

# Management's Discussion and Analysis

Ajinomoto Co., Inc. and Consolidated Subsidiaries  
For fiscal 2001, ended March 31, 2002

## Overview of Financial Strategy

The Ajinomoto Group's financial strategy is based on increasing cash flow as a means to provide both appropriate returns to shareholders and flexibility in funding research and development, capital expenditures and growth through acquisitions. Consolidated management of businesses in each segment has been strengthened to increase profitability and cash provided by operations, and Ajinomoto has been liquidating securities and underutilized land to generate cash for investment in income-producing assets. Capital investments will focus on health-related food products, global expansion, strengthening businesses in which Ajinomoto is number one or a strong number two, and high-potential new businesses.

Ajinomoto's program to improve cash flow included the objective of reducing interest-bearing liabilities from ¥172.3 billion at March 31, 2001. Investment activities, particularly better discipline in making capital expenditures, and working capital were two key areas targeted for improvement. By March 2002, Ajinomoto had reduced interest-bearing liabilities to ¥154.8 billion. Increased profits were a key factor in the achievement of this objective. Moreover, all employees were made more aware of the importance of cash flow, and each division worked to improve cash flow by reducing receivables and inventories.

Similar efforts will continue under the new three-year management plan, although interest-bearing liabilities may increase above ¥155 billion as a result of the Company's strategies for growth.

## Exchange Rate Fluctuations

Ajinomoto is subject to the influence of changes in exchange rates because it operates in global markets. The Company's financial statements are prepared in Japanese yen, and are subject to the effect of fluctuations in foreign exchange rates. In general, operating income and net income increase when the yen weakens relative to principal global currencies, and decrease when the yen strengthens relative to principal global currencies. In the past fiscal year, the yen weakened compared to the previous fiscal year. As of March 31, 2002, exchange rates for principal global currencies were ¥133.25 to US\$1.00 and ¥116.14 to 1.00 euro, compared to ¥123.90 to US\$1.00 and ¥109.33 to 1.00 euro at March 31, 2001.

## Operating Environment

During the past fiscal year, the domestic food industry was impacted by the outbreak of bovine spongiform encephalopathy (BSE) and widespread concern about false labeling practices. Continued corporate bankruptcies in the retail industry and the trend toward lower prices made the operating environment even more challenging. The global economy was affected by contraction in the U.S. economy and the terrorist attacks of

September 11, 2001, creating generally unfavorable conditions.

In this operating environment, the Ajinomoto Group accomplished a management plan covering the three years ended March 31, 2002. We successfully executed the five management strategies of improving consolidated management, strengthening our brands, establishing world-leading cost competitiveness, enhancing our research and development system, and contributing to society. Moreover, Ajinomoto designed a new three-year management plan to generate growth, and has begun aggressively implementing it.

## Analysis of Statements of Operations

### Overview

For the fiscal year ended March 31, 2002, consolidated net sales were impacted by a slight year-on-year decrease in domestic food product sales. Fine chemical sales in Japan were firm, supported by sales of pharmaceutical products and amino acid sports supplement *Amino Vital*. Overseas, food product sales increased, particularly in Asia, and sales of feed-use amino acids were favorable in each region, especially Europe. As a result, consolidated net sales increased 3.9 percent year-on-year, or ¥35.0 billion, to ¥943.5 billion. Successful efforts to reduce cost of sales supported an increase of 29.7 percent, or ¥11.2 billion, in operating income to ¥49.0 billion. Net income totaled ¥31.4 billion, compared to a net loss of ¥11.5 billion for the previous fiscal year. Return on average total shareholders' equity stood at 8.5 percent for the fiscal year. Ajinomoto therefore achieved every objective of the recently accomplished management plan with the exception of the objective for net sales, which the Company missed by a narrow margin.

### Sales by Segment

Ajinomoto has introduced an internal company system as part of the new three-year management plan initiated in April 2002. Prior to this change, Ajinomoto classified results in the three segments of food products, fine chemicals and others. Under the new system, Ajinomoto will classify results into the five segments of domestic food products, overseas food products, amino acids, pharmaceuticals and others. Ajinomoto has also changed its accounting methods with the implementation of a system under which each internal company will pay corporate headquarters royalty commissions that they will record as corporate expenses. Products including soybean hydrolyzate and enzymes with sales totaling approximately ¥10 billion, formerly classified under others, will now be classified under domestic food products.

