comprehensive network document solutions in the office environment. Applying the latest technologies in digitization, color, image processing and networking, Konica Minolta is able to provide industry-leading products and services such as MFPs, which are all-in-one units with printing and facsimile functions, LBPs and other office systems.

The polymerized toner that is used in the Company's MFPs and LBPs is securing their leading position in the industry in terms of quality and cost-effectiveness. Concentrating efforts in the color and high-speed segments, the Company will grow as a core operation that makes the most of the Group's worldwide sales organization.

Business activities: The Optics business is geared to meet the sophisticated needs of the optics market, offering products that use optical and high-precision process technology, such as optical pickup lenses and lens units for DVD and CD players, lens units for digital cameras and camcorders, and microcamera units for mobile phones with camera functions. Among these and involving a high degree of technical prowess, DVD pickup lenses are maintaining their competitive technical edge and hold close to a 90% share of the market. Furthermore, management integration has brought together the market superiority of the former Konica's plastic lens technology and the former Minolta's glass molded lens expertise, enabling widely diverging customer needs to be flexibly responded to.

Business expansion in the electronic materials field, such as the TAC film essential for liquid crystal polarization boards and high-value-added products, is also being proactively addressed.

Business activities: Using its comprehensive technologies from image input to output, Konica Minolta offers a diverse range of products and services to the world, compatible with digital and networking technologies in the consumer photo field.

In the digital photo field, Konica Minolta markets digital cameras with unique features made possible with innovative technologies, on-line photo processing services and inkjet paper that produce prints on par with real photographs.

In the conventional photo field, Konica Minolta offers high-quality color film, traditional single-lens reflex (SLR) cameras and compact cameras based on the concept of taking beautiful photos effortlessly. We also provide various services using networks in addition to full-digital photo processing minilabs at stores.

We boast a high share of the identification photo systems market, and are developing the business by promoting digitization.

Business activities: Amid rapid progress toward digitization and networking in the medical field, Konica Minolta provides a wide range of systems and services for the input/output field of medical X-ray images. Konica Minolta contributes to high-quality medicine through its comprehensive image processing systems used for the output, transfer, storage and analysis of digitized images, thanks to its best-of-breed technologies and expertise.

In the graphic imaging field, Konica Minolta supports higher work efficiency through full-color proofing systems compatible with digital technology for high-quality, high-speed processing.

Business activities: The Sensing business offers optimal measuring instruments for 3-D shapes, color, light and temperature, which help a wide variety of industries to maintain and improve the quality of their products. Shape measurement with our 3-D digitizers is used in such fields as, manufacturing, medical, and computer graphics production, taking advantage of the 3-D digitizer's high-precision, high-speed scanning capabilities. Color measurement with Konica Minolta's spectrophotometers and chromameters is widely used in industries such as, automobile, paint, plastic, textile, building material, and food product businesses. In the light-source measurement field, too, color analyzers are being increasingly utilized in the production of LCDs. Konica Minolta's medical measurement instruments, offering oxygen saturation meters and the compact jaundice meter used on newborn babies, allow medical exams to be done in a way that is minimally invasive to patients.

B

Business Technologies

bizhub C350

magicolor 2300DL

8050

In the fiscal year under review, Konica Minolta accelerated efforts to implement its genre top strategies to secure a leading position in specific regions and business fields such as color MFPs, high-speed MFPs, and color LBPs. At the same time, we continued to shift the Company's focus toward high-profit segments and to expand sales of value-added products based on our industry-leading polymerized toner technology. In color MFPs, a market experiencing considerable growth, we focused on the office sector and implemented measures to expand sales.

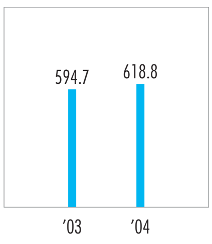
Regarding the high-profit potential field of high-speed MFPs, in addition to its own sales channels, the Company worked to expand sales through proactively pursuing strategic alliances with the world's top IT companies, including Hewlett-Packard Development Company, L.P. (United States) and Peking University Founder Group Corp. (China). In October 2003, Konica Minolta enhanced its product lineup with the addition of 8050, a 51-page-per-minute high-speed color MFP.

In conjunction with the transition to the Konica Minolta brand, in February 2004, the Company introduced the new bizhub brand of MFPs around the world.

In LBP operations, Konica Minolta continued to concentrate energies on sales expansion in low-speed LBPs with a focus on the European and North American markets, in which it secured a solid position. In particular, the four-page-per-minute color output magicolor 2300 garnered widespread popularity in the SOHO market. Moreover, we saw good sales in our consumables business, which has evolved into a consistent contributor to the Company's profits.

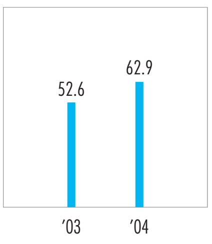
Net sales

(Billions of yen)

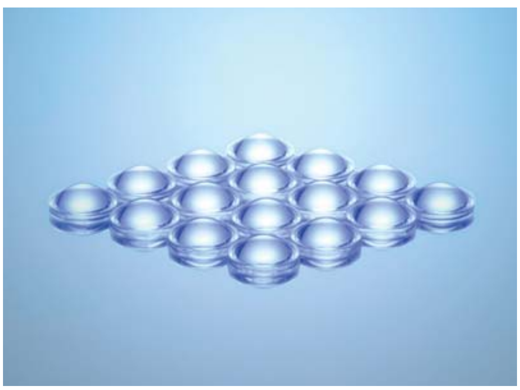


Operating income

(Billions of yen)



Optics



Optical Pickup Lenses
Using our world-class optical technologies, we supply aspherical plastic lenses that are used in optical pickup mechanisms for a variety of optical disk drives and players.

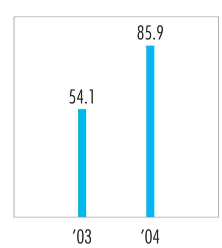
Konica Minolta continued to maintain a strong performance in its core optical pickup lens operations on the strength of unparalleled technological capabilities, market position, and the wide range of its products. In addition, the Company's strategic components business, which is driven by optics technologies, a field in which we excel, and includes such products as lens units for digital cameras and microlenses for camera-equipped mobile phones, benefited from vigorous market growth and expanded sales.

Furthermore, Konica Minolta worked to expand sales of TAC film and other high-value-added products to capitalize on the strong growth in LCD-related markets, including large-scale monitors and LCD television sets, and achieved substantial sales growth.

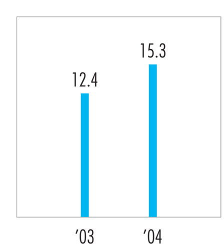
Blue Laser Spot Image Analysis System
An optimal analysis system for optical pickup lenses used with next-generation, high-density optical discs, capable of measuring and analyzing a spot image's characteristics with a high degree of precision.

Lens Units for Digital Cameras and Camcorders

Net sales
(Billions of yen)



Operating income
(Billions of yen)



P

Photo Imaging

DiMAGE A2

Inkjet Photo Paper

Dynax 7

CENTURIA Super 400

DiMAGE X50

R2 Super Digital Minilab System

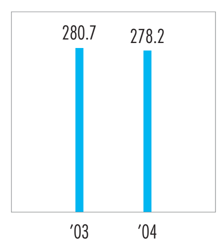
In photographic materials, Konica Minolta worked diligently to capitalize on strong sales in overseas markets of its R1 SUPER minilab system, to maintain and expand sales and profit in photographic paper operations, by proactively expanding the uptake of storefront digital prints. However, the Company's color film operations were substantially affected by the decline in demand in industrialized nations (Japan, North America, Europe), driven by growth in the digital camera market. Although the non-silver halide photography business, which included inkjet media and ID photo systems produced solid results, the business has yet to attain a scale sufficient to compensate for the decline in color film operations.

In the digital camera business, amid continuing strong market growth in Japan and overseas, Konica Minolta introduced such ambitious new products as the slim and compact DiMAGE X series digital cameras, and achieved substantial growth in sales volume. However, in the period from the summer of 2003 onward, as the life cycle of digital cameras became shorter, severe price competition in world markets caused increased losses in this business.

Against these tumultuous conditions, Konica Minolta is stepping up efforts to restructure its operations with the aim of better adapting to the business environment, which continues to change at a dizzying pace. The Company continues to accelerate the comprehensive review of its strategies and policies from development through manufacturing and marketing. As part of this review, in April 2004, Konica Minolta consolidated its photographic materials and camera businesses into Konica Minolta Photo Imaging, Inc. By providing a comprehensive range of unique Konica Minolta-only digital photo imaging products and services, covering all needs from input to output, the Company will work to improve its competitiveness and raise its market position.

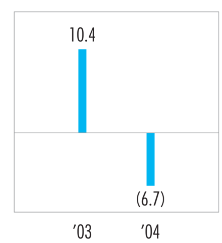
Net sales

(Billions of yen)



Operating income (loss)

(Billions of yen)



M

Medical and Graphic Imaging

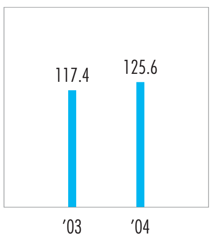
REGIUS MODEL 170
The REGIUS MODEL 170 is a powerful, but compact high-resolution, high-speed X-ray imaging system.

