



**ANNUAL
REPORT
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Profile

From its origins dealing in photographic supplies more than 125 years ago, Konica Corporation has grown into a leading company in the global photographic and information imaging industries and is recognized for the excellence and innovativeness of its products. ◆ Emphasizing a “customer-first”



policy, Konica aims to synthesize advanced technologies in developing environmentally sound products that accurately answer diverse customer needs. The Company’s product range includes photo-



graphic film and paper, photo-related industrial equipment, business machines, cameras, optical products, digital still cameras, and magnetic products. ◆ Konica has reformed

its organization to create an internal company system that delineates spheres of management responsibility and facilitates faster decision making. This system strengthens the Company’s competitiveness in a fast-paced operating environment.

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Konica Color CENTURIA Series

Uniform packaging makes the CENTURIA series of color film—which includes ISO 100, 200, 400, and 800—easily recognizable throughout the world.



Torikkiri Konica Mini Goody

The Torikkiri Konica Mini Goody is a single-use camera in pursuit of superior image quality in flash photography. The camera's ISO 800 color film produces high-quality prints, and its camera parts are designed to be reused and recycled.



New Product Highlights

Konica Digital Minilab QD-21 System

The Konica Digital Minilab QD-21 System offers the industry's fastest processing speeds for diverse digital print formats. The system is able to accept data directly from digital cameras and process data stored on floppy disks, CD ROMs, and other digital storage media.



Konica 7065

The Konica 7065 high-speed network digital copier/printer is capable of producing 65 copies a minute. Konica has upgraded multiprotocol network and document-finishing functions found in earlier models to create an integrated document workstation that further enhances office productivity.



Konica Digital Still Camera Q-M200

The Konica Digital Still Camera Q-M200 incorporates a high-resolution 2.11 million pixel primary color filter CCD to produce images of amazing vividness. The camera's quality is also enhanced by a Hexanon lens, which is known for its superb resolution.



Konica Digital Konsensus

The Konica Digital Konsensus breaks new ground in simplifying the color-proofing process. Having a high resolution of 2400 dpi, the Konsensus produces full-color hard copies that make proofing and color changes easy.



Konica Direct Digitizer REGIUS Model 150

The Konica Direct Digitizer REGIUS Model 150 facilitates the efficient storage and manipulation of image data for medical diagnostic purposes. Konica continues to apply photographic and digital technologies to meet sophisticated medical diagnostic needs.



Konica Revio Z3

The Konica Revio Z3 is the world's smallest APS camera with a 3X zoom lens. A sleek design and such features as an energy-efficient eco-flash have made the Revio Z3 a popular choice, particularly for young consumers.



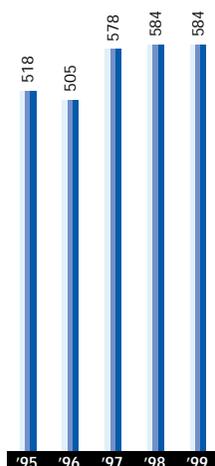
Financial Highlights

KONICA CORPORATION AND CONSOLIDATED SUBSIDIARIES
For the fiscal years ended March 31, 1999 and 1998

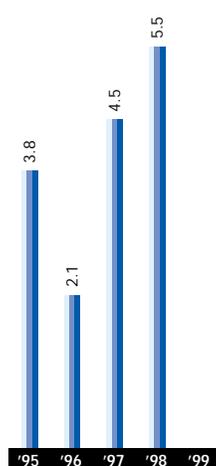
	Millions of yen		Thousands of U.S. dollars (Note)
	1999	1998	1999
For the Year:			
Net sales	¥584,342	¥584,402	\$4,789,689
Operating income	14,575	25,211	119,467
Net (loss) income	(3,166)	5,501	(25,951)
Per Share of Common Stock (Yen and U.S. Dollars):			
Net (loss) income	¥ (8.9)	¥ 15.4	\$ (0.07)
Cash dividends applicable to earnings of the year.....	10.0	10.0	0.08
At Year-End:			
Total assets.....	¥589,201	¥629,063	\$4,829,516
Shareholders' equity.....	158,742	167,145	1,301,164

Note: U.S. dollar amounts above and elsewhere in this report are translated from yen, for convenience only, at the rate of ¥122=US\$1, the approximate exchange rate prevailing at June 28, 1999.

Net Sales
(Billions of Yen)

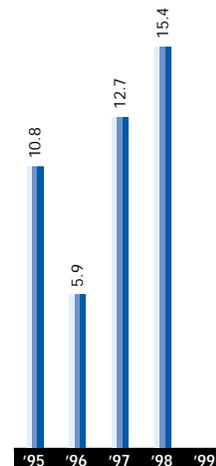


Net Income
(Billions of Yen)



Note: Net Income for 1999 was -¥3.2 billion.

Net Income per Share
(Yen)



Note: Net Income per Share for 1999 was -¥8.9.

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.

August 1999



Tomiji Uematsu
President and
Chief Executive Officer



Meeting Tomorrow's Needs Today

Konica is raising the quality of life around the world through its innovative application of unique photographic-related technologies. Promoting transformation in the digital era and preserving the global environment are high priorities for Konica in the 21st century.

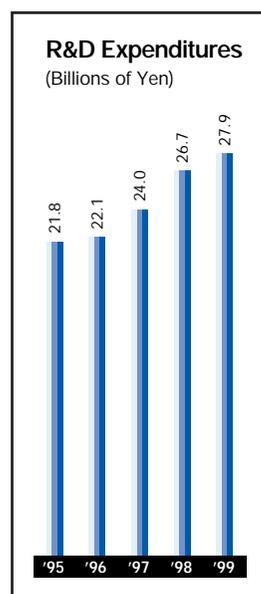
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To effectively respond to rising demand in the field of digital photography, we have begun offering new types of services, such as the Konica Internet Picture Box service, which converts ordinary silver halide photographs into digital formats suitable for posting on the Internet. We are also adapting our photofinishing operations to accommodate the greater demand for digital processing services and extend the range of our imaging services. To advance our strategies in this area, in 1998 we established Konica Color Imaging Corporation. This subsidiary is cooperating closely with Konica Marketing Corporation, an information imaging marketing company, as part of the Konica Group's efforts to respond to demand in Japan for all types of products and services related to conventional as well as digital images.