The following discussion is based on the three-segment classification Ajinomoto used prior to April 2002.

### Food Products

The food products business includes seasonings, edible oils, processed foods, frozen foods, beverages and dairy products.

Ajinomoto operates in this business in the domestic market, and is expanding business centered on seasonings in Asia, North and South America and Europe. Sales of food products for the fiscal year ended March 31, 2002 increased 2.3 percent, or ¥14.2 billion, to ¥636.2 billion. Successful efforts to increase overseas sales offset the effect of increasingly intense competition in the domestic market.

**Seasonings:** Sales of the retail seasoning line *Hon-Dashi* decreased even though the trend toward lower prices in this product sector slowed. The *Cook Do* line of liquid seasoning mixes performed well due to an enhanced lineup and a successful advertising campaign based on the concept of enjoying Chinese dishes at home. Sales increased in the commercial market, although sales of *AJI-NO-MOTO* and *Umami-Dashi Hi-Me* for restaurants were down year-on-year. Sales of savory seasonings to food processing companies decreased compared with the previous fiscal year.

Sales in Asia increased year-on-year. Sales of *AJI-NO-MOTO* and flavored and mixed seasonings for consumer and general restaurant use rose over the previous fiscal year, and sales of *AJI-NO-MOTO* to food processing companies increased as well.

Sales in the Americas and Europe increased year-on-year. Sales of *AJI-NO-MOTO* and flavored and mixed seasonings for consumer and general restaurant use increased in both North and South America. Sales of *AJI-NO-MOTO* to food processing companies also increased year-on-year, due in part to the depreciation of the yen. Overall sales in Europe increased, supported by higher sales of *AJI-NO-MOTO* for consumer and general restaurant use and for use by food processing companies.

**Edible Oils:** Retail sales of the *Kenko Sarara* oil series, which is approved as a Food for Specified Health Use, increased year-on-year, although overall sales of household and commercial oils decreased due to reduced prices. Sales of meal products grew as the depreciation of the yen led to rising market prices.

**Processed Foods:** Sales of soups increased, supported by product line renewals emphasizing basic value, the introduction of new products, and the launch of *Knorr Soup Pasta*. A “keep-fresh bottle” that helps to maintain product quality was introduced for major retail mayonnaise products, which boosted consumer confidence. Sales of *Kellogg’s* brand products were essentially unchanged year-on-year due to effective marketing to targeted demographic segments. Sales of frozen bread dough continued to increase.

**Frozen Foods:** Sales increased year-on-year due to steady growth in sales of *gyoza* Chinese meat dumplings and *Ebi Shumai* in the household market. New product launches including the *Kappu Ni Haitta Gohan Ga Susumu-kun* series also supported the gain in sales. Sales decreased in the commercial sector because of weakness in the restaurant market.

**Beverages and Dairy Products:** Sales rose year-on-year because of the solid performance of regular coffee products coupled with steady growth in sales of *Blendy* bottled coffee and other liquid coffee products. Sales of *CALPIS Cultured Milk AMEAL-S* increased due to health-oriented consumer demand, and *CALPIS Water* and *Evian* also performed well.

Sales of chilled dairy products increased year-on-year, supported by the strong performance of the *Fruit Selection* line and *Danone Yogurt*.

#### **Fine Chemicals**

Fine chemicals include the aminoscience business, pharmaceuticals and feed-use amino acids. Sales of fine chemicals increased 14.5 percent year-on-year, or ¥27.3 billion, to ¥215.7 billion.

In the domestic market, sales of pharmaceutical products increased substantially, supported by the solid performance of nateglinide (brand name: *FASTIC*), a hypoglycemic agent for the treatment of diabetes. In addition, sales of *LIVACT Granules*, a branched chain amino acid product for treating liver cirrhosis, continued to increase.

Overall domestic sales in the aminoscience business were favorable. Sales of pharmaceutical-use amino acids increased because of greater sales volume in the domestic market. Sales of pharmaceutical intermediates increased substantially due to growth in sales of antiviral applications. The amino acid-based sports supplement *Amino Vital* continued to generate strong sales growth, supported by aggressive promotion and frequent exposure in a variety of media. Overall sales of amino acid-based sweeteners decreased. Sales of *Pal Sweet* were strong in the domestic market, but overall aspartame sales declined. Sales of specialty chemicals grew as multilayer insulation film for use in the manufacture of computer equipment and liquid crystal displays continued to perform well.

