

KONICA CORPORATION AND CONSOLIDATED SUBSIDIARIES  
For the fiscal years ended March 31, 2002 and 2001

## 1. Basis of Presenting Financial Statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by Konica Corporation (the "Company") and its consolidated subsidiaries in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards.

Certain items presented in the consolidated financial statements submitted to the Director of Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside 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.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

## 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 subsidiaries in which it has control. All significant intercompany transactions and accounts and unrealized profits are eliminated in consolidation.

Investments in unconsolidated subsidiaries and significant affiliates are accounted for by the equity method. Investments in insignificant affiliates are stated at cost.

The excess of cost over the underlying investments in subsidiaries is recognized as goodwill and is amortized on a straight-line basis over a five-year period.

### (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 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) Inventories

Inventories are valued principally on an average-cost basis.

### (e) 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 of 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.

### (f) 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 in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the consolidated financial statements.

### (g) Research and Development Expenses

Expenses for research and development activities are charged to income as incurred.

### (h) 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 Company and its subsidiaries are classified into two categories:

Investments of the Company in equity securities issued by unconsolidated subsidiaries and affiliates are accounted for by the equity method. Exceptionally, 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 as a separate item in shareholders' equity at a net-of-tax amount.

Other securities for which market quotations are unavailable are stated at cost, except as stated in the following paragraph.

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 not deemed temporary, those securities are written down to the fair value and the resulting losses are included in net profit or loss for 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 included in net profit or loss 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 Company are principally interest swaps, commodity swaps and forward exchange contracts. The related hedged items are trade accounts receivable and payable, raw materials, long-term bank loans, and debt securities issued by the Company.

The Company has a policy to utilize the above hedging instruments in order to reduce the Company's exposure to the risk of interest rate fluctuation. Thus, the Company's purchases of the hedging instruments are limited to, at maximum, the amounts of the hedged items.

The Company evaluates effectiveness of its 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.

### (i) Accrued Retirement Benefits

Effective from the year ended March 31, 2001, the Company and its subsidiaries adopted the new Japanese accounting standard for retirement benefits, which was effective for periods beginning on or after April 1, 2000. In accordance with the new standard, the reserve for retirement benefits as of March 31, 2001 represented the estimated present value of projected benefit obligations in excess of the fair value of the plan assets except that, as permitted under the new standard, the unrecognized transition amount arising from adopting the new standard of ¥27,929 million (US\$225,416 thousand) included the amount of ¥22,096 million (US\$178,337 thousand) that was fully amortized on the establishment of the trust for retirement benefit at April 1, 2000.

The remaining amount of ¥5,833 million (US\$47,079 thousand) is being amortized on a straight-line basis over 5 years. The unrecognized actuarial differences are being amortized on a straight-line basis mainly over the period of 10 years from the next year in which they arise.

### (j) Per Share Data

Net income per share of common stock has been computed based on the weighted average number of shares outstanding during the year.

Cash dividends per share shown for each year in the accompanying consolidated statements are dividends declared as applicable to the respective years.

### 3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥133.20=US\$1, the rate of exchange on March 29, 2002, 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 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Cash and bank deposits	¥47,359	¥55,492	\$355,548
Money management funds	300	1,081	2,252
Cash and cash equivalents	¥47,659	¥56,573	\$357,800

### 5. Securities

As of March 31, 2002

#### (a) 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	¥5,319	¥ 7,620	¥2,301
(2) Other	—	—	—
Subtotal	5,319	7,620	2,301
Securities for which the amounts in the consolidated balance sheets do not exceed the original purchase value			
(1) Shares	3,697	2,876	(820)
(2) Other	98	91	(6)
Subtotal	3,796	2,968	(827)
Total	¥9,116	¥10,589	¥1,473
Thousands of U.S. dollars			
Total	\$68,438	\$79,497	\$11,059

