SALES RESULTS

In the fiscal year ended March 31, 2002, extremely severe conditions prevailed in the world economy, as sluggish economic conditions in major regions were exacerbated by the September 2001 terrorist attacks in the United States, and there were no visible signs of a an impending recovery. In the Japanese economy, capital investment contracted due to a lagging economic recovery and a marked deterioration in corporate earnings, while personal consumption remained lackluster owing to rising concerns about employment. The yen depreciated 12.9% against the U.S. dollar during the fiscal year, to an average of ¥122.85 at the end of March 2002, and 9.5% against the euro, to an average of ¥109.45 at the end of March 2002. This had the effect of reducing net sales 0.8% to ¥539.6 billion.

In our photographic materials segment, we recorded higher sales of medical imaging systems, thanks to the high acclaim of these systems, which were quick to be introduced in the market in response to the trend toward digital networking in hospitals. Sales in inkjets, for which we have high expectations as a new business, rose firmly as we expanded our business for photo-quality paper. On the other hand, in the EM & ID Business Group demand was sluggish in the market for liquid crystal displays (LCDs) owing to the slump in IT-related markets, and lower sales were recorded for triacetyl cellulose (TAC) film used for polarizing filters in LCDs.

Although the Consumer Imaging Company strengthened its sales in Asia, it recorded a decrease in sales in industrialized countries because of the trend toward digitization and the effects of the terrorist attacks in the United States. The graphic imaging business, which remained in an economic slump, posted an increase in sales volume from the previous year, mainly in Asia, but the value of those sales declined.

In our business machines segment, the Office Document Company introduced a succession of medium- and high-speed digital copiers and recorded a large increase in sales. The Optics & EM Technologies Company, which was affected by the bursting of the IT bubble, experienced a recovery in the second half of the year, mainly in DVD-related markets, but sales for the entire year declined. Sales for cameras and digital cameras also decreased.

COST OF SALES, AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The cost of sales during the fiscal year under review declined 3.0% compared with the previous period to ¥309.6 billion. This decrease was due to the decline in net sales as well as the implementation of cost-reduction measures, which covered the portion of cost increases resulting from the weakening of the yen. As a result, the cost of sales ratio improved 1.3 percentage points, from 58.7% to 57.4%. Gross profit edged up 2.4% from the previous year to ¥229.9 billion.

Selling, general and administrative (SG&A) expenses increased ¥6.3 billion, or 3.3%, from the previous year to ¥200.3 billion. Since net sales shrank 0.8%, the SG&A expenses ratio increased 1.4 percentage points compared with the previous fiscal year, from 35.7% to 37.1%. During the year we progressed with rationalization measures that included reductions in sales incentives while aggressively investing in R&D for digitization. Although actual expenses were held at the same level as in the previous fiscal year, the weakening of the yen had the effect of raising expenses ¥6.3 billion.

SALES RESULTS BY SEGMENT

Sales in our photographic materials segment declined 1.7% compared with the previous year to ¥301.8 billion, and operating income decreased 10% to ¥17.1 billion. Despite higher sales in growth regions, mainly in Asia, owing to the allocation of management resources to these regions, sales and operating income for the Consumer Imaging Company declined due to falling sales prices and lower demand in such mature markets as Japan and the United States. The Medical & Graphic Company recorded steady growth in sales in its medical imaging business, which is experiencing rising demand for dry film and X-ray imaging systems for dry film.The graphic imaging business posted higher overseas sales, mainly in Asia. However, domestic sales in graphic imaging declined. As a result, the Medical & Graphic Company registered an approximately ¥2.0 billion decline in sales but achieved a ¥1.5 billion rise in operating income by implementing cost-reduction measures and reducing sales and administrative expenses. The EM & ID Business Group, which handles TAC film used for polarizing filters in LCDs, posted declines in sales and operating income due to the collapse of the IT market. Sales in the Inkjet Business Group increased but the group posted an operating loss.

Sales in our business machines segment edged up 0.4% from the previous fiscal year to ¥240.4 billion, and operating income advanced 7.5% to ¥21.7 billion. The Office Document Company, which accounts for a relatively large proportion of sales in the business machines segment, recorded growth in both sales and operating income, thanks to a steady expansion in sales of its medium- and high-speed digital copiers as well as reductions in costs by shifting production to China. The Optics & EM Technologies Company suffered declines in both sales and operating income due to the bursting of the IT bubble.

ANALYSIS OF PROFIT AND LOSS

As detailed above, despite the positive effects of the weakening of the yen, net sales declined because of the collapse of the IT bubble. Conversely, SG&A expenses increased owing to the effects of a weaker yen. As a result, operating income declined 3.1% compared with the previous year to ¥29.6 billion, and the operating margin decreased 0.1 percentage point to 5.5%. In other income and expenses, the Company recorded a ¥4.9 billion improvement in operating expenses to ¥14.6 billion. Non-operating income items included ¥0.7 billion in interest and dividend income, compared with ¥1.2 billion in the previous year, and ¥2.9 billion in foreign currency gains, net, up from ¥1.6 billion. The decline in interest and dividend income was the result of selling off marketable securities.

Non-operating expense items included ¥6.7 billion in interest expenses, compared with ¥9.3 billion the previous year. This decline was due to our reduction of interest-bearing debt and lower interest rates in the United States.