Overseas sales expanded in Asia, the Americas and Europe. In Asia, a key factor in the growth was higher prices and expanded sales volume for feed-use amino acids.

In the Americas, prices and sales volume for feed-use amino acids increased. The depreciation of the yen supported increased sales of both feed-use amino acids and pharmaceutical-use amino acids. Sales of amino acid-based sweeteners also increased, supported by expansion in sales to major customers.

In Europe, sales prices for feed-use amino acids increased, and the depreciation of the yen contributed to higher sales as well. Sales of pharmaceutical-use amino acids rose due to increased sales volume and the depreciation of the yen. Sales of pharmaceutical intermediates expanded because of the strong performance of core product lines. Sales of amino acid-based sweeteners declined as increasingly intense competition put downward pressure on market prices.

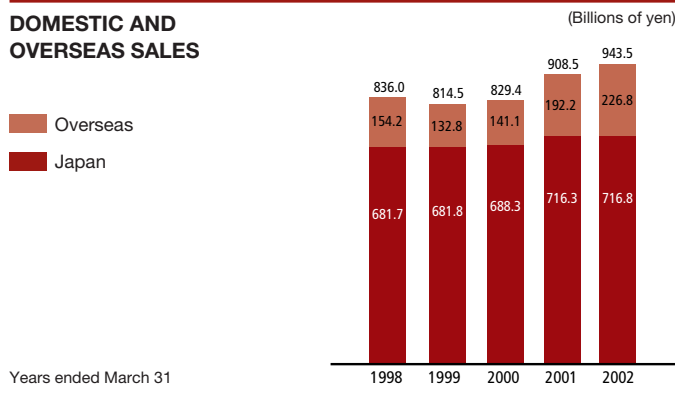
#### **Others**

Sales of other operations decreased by 6.6 percent year-on-year, or ¥6.5 billion, to ¥91.6 billion.

## Sales by Geographic Segment

Domestic sales increased marginally year-on-year to ¥716.8 billion. Sales increased 24.5 percent to ¥87.8 billion in Asia, 12.7 percent to ¥56.6 billion in the Americas, and 15.2 percent to ¥82.3 billion in Europe.

### DOMESTIC AND OVERSEAS SALES



Years ended March 31

## Cost of Sales and Selling, General and Administrative Expenses

Cost of sales increased 2.1 percent year-on-year, approximately half the rate of increase in net sales, to ¥680.0 billion, and improved to 72.1 percent of net sales from 73.3 percent of net sales for the previous fiscal year.

Selling, general and administrative (SG&A) expenses increased 4.7 percent year-on-year, or ¥9.7 billion, to ¥214.5 billion. Research and development expenses increased 2.8 percent to ¥27.0 billion.

### Costs, Expenses and Income as Percentages of Net Sales

Years ended March 31	2002	2001	2000
Cost of sales. . . . .	72.1% (-1.2)	73.3% (-0.7)	74.0%
Gross profit. . . . .	27.9 (+1.2)	26.7 (+0.7)	26.0
SG&A expenses. . . . .	22.7 (+0.2)	22.5 (+0.5)	22.0
Operating income. . . . .	5.2 (+1.0)	4.2 (+0.2)	4.0
Income before income taxes & minority interests. . . . .	6.2	—	4.1
Net income. . . . .	3.3	—	2.1

Note: Figures in parentheses represent change in percentage points from the previous year.

## Operating Income

Operating income for the year ended March 31, 2002 increased 29.7 percent year-on-year, or ¥11.2 billion, to ¥49.0 billion. Operating income represented 5.2 percent of net sales, compared to 4.2 percent for the previous fiscal year.

