

Review of Operations

PHOTOGRAPHIC MATERIALS AND PHOTO-RELATED INDUSTRIAL EQUIPMENT

Overall sales in this segment declined 4.9% in fiscal 1999, to ¥336.6 billion.

Photographic Film, Paper, and Photofinishing Equipment

In fiscal 1999, Konica moved ahead with sweeping plans to strengthen its domestic marketing structure for consumer photographic materials. The Company revamped its nationwide network of photofinishing laboratories, establishing a new subsidiary, Konica Color Imaging Corporation, to meet the growing demand for digital processing services and expand the range of services offered in this field. Operations at Konica Color Photo Equipment Co., Ltd., a minilab maintenance service company, and Konica Marketing Corporation, a sales and marketing subsidiary established in April 1997, progressed smoothly during the year, enhancing the Company's ability to raise customer satisfaction.

◆ In January 1999, Konica began marketing its highly acclaimed Konica CENTURIA series of color film throughout the world in a new unified packaging design. This move is intended to reinforce the market image of one of Konica's mainstay color films. Domestic sales volumes of color film rose slightly during the year under review; however, depressed consumer spending led to a decline in shipments of single-use cameras. In addition, lower film processing prices prompted a decline in color paper sales and, consequently, total domestic sales of film and color paper fell below the previous fiscal year's level. There were, however, some bright performances, such as color paper for New Year's greeting cards, which posted surging sales during the fiscal year.

◆ Sales of single-use cameras grew steadily in North America and Europe. In contrast, the economic downturn in Asia resulted in a drop in sales in the region, dragging total overseas sales of film and color paper below the level recorded in fiscal 1998.

◆ The growing number of minilabs and the advance of digital processing technologies are having a profound effect on the photofinishing industry. In October 1998, Konica took a significant step toward establishing a lead over competitors in the field of digital processing with the introduction of the Konica

Digital Minilab QD-21 System. This strategic product is the fastest in the photofinishing field and is able to produce digital prints in diverse formats. Under its new organizational structures in Japan and overseas, Konica aims to reinforce and expand its position in the photofinishing market.

Medical Imaging Products

The market for medical imaging products was adversely affected by the third consecutive year of downward revisions to national health insurance drug reimbursement prices. Nevertheless, Konica recorded sales gains in this product category, thanks to the strong performance of its Konica Dry Laser imagers. Higher unit sales were accompanied by a sharp increase in sales of laser imaging film.

◆ Looking ahead, Konica is striving to meet next-generation diagnostic needs in such ways as expanding its lineup of REGIUS digital imaging equipment.

Graphic Imaging and Industrial Equipment

The combination of weak demand in the publishing industry and inventory adjustments by equipment makers resulted in sales of pre-press equipment declining during the year under review. Konica reorganized its operations in this area by transferring its domestic pre-sensitized plate business to Mitsubishi Chemical Corp. in April 1999.

◆ Konica will focus its business in the pre-press equipment market around its Konsensus color-proofing systems, which have an outstanding reputation for dependable, efficient color proofing. In fiscal 1999, Konica announced the development of the Digital Konsensus, a product that the Company hopes will quickly boost its presence in the digital color-proofing market.

BUSINESS MACHINES, CAMERAS, AND OPTICAL PRODUCTS

Sales in the Business Machines segment climbed 7.6%, to ¥247.7 billion.

Copiers and Facsimile Machines

Competition in the market for copiers reached new heights, as makers responded to customer needs by releasing new high-speed digital copier/printer machines ideal for raising productivity in a networked office environment. To distinguish itself in this rapidly changing market, Konica has adopted a new brand name, SITIOS (System Integrated Task Input/Output System), for its copiers in Japan. Events were held throughout Japan to launch the new brand name. Also, the Company reorganized its market promotion and technical support functions in a new customer support center, thereby improving its ability to offer fast and responsive customer services.

◆ Konica began the full-scale marketing of its high-speed Konica 7060 and Konica 7150 integrated printer/copier systems, which serve as seamless interfaces for various document production functions. The Company's digital copier lineup was also strengthened by the release of the Konica 7040/7104 and the Konica 7033/7133.

◆ During the year under review, Konica branched out from its OEM full-color laser printer business to release a model under its own brand name, the Konica KL-3015.

◆ The Konica 7060 and Konica 7150 were nominated as the editor's choice of copiers for 1998 in the U.S. magazine *Better Buys for Business*, illustrating the wide appeal of these systems.

◆ Enhancing its lineup of digital copier/printers will be the main focus of Konica's activities in this product category in fiscal 2000. The Company will work to improve productivity at manufacturing subsidiaries in its global network to reduce production costs and ensure the timely supply of products to customers in all regions.

Cameras and Optical Products

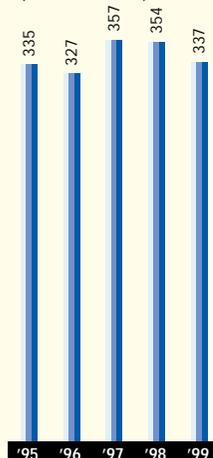
The Company's popular Konica Revio APS camera continued to sell well during fiscal 1999, with its sleek design and

convenient functions finding popularity among people in a broad age bracket. Sales of the Konica Z-up 140LX and the Konica Z-up 110EX, which has a 3X zoom lens, were strong in Europe and the United States.

◆ Sales of heavy-duty cameras in the Konica Genba Kantoku series rose steadily in Japan during the year under review, with a new digital still model contributing to this growth. The Konica Q-M100V, which has a resolution of more than one million pixels, performed well in the market for megapixel digital still cameras. Konica released a model with more than two million pixels, the Konica Q-M200, in June 1999.

◆ Demand from optical disk drive and audio equipment makers for aspherical plastic pick-up lenses increased during the fiscal year. Konica continued to enjoy a steady increase in shipments of pick-up lenses. The Company will maintain its policy of aggressive R&D to develop revolutionary products that meet customer expectations.

Photographic Materials
(Billions of Yen)



Business Machines
(Billions of Yen)