◆ In the business field, Konica has taken a leading role in applying digital technologies to improve the convenience and productivity of office environments. The Konica 7050 high-speed digital copier became the best-selling copier in its category in the United States soon after its launch in 1995, and subsequent models have enabled us to sustain a leading share of the global market for high-speed digital copiers. Most recently, we have shown the future of high-productivity office equipment with the Konica 7065, a multiprotocol digital network copier/printer system that features a high-capacity electronic recirculating document handler (RDH) memory for digitally processing originals and an end-to-end finisher to generate completely prepared documents.

◆ In the pre-press field, we recently bolstered our Konica Konsensus series of color-proofing systems with the introduction of the Konica Digital Konsensus model. This next-generation system dramatically simplifies the color-proofing process. In the medical field, Konica has applied proprietary digital imaging technologies to improve the speed and quality of medical diagnoses. The Konica REGIUS series of direct digitizers converts X-ray images into digital data, and Konica Dry Laser imagers are environmentally sound products used to transfer images from such diagnostic equipment as CT and MRI units to film.



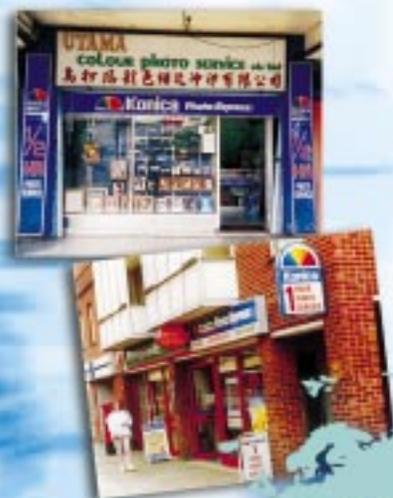
The world of digital photography has been broadened by the release of the Konica QD-21 minilabs.

Meeting Tomorrow's Needs Today

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We're in

Customer support services are provided through store networks in Japan and overseas.



Customer Satisfaction in the Global Market



Students at Konica's Youth Summit experience the joys of cultural exchange.

RESPONDING TO CUSTOMERS WORLDWIDE

SUPPORTING CULTURAL PROGRAMS



Konica Revio



Konica Color CENTURIA series in ISO 100, 200, 400, and 800



Konica 7060

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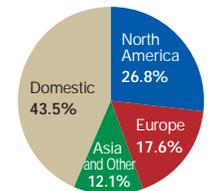
FOCUS.....

In line with its corporate vision, which is expressed by the phrase "Touching Your Heart," Konica aims to improve the quality of life for people around the world by drawing on the world's most advanced technologies to supply new kinds of imaging and information services.

◆ Responding to customer needs with optimal combinations of sophisticated analog and digital technologies, Konica has steadily improved its cameras and photographic films and papers while expeditiously introducing such new hit products as single-use cameras and digital still cameras. Such popular products as the Konica Revio, which was the world's smallest and lightest advanced photo system (APS) camera with a 2X power zoom lens at the time of its release in 1997, demonstrate the rewards we have gained from our desire to innovate. Also, in the fields of office automation, graphic imaging, and medical diagnostics, we are continually upgrading our products while giving top priority to the use of improved image information processing methods that are digital, dry, and environmentally sound.

◆ More than half of Konica's net sales are in overseas markets. We have steadily strengthened our network of manufacturing and marketing bases in North America, Europe, and Asia, with the ultimate goal of raising the quality of the services we provide in local markets. In addition, we hope that the expansion of our operations will contribute to the development of local communities in such ways as raising standards of manufacturing technologies and stimulating local businesses. Konica also sponsors cultural programs throughout the world. In 1999, Konica celebrated the 10th anniversary of the Konica Youth Summit, a student exchange program established to bring high-school students in communities surrounding Konica Manufacturing U.S.A., Inc., in North Carolina, to Japan. In Asia, Konica is a prominent sponsor of many sporting events, including judo and badminton tournaments. In Japan, the Konica Foundation provides financial support to researchers and research organizations and encourages promising young photographers.

Sales by Region
(%)



Konica supports a variety of sports in Japan and abroad.

Meeting Tomorrow's Needs Today

How to...



Since 1987, Konica has participated in activities to save the nearly extinct Japanese crane.



Fulfilling Our Mission of Improving the Environment



Konica's Environmental Symbol

Resolving Environmental Problems



Shock-absorbing packaging for the HEXAR



The Konica 7060 received the Blue Angel Mark and met ENERGY STAR Program levels in 1997.



KCI collects and recycles packaging waste generated in laboratories. This is a prime example of our aggressive efforts aimed at achieving a higher rate of recycling.

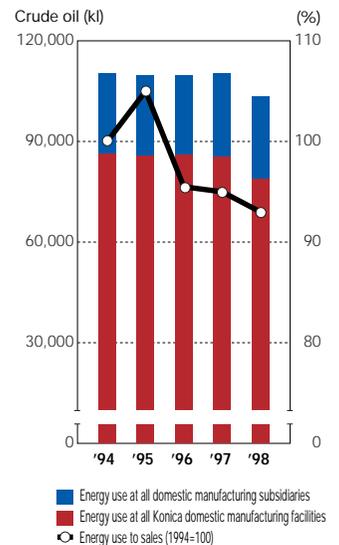


Konica publishes several booklets on environmental issues.

Preserving the global environment is a management priority at Konica. In our Konica Environmental Policy, established in 1990, we have expressed our intention to actively implement measures to reduce the impact of our operations on the environment and help create a cleaner and healthier planet.