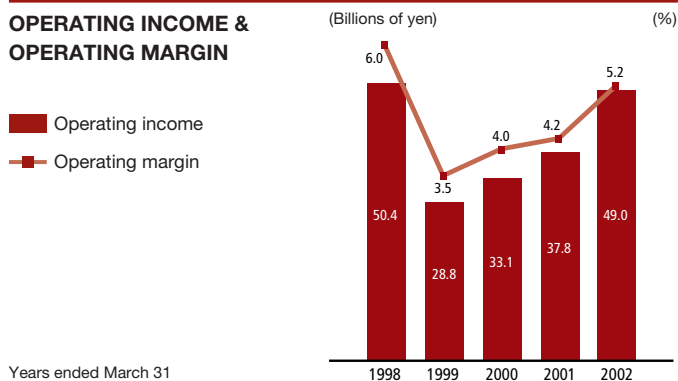
Operating income in the food products business decreased 9.1 percent, or ¥2.1 billion, to ¥21.5 billion. Domestic sales decreased, primarily because of lower sales of frozen foods, edible oils, seasonings and processed foods due to falling retail prices and the impact of BSE. The depreciation of the yen also affected the operating income of the domestic food products business. Sales of food products overseas increased, but operating income was

unable to compensate for the decrease in the profitability of the domestic food business due to factors including higher expenses in connection with brand building in Indonesia and start-up costs at Ajinomoto Frozen Foods U.S.A., Inc., which became a consolidated subsidiary during the fiscal year.

Operating income for the fine chemicals business increased 104.5 percent year-on-year, or ¥11.5 billion, to ¥22.5 billion. Operating income in Japan increased due to increased sales of pharmaceuticals, amino acids including *Amino Vital*, sweeteners and other high-value-added products such as specialty chemicals. Operating income from overseas operations also increased due to higher sales of feed-use amino acids and the absence of amortization expenses in connection with the consolidation of two sweetener companies in Europe in the previous fiscal year.

Operating income of other businesses increased 41.8 percent, or ¥1.4 billion, to ¥4.8 billion due to efficiency gains from consolidation of three distribution subsidiaries.

### OPERATING INCOME & OPERATING MARGIN



Years ended March 31

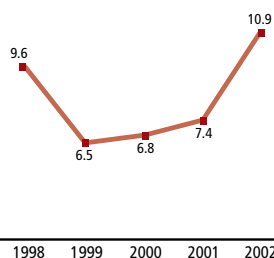
## Other Income (Expenses)

Other income, net totaled ¥9.4 billion, compared to other expenses, net of ¥50.8 billion for the previous fiscal year. Primary factors in the change were the absence of one-time charge incurred in the previous year in connection with the amortization of net retirement benefit obligations arising from the implementation in Japan of a new accounting standard. Interest and dividend income decreased 9.6 percent to ¥2.1 billion due to continued low interest rates in Japan, while interest expense decreased ¥0.7 billion to ¥4.7 billion. The interest coverage ratio, defined as the sum of operating income and interest and dividend income divided by interest expense, improved to 10.9 times from 7.4 times in the previous fiscal year.

During the fiscal year ended March 2002, Ajinomoto withdrew from the soy protein business and closed subsidiary Asahi Yushi Co., Ltd. Overall equity in earnings of affiliates decreased by approximately ¥0.9 billion.

## INTEREST COVERAGE RATIO

(Times)



Years ended March 31

## Net Income

As a result of the performance discussed above, income before income taxes and minority interests totaled ¥58.5 billion, compared to a loss of ¥13.0 billion for the previous fiscal year. Income taxes totaled ¥23.4 billion, compared to net deferred income taxes of ¥4.1 billion for the previous fiscal year. The effective tax rate was 40.0 percent. Minority interests increased ¥1.0 billion year-on-year to ¥3.7 billion. Net income totaled ¥31.4 billion, compared to a net loss of ¥11.5 billion for the previous fiscal year. Return on average total shareholders' equity was 8.5 percent, and net income per share of common stock was ¥48.4.

## Dividends

Ajinomoto considers appropriate returns to shareholders a primary management task. The Company structures its operating base to support continued growth, and considers overall profitability in determining an appropriate level of dividends that meet the demands of shareholders and investors. Based on these principles, cash dividends per share of common stock applicable to the fiscal year were set at ¥10.0, unchanged from the previous fiscal year.