Digital Konsensus Pro
The Digital Konsensus Pro, a fundamental instrument in digital color proofing, has the powerful capability to preserve desired printing conditions, offering advanced reproducibility.

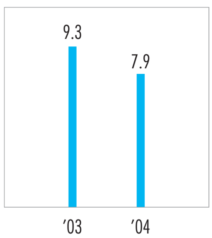
In the field of medical imaging, Konica Minolta achieved prompt success in the industry in the commercialization of its REGIUS MODEL 170 digital X-ray imaging system, which it developed in response to the increasing use of digital and network technologies in hospitals, and commenced sales in the previous fiscal year. Highly regarded in the market for its sophistication, the system continued to attain strong sales growth. In addition, boosted by solid hardware sales, dry film sales were also strong.

In graphic imaging, Konica Minolta worked to expand film sales in overseas markets with a focus on Asia. In Japan, to respond to the ongoing market transition to filmless solutions, the Company is endeavoring to expand sales in the high-end market with its Digital Konsensus Pro digital color proofing system, which is highly acclaimed for its quality and sophistication.

Net sales
(Billions of yen)



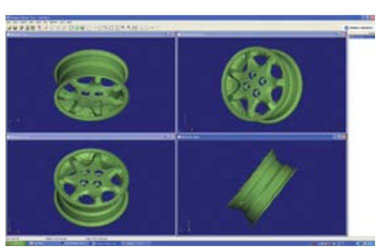
Operating income
(Billions of yen)



S

Sensing

VIVID 9i Non-contact 3-D digitizer
Capturing images in a camera-like way, the VIVID 9*i* is capable of processing image data from 3-D objects.



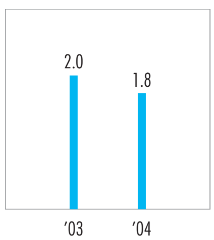
CR-400
Lightweight colorimeter

CA-210
Display color analyzer

Solid sales of the CA-210 display color analyzer, which is used to control PC monitor hue and other light-source color measuring systems, were achieved. At the same time, the Company worked to improve performance by concentrating sales and marketing on target industries and companies with a focus on Japan and other parts of Asia. On the production side, we strove to maintain and expand business profitability by implementing such structural optimization as reducing consolidated inventories by shortening lead times and developing production systems that are compatible with small-lot, multi-product range production.

Net sales
(Billions of yen)

Operating income
(Billions of yen)



Corporate Social Responsibility (CSR)

The Corporation's primary activities are to deliver products and services beneficial to customers and the community, and through these means to derive acceptable returns. At the same time, the Konica Minolta Group recognizes the importance of securing the satisfaction and trust of all stakeholders in every facet of its business activities.

In our efforts to fulfill our corporate social responsibility, we actively promote a variety of initiatives: strict adherence to our corporate philosophy based on the highest standards of leadership and ethics; continuous improvement to corporate governance systems; compliance; information disclosure and communication, and; environmental management.

In order to enhance CSR, we have established business companies and common function companies, which are positioned under the holding company to reinforce competitiveness. Moreover, Konica Minolta has adopted a board-with-committees system to clarify the executive and supervisory functions of management, promote fair and transparent business, and to accelerate the decision-making process.

Konica Minolta follows a broad-based compliance philosophy. The Group strives to adhere to all statutory and regulatory requirements as well as the highest standards of corporate ethics and in-house rules.

Disclosure and communication are priorities for the Group. Konica Minolta prepares various disclosure materials. At the same time we engage in corporate communications and investor relations activities as well as global environment conservation meetings in an effort to maintain healthy dialogue with local communities and residents.

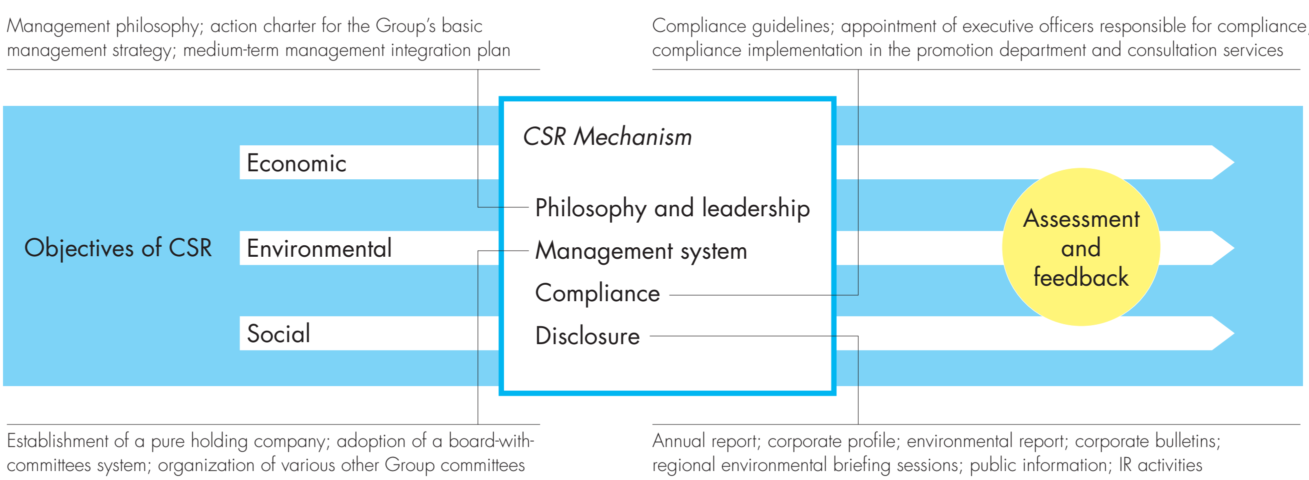
By utilizing the Internet and all forms of electronic communication, we effectively and promptly relay relevant information to all stakeholders, advising of our operating performance, strategies and initiatives, and at the same time collect vital feedback. On a global basis, Konica Minolta also conducts periodic self-assessment of its activities and performance. We consider it is imperative that this information is distributed to each business unit and commonly shared throughout the Group.

In the area of environmental management, we promote improvements based on ISO management guidelines in Japan. Underpinned by our fundamental environmental policy, we promote sustainable growth and profitable development.

Equally important to CSR and efforts to work in harmonious coexistence with society and to ensure sustainable growth, we will engage in business activities that reflect the needs of all stakeholders to generate mutual prosperity in concert with the social economy.

In March 2004, the British FTSE Group, one of the three main global CSR index companies, granted Konica Minolta an FTSE4 Good Index Series certificate of membership. (Membership certificates are valid from March to September of the following year, when the next Index review is held.)