#### (b) Other Securities Sold During the Fiscal Year Under Review

	Millions of yen		
	Sale value	Total profit	Total loss
Other securities	¥1,182	¥278	¥6
Thousands of U.S. dollars			
Other securities	\$8,874	\$2,087	\$45

#### (c) 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
Money management funds	¥300	\$2,252
Unlisted stocks	615	4,617
Unlisted foreign bonds	586	4,399

#### (d) Future Amortization Schedules of Other Securities with Maturity Dates

	Millions of yen	
	Within one year	One year or more, up to five years
Unlisted foreign bonds	¥293	¥293
	Thousands of U.S. dollars	
Unlisted foreign bonds	\$2,200	\$2,200

#### 6. Investments in and Loans to Unconsolidated Subsidiaries and Affiliates

The following investments in and loans to unconsolidated subsidiaries and affiliates as of March 31, 2002 and 2001 are included in investment securities:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Investments	¥1,751	¥3,272	\$13,146
Loans	12	49	90
	¥1,763	¥3,321	\$13,236

A summary of transactions at the balance sheet dates with these unconsolidated subsidiaries and affiliates is as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Sales	¥ 4,806	¥11,389	\$ 36,081
Purchases	23,278	30,282	174,760

Transaction balances as of March 31, 2002 and 2001 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Trade receivables	¥3,863	¥ 6,865	\$29,002
Trade payables	7,541	12,969	56,614

#### 7. Short-Term & Long-Term Debt with Banks

Short-term and long-term debt as of March 31, 2002 and 2001 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
	(Interest rate)		
Short-term loans	¥111,741	2.59% ¥ 78,656	\$838,896
Current portion of			
long-term loans	2,540	1.96 31,155	19,069
Long-term loans	14,226	1.46 11,349	106,802
	¥128,508	¥121,161	\$964,775

The annual maturities of long-term debt as of March 31, 2002 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2004	¥6,132	\$46,036
2005	4,085	30,668
2006	16	120
2007	2,014	15,120

#### Bonds

Bonds as of March 31, 2002 and 2001 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Bonds	¥47,600	¥60,750	\$357,357

The annual maturity of long-term debt as of March 31, 2002 is as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2003	¥15,354	\$115,270
2004	5,000	37,538
2005	7,000	52,553
2006	10,000	75,075
2007	5,000	37,538

Assets pledged as collateral for short-term debt, long-term debt and guarantees as of March 31, 2002 and 2001 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Property, plant and equipment	¥2,374	¥4,659	\$17,823

#### 8. Income Taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2002 and 2001 was 42.1%.

At March 31, 2002 and 2001, the reconciliation of the statutory tax rate to the effective income tax rate is as follows:

	2002	2001
Statutory tax rate	42.1%	42.1%
Accumulated deficit	(13.6)	—
Other, net	(2.7)	(0.6)
Effective tax rate	25.8%	41.5%

At March 31, 2002 and 2001, significant components of deferred tax assets and liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Gross deferred tax assets:			
Tax effect on loss of a consolidated subsidiary previously not recognized	¥ 3,057	¥ 1,298	\$ 22,950
Tax loss carryforwards	9,459	7,511	71,014
Reserve for employees' retirement allowance	15,451	13,899	115,998
Inventories, etc	2,631	4,936	19,752
Other, net	16,477	14,346	123,701
Subtotal	47,075	41,992	353,416
Valuation allowance	(6,764)	(7,034)	(50,781)
Deferred tax assets total	40,311	34,957	302,635
Total gross deferred tax liabilities	(8,521)	(8,783)	(63,971)
Net deferred tax assets	¥31,789	¥26,174	\$238,656

Deferred tax assets relating to operating losses are recorded because the Japanese accounting standard requires that the benefit of tax loss carryforwards 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.

## 9. Research and Development Expenses

Total amounts charged to income for the fiscal years ended March 31, 2002 and 2001 are ¥29,171 million (US\$219,002 thousand) and ¥26,672 million, respectively.