## Liquidity and Financial Condition

### Cash Flows

Net cash provided by operating activities increased ¥20.4 billion over the previous fiscal year to ¥58.3 billion. Operating cash flow, defined as the sum of income before income taxes and minority interests and depreciation and amortization, increased to ¥95.7 billion from ¥25.6 billion for the previous fiscal year. Primary factors included the increase in income before income taxes and minority interests and efforts to limit increases in working capital.

Net cash used in investing activities increased to ¥36.8 billion from ¥23.4 billion for the previous fiscal year. Ajinomoto decreased the use of cash for purposes such as the acquisition of shares of affiliates, but generated substantially less cash through proceeds from sales of investments in securities and sales of property, plant and equipment.

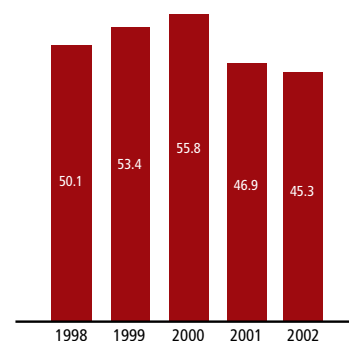
Acquisition of property, plant and equipment decreased to ¥45.8 billion from ¥46.3 billion for the previous fiscal year. Capital expenditures by the parent company and domestic subsidiaries decreased ¥7.3 billion year-on-year, while capital expenditures by

overseas subsidiaries increased ¥5.5 billion to ¥21.7 billion.

Principal investments included expansion in production capacity for feed-grade amino acids and nucleotides. Free cash flow increased to ¥21.5 billion from ¥14.6 billion for the previous fiscal year.

## CAPITAL EXPENDITURES

(Billions of yen)



Years ended March 31

Net cash used in financing activities increased ¥6.2 billion to ¥26.4 billion, reflecting increased short-term borrowings and repayment of bonds and long-term debt. Ajinomoto redeemed ¥10.0 billion in straight bonds in September 2001 using internal capital resources, and redeemed ¥18.3 billion in convertible bonds in March 2002 using capital procured through an issue of commercial paper.

As a result of the above, cash and cash equivalents at the end of the fiscal year decreased ¥2.8 billion from a year earlier to ¥56.6 billion.

## Cash Flow Highlights

(Millions of yen)

Years ended March 31	2002	2001	2000
Net cash provided by operating activities.....	¥ 58,306	¥ 37,955	¥ 72,130
Net cash used in investing activities.....	(36,812)	(23,360)	(29,219)
Net cash used in financing activities.....	(26,376)	(20,205)	(37,156)
Cash and cash equivalents at end of year .....	56,550	59,389	60,309

## Assets, Liabilities and Shareholders' Equity

As of March 31, 2002, total assets stood at ¥840.2 billion, an increase of ¥11.2 billion from a year earlier. Return on average total assets was 3.8 percent.

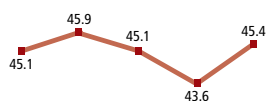
Current assets increased ¥13.6 billion from a year earlier to ¥357.4 billion. Notes and accounts receivable - trade increased ¥8.7 billion and inventories increased ¥7.6 billion as a result of the increase in net sales.

Investment securities included in investments and long-term advances decreased ¥22.4 billion from a year earlier. Property, plant and equipment, net increased ¥9.3 billion. Land, buildings and structures, and machinery and equipment all increased as a result of expansion in production capacity for feed-grade amino acids and nucleotides. Deferred tax assets increased ¥11.1 billion from March 31, 2001.

Current liabilities decreased ¥6.3 billion from a year earlier to ¥266.3 billion. Although short-term borrowings increased ¥6.6 billion and accrued expenses and other current liabilities increased ¥20.6 billion from a year earlier due mainly to an issue of commercial paper, the current portion of long-term debt decreased ¥34.0 billion from a year earlier to ¥8.9 billion. Working capital increased to ¥91.2 billion from ¥71.2 billion a year earlier, and the current ratio increased to 1.34 times from 1.26 times from a year earlier.

Long-term liabilities decreased ¥6.5 billion from a year earlier to ¥169.7 billion, primarily because of a ¥2.1 billion decrease in deferred tax liabilities and a reduction in long-term debt totaling ¥4.1 billion. Ajinomoto's long-term debt is rated AA- by Standard & Poor's Ratings Group and AA by Rating and Investment Information, Inc. (R&I).