Konica Minolta Group CSR Activities

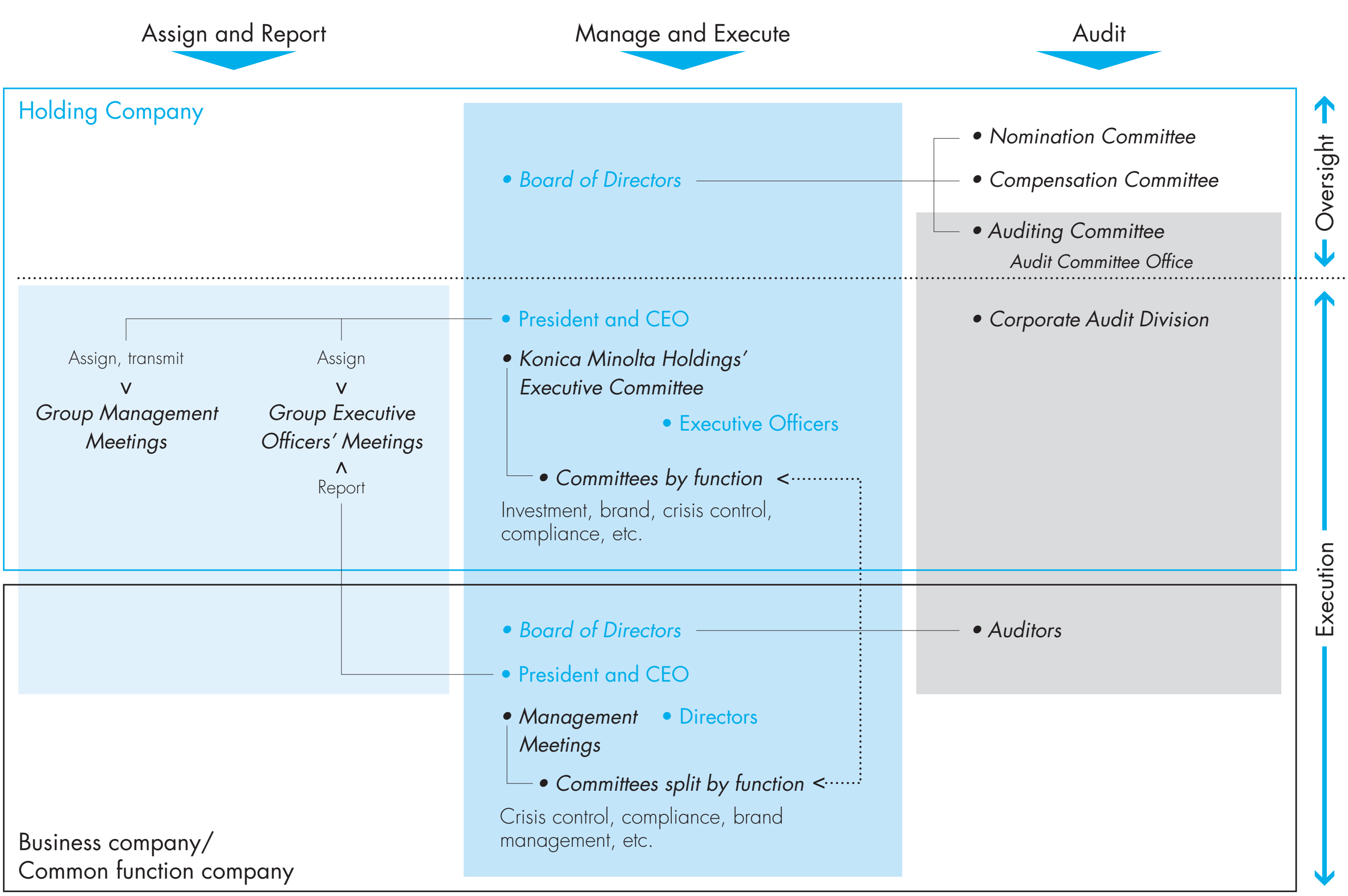


Konica Minolta's management attaches paramount importance to the strengthening of corporate governance, management oversight and the clear separation of supervisory and executive functions. Planning enhancements and further expanding corporate governance functions will put transparent management into practice in a fair manner. By increasing corporate value derived from superior results, we will reward our fellow shareholders in keeping with their expectations.

To achieve these objectives as a Group and to establish the most suitable structure, Konica Minolta shifted to a holding company system, and chose a board-with-committees system, comprising the Nomination Committee, the Compensation Committee, and the Auditing Committee. In the case of Konica Minolta, each committee is chaired by an outside director, consists of a majority of outside directors, and does not include the representative executive officer. The Company has appointed four directors from outside the Company. These directors have no direct interest in Konica Minolta.

Furthermore, to strengthen the audit system, the Corporate Audit Division was established with the aim of fulfilling internal audits. The Corporate Audit Division has sole responsibility for Group internal audits, and forms the structure through which the Auditing Committee can pursue an effective and relevant audit function. To maintain the highest standards of compliance, we introduced the Konica Minolta Group Compliance Guidelines. In addition, we appointed an executive officer responsible for compliance and established a Compliance Promotion Office and a Compliance Committee.

Konica Minolta Holdings' Corporate Governance System



Board of Directors

Konica Minolta Holdings, Inc.

As of June 25, 2004

Chairman of the Board of Directors

Tomiji Uematsu

Directors

Fumio Iwai

Yoshikatsu Ota

Kikuo Fujiwara
Senior Corporate Advisor, Shimadzu Corporation

Tetsuya Katada
Senior Advisor, Komatsu Ltd.

Noriyuki Inoue
Chairman of the Board and Chief Executive Officer, Daikin Industries, Ltd.

Hisashi Nakayama
Chairman of the Board of Directors, Meiji Dairies Corporation

Yoshihiko Higashiyama

Takeo Koitabashi

Masanori Hondo

Teruo Kawaura

Hiroshi Ishiko

President & CEO, Representative Executive Officer

Fumio Iwai

Vice President, Representative Executive Officer

Yoshikatsu Ota

Senior Executive Officers

Masanori Hondo

Teruo Kawaura

Hiroshi Ishiko

Hideaki Iwama

Tateomi Kohno

Yoshihiko Someya

Hiroshi Fujii

Takashi Matsumaru

Tsuyoshi Miyachi

Shoei Yamana

Executive Officers

Mitsuharu Ohura

Kaoru Onodera

Akio Kitani

Tomohisa Saito

Tadashi Nakamura

Hiroshi Furukawa

Toshifumi Hori

Yasuo Matsumoto

Seated (from left to right):
Noriyuki Inoue, Kikuo Fujiwara, Fumio Iwai, Tomiji Uematsu, Yoshikatsu Ota, Tetsuya Katada, Hisashi Nakayama
Standing (from left to right):
Teruo Kawaura, Yoshihiko Higashiyama, Takeo Koitabashi, Masanori Hondo, Hiroshi Ishiko

Basic Management Policy

The Konica Minolta Group (Konica Minolta Holdings, Inc. and its group companies) was established by a management integration of Konica Corporation and Minolta Co., Ltd., in August 2003. In October 2003, the Konica Minolta Group reorganized and integrated its business into a new corporate group having six business companies and two common function companies under Konica Minolta Holdings, Inc. In April 2004, as a result of further reorganization to maximize synergy effects, the Konica Minolta Group now consists of five business companies and two common function companies.

Based on the management philosophy of "The Creation of New Value," the Konica Minolta Group aims to engage in thorough business portfolio management; implement highly transparent corporate governance; promote its technology strategies and instill the Konica Minolta brand in the imaging field; conduct effective personnel management; and emphasize corporate social responsibility to effect the Group management visions of becoming an "Innovative Corporation that Continues to Create Impressions in the Field of Imaging" and "A Global Market Leader that Offers Advanced Technology and Reliability."

1. Core Technologies and Business Models

The Konica Minolta Group is working to leverage, enhance and combine its history and experience in imaging, precision processing, materials, and optics, to create new proprietary materials and devices for use in the fields of electro-photography, conventional photography, inkjet technology, and other imaging input and output products. In addition to these core technologies, we aim to allocate management resources for the development of production, design, software, network, and electronics technologies to expand our activities in the Business Technologies, Optics, Photo Imaging, Medical and Graphic Imaging, and Sensing businesses, and to lay the platform for future growth through the creation of new businesses.

As shown in the figure below, the Konica Minolta Group aims to strengthen business competitiveness and create new businesses by allocating management resources to the core Business Technologies business, strategic Optics business, and basic and advanced technologies for common use throughout the Group.

2. R&D Segment and Business Strategies

R&D at the Konica Minolta Group is conducted at each business company to increase its relevance to business strategy. Moreover, separate from the R&D activities conducted at each business company, the corporate R&D function (Konica Minolta Technology Center Co., Ltd.) advances research in common platform technologies for use throughout the Group and works to develop and enhance new cutting-edge technologies. There were approximately 4,400 employees engaged in R&D activities throughout the Konica Minolta Group as of March 31, 2004. In fiscal 2003, the Konica Minolta Group recorded approximately ¥63 billion* in R&D expenses, included in the Company's SG&A expense, around 5% of total sales.

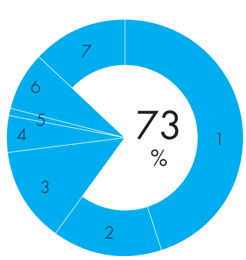
*Note: The amount of R&D expenses in 2003 was obtained by adding the annual expenses of the former Konica to the R&D expenses of the former Minolta for the first half of fiscal 2003.

Allocation of Management Resources *(Three-year total through March 2007)*

Investment

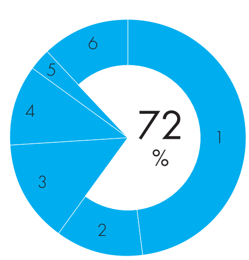
Total Capital Investment: ¥230.0 billion

1. Business Technologies (includes equipment leasing) 45%
2. Optics 15%
3. Photo Imaging 13%
4. Medical & Graphic Imaging 5%
5. Sensing 1%
6. Others 8%
7. Strategic investments 13%



Research and Development Expenditures

Total Research & Development Expenditures: ¥220.0 billion



1. Business Technologies 48%
2. Optics 12%
3. Photo Imaging 14%
4. Medical & Graphic Imaging 11%
5. Sensing 3%
6. Basic and advanced technologies 12%

More than 70% of the Group's capital investment and R&D expenditures are allocated to the Business Technologies and Optics Businesses.

The following is a description of the main research and development themes and business strategies of the Konica Minolta Group.

(1) Business Technologies business (digital copiers, printers, etc.)
The Konica Minolta Group aims to further expand earnings in its core business through the promotion of colorization, digitization, and high-resolution business strategies. Main business fields include color multi-functional peripherals (MFP), laser printers (LBP), high-speed MFPs, light production printing, polymerized toner and other chemical products, and network solutions.

(2) Optics business (optical devices, electronic materials, etc.)
The optics business is quickly growing in scale toward contributing to Group earnings through business strategies aimed at enhancing advanced functions and differentiation. Main technological fields include products compatible with next-generation optical pickups (blue laser and high-density next-generation DVDs), microcamera units offering high resolution and advanced functions, as well as high-function film for large LCDs.

(3) Photo Imaging business (photosensitive materials, inkjet media, cameras, etc.)
While aiming to secure earnings in the conventional business field of photosensitive materials, the Konica Minolta Group is promoting restructuring toward digitization through the stronger development of digital networking, digital cameras, inkjet media, as well as key devices and components such as lenses.

(4) Medical and Graphic Imaging business (medical and printing products, etc.)
We aim to secure earnings and rapidly develop businesses alongside digitization and film-less products by concentrating efforts in medical and printing hardware, software, and small-lot printing systems.

(5) Sensing business (industrial and medical measuring instruments, etc.)
We aim to secure earnings in the color measurement and medical measurement fields. We are concentrating efforts in the field of 3-D digitizing technology.

(6) Common basic and advanced technologies
By strengthening efforts in this field, we aim to pioneer the development of promising new technologies that will support the Konica Minolta Group in the future.