## 10. Shareholders' Equity

Until September 30, the Japanese Commercial Code required that an amount equal to at least 10% of cash distributions paid out of retained earnings should be appropriated to a legal reserve until this reserve equals 25% of common stock. Effective from October 1, 2001, the Japanese Commercial Code was amended such that an amount equal to at least 10% of the cash distribution paid out of retained earnings should be appropriated to the legal reserve until the total amount of this reserve and additional paid-in capital equals 25% of common stock. Thus, in accordance with the modified Japanese Commercial Code, the Company does not appropriate to the legal reserve. The legal reserve is not available for cash dividends but may be used to reduce a deficit by a shareholders' resolution or may be capitalized by a Board of Directors' resolution.

On June 25, 2002, the shareholders approved a cash dividend to be paid to shareholders on record as of March 31, 2002 totaling ¥1,787 million (US\$13,416 thousand), at the rate of ¥5.00 (US\$0.04) per share of common stock.

## 11. Commitments and Contingent Liabilities

The Company and its subsidiaries were contingently liable, as of March 31, 2002, for trade notes discounted with banks of ¥100 million (US\$751 thousand) and for loans guaranteed of ¥1,545 million (US\$11,599 thousand).

## 12. Lease Transactions

Information on the Company's and consolidated subsidiaries' finance lease transactions (except for those which are deemed to transfer the ownership of the leased assets to the lessee) and operating lease transactions is as follows:

### Lessee

#### 1. Finance Leases

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Machinery and equipment	¥11,826	¥11,505	\$ 88,784
Tools and furniture	6,913	6,001	51,899
Others	451	683	3,386
	19,192	18,191	144,084
Less: Accumulated depreciation	(9,392)	(7,471)	(70,511)
Net book value	9,799	10,720	73,566
Depreciation	¥ 3,463	¥ 3,274	\$ 25,998

Depreciation is based on the straight-line method over the lease terms of the lease assets.

The scheduled maturities of future lease rental payments on such lease contracts as of March 31, 2002 and 2001 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Due within one year	¥3,343	¥ 3,122	\$25,098
Due over one year	6,456	7,598	48,468
	9,799	10,720	73,566
Lease rental expenses for the year	¥3,463	¥ 3,274	\$25,998

#### 2. Operating Leases

The scheduled maturities of future lease rental payments on such lease contracts as of March 31, 2002 and 2001 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Due within one year	¥ 4,036	¥ 4,805	\$ 30,300
Due over one year	14,568	12,133	109,369
	¥18,604	¥16,939	\$139,670

### Lessor

#### Finance Leases

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Leased tools and furniture:			
Purchase cost	¥ 766	¥ 972	\$ 5,751
Accumulated depreciation	(689)	(896)	(5,173)
Net book value	¥ 77	¥ 76	\$ 578

The scheduled maturities of future lease rental income on such lease contracts as of March 31, 2002 and 2001 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Due within one year	¥ 88	¥ 87	\$ 661
Due over one year	—	—	—
	88	87	661
Lease rental income for the year	792	1,030	5,946
Depreciation for the year	¥689	¥ 896	\$5,173

### 13. Retirement Benefits Plan

The Company and its subsidiaries have defined benefit retirement plans: the plan which is governed by the Japanese Welfare Pension Insurance Law, the tax-qualified pension plan and the lump-sum payment plan. In addition, in some cases when employees retire, the Company provides for additional retirement benefits that are not in accordance with the retirement benefit accounting.

The reserve for retirement benefits as of March 31, 2002 is analyzed as follows:

	Millions of yen	Thousands of U.S. dollars
	a. Retirement benefit obligations	¥(112,988)
b. Plan assets	59,511	446,779
c. Unfunded retirement benefit obligations (a+b)	(53,477)	(401,479)
d. Unrecognized transition amount	4,227	31,734
e. Unrecognized actuarial differences	15,620	117,267
f. Unrecognized prior service cost	(16)	(120)
g. Net amount on consolidated balance sheets (c+d+e+f)	(33,645)	(252,590)
h. Prepaid pension cost	1,432	10,751
i. Accrued retirement benefits (g-h)	¥ (35,078)	\$(263,348)

Note: The above table includes the amounts related to the portion subject to the Japanese Welfare Pension Insurance Law.