- ◆ Konica has established various bodies within its organization to improve its ability to identify and resolve environmental problems. In Japan, Konica's Environment and Safety Department is responsible for planning environmental preservation measures, while in Europe and North America Environmental Protection centers have been established to promote regional activities based on our environmental policies. Konica joined the Japan Responsible Care Council upon the organization's foundation in 1995 and established the Konica Responsible Care Committee in the same year to oversee such activities.
- ◆ Konica has set an industry example in creating and maintaining clean and efficient manufacturing operations. We installed Japan's first private cogeneration power system at our Hino manufacturing facility in Tokyo, in 1987, and eliminated the use of ozone-depleting substances in cleaning processes in May 1993, well before the December 1995 deadline set in *The Montreal Protocol* in 1992. In fiscal 1999, we began full-scale "Green Purchasing" programs, thereby expanding the use of recycled materials. In addition, our Odawara manufacturing facility received an award from the Environment Agency in recognition of our ongoing efforts to prevent global warming.
- ◆ Since 1993, Konica has conducted environmental assessments on all its products. By focusing on environmental issues at the R&D stage, these assessments have helped make pioneering advances in several product categories. For example, in 1994 we introduced the Konica Nice Print System ECOJET series, the world's first minilabs to use environmentally sound tablet-form photofinishing chemicals, thereby reducing effluent and replenisher requirements. In 1997, we established our Life Cycle Assessment (LCA) Committee, which is conducting LCA programs that provide quantitative analyses of the environmental impact of products throughout their entire life cycles. We are continuing to develop quantitative standards to gain even more accurate analyses of the environmental impact of products.
- ◆ Konica is continuing to improve environmental management systems throughout its global network. By the end of fiscal 1999, all four of Konica's domestic manufacturing sites had obtained ISO 14001 certification. Overseas, the Company's U.S.-based photographic paper manufacturer, Konica Manufacturing U.S.A., Inc., received ISO 14001 certification in fiscal 1999, and all other manufacturing bases in Konica's global network are working to receive ISO 14001 certification.

Energy Consumption



Konica has obtained ISO 14001 certification at all four of its domestic manufacturing sites.

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

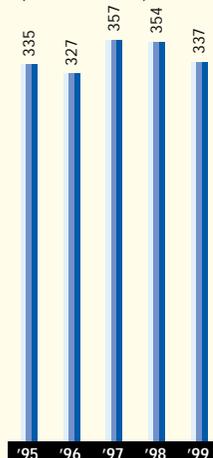
The Company's popular Konica Revio APS camera continued to sell well during fiscal 1999, with its sleek design and

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.

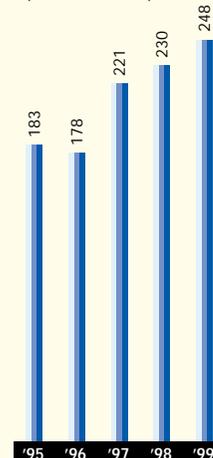
◆ Sales of heavy-duty cameras in the Konica Genba Kantoku series rose steadily in Japan during the year under review, with a new digital still model contributing to this growth. The Konica Q-M100V, which has a resolution of more than one million pixels, performed well in the market for megapixel digital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



Financial Review

(Consolidated Financial Statements)

OPERATING ENVIRONMENT

In fiscal 1999, ended March 31, 1999, weak consumer spending and private-sector capital investment prevented the Japanese economy from moving any closer to recovery.

◆ Overseas, while demand for Konica's mainstay products in the United States and Europe was solid, the economic downturn in Asia continued to have a serious effect on sales in certain product segments.

SALES

Consolidated net sales amounted to ¥584.3 billion (US\$4,790 million), down ¥0.1 billion from the previous fiscal year. By segment, Photographic Materials and Photo-Related Industrial Equipment declined 4.9% in fiscal 1999, to ¥336.6 billion (US\$2,759 million), with the stagnant economies in Japan and elsewhere in Asia hampering sales of consumer products. Sales in the Business Machines segment climbed 7.6%, to ¥247.7 billion (US\$2,030 million), with a strong performance by digital copiers and other office equipment supporting revenue growth.

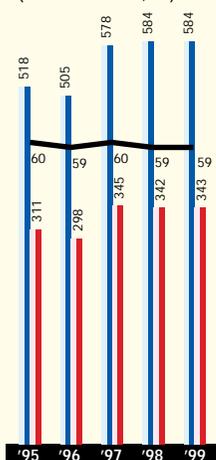
◆ By geographic region, domestic sales declined 7.1%, to ¥328.6 billion (US\$2,693 million), while overseas sales increased 10.9% billion, to ¥255.8 billion (US\$2,096 million). As a percentage of net sales, overseas sales rose from 39.5% to 43.8%.

◆ Export sales increased 3.0%, to ¥330.1 billion (US\$2,706 million), and export sales as a percentage of net sales edged up from 54.9% to 56.5%.

INCOME

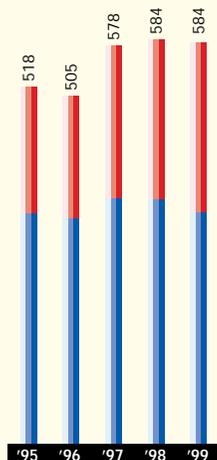
Gross profit declined ¥0.2 billion, or 0.1%, to ¥241.8 billion (US\$1,982 million), and the gross profit ratio was 41.4%, the same as in the previous fiscal year. This reflects the success of measures to raise profit margins, in particular cost reduction measures. Selling, general and administrative (SG&A) expenses increased ¥10.5 billion, or 4.8%, to ¥227.2 billion (US\$1,862 million), due mainly to costs associated with sales and market network rationalization activities and a sharp increase in the value of the yen in the second half of the fiscal year. As a percentage of net sales, SG&A expenses rose 1.8 percentage points, to

Net Sales, Cost of Sales, and Cost of Sales Ratio
(Billions of Yen, %)



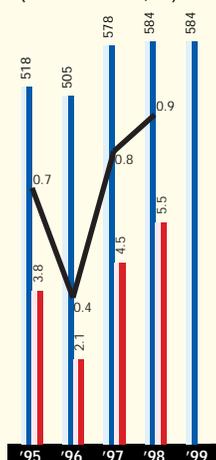
■ Net Sales
■ Cost of Sales
— Cost of Sales Ratio (%)

Net Sales by Product Segment
(Billions of Yen)



■ Business Machines
■ Photographic Materials

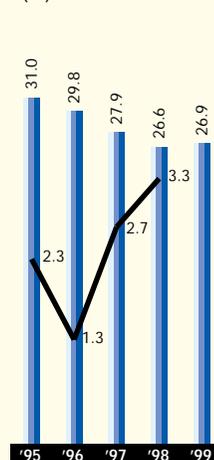
Net Sales, Net Income, and Return on Sales
(Billions of Yen, %)



■ Net Sales
■ Net Income
— Return on Sales (ROS) (%)

Note: Net Income and ROS for 1999 were ¥3.2 billion and -0.5%, respectively.