3. R&D Segment and Intellectual Property Overview

In the Business Technologies business, the Konica Minolta Group is aggressively acquiring and using patents related to high resolution and high reliability in the core technological fields of color MFP, color LBP, high-speed MFP, light production printing, polymerized toner and other chemical products, and network solutions. In particular, polymerized toner is a key technology for achieving high resolution, and is an example of how Konica Minolta has significantly increased its number of patents in Japan recently, through measures that emphasize patent applications.

In the Optics business, we are acquiring patents in mainly the optical pickup field. We strongly support our businesses by building a portfolio of crucial technology patents in the field of CD pickups, for which our global market share is over 80%. In the DVD/CD pickup field, we continue to acquire patents covering key technologies, and already own many related patents.

In the Photo Imaging business, we acquire and use patents in the conventional business field of photosensitive materials, and are aggressively acquiring patents related to digital cameras and digital photo network printing to prepare for digitization in future business development.

In the medical imaging field of the Medical and Graphic Imaging business, we are aggressively acquiring patents related to digital imaging input and output devices, network systems, and new business fields, in preparation for business development toward digitization and a film-less era. In the graphic imaging field we are proactively acquiring patents related to printing plates, small-lot printing systems and new business fields.

In the Sensing business, we are aggressively acquiring patents related to the color measurement and medical measurement fields, as well as in the core 3-D digitizing field.

In the field of common, basic and advanced technologies, we are focusing efforts on the acquisition of patents related to inkjet heads, ink, recordable media, printing technology as well as to such technology fields as organic electroluminescent materials, piezoelectric actuators, nano-processing, thin-film coating, and image processing.

4. Analysis of Marketability and Technology Market Advantages

In the Business Technologies business and Optics business, synergistic effects are rapidly emerging from management integration.

In the core Business Technologies business, we aim to expand operations by strategically positioning the polymerized toner business and the networking input and output business. The polymerized toner business responds to future needs for higher resolutions backed by our advanced technological expertise, while the networking input and output business is centered on color MFPs, which are expected to continue growing in line with greater usage of color and on-demand printing in business offices.

In the strategic Optics business, we aim to expand operations centered on our extremely advanced optical technologies. The Konica Minolta Group's aspherical plastic lenses for optical discs are particularly advanced and are the de facto world standard with a global market share of 80%. The Konica Minolta Group continues to accumulate intellectual property by concentrating efforts in the development of next-generation optical pickup lenses to secure a leading position now and in the future.

5. R&D, Intellectual Property Organization, and Collaboration and Alliances in R&D

Each business company in the Konica Minolta Group conducts its own R&D with the aim of increasing earnings in existing businesses. The corporate R&D function conducts R&D into core technologies for common use throughout the Group and works to develop and enhance cutting-edge technologies. Through these means, we endeavor to create new earnings for the overall Group.

The Group's intellectual property function is conducted by the Intellectual Property Center, which belongs to the corporate R&D function. The Intellectual Property Center, which serves as the Group's cross-functional organization, formulates intellectual property strategies, as well as acquires, uses, and manages patents. Aiming for greater sophistication, the Intellectual Property Center works closely with each Group business on their R&D activities. In addition, liaison members in the Intellectual Property Center coordinate with R&D personnel in Japan and on the west coast of the United States to promote the intellectual property strategies of the Group, each business company, and all R&D bases.

The Konica Minolta Group aims to instill within its corporate culture a greater emphasis on intellectual property in concert with the R&D function. In this manner, we will secure vitality within our research activities prompting new innovations and discoveries. In order to accelerate the development and reinforcement of technologies, we will also participate in public studies, enter into R&D alliances with other companies, and with tertiary institutions. As one concrete example of a collaborative alliance in R&D, we are participating in the Technology Research Association for Advanced Display Materials (TRADIM), a national project related to liquid crystal display technology. The Konica Minolta Group also participates in the Nano Construction Photonics project promoted by Japan's Ministry of Education, Culture, Sports, Science and Technology to encourage ties between industry, academia, and government in urban areas. Through these efforts in Japan and overseas, we are making significant contributions to the development of technology and positioning the Company as a global R&D player.

6. Acquisition and Management of Intellectual Property, Trade Secret Management and Policies on Technical Leakage Prevention

The Konica Minolta Group has included intellectual property management strategies in its three fundamental management strategies that also include business and R&D management strategies. In its intellectual property activities, the Konica Minolta Group strives to create meaningful assets for business, leverage patents, and minimize risks in order to contribute to overall business development. In accordance with the rules and regulations of each Group company, including those regarding industrial property rights management, the Konica Minolta Group provides inventors with a payment when a patent is filed and registered, and also provides additional compensation linked to internal usage and external licensing. We offer these incentives to encourage the creation of inventions.

The Konica Minolta Group Compliance Guidelines, a basic code of conduct for the Group, outlines fundamental concepts and policies related to the protection of trade secrets and intellectual property rights. Rules and regulations at each Group company such as Rules for Trade Secret Management, state how to handle secret information. The Konica Minolta Group aims to prevent the leakage of sensitive information as well as internal secret information and secret information received from outside parties by means of appropriate management.

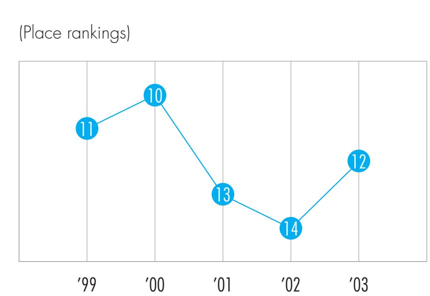
7. Contribution of Licensing-Related Activities to Business

The Konica Minolta Group owns intellectual property rights to protect its businesses, and effectively utilizes intellectual property rights as a means to distinguish its products from those of its competitors, enhance competitiveness, and secure earnings. From the viewpoint of ensuring business continuity and freedom in R&D, the Konica Minolta Group promotes cross-licensing strategies when it is necessary to use intellectual property rights owned by other companies in fields where technology is advancing and becoming more complex.

8. Patent Portfolio Contributions to Business

The Konica Minolta Group takes an aggressive approach to creating and securing intellectual property through liaison activities with R&D, as well as through the invention compensation system, which fairly evaluates inventions and provides compensation for noteworthy inventions. As a result, the Konica Minolta Group published 4,096 patent applications and ranked 12th[1] in terms of successful patent applications in Japan in 2003.

Rankings of Patent Applications Published



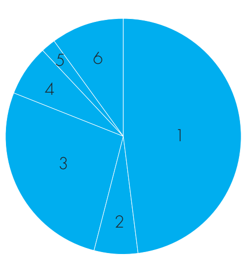
According to Diamond, Inc.'s *IP & Technology 2004-5* rankings of the number of inventions per inventor in electronics-related companies including electric appliances, precision machinery and electronics in 2003, the Konica Minolta Group scored number one with five inventions per inventor. (Diamond, Inc. is a major Japanese publishing company in the field of economics and business.) As a result of prolonged efforts to create and secure quality intellectual property, the Konica Minolta Group had approximately 6,600 patents registered in Japan as of March 31, 2004.

Moreover, we are leveraging our overseas production and sales bases to proactively develop and expand our global business. In response to the globalization of business, the Konica Minolta Group is making concerted efforts to acquire intellectual property rights overseas. With an emphasis on the mainstay market of the United States, and owing to our high quality activities in the field of intellectual property, the Konica Minolta Group registered 367 patents in 2003, placing it in 55th place in the world and in 17th place[2] among Japanese companies.

As of March 31, 2004, the Konica Minolta Group had approximately 5,300 patents registered in the United States. As a result of our strategic use of these patents, we are endeavoring to contribute to further business growth.

The Konica Minolta Group is working to leverage its wealth of U.S. patents in not only its traditional businesses, but also throughout all facets of its business activities. Within this framework, we invest aggressively and strategically in intellectual property resources in our core Business Technologies business and our strategic Optics business, both of which are drivers of growth for the overall Group.

Patents Registered in the United States by Business Segment

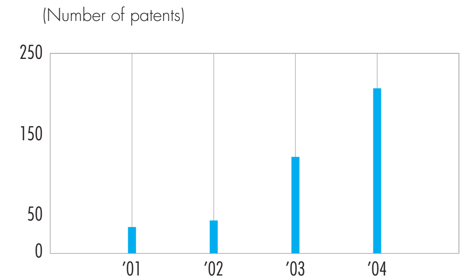


1. Business Technologies 48%
2. Optics 6%
3. Photo Imaging 27%
4. Medical & Graphic Imaging 7%
5. Sensing 2%
6. Basic and new technologies 10%

Accordingly, as of March 31, 2004, the number of U.S. patents held by the Business Technologies business and the Optics business were more than half of all U.S. patents held by the Konica Minolta Group in the United States.

In the Business Technologies business, where demands for high picture quality, speed, and environmentally friendly products continues to intensify, we are seeing other companies aggressively pursuing research in the development of a polymerized toner.

Polymerized Toner Patents in Japan



As a pioneer in this field, the Konica Minolta Group is actively pursuing patent applications in an effort to ensure continued competitive advantage. The published number of patent applications by the Group in Japan relating to polymerized toner continues to increase significantly. As a result of these efforts, we will maintain our leading position in copiers and printers and establish a patent portfolio to support future growth in our image information business.

