Consolidated Financial Review

Konica Corporation and Consolidated Subsidiaries

Scope of Consolidated Financial Results

The Konica Group comprises Konica Corporation, 75 consolidated subsidiaries, 18 unconsolidated subsidiaries, and 9 affiliated companies.

The businesses operated by Konica Corporation and its subsidiaries comprise the following two business segments and are differentiated on a product basis. The Photographic Materials segment deals primarily in the production and marketing of color film, paper, minilab equipment, film and processing equipment for identification photos, x-rays, and printing, as well as TAC film for LCD polarization plates and inkjet printing products. The Business Machines segment deals primarily in the production and marketing of cameras, digital cameras, copiers, facsimiles machines, printers, and other business machines, as well as polymerization toner, OPC drums, and optical pickup lenses.

Consolidated Business Results

Sales

In fiscal 2002, the fiscal year ended March 31, 2003, the downward trend in the world's largest economies, the U.S. and Europe, grew stronger. Concerns about the conflict in Iraq combined with this trend to prolong the global recession, further delaying the possibility of economic recovery. The Japanese economy remained sluggish, owing to uncertainty over the future. Capital investment continued to contract, while consumer spending remained lackluster owing in large part to deepening anxieties over the employment situation. Against this backdrop, Konica experienced a strong performance in its strategic growth businesses and was boosted by the yen's depreciation against the U.S. dollar and the euro. In the fiscal year ended March 31, 2003, consolidated net sales rose 3.6% year on year, from ¥539.6 billion, to ¥559.0 billion.

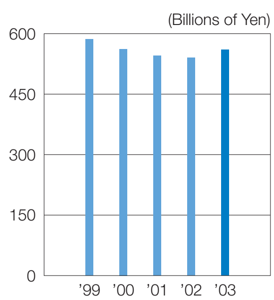
By business segment, in the Photographic Materials and Photo-related Industrial Equipment Companies sales of color film and printing paper fell due to the increasing trend toward market digitization. At the same time, in the Business Machines, Cameras, and Optical Products, sales of medium- and high-speed copiers in the Office Document Company and optical pickup lenses in the Optical Products Company were strong.

Cost of Sales, and Selling, General and Administrative Expenses

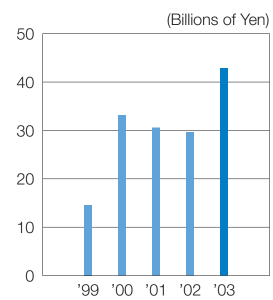
The cost of sales during the fiscal year under review increased ¥11.7 billion, compared with the previous period, to ¥321.4 billion. While the Company incurred increased overseas procurement costs due to the yen's depreciation against major currencies, efforts to reduce production costs and increased sales volume enabled Konica to hold the cost of sales to essentially the same level as the previous fiscal year. As a result of these factors, gross profit increased 3.4% year on year to ¥237.7 billion.

Selling, general and administrative (SG&A) expenses declined ¥5.5 billion to ¥194.8 billion. This was mainly attributable to a ¥3.5 billion reduction in sales expenses at the Group's graphics image sales company due to an adjustment for exchange rate movements. Experimental research expenses rose ¥1.4 billion and expenses owing to the depreciation of the yen increased ¥4.1 billion. As a result, the net cutback in other expenses was held to ¥2.0 billion.

Net Sales



Operating Income



SG&A expenses as a ratio to net sales fell from 37.1% to 34.8%.

Operating Income, Net Income

Operating income increased 44.7% to ¥42.9 billion, reflecting the increase in gross profit and measures implemented to reduce expenses. As a percentage of net sales, operating income improved from 5.5% in the fiscal year ended March 31, 2002, to 7.7%.

Net other expenses totaled ¥18.1 billion, an increase of ¥3.5 billion, impacted by a number of factors. Although the Company recorded a foreign exchange gain on overseas sales of ¥2.9 billion in fiscal 2001 due to the depreciation of the yen, Konica incurred an exchange loss of ¥2.4 billion, a turnaround of ¥5.3 billion, in the fiscal year under review due to the yen's appreciation. The Company also recorded income of ¥4.5 billion from the transfer to a defined contributory pension system. This however was offset by business restructuring expenses of ¥5.6 billion in preparation for structural reform of its consumer imaging business. Other income for fiscal 2002 totaled ¥2.9 billion.

As a result of the preceding factors, income before income taxes and minority interests increased 64.9% compared with the previous fiscal year to ¥24.7 billion, and net income increased 48.1% to ¥16.4 billion, a record profit for the Group. Earnings per share of common stock jumped from ¥30.9 to ¥45.7, return on equity increased from 6.46% to 9.05%, and return on assets rose from 2.10% to 3.17%.

