

Financial Review

(Consolidated Financial Statements)

OPERATING ENVIRONMENT

In fiscal 2000, ended March 31, 2000, despite signs of improvement in the Japanese economy, depressed consumer spending and a difficult employment market again prevented a full recovery. Conditions were better overseas, with the United States maintaining strong economic growth, European countries experiencing a steady rise in demand, and Asian economies starting to recover.

Amid these circumstances, Konica moved forward with a new four-year management plan, SAN 2003. Under this plan, the Company is implementing an internal company system and promoting business reforms that respond to the growing influence of digital technology on information imaging. Furthermore, Konica is strengthening its consolidated management and evaluating businesses based on their contribution to Group results.

The new structure comprises the following internal companies and groups: Consumer Imaging Company, Medical and Graphic Company, Inkjet Business Group, and EM and ID Business Group

(grouped as the Photographic Materials and Photo-Related Industrial Equipment segment); and Office Document Company, Optics Technology Company, and Camera and Digital Photo Group (grouped as the Business Machines, Cameras, and Optical Products segment).

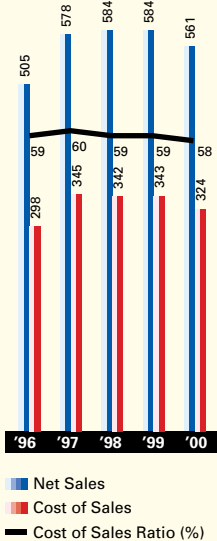
SALES

Consolidated net sales declined ¥23.4 billion, or 4.0%, to ¥560.9 billion. The main reasons for the decline were weak demand for consumer products in Japan as well as the appreciation of the yen against the U.S. dollar and the deutsche mark.

By segment, sales in the Photographic Materials segment declined ¥15.6 billion, or 4.6%, to ¥321.1 billion. Overseas, Konica enjoyed brisk demand for its films and photographic paper in Europe, Southeast Asia, and the United States. However, depressed market conditions in Japan (combined with adverse exchange rate movements) led to a decline in segment sales.

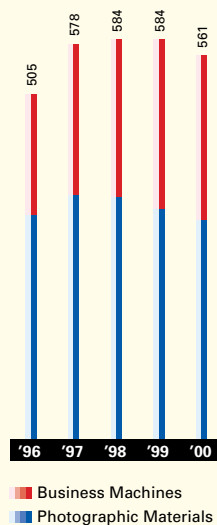
Net Sales, Cost of Sales, and Cost of Sales Ratio

(Billions of yen, %)



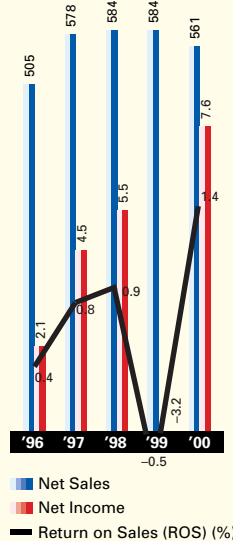
Net Sales by Product Segment

(Billions of yen)



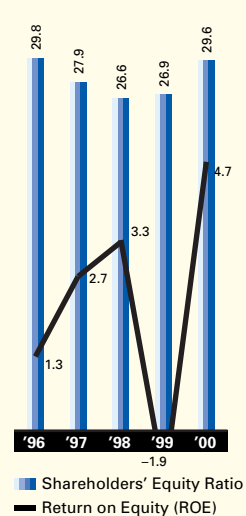
Net Sales, Net Income, and Return on Sales

(Billions of yen, %)



Shareholders' Equity Ratio and Return on Equity

(%)



Sales in the Business Machines segment fell ¥7.9 billion, or 3.2%, to ¥239.8 billion, primarily as a result of the cancellation of an OEM contract to supply printers. Konica boosted sales of business machines in the United States and maintained its leading share of the market for high-speed digital copiers.

By geographic region, sales in Japan increased ¥4.1 billion, or 1.2%, to ¥332.6 billion. Overseas, sales in North America fell ¥21.2 billion, or 14.1%, to ¥129.2 billion; sales in Europe fell ¥7.9 billion, or 9.2%, to ¥78.1 billion; and sales in Asia increased ¥1.6 billion, or 8.4%, to ¥21.0 billion.

INCOME

Due to measures to reduce procurement costs and improve the profit structure of the Company's product lineup, gross profit slipped only ¥4.6 billion, or 1.9%, to ¥237.2 billion, and the gross profit margin edged up to 42.3%, from 41.4%.

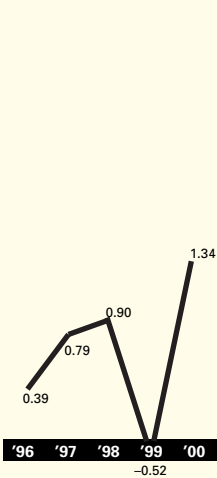
Selling, general and administrative (SG&A) expenses fell ¥23.2 billion, or 10.2%, to ¥204.1 billion. Savings achieved

through the restructuring of marketing operations in the United States in fiscal 1999, the sale of the Company's presensitized plate business, and other organizational reforms contributed significantly to this steep reduction in expenses. SG&A expenses as a percentage of net sales fell from 38.9% to 36.4%. As a result, operating income rose ¥18.6 billion, or 127.3%, to ¥33.1 billion, and the operating income ratio improved to 5.9%, from 2.5%.