Net pension expense related to the retirement benefits for the year ended March 31, 2002 is as follows:

	Millions of yen	Thousands of U.S. dollars
	a. Service costs	¥ 5,473
b. Interest costs	3,375	25,338
c. Expected return on plan assets	(1,096)	(8,228)
d. Amortization of transition amount	1,647	12,365
e. Actuarial differences that are accounted for as expenses	574	4,309
f. Prior service costs that are accounted for as expenses	(4)	(30)
g. Retirement benefit costs (a+b+c+d+e+f)	¥ 9,970	\$74,850

Assumptions used in calculation of the above information are as follows:

a. Method of attributing the retirement benefits to periods of service	Straight-line basis
b. Discount rate	Mainly 3.5%
c. Expected rate of return on plan assets	Mainly 2.5%
d. Amortization of unrecognized prior service cost	Mainly 10 years
e. Amortization of unrecognized actuarial differences	Mainly 10 years
f. Amortization of transition amount	The Company: Fully amortized Subsidiaries: 5 years

### 14. Related Party Transactions

Material transactions of the Company with its related companies and individuals, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements and other than those disclosed elsewhere in these financial statements, for the year ended March 31, 2002 are as follows:

	Millions of yen	Thousands of U.S. dollars
	Name of related company	SECONIC CORPORATION
Paid-in capital	¥ 1,503	\$ 11,284
Principal business	Production and sales of copy machines	
Equity ownership percentage by the Company	38%	
Description of the Company's transaction:		
Purchase amounts from April 2001 to		
March 2002	¥21,924	\$164,595
Balance of accounts payable—trade as of		
March 31, 2002	¥ 6,054	\$ 45,450

The terms and conditions of the above transactions are on an arm's-length basis.

### 15. Segment Information

Segment information is reported in accordance with the requirements of the MOF. The photographic materials segment includes photographic film, photographic paper, photofinishing equipment and chemicals, videotapes and others. The business machines segment includes plain-paper copiers, printers, facsimile machines, cameras, optical products and others.

## BY PRODUCT

	Millions of yen				
	Photographic materials	Business machines	Total	Eliminations and corporate	Consolidation
<b>2002: Net sales</b>					
Outside	¥300,401	¥239,170	¥539,571	¥ —	¥539,571
Intersegment	1,399	1,226	2,625	(2,625)	—
Total	301,800	240,396	542,196	(2,625)	539,571
Operating expenses	284,676	218,718	503,395	6,565	509,961
Operating income	¥ 17,123	¥ 21,677	¥ 38,801	¥ (9,191)	¥ 29,609
Assets	¥303,254	¥178,160	¥481,414	¥45,945	¥527,360
Depreciation	12,132	11,773	23,905	2,314	26,219
Capital expenditure	¥ 29,347	¥ 14,945	¥ 44,292	¥ 1,301	¥ 45,593

	Millions of yen				
	Photographic materials	Business machines	Total	Eliminations and corporate	Consolidation
<b>2001: Net sales</b>					
Outside	¥305,200	¥238,518	¥543,719	¥ —	¥543,719
Intersegment	1,666	865	2,531	(2,531)	—
Total	306,866	239,384	546,251	(2,531)	543,719
Operating expenses	287,843	219,209	507,053	6,122	513,175
Operating income	¥ 19,022	¥ 20,174	¥ 39,197	¥ (8,654)	¥ 30,543
Assets	¥292,823	¥184,219	¥477,042	¥41,139	¥518,181
Depreciation	13,051	11,046	24,097	1,843	25,940
Capital expenditure	¥ 15,564	¥ 14,057	¥ 29,621	¥ 803	¥ 30,424