Segment Information

Photographic Materials

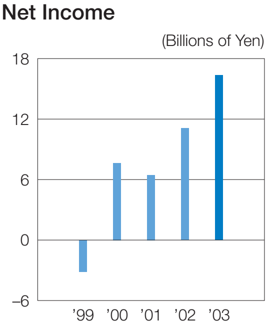
Sales in our Photographic Materials segment declined 2.0% compared with the previous fiscal year to ¥294.3 billion. Operating income in this segment declined 7.3% year on year to ¥15.9 billion.

In the Color Film and Printing Paper fields, sales increased in the growth markets of Russia and Asia. In mature markets such as Japan, Europe, and the U.S., however, sales contracted due to the increased penetration of digital cameras and the impact on traditional silver-halide film and a decline in product prices. Operating income in this segment increased year on year due to cutbacks in production and fixed expenses.

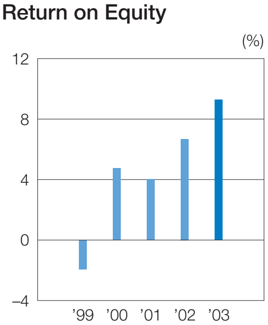
In the Medical and Graphic Imaging business, the trend toward digital networks continues to increase rapidly. In the midst of these circumstances, the dry film products of the Company's medical imaging business performed steadily. In the graphic imaging business, overseas sales of printer film and domestic sales of digital color proof-related equipment were strong despite market contraction brought on by the trend to CTP processing. On the earnings front, operating income in the medical and graphic imaging business declined year on year significantly impacted by depreciation expenses following start up of the Company's Kofu dry film plant.

Sales of tri-acetyl cellulose (TAC) film for use in LCD polarization plates, designated a strategic business, increased substantially. Amortization of the No. 2 line at Konica's Kobe facility, which went online in August 2002, however, offset contributions to earnings in the photographic materials business.

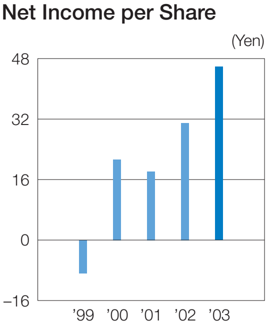
Net Income



Return on Equity



Net Income per Share



Business Machines

Sales in the Business Machines segment rose 10.7% to ¥264.7 billion. Operating income rose 68.4% over the previous fiscal year to ¥36.5 billion.

The Office Document business, which accounts for the leading share of this business, posted record sales of ¥204.6 billion, boosted by the shift in copier sales toward value-added products such as medium- and high-speed multifunctional peripherals (MFPs) and strong sales of the next-generation polymerization toners. Operating income in this business surged to ¥22.4 billion.

The optical pickup lens business of the Optics Technology business experienced rapid growth in the first half of the fiscal year under review due to increasing popularity of DVD players and increased demand for software. The sharp jump in demand in China and Hong Kong for video CD players also impacted favorably on results. While inventory adjustments in the second half reduced unit volume shipped, total shipments for fiscal 2002 increased by 47% compared with the previous fiscal year. In terms of product composition, DVD recorders, which have comparatively high unit prices, experienced solid sales volume growth.

Liquidity and Sources of Capital

The Konica Group has continued to work to increase free cash flow through increased sales and higher profits. As a result free cash flows (net cash provided by operating activities minus net cash used in investing activities) totaled ¥29.1 billion. In the fiscal year under review Konica reduced interest-bearing debt by ¥24.0 billion to ¥152.1 billion. The debt/equity ratio declined to 0.84 of a point from 1.03 times in the previous fiscal year.

Cash Flows

Net cash provided by operating activities increased ¥18.3 billion to ¥66.4 billion. Income before taxes and minority interests increased ¥9.7 billion to ¥24.7 billion in line with the increase in sales. Depreciation and amortization expenses increased ¥2.3 billion to ¥28.5 billion, attributed to the start up of operations at the medical imaging dry film plant in Kofu and the No. 2 line of the TAC film plant for LCD polarizing plates in Kobe, completed in fiscal 2001.

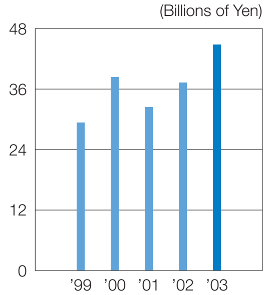
Accounts receivable fell ¥7.7 billion while inventory declined ¥2.2 billion. Accounts payable increased ¥3.3 billion and operating capital rose ¥13.2 billion.

Net cash used in investing activities narrowed ¥2.2 billion to ¥37.3 billion. The principal components were mainly related to investments in the Company's medical-use dry film production facilities, TAC film for LCD polarization plates, and the acquisition of property, plant and equipment to strengthen production facilities for polymerization toner totaling ¥29.5 billion, down ¥12.1 billion from the previous fiscal year.