Notes: 1. Ranked by Konica Minolta and based on data by Diamond, Inc.'s *IP & Technology 2004-5*, the total number of domestic patents published by the former Konica and the former Minolta were used for ranking the Konica Minolta Group.

2. Ranked by Konica Minolta based on data by the Intellectual Property Owners Association (http://www.ipo.org) of the total number of patents held by the former Konica and the former Minolta combined.

9. Intellectual Property Portfolio Policies

The Konica Minolta Group periodically monitors the registered patents and the published patent applications of Japan and of other countries around the world on technologies related to its businesses, and analyzes industry trends in intellectual property activity. Moreover, patents held by its business companies are periodically inventoried and categorized according to their importance in technological fields, contributions to business development, and control of other companies in order to improve intellectual property investment efficiency.

10. Risk-Sensitive Information

As of July 12, 2004, there were no disputes or lawsuits related to intellectual property rights that may materially affect the management of the Konica Minolta Group.

Disclaimer Regarding Forward-Looking Statements

The plans, strategies, and statements related to the outlook for future results in this document are in accordance with assumptions and beliefs determined by management, based on currently available information. However, it should be noted that there is a possibility that actual results could differ significantly due to such factors as social and economic conditions.

Scope of Consolidated Financial Results

The Konica Minolta Group comprises Konica Minolta Holdings, Inc., 122 consolidated subsidiaries, 34 unconsolidated subsidiaries, and 12 affiliated companies.

The business segments of the Konica Minolta Group are organized and segmented by the similarity of the products and the markets in which the products are sold. The six business segments in which the Group operates include: Business Technologies; Optics; Photo Imaging; Medical and Graphic Imaging; Sensing, and Other Businesses.

Consolidated Business Results

Scope of Consolidated Business Results

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 Group's consolidated financial results for the fiscal year ended March 31, 2004 do not include Minolta's first-half performance results for the fiscal year under review.

In order to provide a comparison with the previous fiscal year's results, however, Minolta's first-half performance for the fiscal year ended March 31, 2004 has been included below and elsewhere in this report, excluding the financial statements on pages 40 through 55. Furthermore, the consolidated financial results for the fiscal year ended March 31, 2003 include the combined financial results of Konica Corporation and Minolta Co., Ltd. for the year then ended.

Billions of yen

	'04	'03	change
Net Sales	**1,123.6**	1,087.2	36.3
Operating Income	**73.2**	77.2	−4.0
Net Income	**19.3**	29.1	−9.8

In the fiscal year ended March 31, 2004, net sales totaled ¥1,123.6 billion, an increase of ¥36.3 billion, or 3.3%, compared with the previous fiscal year. While the appreciation of the yen against the U.S. dollar pushed net sales down by ¥10.6 billion, this was more than offset by an increase in net sales of ¥32.7 billion due to adjustments for overseas sales subsidiaries whose balance dates do not coincide with the parent company.

Gross profit was ¥478.7 billion, a year-on-year increase of ¥5.9 billion, or 1.3%, which translated to a gross profit margin of 42.6%.

Operating income amounted to ¥73.2 billion, a decrease of ¥4.0 billion, or 5.2%, while the operating income margin was 6.5%, down by 0.6 percentage points. Despite the positive effects of the yen's depreciation against the euro, which drove operating income up by ¥8.8 billion, operating income was negatively impacted by downward pressure on gross margins due to increasingly intense competition, one-off integration expenses totaling ¥8.8 billion, including cost of sales and SG&A expenses, and an additional ¥2.4 billion in goodwill amortization due to management integration.

Accounting for non-operating income and expenses, ordinary income for the fiscal year under review totaled ¥52.5 billion, down ¥1.8 billion, or 3.3%, compared with the previous fiscal year. Net non-operating expense improved ¥2.2 billion and was attributed to the reduction in interest expense in connection with the repayment of a portion of interest-bearing debt and a decline in losses relating to the disposal of inventories, notwithstanding a rationalization expense of ¥3.1 billion in connection to management integration.

Income before income taxes and after extraordinary items increased ¥0.5 billion, or 1.2%, to ¥40.5 billion. Extraordinary items improved ¥2.3 billion due to the significant drop in expenses relating to the shift to a defined contribution pension plan and unrealized loss in investment securities, notwithstanding a rationalization expense of ¥5.8 billion in connection with management integration. In the fiscal year under review, net income after taxes and minority interests totaled ¥19.3 billion, a decline of ¥9.7 billion, or 33.5%. The major factors contributing to this decline included an increase in income tax expense and a reversal of certain deferred tax assets brought about by the non-recognition of Group company losses for taxation purposes.

Segment Information

An overview of the Company's performance by business segment is provided on pages 26 through 30. The impact of movements in foreign currency exchange rates and integration expenses on operating income for the fiscal year ended March 31, 2004 as compared to the previous fiscal year is summarized as follows.

Billions of yen

	Net Sales		Operating Income (Loss)	
	'04	'03	'04	'03
Business Technologies	**618.8**	594.7	**62.9**	52.6
Optics	**85.9**	54.1	**15.3**	12.4
Photo Imaging	**278.2**	280.7	**(6.7)**	10.4
Medical & Graphic Imaging	**125.6**	117.4	**7.9**	9.3
Sensing	**9.7**	9.7	**1.8**	2.0
Other Businesses	**5.4**	30.6	**(7.9)**	(9.5)

Billions of yen

	Impact of Foreign Currency Exchange Rates	Integration Expenses
Business Technologies	+8.5	–4.1
Optics	–0.8	–0.2
Photo Imaging	+1.8	–0.5
Medical & Graphic Imaging	–0.6	–0.2
Sensing	–0.1	–0.1
Other Businesses	0.0	–3.7

Cash Flows

In the fiscal year ended March 31, 2004, net cash provided by operating activities totaled ¥86.1 billion, while net cash used in investing activities, primarily for capital expenditure, was ¥31.9 billion. As a result, free-cash flows for the fiscal year ended March 31, 2004 totaled ¥54.2 billion.

A portion of these funds were used to repay certain borrowings and corporate bonds. Interest-bearing debt as of March 31, 2004 totaled at ¥268 billion, while the debt-to-equity ratio fell from 0.84 to 0.80. Net cash used in financing activities in the fiscal year ended March 31, 2004 was ¥55.3 billion.

After considering the cash flows from operating, investing, and financing activities and the ¥1.6 billon decrease for the effect of exchange rate changes, cash and cash equivalents at March 31, 2004 declined ¥2.7 billion as compared to March 31, 2003. Due to the integration with Minolta Co., Ltd. and new subsidiaries included in the Company's scope of consolidation, cash and cash equivalents increased by ¥33.5 billion and ¥1.0 billion, respectively. As a result, the balance of cash and cash equivalents at March 31, 2004 was ¥83.7 billion.

Assets, Liabilities, and Equity

As of March 31, 2004, total assets were ¥969.6 billion and included current assets of ¥535.8 billion and fixed assets of ¥433.8 billion.

The principal components of current assets were notes and accounts receivable—trade of ¥223.0 billion, inventories of ¥173.9 billion, and cash and cash equivalents of ¥83.6 billion before adding ¥0.1 billion of marketable securities.

The significant components in fixed assets at March 31, 2004 included property, plant and equipment, consolidation goodwill, investment securities and noncurrent deferred tax assets of ¥220.2 billion, ¥98.7 billion, ¥37.4 billion, and ¥31.9 billion, respectively. The consolidation goodwill account is being amortized on a straight-line basis over 5 to 20 years. Amortization expense of the consolidation goodwill amount in the fiscal year ended March 31, 2004 was ¥2.4 billion.

As of March 31, 2004, total liabilities were ¥632.9 billion and included current liabilities of ¥484.8 billion and long-term liabilities of ¥148.1 billion. The balance of liabilities, as of March 31, 2004, was impacted by repayments of interest-bearing debt through free-cash flows generated for the period.

Current liabilities comprised mainly short-term debt, notes and accounts payable—trade, and accrued expenses with balances of ¥182.4 billion, ¥141.8 billion, and ¥71.5 billion, respectively. The principal components of long-term liabilities included long-term debt of ¥52.9 billion and accrued retirement benefits of ¥65.8 billion. Minority interests as of March 31, 2004 were ¥1.2 billion.

The primary components of shareholders' equity at March 31, 2004 include common stock, additional paid-in capital, and retained earnings, with balances of ¥37.5 billion, ¥226.1 billion and ¥77.3 billion, respectively. Additional shareholders' equity components include unrealized gains on securities of ¥4.9 billion and foreign currency translation adjustments, which reflect cumulative translation losses of ¥9.7 billion. The total shareholders' equity balance at the March 31, 2004 was ¥335.4 billion.

Driven by efforts to streamline assets, the equity ratio was 34.6%, while equity per share totaled ¥631.54.

Capital Expenditures and Research and Development Expenditures

During the fiscal year ended March 31, 2004, the Company incurred capital expenditures totaling ¥43.1 billion with the aim of developing new products, increasing production capacity, implementing rationalization measures, and promoting labor efficiency and power conservation. These expenditures by business segment include ¥15.2 billion for Business Technologies, ¥6.3 billion for Optics, ¥9.9 billion for Photo Imaging, ¥4.5 billion for Medical and Graphic Imaging, ¥0.1 billion for Sensing and ¥7.1 billion for all other business segments combined.