Shareholders' Equity Ratio and Return on Equity
(%)



■ Shareholders' Equity Ratio (%)
— Return on Equity (ROE) (%)
Note: ROE for 1999 was -1.9%.

38.9%. As a result, operating income fell ¥10.6 billion, or 42.2%, to ¥14.6 billion (US\$119 million).

◆ Other expenses totaled ¥25.4 billion (US\$209 million), compared with ¥9.2 billion in the previous fiscal year. The high costs associated with business restructuring activities were the primary reason for this downturn. Consequently, Konica recorded a net loss of ¥3.2 billion (US\$26 million).

FINANCIAL POSITION

At March 31, 1999, total current assets stood at ¥349.2 billion (US\$2,863 million), down ¥43.6 billion, or 11.1%, from the previous fiscal year-end. This decline was due mainly to falls in trade receivables of ¥10.0 billion and inventories of ¥20.3 billion, reflecting lower sales activity and efforts to reduce inventory levels.

◆ Net property, plant and equipment increased ¥1.7 billion, or 1.0%, to ¥161.5 billion (US\$1,324 million), while investments and other assets advanced ¥8.1 billion, or 12.7%, to ¥71.5 billion (US\$586 million).

◆ Total current liabilities fell ¥42.9 billion, or 13.2%, to ¥281.4 billion (US\$2,306 million), primarily as a result of a ¥41.5 billion fall in trade payables, which declined amid the slack economic environment, and an ¥8.8 billion decline in short-term loans. Consequently, the current ratio increased from 1.21 to 1.24.

◆ Long-term liabilities increased ¥20.2 billion, or 18.4%, to ¥130.0 billion (US\$1,065 million).

◆ Total shareholders' equity fell ¥8.4 billion, to ¥158.7 billion (US\$1,301 million), mainly as a result of the use of monies in the legal reserve. The shareholders' equity ratio increased from 26.6% to 26.9%.

Six-Year Summary

KONICA CORPORATION AND CONSOLIDATED SUBSIDIARIES
For the fiscal years ended March 31

	Millions of yen					
	1999	1998	1997	1996	1995	1994
For the Year:						
Net sales.....	¥584,342	¥584,402	¥578,081	¥505,349	¥517,601	¥492,947
Operating income.....	14,575	25,211	26,165	19,075	18,453	12,185
(Loss) income before provision for income taxes.....	(10,872)	15,984	16,205	9,530	8,214	5,007
Net (loss) income.....	(3,166)	5,501	4,541	2,119	3,843	4,214
At Year-End:						
Total assets.....	¥589,201	¥629,063	¥592,997	¥552,009	¥544,740	¥531,570
Total shareholders' equity.....	158,742	167,145	165,269	164,304	168,958	172,459
Interest-bearing debt.....	247,882	234,292	213,314	191,279	169,569	176,269
Per Share of Common Stock (Yen):						
Net (loss) income.....	¥ (8.9)	¥ 15.4	¥ 12.7	¥ 5.9	¥ 10.8	¥ 11.8
Cash dividends applicable to earnings of the year.....	10.0	10.0	10.0	10.0	10.0	10.0

Consolidated Balance Sheets

KONICA CORPORATION AND CONSOLIDATED SUBSIDIARIES
March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1999	1998	1999
ASSETS			
Current Assets:			
Cash and cash equivalents.....	¥ 40,053	¥ 42,815	\$ 328,303
Marketable securities (Note 3)	28,939	36,661	237,205
Trade receivables (Note 4):			
Notes.....	27,069	31,225	221,877
Accounts.....	125,257	130,175	1,026,697
Less: Allowance for doubtful receivables	(7,599)	(6,705)	(62,287)
Inventories:			
Finished goods	76,929	86,648	630,566
Work in process and raw materials	42,899	53,436	351,631
Deferred income taxes (Note 7)	5,688	7,788	46,623
Other current assets	10,005	10,813	82,008
Total current assets	349,240	392,856	2,862,623
Investments and Other Assets:			
Investment securities (Note 3)	15,180	15,147	124,426
Investments in and loans to unconsolidated subsidiaries and affiliates (Note 4)	3,647	8,798	29,894
Long-term loans.....	3,346	3,111	27,426
Deferred income taxes (Note 7)	21,036	—	172,426
Other assets.....	28,249	36,346	231,549
	71,458	63,402	585,721
Property, Plant and Equipment, at Cost (Note 6):			
Land.....	20,579	19,887	168,680
Buildings and structures	109,834	103,386	900,279
Machinery and equipment	290,258	285,123	2,379,164
Construction in progress	5,003	10,642	41,008
	425,674	419,038	3,489,131
Less: Accumulated depreciation	(264,140)	(259,165)	(2,165,082)
	161,534	159,873	1,324,049
Costs in Excess of Net Assets Acquired	—	72	—
Adjustments on Foreign Currency Statement Translation	6,969	12,860	57,123
	¥589,201	¥629,063	\$4,829,516

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1999	1998	1999
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term loans (Note 5)	¥122,212	¥131,023	\$1,001,738
Current portion of long-term debt (Note 6)	26,901	24,260	220,500
Trade payables (Note 4):			
Notes	38,861	48,269	318,533
Accounts	57,273	89,361	469,451
Accrued expenses	23,276	21,518	190,787
Accrued income taxes (Note 7)	1,831	5,623	15,008
Other current liabilities	11,009	4,183	90,237
Total current liabilities	281,363	324,237	2,306,254
Long-Term Liabilities:			
Long-term debt (Note 6)	98,769	79,009	809,582
Reserve for employees' retirement allowances	27,459	25,250	225,074
Other long-term liabilities	3,738	5,507	30,639
	129,966	109,766	1,065,295
Minority Interests	19,130	27,915	156,803
 Commitments and Contingent Liabilities (Note 9)			
 Shareholders' Equity (Note 8):			
Common stock, par value ¥50 per share:			
Authorized—800,000,000 shares			
Issued and outstanding—357,655,368 shares	37,519	37,519	307,533
Additional paid-in capital	79,343	79,343	650,352
Retained earnings	41,881	50,284	343,287
Less: Treasury common stock	(1)	(1)	(8)
	158,742	167,145	1,301,164
	¥589,201	¥629,063	\$4,829,516