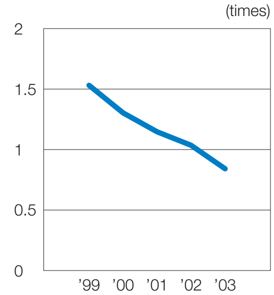
Moreover, Konica utilized ¥9.4 billion in investing activities for the acquisition of intangible fixed assets and an increase in loans receivable.

Net cash used in financing activities amounted to ¥24.7 billion, up ¥5.6 billion from the previous fiscal year. This was mainly attributable to the repayment of long-term loans from financial institutions and the redemption of bonds. As a result, interest-bearing debt stood at ¥152.1 billion, a decline of ¥24.0 billion from the end of the previous fiscal year.

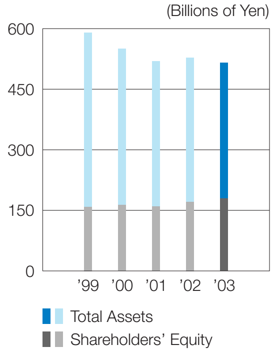
Gross Cash Flow



Debt/Equity Ratio



Total Assets/Shareholders' Equity



Assets, Liabilities, and Equity

Total assets as of March 31, 2003 totaled ¥516.0 billion, a decline of ¥11.4 billion compared with the previous fiscal year-end. In current assets, trade notes and accounts receivable declined ¥8.0 billion and inventory fell ¥3.5 billion. The balance of cash and other current assets however increased ¥13.7 billion, for an aggregate rise in total current assets of ¥2.2 billion.

For the fiscal year under review, capital expenditures of ¥21.6 billion fell below depreciation expense of ¥28.5 billion. As a result, the balance of property, plant and equipment, net, fell ¥8.0 billion. Investments and other assets declined by ¥5.6 billion for an aggregate fall in fixed assets of ¥13.6 billion. As a result, the balance of total assets as of the fiscal year-end decreased ¥11.4 billion.

On the liabilities side, current liabilities declined ¥23.8 billion. Major components were an increase of ¥5.6 billion in reserve for structural reforms relating to the consumer imaging business and declines in interest-bearing debt and other current liabilities of ¥28.8 billion and ¥0.6 billion, respectively. Long-term liabilities rose ¥1.1 billion resulting in an aggregate decline in total liabilities of ¥23.7 billion.

Turning to shareholders' equity, while consolidated retained earnings increased by ¥12.8 billion, foreign currency translation and other losses increased by ¥2.7 billion. As a result, total shareholders' equity increased ¥9.8 billion compared with the previous fiscal year-end.

Reducing total assets and increasing shareholders' equity in this manner resulted in an increase of 2.6 percentage points in the shareholders' equity ratio over the previous fiscal year to 35.1%.

Capital Expenditures and Research and Development Expenditures

Konica invested ¥6.5 billion in capital expenditures primarily in the upgrade of production facilities for medical-use dry film and inkjet paper in the photographic materials business. In business machines, cameras, and optical products, the Company undertook expenditures totaling ¥6.7 billion in an effort to bolster production facilities for optical disk non-spherical plastic lenses, copiers, and polymerization toners.

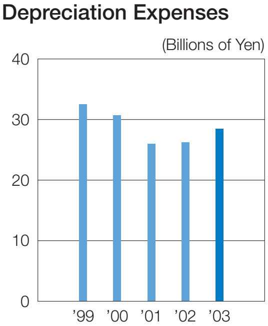
Other capital expenditures amounted to ¥8.4 billion and were used for the acquisition of buildings owned by the Company and the development of information and management systems in line with the companies move toward spin off and a holding company structure.

R&D expenses for the fiscal year under review increased ¥1.4 billion to ¥30.3 billion. An amount ¥13.8 billion was allocated to the photographic materials business, ¥11.6 billion to business machines, cameras, and optical products, and ¥4.9 billion to the development of the Group's platform technologies and in particular state-of-the-art technologies and digital networking.

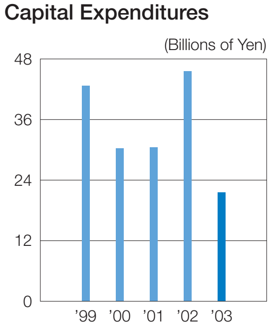
Outlook

The market trend toward adopting digital networks continues to advance at a rapid pace. At the same time, however, the world's major economies continue to show few signs of recovery. Under these conditions, Konica has decided to adopt a holding company structure with the aim of promoting speedy and efficient business portfolio management. In establishing an entirely new entity under a strengthened format, Konica is working to strengthen its business platform and to enhance the corporate value of the Group for the benefit of its shareholders.

Depreciation Expenses



Capital Expenditures



R&D Expenditures