Research and development expenditure totaled ¥63.2 billion during the fiscal year ended March 31, 2004 and included ¥29.6 billion for the Business Technologies segment, ¥7.0 billion for Optics, ¥9.7 billion for Photo Imaging, ¥7.7 billion for Medical and Graphic Imaging, and ¥1.0 billion for Sensing. Expenditures not allocated to a specific business segment, but used for the development of basic research totaled ¥8.2 billion.

Outlook

The outlook for future economic conditions remains mixed. On the one hand, an overall global economic recovery is anticipated, fueled by a noticeable surge in U.S. business conditions. This positive scenario is in part offset by concerns over the situation in the Middle East, and particularly Iraq, and the continued appreciation of the yen against the U.S. dollar. Against this backdrop, we will accelerate the implementation of business integration measures and work to quickly realize the underlying benefits.

Consolidated Balance Sheets

Konica Minolta Holdings, Inc. and Consolidated Subsidiaries
March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)
Assets	2004	2003	2004
Current Assets:			
Cash on hand in banks (Note 4)	¥ 83,574	¥ 51,876	$ 790,747
Notes and accounts receivable—trade	223,032	129,212	2,110,247
Less: Allowance for doubtful accounts	(8,414)	(6,746)	(79,610)
Marketable securities	130	0	1,230
Inventories	173,949	98,848	1,645,842
Deferred tax assets (Note 7)	31,033	22,759	293,623
Other accounts receivable	13,574	9,942	128,432
Other current assets	18,889	5,925	178,721
Total current assets	535,769	311,818	5,069,250
Property, Plant and Equipment:			
Land	38,514	18,672	364,405
Buildings and structures	171,117	113,201	1,619,046
Machinery, equipment and other	253,537	213,433	2,398,874
Tools and furniture	129,614	34,021	1,226,360
Construction-in-progress	5,785	5,579	54,736
Rental business-use assets	62,115	44,461	587,709
Total property, plant and equipment	660,685	429,369	6,251,159
Less: Accumulated depreciation	(440,481)	(281,329)	(4,167,670)
Property, plant and equipment, net	220,204	148,040	2,083,489
Intangible Assets:			
Consolidation goodwill	98,716	—	934,015
Other intangible assets	21,488	10,646	203,312
Total intangible assets	120,204	10,646	1,137,326
Investments and Other Assets:			
Investment securities (Note 5)	37,424	14,201	354,092
Long-term loans	2,672	1,103	25,281
Deferred tax assets (Note 7)	31,926	14,343	302,072
Long-term prepaid expenses	4,429	5,268	41,906
Other	18,281	12,834	172,968
Less: Allowance for doubtful accounts	(1,323)	(2,300)	(12,518)
Total investments and other assets	93,411	45,451	883,821
Total assets	¥969,589	¥515,956	$9,173,895

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Liabilities and Shareholders' Equity	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 3) 2004
Current Liabilities:			
Short-term debt (Note 6)	¥182,429	¥ 90,592	$1,726,076
Current portion of long-term debt (Note 6)	32,605	10,175	308,497
Notes and accounts payable—trade	141,783	71,425	1,341,499
Accrued expenses	71,480	37,315	676,318
Accrued income taxes (Note 7)	16,736	9,913	158,350
Other current liabilities	39,807	24,608	376,639
Total current liabilities	484,842	244,033	4,587,397
Long-Term Liabilities:			
Long-term debt (Note 6)	52,916	51,318	500,672
Accrued retirement benefits	64,915	24,303	614,202
Accrued retirement benefits for directors and corporate auditors	922	—	8,724
Deferred tax liabilities on land revaluation	3,925	—	37,137
Other long-term liabilities	25,397	13,056	240,297
Total long-term liabilities	148,076	88,679	1,401,041
Minority Interests	1,242	2,224	11,751
Shareholders' Equity (Note 9):			
Common stock:			
Authorized—1,200,000,000 shares			
Issued and outstanding—531,664,337shares	37,519	37,519	354,991
Additional paid-in capital	226,065	79,342	2,138,944
Retained earnings	77,254	69,052	730,949
Unrealized gains on securities	4,886	825	46,230
Foreign currency translation adjustments	(9,721)	(5,309)	(91,977)
Less: Treasury common stock	(576)	(410)	(5,450)
Total shareholders' equity	335,427	181,019	3,173,687
Commitments and Contingent Liabilities (Note 10)			
Total liabilities and shareholders' equity	¥969,589	¥515,956	$9,173,895

Consolidated Statements of Income

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Net Sales	¥860,420	¥559,041	$8,140,978
Cost of Sales	498,967	321,381	4,721,043
Gross profit	361,453	237,660	3,419,936
Selling, General and Administrative Expenses	303,922	194,804	2,875,598
Operating income	57,530	42,855	544,328
Other Income (Expenses):			
Interest and dividend income	1,003	1,051	9,490
Interest expenses	(5,190)	(4,484)	(49,106)
Foreign exchange losses, net	(4,177)	(2,397)	(39,521)
Equity in earnings of unconsolidated subsidiaries and affiliates, net	61	310	577
Losses on disposal of fixed assets, net	(2,477)	(3,112)	(23,436)
Management integration rationalization expenses*	(5,022)	—	(47,516)
Gain on transfer to the government of the substitutional portion of pension liabilities (Note 12)	—	8,081	—
Additional contribution on withdrawals from the Welfare Pension Fund plans (Note 12)	(513)	(543)	(4,854)
Loss on transition to defined contribution plans from defined benefit plans (Note 12)	(180)	(2,993)	(1,703)
Provision of reserve for reorganization/liquidation expenses	—	(5,637)	—
Write-down on investment securities	(451)	(2,167)	(4,267)
Amortization of unrecognized transition benefit obligations (Note 12)	(1,540)	(1,325)	(14,571)
Prior periods' expenses of accrued retirement benefits for directors and corporate auditors	(513)	—	(4,854)
Loss on disposal of inventories	(5,687)	(3,879)	(53,808)
Other, net	(476)	(1,030)	(4,504)
Total	(25,167)	(18,126)	(238,121)
Income before income taxes	32,363	24,728	306,207
Income Taxes (Note 7):			
Current	22,466	14,375	212,565
Deferred	(2,841)	(6,195)	(26,880)
Total	19,624	8,180	185,675
Minority Interests in Earnings of Consolidated Subsidiaries	(189)	(172)	(1,788)
Net Income	¥ 12,548	¥ 16,375	$ 118,725

	Yen		U.S. dollars (Note 3)
Per Share of Common Stock:			
Net income	¥ 26.5	¥ 45.7	$ 0.25
Cash dividends	10.0	10.0	0.09

*Restructuring expenses for offices of ¥1,781 million (US$16,851 thousand) and for employees of European subsidiaries of ¥3,241 million (US$30,665 thousand).

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

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

	Shares of issued common stock	Millions of yen: Common stock	Additional paid-in capital	Retained earnings	Unrealized gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2002	357,655,368	¥37,519	¥ 79,342	¥56,251	¥ 891	¥(2,659)	¥(119)
Net income				16,375			
Cash dividends paid				(3,574)			
Net unrealized losses on securities					(66)		
Foreign currency translation adjustments						(2,650)	
Purchase of treasury stock							(291)
Balance at March 31, 2003	357,655,368	¥37,519	¥ 79,342	¥69,052	¥ 825	¥(5,309)	¥(410)
Issuance of new shares due to share exchange	174,008,969		146,706				
Gain on disposal of treasury stock			15				
Net income				12,548			
Increase resulting from newly consolidated subsidiaries or affiliates adopting the equity method				139			
Cash dividends paid				(4,442)			
Bonuses to directors and corporate auditors				(45)			
Net unrealized gains on securities					4,061		
Foreign currency translation adjustments						(4,412)	
Purchase of treasury stock							(166)
Balance at March 31, 2004	**531,664,337**	**¥37,519**	**¥226,065**	**¥77,254**	**¥4,886**	**¥(9,721)**	**¥(576)**

	Shares of issued common stock	Thousands of U.S. dollars (Note 3): Common stock	Additional paid-in capital	Retained earnings	Unrealized gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2003	357,655,368	$354,991	$ 750,705	$653,345	$ 7,806	$(50,232)	$(3,879)
Issuance of new shares due to share exchange	174,008,969		1,388,078				
Gain on disposal of treasury stock			142				
Net income				118,725			
Increase resulting from newly consolidated subsidiaries or affiliates adopting the equity method				1,315			
Cash dividends paid				(42,029)			
Bonuses to directors and corporate auditors				(426)			
Net unrealized gains on securities					38,424		
Foreign currency translation adjustments						(41,745)	
Purchase of treasury stock							(1,571)
Balance at March 31, 2004	**531,664,337**	**$354,991**	**$2,138,944**	**$730,949**	**$46,230**	**$(91,977)**	**$(5,450)**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Cash Flows