Consolidated Statements of Income and Retained Earnings

KONICA CORPORATION AND CONSOLIDATED SUBSIDIARIES
For the fiscal years ended March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1999	1998	1999
Net Sales (Note 4)	¥584,342	¥584,402	\$4,789,689
Cost of Sales (Note 4)	342,543	342,453	2,807,730
Gross profit	241,799	241,949	1,981,959
Selling, General and Administrative Expenses	227,224	216,738	1,862,492
Operating income	14,575	25,211	119,467
Other Income (Expenses):			
Interest and dividend income	1,974	2,403	16,180
Interest expenses	(13,749)	(9,436)	(112,696)
Foreign currency gains, net	—	3,762	—
Restructuring costs	(10,057)	—	(82,434)
Other, net	(3,615)	(5,956)	(29,631)
	(25,447)	(9,227)	(208,581)
(Loss) income before provision for income taxes	(10,872)	15,984	(89,114)
Provision for Income Taxes (Note 7):			
Current	2,794	11,202	22,902
Deferred	(10,269)	(1,352)	(84,172)
	(7,475)	9,850	(61,270)
Minority Interests in Earnings of Consolidated Subsidiaries	2	(24)	16
Equity in Earnings of Unconsolidated Subsidiaries and Affiliates	229	(609)	1,877
Net (Loss) Income	(3,166)	5,501	(25,951)
Retained Earnings at Beginning of the Year	50,284	48,409	412,164
Cumulative effect on prior years of change in accounting for income taxes	4,998	—	40,967
Appropriations:			
Cash dividends	(3,576)	(3,576)	(29,311)
Bonuses to directors and corporate auditors	(50)	(50)	(410)
Decrease in retained earnings resulting from restructuring	(6,609)	—	(54,172)
	(5,237)	(3,626)	(42,926)
Retained Earnings at End of the Year	¥ 41,881	¥ 50,284	\$ 343,287

	Yen		U.S. dollars (Note 2)
Per Share of Common Stock:			
Net (loss) income	¥ (8.9)	¥ 15.4	\$ (0.07)
Cash dividends applicable to earnings of the year	10.0	10.0	0.08

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Cash Flows

KONICA CORPORATION AND CONSOLIDATED SUBSIDIARIES
For the fiscal years ended March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1999	1998	1999
Cash Flows from Operating Activities:			
Net (loss) income	¥ (3,166)	¥ 5,501	\$ (25,951)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	32,488	28,580	266,295
Allowance for doubtful receivables, net	1,376	1,043	11,279
Provision for retirement allowances	2,143	1,162	17,566
Equity in earnings of unconsolidated subsidiaries and affiliates	(229)	609	(1,877)
Deferred income taxes	2,098	(714)	17,197
Profit on sales or disposal of property, plant and equipment	1,349	1,396	11,057
Minority interests in earnings of consolidated subsidiaries	360	26	2,951
Decrease (increase) in trade receivables	5,621	(14,765)	46,074
Decrease (increase) in inventories	16,158	(13,615)	132,442
(Increase) decrease in other assets	(2,353)	381	(19,287)
(Decrease) increase in trade payables	(42,364)	17,094	(347,246)
Decrease in accrued expenses and income taxes	(1,687)	(6,467)	(13,828)
Other	5,109	(794)	41,877
Net cash provided by operating activities	16,903	19,437	138,549
Cash Flows from Investing Activities:			
Proceeds from sales of property, plant and equipment	12,073	4,391	98,959
Proceeds from sales of investments in securities	324	400	2,656
Acquisition of property, plant and equipment	(47,612)	(45,009)	(390,262)
Liquidation and sales (purchases) of investments in securities, unconsolidated subsidiaries and affiliates	3,806	(1,506)	31,197
Proceeds from loans to unconsolidated subsidiaries and affiliates	334	109	2,738
Decrease in marketable securities	7,267	5,301	59,565
(Increase) decrease in long-term loans receivable and other assets	(9,906)	1,023	(81,197)
Other	1,009	(100)	8,270
Net cash used in investing activities	(32,705)	(35,391)	(268,074)
Cash Flows from Financing Activities:			
Proceeds from long-term debt	29,432	10,017	241,246
Repayment of long-term debt	(2,780)	(16,371)	(22,787)
(Decrease) increase in short-term loans	(3,802)	27,332	(31,164)
Redemption of preferred stock	(6,782)	—	(55,590)
Dividends paid	(3,576)	(3,576)	(29,311)
Net cash provided by financing activities	12,492	17,402	102,394
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(527)	—	(4,320)
Net Increase in Cash and Cash Equivalents	(3,837)	1,448	(31,451)
Cash and Cash Equivalents at Beginning of the Year	42,815	41,367	350,943
Cash and Cash Equivalents of Newly Consolidated Subsidiaries	1,075	—	8,811
Cash and Cash Equivalents at End of the Year	¥40,053	¥42,815	\$328,303
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the year for:			
Interest	¥14,100	¥10,477	\$115,574
Income taxes	10,558	14,420	86,541

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Segment Information

KONICA CORPORATION AND CONSOLIDATED SUBSIDIARIES
For the fiscal years ended March 31, 1999 and 1998

BY PRODUCT

	Millions of yen				
	Photographic materials (Note 11)	Business machines (Note 11)	Total	Elimination & corporate	Consolidation
1999: Net sales					
Outside	¥336,643	¥247,699	¥584,342	¥ —	¥584,342
Intersegment	747	1,730	2,477	(2,477)	—
Total	337,390	249,429	586,819	(2,477)	584,342
Operating expenses	334,349	231,342	565,691	4,076	569,767
Operating income	¥ 3,041	¥ 18,087	¥ 21,128	¥ (6,553)	¥ 14,575
Assets	¥310,036	¥206,617	¥516,653	¥72,549	¥589,202
Depreciation	16,545	14,834	31,379	1,109	32,488
Capital expenditure	16,568	25,295	41,863	839	42,702

