Sales Results

In the fiscal year ended March 31, 2001, consolidated net sales totaled ¥543.7 billion, a decline of 3.1% from the previous fiscal year. The world economy experienced a relatively positive trend during the first part of the fiscal year. Beginning in autumn 2000, however, the outlook became much cloudier as information technology (IT)-related industries centered on the United States, which had helped drive the economy, entered an adjustment phase. In Japan, an increase in capital investment from the private sector sparked hopes of at least a slight recovery, but continued stagnation in consumer spending and flat stock prices in the latter half of the year led to continued pessimism about the overall economy.

Unfavorable currency exchange fluctuation also served to dampen Japan's economy. The yen appreciated 3.9% against the U.S. dollar during the fiscal year, to an average of ¥108.83 in March 2001, and 16.5% against the euro, to an average of ¥99.94 in March 2001. This had a significant impact on sales, contributing to a drop of ¥25.3 billion.

Looking at results in our photographic materials segment, sales increased for the Medical and Graphic Company owing to rapidly growing demand for dry films for X-ray imaging systems. In the EM & ID Business Group, demand continued to develop for our triacetyl cellulose (TAC) film, used for the polarizing filters in liquid crystal displays (LCDs). Demand continued to climb in the Inkjet Business Group as well, where we enjoy an outstanding reputation for quick-drying, photo-quality paper. Nevertheless, sales by the Consumer Imaging Company were affected by price declines and the graphic imaging segment remained in an economic slump, and both segments experienced a decrease. In particular, the consumer imaging segment was affected by the yen's appreciation, falling ¥9.4 billion, and as a result sales dropped ¥18.7 billion.

In our business machines segment, the Optics Technology Company posted higher sales reflecting double-digit growth in sales of aspherical plastic lenses for use in optical discs. For the Office Document Company, however, sales on a volume basis increased reflecting the completion of our lineup of digital copiers, but the yen's appreciation led to a ¥13.8 billion drop in terms of sales amount. As a result, sales for these operations were down ¥7.0 billion compared with the previous fiscal year.

Cost of Sales, and Selling and General Administrative Expenses

The cost of sales during the fiscal year under review fell 1.4% compared with the previous period, to ¥319.2 billion, due to purchasing costs, resulting from the changes in the currency exchange rate and to the Company's cost-reduction efforts. However, due to lower sales and to price revisions, the cost of sales ratio increased one percentage point, from 57.7% to 58.7%. As a result, gross profit declined 5.3% from the previous year, to ¥224.6 billion.

Selling and general administrative expenses decreased ¥10.0 billion from the previous year, to ¥194.0 billion, a drop of 4.9%. However, because net sales also fell 3.1%, the SG&A expenses ratio was down only 0.7 percentage point from the previous year, from 36.4% to 35.7%. The main factors behind the decrease included efforts to streamline operations, such as cutbacks in labor and incentives centering on the Consumer Imaging Company. R&D allocations were focused in three strategic areas: optics technology, medical imaging, and inkjet technology.

Sales Results by Segment

Sales of our photographic materials segment declined 4.7% compared with the previous year, to ¥306.9 billion, but operating income climbed to ¥19.0 billion, an increase of 4.8%. Although sales by the Consumer Imaging Company, which enjoys a high relative density of sales, fell ¥18.7 billion, due to lower prices and the yen's revaluation, the drop was restrained at ¥2.0 billion, by cutting production costs and fixed selling expenses as planned. The Medical and Graphic Company enjoyed enhanced demand for dry film and X-ray imaging system for dry film. Although sales dropped reflecting pricing changes, operating income increased.

The EM & ID Business Group achieved significant advances in both sales and operating income for TAC film used for polarizing filters in LCDs. Likewise, robust sales in the Inkjet Business Group, where our paper media has remained strong, helped reduce the operating loss.

Sales of our business machines segment showed a slight decline of 0.7% from the previous year, to ¥239.4 billion, while operating income fell 18.6%, to ¥20.2 billion. The Office Document Company, with its high relative density of sales, achieved higher volume and reduced costs, but due to the yen's appreciation both sales amount and operating income fell ¥7.0 billion. For the Optics Technology Company, where demand continues to expand for the aspherical plastic lenses used in optical discs, both sales and operating income increased.

Analysis of Profit and Loss

As outlined above, the overall sales amount in the fiscal year under review was lower than in the previous period due to such factors as the yen's appreciation, and despite our efforts to reduce SG&A expenses by cutting back fixed expenses. As a result, operating income fell 7.8% compared with the previous year, to ¥30.5 billion, and the operating margin dropped 0.3 percentage point, to 5.6%.

In non-operating income and expenses, the Company recorded a ¥19.5 billion, down ¥1.6 billion compared to the previous year. Non-operating income items included ¥1.2 billion in interest and dividend income, compared with ¥1.7 billion in the previous year; ¥1.6 billion in net foreign currency gains, as against a loss of ¥4.7 billion the prior year; and ¥8.6 billion in gains on sales of fixed assets, versus ¥0.3 billion a year earlier. The decrease in interest and dividend income was due to our selling off of marketable securities. The gains on sales of fixed assets resulted from our disposing of the Muromachi Center Building, which had been rented, in an effort to improve asset-management efficiency.