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Cash Flows from Operating Activities:			
Income before income taxes	¥ 32,363	¥ 24,728	$ 306,207
Depreciation and amortization	44,386	28,497	419,964
Depreciation of consolidation goodwill	2,869	—	27,145
Decrease in allowance for doubtful receivables	(3,874)	(2,163)	(36,654)
Interest and cash dividend income	(1,003)	(1,051)	(9,490)
Interest expenses	5,190	4,484	49,106
Loss on sales or disposal of fixed assets, net	2,477	3,112	23,436
Loss on write-down or sales of investment securities	574	2,167	5,431
Amortization of unrecognized net obligation at transition	1,540	1,325	14,571
Prior periods' expenses of accrued retirement benefits for directors and corporate auditors	513	—	4,854
Gain on transfer to the government of the substitutional portion of pension liabilities	—	(8,081)	—
Additional contribution on withdrawals from the Welfare Pension Fund plans	513	543	(4,854)
Loss on transition to defined contribution plans from defined benefit plans	180	2,993	(1,703)
Provision of reserve for reorganization/liquidation expenses	—	5,637	—
Management integration rationalization expenses	5,022	—	47,516
(Increase) decrease in notes and accounts receivable	(3,210)	7,686	(30,372)
(Increase) decrease in inventories	(2,914)	2,187	(27,571)
Increase (decrease) in notes and accounts payable	(1,060)	3,337	(10,029)
Increase (decrease) in accrued consumption tax payable	(738)	155	(6,983)
Other	(4,585)	4,991	(43,382)
Subtotal	78,243	80,552	740,307
Interest and dividend income received	1,363	1,506	12,896
Interest expenses paid	(5,263)	(4,653)	(49,797)
Income taxes paid	(18,385)	(10,968)	(173,952)
Net cash provided by operating activities	55,957	66,437	529,445
Cash Flows from Investing Activities:			
Purchases of property, plant and equipment	(24,935)	(29,545)	(235,926)
Proceeds from sales of property, plant and equipment	6,102	2,177	57,735
Payment for acquisition of intangible assets	(6,383)	(3,669)	(60,394)
Payment for loans receivable	(1,451)	(5,743)	(13,729)
Proceeds from return of loans receivable	460	2,963	4,352
Payment for acquisition of investment securities	(39)	(706)	(369)
Proceeds from sales of investment securities	225	746	2,129
Payment for other investments	(3,296)	(3,533)	(31,186)
Other	533	(18)	5,043
Net cash used in investing activities	(28,784)	(37,328)	(272,344)
Cash Flows from Financing Activities:			
Net short-term debt	(11,090)	(19,551)	(104,930)
Proceeds from long-term debt	674	16,000	6,377
Redemption of long-term debt	(13,006)	(3,300)	(123,058)
Redemption of bonds	(5,054)	(15,354)	(47,819)
Proceeds from capital increase from minority interest	—	1,300	—
Payment for repurchase of treasury stocks	(286)	(204)	(2,706)
Proceeds from sale of treasury stocks	44	—	416
Dividends paid	(4,430)	(3,576)	(41,915)
Net cash used in financing activities	(33,149)	(24,685)	(313,644)
Effect of exchange rate changes on cash and cash equivalents	(1,317)	(206)	(12,461)
Increase (decrease) in cash and cash equivalents	(7,292)	4,216	(68,994)
Cash and cash equivalents at beginning of the year	51,876	47,659	490,832
Increase in cash and cash equivalents by new consolidation	667	—	6,311
Increase in cash and cash equivalents due to exchange of shares	38,453	—	363,828
Cash and cash equivalents at fiscal year-end	¥ 83,704	¥ 51,876	$ 791,977

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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	(Interest rate)	2003	2004
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.

Report of Independent Auditors

Konica Minolta Holdings, Inc. and Consolidated Subsidiaries

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

Kasumigaseki Bldg. 32nd Floor
3-2-5, Kasumigaseki, Chiyoda-ku,
Tokyo 100-6088, Japan

To the Board of Directors of
Konica Minolta Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Konica Minolta Holdings, Inc. and its subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and of cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Konica Minolta Holdings, Inc. and its subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 14, the Company changed the classification of its business segments.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan
June 25, 2004

Business Technologies Business

Business Company

Konica Minolta Business Technologies, Inc.

Production Companies

Konica Minolta Supplies Manufacturing Co., Ltd.
Konica Minolta Technoproducts Co., Ltd.
Toyohashi Precision Products Co., Ltd.
Sankei Precision Products Co., Ltd.
MIKI Minolta Industries Co., Ltd.
Konica Minolta Supplies Manufacturing France S.A.S.
Konica Minolta Business Technologies Manufacturing (HK) Ltd.
Konica Minolta Business Solutions (WUHAN) Co., Ltd.
Konica Supplies Manufacturing U.S.A., Inc.
Minolta Advance Technology, Inc.
Taiwan Sanseiki*

Sales Companies

Konica Minolta Business Solutions Japan Co., Ltd.
F&M Imaging Technology Co., Ltd.
Konica Minolta Business Solutions (UK) Ltd.
Konica Minolta Business Solutions Australia Pty. Ltd.
Konica Minolta Business Solutions Italia S.p.A.
Konica Manufacturing (HK) Ltd.
Konica Minolta Business Solutions do Brasil Ltda.
Konica Minolta Business Solutions New Zealand Ltd.
Konica Minolta Printing Solutions Asia Pty. Ltd.
Konica Minolta Printing Solutions Europe B.V.
Konica Minolta Business Solutions (HK) Ltd.
Konica Minolta Business Solutions (S) Pte. Ltd.
Konica Minolta Business Solutions Europe GmbH
Konica Minolta Printing Solutions U.S.A., Inc.
Konica Minolta Business Solutions Deutschland GmbH
Konica Minolta Business Solutions U.S.A., Inc.
Minolta (UK) Ltd.
Minolta Business Equipment Australia Pty Ltd.
Konica Minolta Techno Tokyo Co., Ltd.
Konica Minolta Techno System Co., Ltd.
Konica Minolta Printing Solutions Japan Co., Ltd.
Konica Minolta Business Solutions France S.A.S.
Konica Minolta International Trading (SHANGHAI) Co., Ltd.
Konica Minolta Printing Solutions (UK) Ltd.
Konica Minolta Printing Solutions France S.a.r.l
Konica Minolta Printing Solutions Nordic AB
Konica Minolta Printing Solutions Deutschland GmbH
Develop GmbH
Plankopie Gesellschaft fur Burosysteme (Monchengladbach) GmbH
Konica Minolta Business Solutions Denmark a/s
Konica Minolta Business Solutions Spain S.A.
Konica Minolta Business Solutions Sweden AB
Konica Minolta Business Solutions Norway AS
Konica Minolta Business Solutions (MONTREAL) Inc.
Repro Conseil S.A.S.
Konica Minolta Business Solutions (M) Sdn. Bhd.
Konica Minolta Business Solutions (BELGIUM) N.V.
Konica Minolta Business Solutions Austria GmbH
Konica Minolta Business Solutions Czech spol. S.r.o.
Konica Minolta Business Solutions Portugal Lda.
Konica Minolta Business Solutions (Wales) Ltd.
Konica Minolta Business Solutions East Ltd.
Konica Minolta Business Solutions (Canada) Ltd.
Albin Industries, Inc.
Konica Minolta Office Products, Inc.
Konica Minolta Business Solutions de Mexico SA de CV.
Konica Computer Solutions, Inc.
A.B.E. Rentals Pty. Ltd.
K.B.A. Properties Pty. Ltd.
Apeco of Australia Pty. Ltd.
Alternative Business Systems, LCC
Konica Holding Australia Pty. Ltd.**
ECS Buero-und Datensysteme GmbH**
Konica Minolta Systems Laboratory, Inc.*
Konica Minolta Software Laboratory Co., Ltd.*
Office-boerse. de Internet GmbH*
Konica Minolta Hungary Business Solutions Ltd.*
Konica Minolta Business Solutions Slovenia d.o.o.*
Konica Minolta Croatia-Business Solutions d.o.o.*
Konica Minolta Business Solutions Romania s.r.l*
Konica Minolta Leasing CZ, spol. s.r.o.*
Konica Minolta Consulting (SHENZHEN) Co., Ltd.*
Konica Minolta Slovakia spol. s.r.o.*
Konica Minolta Business Solutions Polska s.p. z.o.o.*
Konica Minolta Baltia UAB*
Konica Minolta Ukraine*
Minolta Beograd d.o.o.*
Minolta Bulgaria d.o.o.*
TK Kontorconsult AS*
S.C.I. Performance 35*
(Plus 4 others)

Optics Business

Business Company

Konica Minolta Opto, Inc.

Production Companies

Konica Minolta Opto Products Co., Ltd.
Konica Minolta Components Co., Ltd.
MYG Disk Co., Ltd.
Konica Minolta Opto (DALIAN) Co., Ltd.
Nankai Optical Co., Ltd.

Photo Imaging Business

Business Company

Konica Minolta Photo Imaging, Inc.

Production Companies

Konica Minolta Packaging Co., Ltd.
Konica Minolta Chemical Co., Ltd.
Konica Minolta Manufacturing U.S.A., Inc.
Konica Minolta Photochem (Thailand) Co., Ltd.**
Konica Minolta Manufacturing Vietnam Co., Ltd.**
Okayama Minolta Seimitsu Co., Ltd.
Kansai Optim Co., Ltd.
Konica Minolta Precision Engineering Malaysia Sdn. Bhd.