## SHAREHOLDERS' EQUITY RATIO (%)

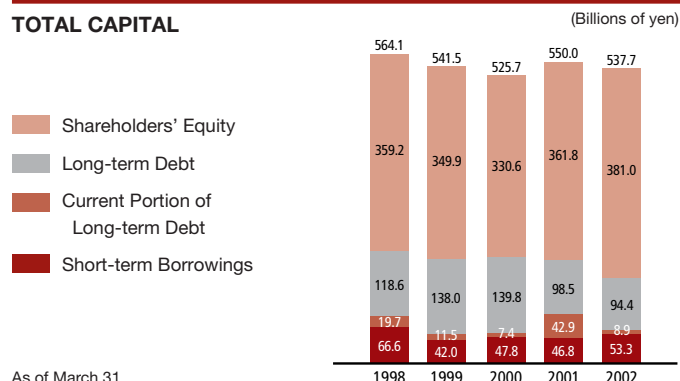


As of March 31

Shareholders' equity increased ¥19.2 billion from a year earlier to ¥381.0 billion. Retained earnings increased ¥24.3 billion and translation adjustments were ¥42.4 billion, compared with ¥49.3 billion for the previous fiscal year. Unrealized holding gains on securities, however, decreased ¥11.7 billion. Total capital, the sum of short-term borrowings, long-term debt including the current portion and shareholders' equity, was ¥537.7 billion, of which shareholders' equity accounted for 70.9 percent. Return on average total shareholders' equity was 8.5 percent compared to negative 3.3 percent for the previous fiscal year because

Ajinomoto generated net income for the fiscal year under review. The ratio of shareholders' equity to total assets was 45.4 percent, compared to 43.6 percent a year earlier.

## TOTAL CAPITAL



## Outlook for the Year Ending March 31, 2003

Economic conditions in Japan do not indicate that unemployment or personal income will improve, and the current harsh business environment is expected to continue.

Ajinomoto projects an increase in domestic sales of food products as we intend to introduce new products that meet consumer demand. In the domestic fine chemicals business, continued strong performance is projected for the amino acid-based sports supplement *Amino Vital*, driven by health consciousness among consumers. In pharmaceuticals, sales are projected to rise for Ajinomoto products for treating diabetes and osteoporosis. We expect greater maneuverability in implementing marketing strategies, with a particular focus on responding to the growth in the market for feed-use amino acids.

As a result, net sales are projected to increase 4.9 percent to ¥990.0 billion. Net income is projected to increase 1.8 percent to ¥32.0 billion.

Note: These forecasts are based on an exchange rate of ¥130 to US\$1.

As of March 31	Millions of yen (Percentage of total assets)		Thousands of U.S. dollars
	2002	2001	2002
Total assets .....	<b>¥840,152 (100.0%)</b>	¥828,945 (100.0%)	<b>\$6,316,932</b>
Notes and accounts receivable.....	<b>168,017 (20.0)</b>	157,416 (19.0)	<b>1,263,286</b>
Cash and cash equivalents .....	<b>56,550 (6.7)</b>	59,389 (7.2)	<b>425,188</b>
Inventories .....	<b>104,008 (12.4)</b>	96,449 (11.6)	<b>782,015</b>
Investments and long-term advances.....	<b>125,681 (15.0)</b>	144,953 (17.5)	<b>944,970</b>
Property, plant and equipment.....	<b>293,414 (34.9)</b>	284,156 (34.3)	<b>2,206,120</b>
Total liabilities.....	<b>435,973 (51.9)</b>	448,798 (54.1)	<b>3,277,992</b>
Notes and accounts payable .....	<b>106,529 (12.7)</b>	106,067 (12.8)	<b>800,970</b>
Short-term borrowings .....	<b>53,348 (6.3)</b>	46,755 (5.6)	<b>401,113</b>
Current portion of long-term debt.....	<b>8,925 (1.1)</b>	42,922 (5.2)	<b>67,105</b>
Accrued income taxes.....	<b>14,105 (1.7)</b>	14,066 (1.7)	<b>106,053</b>
Long-term debt .....	<b>94,435 (11.2)</b>	98,511 (11.9)	<b>710,038</b>
Shareholders' equity .....	<b>381,017 (45.4)</b>	361,771 (43.6)	<b>2,864,789</b>