	Millions of yen				
	Photographic materials (Note 11)	Business machines (Note 11)	Total	Elimination & corporate	Consolidation
1998: Net sales					
Outside	¥354,102	¥230,300	¥584,402	¥ —	¥584,402
Intersegment	500	1,347	1,847	(1,847)	—
Total	354,602	231,647	586,249	(1,847)	584,402
Operating expenses	339,470	212,105	551,575	7,616	559,191
Operating income	¥ 15,132	¥ 19,542	¥ 34,674	¥ (9,463)	¥ 25,211
Assets	¥339,806	¥216,185	¥555,991	¥73,072	¥629,063
Depreciation	14,900	12,462	27,362	1,126	28,488
Capital expenditure	25,372	20,857	46,229	1,621	47,850

	Thousands of U.S. dollars (Note 2)				
	Photographic materials (Note 11)	Business machines (Note 11)	Total	Elimination & corporate	Consolidation
1999: Net sales					
Outside	\$2,759,369	\$2,030,320	\$4,789,689	\$ —	\$4,789,689
Intersegment	6,123	14,180	20,303	(20,303)	—
Total	2,765,492	2,044,500	4,809,992	(20,303)	4,789,689
Operating expenses	2,740,566	1,896,246	4,636,812	33,410	4,670,222
Operating income	\$ 24,926	\$ 148,254	\$ 173,180	\$ (53,713)	\$ 119,467
Assets	\$2,541,279	\$1,693,582	\$4,234,861	\$594,664	\$4,829,525
Depreciation	135,615	121,590	257,205	9,090	266,295
Capital expenditure	135,803	207,336	343,139	6,877	350,016

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

BY REGION

	Millions of yen						Consolidation
	Japan	North America	Europe	Asia and Other	Total	Elimination & corporate	
1999: Net sales							
Outside	¥328,570	¥150,377	¥86,006	¥19,389	¥584,342	¥ —	¥584,342
Intersegment	124,749	8,347	893	18,642	152,631	(152,631)	—
Total	453,319	158,724	86,899	38,031	736,973	(152,631)	584,342
Operating expenses.....	438,414	155,402	86,421	38,061	718,298	(148,531)	569,767
Operating income	¥ 14,905	¥ 3,322	¥ 478	¥ (30)	¥ 18,675	¥ (4,100)	¥ 14,575
Assets	¥350,203	¥132,233	¥53,511	¥12,818	¥548,765	¥ 40,436	¥589,201

	Millions of yen						Consolidation
	Japan	North America	Europe	Asia and Other	Total	Elimination & corporate	
1998: Net sales							
Outside	¥353,794	¥131,560	¥78,445	¥20,603	¥584,402	¥ —	¥584,402
Intersegment	113,118	8,931	811	19,829	142,689	(142,689)	—
Total	466,912	140,491	79,256	40,432	727,091	(142,689)	584,402
Operating expenses.....	446,970	137,410	77,716	40,434	702,530	(143,339)	559,191
Operating income	¥ 19,942	¥ 3,081	¥ 1,540	¥ (2)	¥ 24,561	¥ 650	¥ 25,211
Assets	¥374,585	¥145,158	¥50,786	¥13,865	¥584,394	¥ 44,669	¥629,063

	Thousands of U.S. dollars (Note 2)						Consolidation
	Japan	North America	Europe	Asia and Other	Total	Elimination & corporate	
1999: Net sales							
Outside	\$2,693,198	\$1,232,598	\$704,967	\$158,926	\$4,789,689	\$ —	\$4,789,689
Intersegment	1,022,532	68,418	7,320	152,803	1,251,073	(1,251,073)	—
Total	3,715,730	1,301,016	712,287	311,729	6,040,762	(1,251,073)	4,789,689
Operating expenses	3,593,557	1,273,787	708,369	311,975	5,887,688	(1,217,466)	4,670,222
Operating income.....	\$ 122,173	\$ 27,229	\$ 3,918	\$ (246)	\$ 153,074	\$ (33,607)	\$ 119,467
Assets.....	\$2,870,516	\$1,083,877	\$438,615	\$105,066	\$4,498,074	\$ 331,442	\$4,829,516

EXPORT SALES

	Millions of yen		Percentage of net sales
	Millions of yen	Thousands of U.S. dollars (Note 2)	
1999: Sales to			
North America	¥156,583	\$1,283,467	26.8%
Europe	103,010	844,344	17.6
Asia and Other	70,556	578,328	12.1

	Millions of yen
1998: Sales to	
North America	¥145,153
Europe	98,300
Asia and Other.....	77,218

Notes to Consolidated Financial Statements

KONICA CORPORATION AND CONSOLIDATED SUBSIDIARIES

1. Significant Accounting and Reporting Policies

(a) Basis of Presenting Financial Statements

The accompanying consolidated financial statements have been prepared from the accounts maintained by Konica Corporation (the "Company") and its consolidated subsidiaries in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

Certain items presented in the consolidated financial statements filed with the Ministry of Finance (the "MOF") in Japan have been reclassified for the convenience of readers outside Japan. In addition, the consolidated financial statements of cash flows are not required to be filed with the MOF, but have been prepared and included in the consolidated financial statements.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its significant subsidiaries.

Investments in unconsolidated subsidiaries and significant affiliates (20 per cent to 50 per cent owned) are accounted for by the equity method. Investments in insignificant affiliates are stated at cost.

Costs in excess of the net assets of purchased consolidated subsidiaries are amortized on a straight-line basis, principally over five years.

Intercompany balances, transactions and profits have been eliminated in consolidation.

(c) Translation of Foreign Currencies

Translation of Foreign Currency Transactions

Revenue and cost or expense items arising from the transactions of the Company denominated in foreign currencies are translated into Japanese yen at relevant exchange rates prevailing at the time of transactions ("historical rates").

Accounts receivable or payable denominated in foreign currencies (short-term monetary items) are translated into yen at the historical rates. Investments in securities and investments in and advances to subsidiaries and affiliates denominated in foreign currencies are also translated at the historical rates.

Translation of Foreign Currency Financial Statements

The translations of foreign currency financial statements of overseas consolidated subsidiaries and affiliates into Japanese yen are made by applying the exchange rates prevailing at the balance sheet dates for balance sheet items, except that the common stock and additional paid-in capital accounts are translated at the historical rates and the statements of income are translated at average exchange rates.