Konica Minolta Optical Technologies (SHANGHAI) Co., Ltd.
Konica Minolta Optical Products (SHANGHAI) Co., Ltd.
Guang Dong Konica Minolta Camera Co., Ltd.*
(Plus 3 others)

Sales Companies

Konica Minolta Marketing Corporation
Konica Minolta ID System Co., Ltd.
Konica Minolta ID Imaging Co., Ltd.
Konica Minolta Photo Solutions Co., Ltd.
Konica Minolta Photo Imaging U.S.A., Inc.
Konica Minolta Photo Imaging Europe. GmbH
Konica Minolta Photo Imaging (UK) Ltd.
Konica Minolta Photo Imaging France S.A.S.
Konica Minolta Photo Imaging (HK) Ltd.
Konica Minolta Photo Imaging Asia H.Q. Pte. Ltd.
Konica Minolta Photo Imaging Malaysia Sdn. Bhd.
Konica Minolta Photo Imaging Canada, Inc.
Konica Singapore Pte. Ltd.
Mohawk Marketing Corporation
Astro-Tec Manufacturing Inc.
Konica Minolta Photo Imaging (Schweiz) AG
Konica Minolta Photo Imaging Svenska AB
Konica Minolta Photo Imaging Portugal Lda.
Konica Minolta Photo Imaging Austria GmbH
Konica Minolta Photo Imaging Benelux B.V.
Konica Minolta Photo Imaging Czech spol. S.r.o.
Konica Minolta Photo Imaging de Amazonia Ltd.**
LLC Konica Minolta Photo Imaging Russia**
Konica Minolta Photo Imaging (Thailand) Co., Ltd.**
Konica Minolta Photo Imaging (SHANGHAI) Co., Ltd.**
Konica Minolta Photo Imaging Polska s.p. z.o.o.*
Konica Service Co., Ltd.
Konica Minolta Planetarium Co., Ltd.
Minolta Malaysia SDN. BHD.
Minolta Camera Service Co., Ltd.*
(Plus 2 others)

Medical and Graphic Imaging Business

Business Company

Konica Minolta Medical & Graphic, Inc.

Production Companies

Konica Minolta Repro Co., Ltd.
(Plus 1 other)

Sales Companies

Konica Minolta Medical Co., Ltd.
Konica Minolta Graphic Imaging Japan Co., Ltd.
Konica Minolta Medical & Graphic Technosupport Co., Ltd.
Konica Minolta Graphic Imaging U.S.A., Inc.
Konica Minolta Medical & Graphics (SHANGHAI) Co., Ltd.
Konica Minolta Medical & Graphics Imaging Europe GmbH*
Konica Minolta Medical Imaging U.S.A., Inc.
(Plus 2 others)

Sensing Business

Business Company

Konica Minolta Sensing, Inc.

Other Businesses

Business Companies

Konica Minolta Technology Center, Inc.
Konica Minolta Business Expert, Inc.

Production Company

Media Tech Co., Ltd.**

Sales Companies

Konica Minolta Technosearch Co., Ltd.
Koncia Minolta Technology U.S.A., Inc.**
Konica Minolta Logistics Co., Ltd.
Konica Minolta Sogo Service Co., Ltd.
Konica Minolta Engineering Co., Ltd.
Konica Minolta Information Systems Co., Ltd.
Konica Minolta Holdings U.S.A. Inc.
Konica Minolta Headquarters North America, Inc.**
Konica Capital EC (Holland) B.V.**

*Unconsolidated Subsidiaries
**Affiliates accounted for by the equity method

Notes:
On April 1, 2004, Konica Minolta Photo Imaging, Inc. merged with Konica Minolta Camera, Inc. with the resultant company maintaining the name Konica Minolta Photo Imaging, Inc.
On April 1, 2004, Konica Medical Inc. merged with Kyoritsu Medical Co., Ltd. establishing Konica Minolta Medical Co., Ltd.
On April 1, 2004, Konica Information Systems Co., Ltd. merged with FAMOUS Co., Ltd. establishing Konica Minolta Information Systems Co., Ltd.

Konica Minolta Holdings, Inc.

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Tokyo 100-0005, Japan
Tel: (81) 3-6250-2100
Fax: (81) 3-3218-1368
URL: http://konicaminolta.com

Established

August, 2003

Paid-in Capital

¥37,519 million (US$354 million)

Number of Employees

Parent company: 134, Group: 34,710

Investor Information

Konica Minolta Holdings, Inc.
As of March 31, 2004

Common Stock
Authorized: 1,200,000,000 shares
Outstanding: 531,664,337 shares

Stock Exchange Listings
Tokyo, Osaka, Nagoya, Frankfurt, Düsseldorf

Number of Shareholders
40,288

Independent Auditor
ChuoAoyama Audit Corporation

Transfer Agent for Common Stock
UFJ Trust Bank Limited
1-4-3, Marunouchi, Chiyoda-ku,
Tokyo 100-0005, Japan

Principal Shareholders

Shareholders	Number of shares held (Thousand shares)	Percentage of total voting shares (%)
Japan Trustee Services Bank, Ltd. (Trust account)	45,078	8.6
The Master Trust Bank of Japan, Ltd. (Trust account)	38,793	7.4
The Chase Manhattan Bank NA London SL Omnibus Account	17,800	3.4
The Bank of Tokyo-Mitsubishi, Ltd.	17,794	3.4
The Chase Manhattan Bank NA London	16,354	3.1
State Street Bank and Trust Company	15,706	3.0
Nippon Life Insurance Company	13,343	2.5
Sumitomo Mitsui Banking Corporation	11,875	2.3
The Master Trust Bank of Japan, Ltd. (Holder in Retirement Benefit Trust for UFJ Bank Limited)	10,801	2.0
The Melon Bank Treaty Clients Omnibus	9,143	1.7

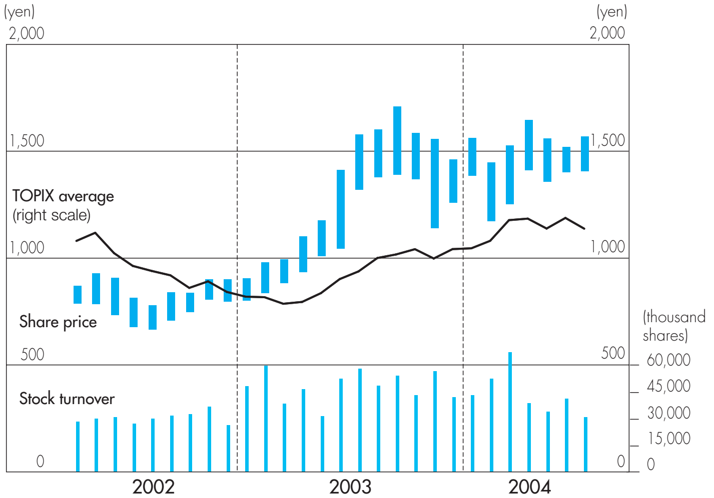
Notes: 1. The Company holds 280 shares (0.0% of voting rights) in Mitsubishi Tokyo Financial Group, Inc., the holding company of The Bank of Tokyo-Mitsubishi, Ltd.; 3,501 shares (0.1% of voting rights) in Sumitomo Mitsui Financial Group, Inc. the holding company of the Sumitomo Mitsui Banking Corporation; and 1,637 shares (0.0% of voting rights) in UFJ Holdings, Inc., the holding company of UFJ Bank Limited.

2. In addition to the above, the Konica Minolta Group has contributed 9,180 shares (0.1% of voting rights) in Mitsubishi Tokyo Financial Group, Inc., the holding company of The Bank of Tokyo-Mitsubishi, Ltd. (of which the Company holds 2,759 shares (0.0% of voting rights)); 1,040 shares (0.0% of voting rights) in Sumitomo Mitsui Financial Group, Inc. the holding company of Sumitomo Mitsui Banking Corporation (of which the Company holds 317 shares (0.0% of voting rights)); and 5,094 shares (0.1% of voting rights) in UFJ Holdings, Inc., the holding company of UFJ Bank Limited (of which the Company holds 1,407 shares (0.0% of voting rights)) to assets in trust of its employee retirement benefit trust. While the Group does not hold these shares, under the terms and conditions of the trust, it retains the right to dictate the exercise of voting rights.

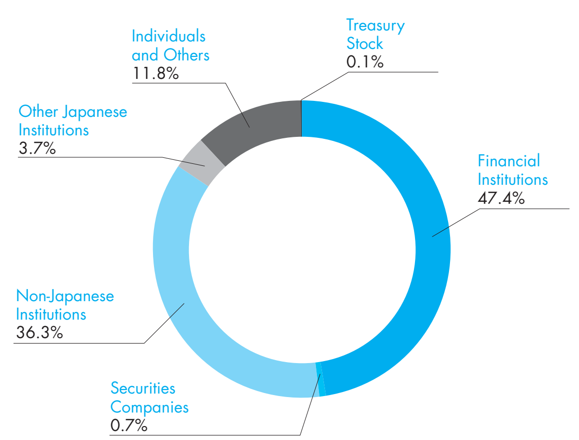
3. Although significant shareholder reports from the following companies claim that they hold substantial numbers of shares in Konica Minolta Holdings, Inc. as of the fiscal year-end the Company is unable to confirm the number of shares held and hence these companies have not been included in the major shareholders overview stated above.

Companies submitting significant shareholder reports	Reporting obligation accrual date	Number of shares held (Thousand shares)	Percentage of shares held
Fidelity Investments Japan Limited	February 26, 2004	59,417	11.2 %
Morgan Stanley Japan Limited (Joint holding)	March 31, 2004	36,031	6.8 %

Stock Price Chart



Types of Shareholders



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