	Thousands of U.S. dollars (Note 3)				
	Photographic materials	Business machines	Total	Eliminations and corporate	Consolidation
<b>2002: Net sales</b>					
Outside	\$2,255,263	\$1,795,571	\$4,050,833	\$ —	\$4,050,833
Intersegment	10,503	9,204	19,707	(19,707)	—
Total	2,265,766	1,804,775	4,070,541	(19,707)	4,050,833
Operating expenses	2,137,207	1,642,027	3,779,242	49,287	3,828,536
Operating income	\$ 128,551	\$ 162,740	\$ 291,299	\$(69,002)	\$ 222,290
Assets	\$2,276,682	\$1,337,538	\$3,614,219	\$344,932	\$3,959,159
Depreciation	91,081	88,386	179,467	17,372	196,839
Capital expenditure	\$ 220,323	\$ 112,200	\$ 332,523	\$ 9,767	\$ 342,290

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

## BY GEOGRAPHIC REGION

	Millions of yen						
	Japan	North America	Europe	Asia and Other	Total	Eliminations and Corporate	Consolidation
2002: Net sales							
Outside	¥317,306	¥126,361	¥73,009	¥22,894	¥539,571	¥ —	¥539,571
Intersegment	112,985	6,945	620	31,489	152,041	(152,041)	—
Total	430,291	133,307	73,629	54,384	691,613	(152,041)	539,571
Operating expenses	397,599	129,796	71,686	53,104	652,186	(142,224)	509,961
Operating income	¥ 32,691	¥ 3,511	¥ 1,943	¥ 1,280	¥ 39,427	¥ (9,817)	¥ 29,609
Assets	¥343,399	¥ 98,286	¥43,771	¥18,412	¥503,869	¥ 23,491	¥527,360

	Millions of yen						
	Japan	North America	Europe	Asia and Other	Total	Eliminations and Corporate	Consolidation
2001: Net sales							
Outside	¥336,294	¥120,016	¥66,549	¥20,858	¥543,719	¥ —	¥543,719
Intersegment	100,679	7,725	642	25,464	134,511	(134,511)	—
Total	436,974	127,741	67,191	46,323	678,230	(134,511)	543,719
Operating expenses	400,687	125,587	68,062	45,581	639,919	(126,743)	513,175
Operating income	¥ 36,286	¥ 2,154	¥ (871)	¥ 741	¥ 38,311	¥ (7,767)	¥ 30,543
Assets	¥345,592	¥ 93,245	¥43,079	¥15,754	¥497,672	¥ 20,508	¥518,181

	Thousands of U.S. dollars (Note 3)						
	Japan	North America	Europe	Asia and Other	Total	Eliminations and Corporate	Consolidation
2002: Net sales							
Outside	\$2,382,177	\$ 948,656	\$548,116	\$171,877	\$4,050,833	\$ —	\$4,050,833
Intersegment	848,236	52,140	4,655	236,404	1,141,449	(1,141,449)	—
Total	3,230,413	1,000,803	552,770	408,288	5,192,290	(1,141,449)	4,050,833
Operating expenses	2,984,977	974,444	538,183	398,679	4,896,291	(1,067,748)	3,828,536
Operating income	\$ 245,428	\$ 26,359	\$ 14,587	\$ 9,610	\$ 295,998	\$ (73,701)	\$ 222,290
Assets	\$2,578,071	\$ 737,883	\$328,611	\$138,228	\$3,782,800	\$ 176,359	\$3,959,159

## EXPORT SALES

	Millions of yen	Thousands of U.S. dollars (Note 3)	Percentage of net sales
2002: Sales to			
North America	¥137,723	\$1,033,956	25.5%
Europe	79,352	595,736	14.7
Asia and Other	88,668	665,676	16.5
2001: Sales to			
North America	¥140,078	\$1,130,573	25.8%
Europe	72,968	588,927	13.4
Asia and Other	81,199	655,359	14.9