Non-operating expense items included ¥9.3 billion in interest expenses, compared with ¥10.5 billion the previous year. This drop was caused by our reduction of interest-bearing debt. We also registered ¥2.6 billion in valuation loss on investment securities, which resulted from our applying new standards for market value appraisal to investment securities, in line with the Japanese accounting standard. Reflecting the Japanese accounting standard for retirement benefits payable, a net pension expense of ¥13.2 billion was recorded upon the introduction of the new standard.

Consequently, income before provision for income taxes decreased 27.3% from the previous fiscal year, to ¥11.1 billion, and net income fell 15.3%, to ¥6.5 billion.

Net income per share of common stock was ¥18.06, down from ¥21.33 the previous year. Return on equity dropped to 4.00%, from 4.74%, and return on assets declined to 1.21%, from 1.34%.

Assets and Liabilities

Total assets at the end of the fiscal year under review were down 5.7% from the previous year-end, to ¥518.2 billion. Looking at current assets, marketable securities decreased ¥17.5 billion as the Company disposed of such securities, with ¥11.6 billion of that amount appropriated to setting up the retirement benefits payable trust. Looking at fixed assets, land and buildings and structures declined ¥1.9 billion, mainly as a result of our selling off the Muromachi Center Building. Machinery and equipment increased ¥8.8 billion, mainly due to investment in facilities for producing TAC for the polarizing filters used in LCDs, and facilities for producing aspherical plastic lenses for use in optical discs.

Total current liabilities fell ¥10.3 billion from the previous fiscal year-end, while total long-term liabilities decreased ¥19.3 billion. Within total current liabilities, short-term debt dropped ¥16.1 billion, but the current portion of long-term debt rose ¥6.2 billion. Trade notes and accounts payable decreased ¥9.6 billion, and accrued expenses increased ¥1.5 billion.

Total long-term liabilities declined ¥19.3 billion, mainly due to a drop of ¥20.6 billion resulting from the repayment of long-term debt. Interest-bearing debt decreased ¥30.5 billion, to ¥181.9 billion, indicating our success at reducing such debt to below ¥200 billion. A target in our new medium-term management plan, SAN Plan 2004, calls for an additional reduction in interest-bearing debt to ¥160 billion, or one-third of total assets.

Total shareholders' equity fell ¥2.5 billion from the previous year-end, as a ¥2.9 billion gain in retained earnings and a ¥1.1 billion increase in unrealized gain on securities were more than offset by a drop of ¥6.5 billion due to foreign currency translation adjustment in line with the Japanese accounting standard.

Although both total assets and total shareholders' equity declined compared with the previous fiscal year-end, the rate of decrease in total assets was greater than that in shareholders' equity. Consequently, the shareholders' equity ratio for the year under review was up 1.3 percentage points, to 30.9%.

Capital Investment

Capital investment in this fiscal year totaled ¥30.4 billion, an increase of ¥0.2 billion from the previous period. Of this amount, ¥0.8 billion went to companywide-related investment, ¥15.6 billion to the photographic materials segment, and ¥14.0 billion to the business machines segment. In our photographic materials segment, some ¥8.8 billion was targeted to digitization and strategic areas, including ¥5.7 billion for EM business, ¥2.6 billion for the Medical and Graphic Company, and ¥0.5 billion for the Inkjet Business Group. In our business machines segment, some ¥12.3 billion was targeted to digitization and strategic areas, including ¥7.8 billion for the Office Document Company and ¥4.3 billion for the Optics Technology Company.

Cash Flows

Net cash provided by operating activities in the year under review totaled ¥50.9 billion. This resulted in part from an increase in notes and accounts payable (a net decline of ¥21.5 billion), which offset a decrease in notes and accounts receivable (a net increase of ¥10.9 billion).

Net cash used in investing activities totaled ¥8.1 billion. This resulted from payment for acquisition of fixed assets, which was balanced by increases in proceeds from the sale of fixed assets, marketable securities and investment securities.

Net cash used in financing activities totaled ¥42.6 billion, reflecting redemption of preferred stock of affiliates that were dissolved. Substantial progress was made, however, toward repaying long-term debt. As for cash and cash equivalents, though liabilities such as loans decreased, as a result of ¥18.9 billion from the sale of fixed assets and investment securities, an increase of ¥1.6 billion was recorded. Consequently, cash and cash equivalents at the fiscal year-end rose to ¥56.6 billion.

Outlook

Deflation of the Japanese economy and the slowdown of the world economy present extremely unfavorable economic conditions. In addition, due to the rapid progress of digitization—the IT revolution–global competition across industries has become increasingly severe, and our operating environment is changing rapidly.

Faced with this difficult environment and in line with SAN Plan 2004 formulated in January 2001, our entire group will implement sharply focused management measures aimed at achieving a profit of ¥27.0 billion and ROE of 12% by the fiscal year ending in March 2005.

We have implemented a new internal company system to respond to the changing management environment with rapid decision-making and fast action.

To strengthen our corporate structure, in June 2000 we introduced an executive officer system to define as clearly as possible the functions of decision-making and supervision, as well as the task assignment of business executive functions. The system aims eventually will reinforce our operational capabilities.

At the time we introduced our executive officer system, we also streamlined the board of directors, reducing its membership from 17 to 11 to allow appropriate discussion while facilitating swift, sound decision-making. SAN Plan 2004 lays the groundwork to create the premier imaging solution company.