

A Message from the President

“Konica’s constant drive to realize technological excellence and management efficiency means the Company is now well positioned to benefit from changes in global markets.”



Tomiji Uematsu
President and Chief Executive Officer

During fiscal 1999, ended March 31, 1999, the Japanese economy became further mired in a protracted slump characterized by weak consumer and business confidence. In addition to instability in the domestic financial system, Japanese industries had to contend with the economic downturn in Asia, a major destination for many export goods. Only the United States proved a source of strength for our business in the global economy.

New Demand Emerges amid the General Market Downturn

Amid these conditions, competition in the market for photographic and information imaging products and services intensified. The convergence of imaging and computer technologies, particularly in digital technologies,

continued to redefine the markets not only for copiers and other business products but also cameras and other consumer photographic products.

◆ Despite such difficult conditions, Konica Corporation posted consolidated net sales of ¥584.3 billion, down only ¥0.1 billion from the previous fiscal year. Sales in Japan fell 7.1%, to ¥328.6 billion, while overseas sales advanced 10.9%, to ¥255.8 billion, and accounted for 43.8% of consolidated net sales, up from 39.5% in fiscal 1998. While our products retained their popularity, higher marketing costs and the strengthening of the yen in the second half of the fiscal year resulted in operating income plummeting 42.2%, to ¥14.6 billion. Also, as a result of extraordinary losses incurred in restructuring our consumer imaging businesses in Japan and the United States, we posted a net loss of ¥3.2 billion.

◆ By segment, sales in Business Machines rose during

the fiscal year, supported by solid performances of high-speed network digital copiers/printers and other multifunctional office equipment. However, sales in the Photographic Materials and Photo-Related Industrial Equipment segment declined, owing to a dip in demand for color film, color paper, cameras, and other consumer products in Japan and elsewhere in Asia.

Bold Management Reforms Prepare Konica for Competition in the 21st Century

In October 1998, Konica took a big step forward with the launch of a new medium-term management plan for the 21st century. The objective of the plan is to strengthen Konica's international competitiveness by restructuring the Konica Group

based on the new paradigms emerging in today's global business environment.

◆ One of the main thrusts of the plan is to improve the operating flexibility and profitability of the Konica Group. This requires a structure in which lines of responsibility are clearly defined and decision-making powers are transferred to the point of decision implementation. We have been taking a more aggressive approach in reorganizing unprofitable business units and subsidiaries and plan to drastically change our fixed investments in declining market segments.

◆ Another aim is to raise the speed and accuracy with which information is transferred from the marketplace to product planning sections. Specifically, we will undertake organizational reform to improve coordination between marketing and R&D sections and ensure that decisions at all levels reinforce our market development strategies.

◆ In recent years, the proliferation of minilabs in Japan and the United States has spurred severe price competition in the photofinishing industry. To improve the cost-competitiveness of our photofinishing operations in the United States, in March this year we transferred the majority of the operations of Konica Photo Service U.S.A., Inc., to Konica U.S.A., Inc., establishing a new subsidiary, Konica Photo Imaging, Inc., to pursue new strategies in this field with an emphasis on the minilab market. In Japan, in October 1998 we integrated most of our photofinishing operations into a newly established subsidiary, Konica Color Imaging Corporation. The new subsidiary is concentrating on strengthening our photofinishing network throughout Japan and aims to prepare for emerging digital

services. As a result of these aggressive restructuring activities, we incurred losses that were written off during the year under review.

The Innovative Application of Original Technologies Creates Images for a New Era

By integrating expertise in such fields as photography, fine chemicals, and optoelectronics, we have created products and services that enable people to capture the full potential of network-related and other digital technologies. Our desire to innovate has seen us set performance standards in many product categories.

◆ We command one of the largest shares of the global market for high-speed digital copiers, and our latest offering, the Konica 7065, has set new standards for image quality and functionality.

◆ In the pre-press field, the Konica Konsensus series is widely considered synonymous with dependably precise color proofing, while in the photofinishing field the Konica Digital Minilab QD-21 System features the industry's fastest processing speeds. Konica is in the vanguard of digital imaging in the field of medical diagnostics, while its high-performance pick-up lenses for optical disk drives are supporting the development of next-generation multimedia equipment.

◆ We have also used digital technologies to increase the enjoyment of photography. The information and services we provide over the Internet are steadily growing in popularity. We aim to use digital technologies to pioneer new

amusements for both photography enthusiasts and professionals alike.

We Are Taking a Global Perspective in Strengthening Consolidated Management

The operating environment is expected to remain extremely harsh in fiscal 2000.

◆ Recent changes in Japanese accounting standards have turned attention toward consolidated performance. In response to these regulatory changes, we began implementing an internal company system from July 1999. This move will promote operating flexibility by clarifying lines of responsibility and increasing the autonomy of business divisions. Head office operations will be rationalized, with an emphasis on strengthening strategic development capabilities. In addition, we aim to develop and incorporate new businesses into our consolidated Group structure.

◆ In the year ahead, we will continue to stress the themes of enjoyment and value in developing innovative consumer and industrial products. We will also maintain a global perspective in planning resource allocation and setting management standards.

◆ We thank our shareholders for their continuing support and look forward to strengthening our partnership in fiscal 2000.

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Tomiji Uematsu
President and
Chief Executive Officer