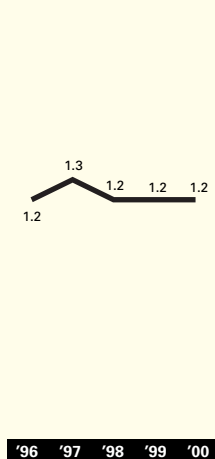
Total other income (expenses) declined ¥7.5 billion, or 29.6%, to expenses of ¥17.9 billion. This mainly reflects the sharp decline in restructuring costs and decrease in interest expenses that accompanied a reduction in interest-bearing debt. These gains more than offset foreign currency losses.

As a result, Konica posted net income of ¥7.6 billion, compared with a net loss of ¥3.2 billion in fiscal 1999. Net income per share (before dilution) surged from a net loss of ¥8.9 to net income of ¥21.3.

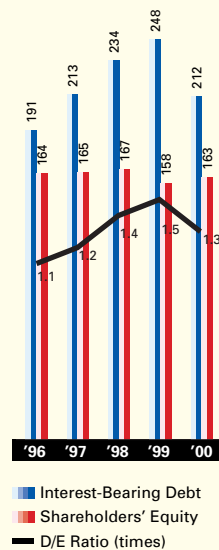
ROA
(%)



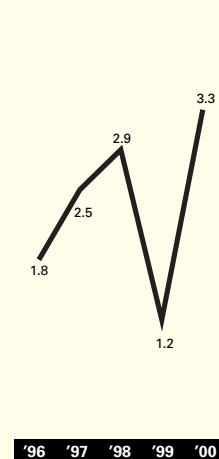
Current Ratio
(Times)



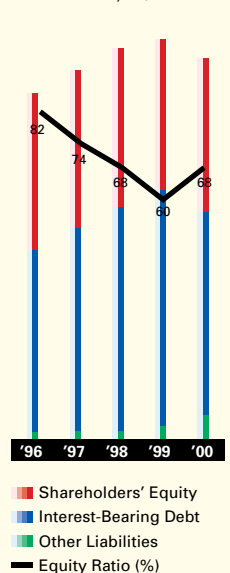
D/E Ratio
(Billions of yen, times)



Interest Coverage
(Times)



Composition of Total Capital Employed
(Billions of yen, %)



FINANCIAL POSITION

Total current assets as of March 31, 2000, stood at ¥335.9 billion, down ¥13.3 billion, or 3.8%, from the previous fiscal year-end. Trade receivables fell ¥13.9 billion, to ¥138.5 billion, and inventories dropped ¥15.6 billion, to ¥104.2 billion, reflecting slower sales activity during the fiscal year and efforts to streamline inventories. These declines, together with sales of marketable securities, more than offset a ¥15.0 billion increase in cash and cash equivalents and an ¥8.5 billion increase in other current assets.

Investments and other assets fell ¥7.4 billion, to ¥64.0 billion, mainly as a result of the write-off of investments in and loans to unconsolidated subsidiaries and affiliates and a decline in deferred income taxes prompted by the introduction of tax-effect accounting. Net property, plant and equipment dropped ¥19.4 billion, or 4.6%, to ¥406.3 billion. A ¥13.3 billion decline in machinery and equipment that accompanied the sale of businesses was the main contributor to this decline.

As a result, total assets at the end of the year stood at ¥549.7 billion, down ¥39.5 billion, or 6.7%, from the previous fiscal year-end.

Total liabilities fell ¥43.5 billion, or 10.1%, to ¥386.9 billion. Fund procurement and debt repayment activities resulted in total short- and long-term interest-bearing debt falling ¥35.5 billion, to ¥212.4 billion. Short-term loans plunged ¥27.5 billion, to ¥94.7 billion, as the Company reduced capital employed following restructuring in fiscal 1999. The Company aims to reduce total interest-bearing debt to ¥200.0 billion by March 2001.

Long-term debt fell ¥21.1 billion, to ¥77.7 billion, as a result of the transfer of debt to current liabilities.

Total shareholders' equity increased ¥4.1 billion, to ¥162.8 billion, in line with the increase in retained earnings. The equity ratio was 29.6%, up 2.7 percentage points from the previous fiscal year.

CASH FLOWS

Net cash provided by operating activities amounted to ¥61.3 billion, compared with ¥16.9 billion in the previous fiscal year.

The main components of this amount were income before income taxes of ¥15.2 billion, adjustments for depreciation and amortization of ¥30.7 billion, and an increase in notes and accounts payable, to ¥14.0 billion.

Konica spent ¥23.0 billion for the acquisition of property, plant and equipment during the fiscal year, primarily to strengthen its production network. As a consequence, net cash used in investing activities amounted to ¥11.2 billion.

Net cash used in financing activities totaled ¥34.0 billion, in contrast with net cash provided by financing activities of ¥12.5 billion in fiscal 1999. The main reasons for the turnaround were ¥36.9 billion spent on the repayment of short- and long-term debt and ¥18.7 billion on the redemption of preferred stock.

As a result of these activities, cash and cash equivalents at the end of the year totaled ¥55.0 billion, compared with ¥40.1 billion at the previous fiscal year-end.