As a result of the foregoing, income before income taxes jumped 35.6% from the previous fiscal year to ¥15.0 billion. Net income soared 71.3% to ¥11.1 billion. Net income per share of common stock was ¥30.93, up from ¥18.06 in the previous year. Return on equity rose to 6.5% from 4.0%, and return on assets rose to 2.1% from 1.2% in the previous fiscal year.

ASSETS AND LIABILITIES

Total assets at the end of the fiscal year under review increased 1.8% from the previous year-end, to ¥527.4 billion. In current assets, cash and cash equivalents declined ¥8.9 billion. This is because the Company repaid interest-bearing debt in an amount that exceeded free cash flow. Notes and accounts receivable—trade declined ¥3.1 billion due to the decrease in net sales.

Net property, plant and equipment increased ¥14.2 billion due mainly to an increase in buildings and structures as well as machinery and equipment, attributable to construction of a plant in Kofu for digital medical film and a plant in Kobe for TAC film for polarizing filters used in LCDs. Markets for both of these products are expected to grow in the future. The Kofu Plant for digital medical film commenced operations in April 2002, and plans call for the Kobe Plant for TAC film for polarizing filters used in LCDs to go online after summer 2002.

In investments and other assets, investment securities declined ¥3.7 billion due to the sale of marketable securities. Intangible assets rose ¥2.0 billion due to investments for promoting the increased use of IT.

On the liabilities side, total current liabilities rose ¥5.5 billion from the previous fiscal year-end, while total long-term liabilities decreased ¥7.4 billion. Within total current liabilities, the current portion of long-term debt declined ¥28.3 billion. However, transfer of the current portion of long-term debt to short-term debt resulted in a ¥33.1 billion rise in short-term debt, leading to the rise in current liabilities.

In total long-term liabilities, we redeemed ¥13.5 billion in long-term bonds while procuring an additional ¥2.9 billion in long-term debt. As a result, total long-term liabilities declined ¥10.6 billion. We reduced long-term liabilities by an amount that exceeded the rise in current assets, enabling us to progress with flexible fund raising. Thus, total short- and long-term interest-bearing debt decreased ¥5.8 billion to ¥176.1 billion. Although this amount surpasses the reduction target of our SAN Plan 2004 medium-term management plan, we aim to further reduce interest-bearing debt to ¥160.0 billion or less—equivalent to one-third of total assets—under our new SAN Plan 2005.

Total shareholders' equity increased ¥11.0 billion from the previous year-end due to a ¥7.4 billion expansion in retained earnings and a ¥3.8 billion increase in foreign currency translation adjustments. Although both total assets and total shareholders' equity rose from the previous fiscal year-end, since the rate of increase in shareholders' equity was higher than for total assets, the shareholders' equity ratio for the year under review was up 1.6 percentage points, to 32.5%.

CAPITAL EXPENDITURE

In accordance with its policy of "selection and concentration," Konica concentrated its capital expenditure on production divisions with aims that include strengthening and increasing production capabilities as well as rationalizing and achieving labor-saving production. Capital expenditure in the fiscal year under review totaled ¥45.6 billion, an increase of ¥15.2 billion from the previous period. Of this amount, ¥29.3 billion was allocated to the photographic materials segment, ¥14.9 billion to the business machines segment, and ¥1.3 billion was allocated for facilities shared by both business segments. A principal factor underlying this increase in capital expenditure was the construction of large-scale plants that included a plant in Kofu for digital medical film in our photographic materials segment and a new plant in Kobe for TAC film for polarizing filters used in LCDs.

CASH FLOWS

Net cash provided by operating activities in the year under review totaled ¥48.1 billion, a decline of ¥2.8 billion from the previous fiscal year. This consisted mainly of ¥15.0 billion in income before income taxes and ¥26.2 billion in depreciation and amortization.

Net cash used in investing activities totaled ¥39.5 billion, an increase of ¥31.4 billion from the previous fiscal year. This resulted mainly from ¥41.6 billion in payment for acquisition of fixed assets.

Net cash used in financing activities totaled ¥19.0 billion, a decrease of ¥23.6 billion from the previous fiscal year. This consisted primarily of ¥15.2 billion in the redemption of bonds, as well as the repayment of long-term debt and reduction of short-term debt.

In the next fiscal year we will further reduce our assets while aiming to expand our business by continuing to take a vigorous approach to capital investments. We expect to create free cash flow of ¥7.0 billion and will further reduce interest-bearing debt as we strengthen our financial structure.

OUTLOOK

The trend toward digitization in the market is proceeding at a faster-than-expected rate. Despite some emerging signs of brightness in the world's principal economies, the direction of these economies still remains unclear. To ensure its continued growth amid this challenging environment, Konica will place top priority on reforming its operations in addition to upgrading its technical capabilities and cost competitiveness. Under SAN Plan 2005, a new management plan formulated in March 2002, Konica will implement management policies that include 1) carrying out Companywide portfolio management, 2) progressing further with the digital networks, 3) enhancing management efficiency, 4) improving quality, and 5) implementing environmental accounting. By taking these measures throughout the Group, we are aiming for consolidated net income of ¥30.0 billion and ROE of 12.5% in the fiscal year ending March 31, 2006. Also, to carry out optimal and swift management in each business segment, which will have clear-cut responsibilities and authority, we will spin off all our businesses as separate companies in April 2003. Konica will serve as the holding company and oversee all businesses while carrying out strategic decision making based on portfolio management. By taking this approach, we are pursuing balance-sheet management that quickly reflects the business characteristics of each company, further improves capital efficiency, and achieves growth in profits.