(d) Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include cash on hand and amounts due from banks.

(e) Marketable Securities and Investment Securities

Marketable securities and investment securities are stated at cost, which is determined by the moving average method.

(f) Inventories

Inventories are valued principally on an average-cost basis.

(g) Property, Plant and Equipment Depreciation

Depreciation of property, plant and equipment for the Company and domestic consolidated subsidiaries is computed using the declining balance method except for depreciation of buildings acquired after April 1, 1998, based on the estimated useful lives of assets which are prescribed by Japanese income tax laws.

Depreciation of buildings acquired after April 1, 1998, is computed using the straight-line method, based on the same estimated useful lives as above. Also, in fiscal 1999 the companies adopted useful lives of buildings (other than improvements) shorter than those used in previous fiscal years, pursuant to the amendments of the Japanese income tax laws. Its effect was immaterial. Depreciation of foreign subsidiaries is computed using the straight-line method.

Ordinary maintenance and repairs are charged to income as incurred. Major replacements and improvements are capitalized. When properties are retired or otherwise disposed of, the property and related accumulated depreciation accounts are relieved of the applicable amounts and any differences are charged or credited to income.

(h) Retirement Plans

Employees of the Company are, under normal circumstances, entitled to a lump-sum retirement payment based upon the length of service and current salary at the time of retirement.

The Company has funded pension plans with trust banks and insurance companies to cover a portion of retirement benefits payable to employees. It is the policy of the Company to provide for "Reserve for employees' retirement allowances" in an amount equivalent to the present value of the liability for such retirement benefits payable to all eligible employees upon their voluntary retirement at the balance sheet dates, less the accumulated balance of fund assets at such dates.

Under the plans, 50 per cent of the retirement benefits payable to employees retiring at their mandatory retirement age is paid out of the pension plans. The past service costs are being amortized over a period of 12 years and 6 months.

Another pension plan provides for a portion of the retirement benefits, the past service cost of which is being amortized over a period of 20 years.

Employees of consolidated domestic subsidiaries are generally covered by unfunded retirement benefit programs. Several of the domestic subsidiaries have funded pension plans to cover a portion of the retirement benefit payments.

(i) Income Taxes

In fiscal 1999, the Company and its domestic subsidiaries adopted the deferred tax accounting method, which requires the adjustment of previously deferred taxes using the liability method, where deferred tax assets and liabilities are recognized for temporary differences between the tax basis of assets and their reported amounts in the financial statements. In accordance with generally accepted accounting standards for deferred tax accounting in Japan, the Company reflected the cumulative effect of adopting deferred tax accounting at the beginning of fiscal 1999 with a charge to retained earnings. Prior years' financial statements were not reclassified to conform to 1999 presentation.

In fiscal 1998, income taxes of the Company and its domestic subsidiaries are provided for in an amount currently payable based on the tax returns filed with the tax authority and adjusted for tax effects of temporary differences arising from elimination entries reflected in the consolidation procedures, such as the elimination of unrealized intercompany profit and allowance for bad debts provided against intercompany accounts receivable eliminated in consolidation.

Certain consolidated overseas subsidiaries account for income taxes on the basis of interperiod allocation whereby tax effects on temporary differences between tax and financial reporting are recognized.

(j) Research and Development Expenses

Expenses for research and development activities are charged to income as incurred. Total amounts charged to income for the fiscal years ended March 31, 1999 and 1998 were ¥27,944 million (US\$229,049 thousand) and ¥26,666 million, respectively.

(k) Legal Reserve

Due to the amendment to the Consolidated Financial Statements Regulations, the presentations of the accounts in the consolidated financial statements have been changed for the fiscal year ended March 31, 1999.

"Legal Reserve," which was previously reported as a separate account within Shareholders' Equity, is included in "Retained Earnings." Accordingly, the beginning balance, the movements during the fiscal year, and the ending balance of the fiscal year of "Retained Earnings" include "Legal Reserve."

(l) Per Share Data

Net income per share of common stock has been computed based on the weighted average number of shares outstanding during the year.

Cash dividends per share shown for each year in the accompanying consolidated statements are dividends declared as applicable to the respective years.

2. United States Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥122=US\$1, the rate of exchange on June 28, 1999, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or

could be readily converted, realized or settled in U.S. dollars at this rate or any other rate.

3. Marketable Securities

The aggregate book values and market values of current and non-current marketable equity securities as of March 31, 1999 and 1998 are as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Book value:			
Current.....	¥16,723	¥17,868	\$137,074
Non-current.....	13,943	14,135	114,287
	¥30,666	¥32,003	\$251,361
Market value:			
Current.....	¥17,861	¥22,699	\$146,402
Non-current.....	26,358	26,683	216,049
	¥44,219	¥49,382	\$362,451

Gross unrealized gains and losses pertaining to marketable equity securities as of March 31, 1999 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	Gains	Losses	Gains	Losses
Current.....	¥ 6,241	¥5,103	\$ 51,156	\$41,828
Non-current.....	13,291	876	108,943	7,180

The net realized gains on marketable equity securities for the fiscal years ended March 31, 1999 and 1998 were ¥946 million (US\$7,754 thousand) and ¥33 million, respectively.

The net valuation loss on marketable equity securities for the fiscal years ended March 31, 1999 and 1998 were ¥269 million (US\$2,205 thousand) and ¥657 million, respectively.

4. Investments in and Loans to Unconsolidated Subsidiaries and Affiliates

Investments in and loans to unconsolidated subsidiaries and affiliates as of March 31, 1999 and 1998 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Investments.....	¥3,205	¥8,022	\$26,270
Loans.....	442	776	3,623
	¥3,647	¥8,798	\$29,893

The transactions of the Company and its consolidated subsidiaries with these unconsolidated subsidiaries and affiliates are as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Sales.....	¥18,256	¥25,857	\$149,639
Purchases.....	21,739	26,411	178,189

Transaction balances as of March 31, 1999 and 1998 are as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Trade receivables	¥6,019	¥11,167	\$49,336
Trade payables	6,104	8,214	50,033

5. Short-Term Loans

Short-term loans consist principally of bank borrowings. The average interest rates on these loans as of March 31, 1999 and 1998 were 4.2 per cent and 4.9 per cent per annum, respectively.

6. Long-Term Debt

Long-term debt as of March 31, 1999 and 1998 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
1.6% to 3.2% Japanese yen unsecured debentures, due 1999 to 2008	¥ 57,750	¥ 56,632	\$ 473,361
1.0% to 5.7% mortgage loans from banks, due 1999 to 2005	2,920	2,390	23,934
6.6% to 7.8% mortgage or secured loans from government-sponsored banks and agencies, due 1999 to 2001	941	1,571	7,713
0.6% to 8.7% unsecured loans from banks and government-sponsored banks and agencies, due 1999 to 2008	57,036	37,296	467,508
Obligations under capital leases, due 1999 to 2006	7,023	5,380	57,566
	125,670	103,269	1,030,082
Less: Current portion included in current liabilities	(26,901)	(24,260)	(220,500)
	¥ 98,769	¥ 79,009	\$ 809,582

At March 31, 1999, property, plant and equipment amounting to ¥5,695 million (US\$46,680 thousand) at net book value was pledged as collateral for long-term debt of ¥4,685 million (US\$38,402 thousand).

As is customary in Japan, long-term and short-term bank loans are made under general agreements which provide that additional security and guarantees for present and future indebtedness will be given at the request of the bank and that any collateral so furnished will be applicable to all indebtedness due to that bank. In addition, the agreements provide that the bank has the right to offset cash deposited against any long-term or short-term debt that becomes due and, in case of default and/or other specified events, against all other debt payable to the bank.

The aggregate annual maturities of long-term debt as of March 31, 1999 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
1999	¥ 26,902	\$ 220,508
2000	21,278	174,410
2001	22,091	181,074
2002	14,679	120,320
2003 and thereafter	40,720	333,770
	¥125,670	\$1,030,082

7. Income Taxes

The Company is subject to a number of different taxes in Japan, based on income, which in the aggregate indicate statutory tax rates of approximately 47.7 per cent and 51.4 per cent in 1999 and 1998, respectively. The following is a reconciliation between the statutory tax rate and the Company's effective tax rate:

	1999
Statutory tax rate	47.7%
Tax effect on loss of a consolidated subsidiary previously not recognized	122.7
Valuation allowance	(16.1)
Effect of tax rate change	(40.8)
Inventories, etc.	(35.5)
Other, net	(7.8)
Effective tax rate	70.2

The components of deferred tax assets in the amount of ¥5,688 million (US\$46,623 thousand) included in "Current Assets" and ¥21,036 million (US\$172,426 thousand) included in "Investments and Other Assets" as of March 31, 1999 are as follows:

	Millions of yen
Gross deferred tax assets:	
Tax effect on loss of a consolidated subsidiary previously not recognized	¥12,814
Tax loss carryforward	7,668
Temporary difference carrying from restructuring	1,886
Reserve for employees' retirement allowance	3,036
Inventories, etc.	3,827
Other, net	5,704
Subtotal	34,935
Valuation allowance	(6,413)
Deferred tax assets total	28,522
Gross deferred tax liabilities	
Deferral of taxes on profit of fixed assets	(1,798)
Net deferred tax assets	¥26,724

8. Shareholders' Equity

The Japanese Commercial Code provides that an amount equivalent to at least 10 per cent of cash distributions (cash dividends and bonuses to directors and corporate auditors) paid in a fiscal period

should be appropriated to a legal reserve until this reserve equals 25 per cent of stated capital. The legal reserve is not available for cash dividends but may be used to reduce a deficit by a shareholders' resolution or may be capitalized by a Board of Directors' resolution.

On June 29, 1999, the shareholders approved a cash dividend to be paid to shareholders on record as of March 31, 1999 totaling ¥1,788 million (US\$14,656 thousand), at the rate of ¥5.00 (US\$0.04) per share of common stock. The related appropriation of retained earnings to the legal reserve was made in the amount of ¥179 million (US\$1,467 thousand).

9. Commitments and Contingent Liabilities

The Company and its consolidated subsidiaries estimate that capital expenditures on fixed assets of approximately ¥30,837 million (US\$252,762 thousand) will be required during the fiscal year ending March 31, 2000.

The Company and its subsidiaries were contingently liable, as of March 31, 1999, for trade notes discounted with banks of ¥202 million (US\$1,656 thousand) and for loans guaranteed of ¥5,014 million (US\$41,098 thousand).

10. Lease Transactions

Information on the Company's and consolidated subsidiaries' finance lease transactions (except for those which are deemed to transfer the ownership of the leased assets to the lessee) and operating lease transactions are presented below.

Lessee

1. Finance leases

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Machinery & equipment	¥ 6,016	¥—	\$49,311
Tools & furniture.....	5,747	—	47,107
Others	422	—	3,459
	12,185	—	99,877
Less: Accumulated depreciation	(6,042)	—	(49,525)
Net book value.....	¥ 6,143	¥—	\$50,352
Depreciation.....	¥ 1,998	¥—	\$16,377

Depreciation is based on the straight-line method over the lease terms of the lease assets.

The scheduled maturities of future lease rental payments on such lease contracts as of March 31, 1999 and 1998 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Due within one year	¥1,844	¥1,845	\$15,115
Due over one year	4,299	2,945	35,238
	¥6,143	¥4,790	\$50,353
Lease rental expenses for the year.....	¥1,998	¥2,002	\$16,377

2. Operating leases

The scheduled maturities of future lease rental payments on such lease contracts as of March 31, 1999 and 1998 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Due within one year	¥ 6,565	¥ 6,007	\$ 53,811
Due over one year	22,400	24,203	183,607
	¥28,965	¥30,210	\$237,418
Lease rental expenses for the year	¥ 1,269	¥ 1,227	\$ 10,402

Lessor

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Leased tools & furniture:			
Purchase cost	¥1,880	¥—	\$15,410
Accumulated depreciation	(1,321)	—	(10,828)
Net book value.....	¥ 559	¥—	\$ 4,582

The scheduled maturities of future lease rental income on such lease contracts as of March 31, 1999 and 1998 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Due within one year	¥ 367	¥ 327	\$ 3,008
Due over one year	276	421	2,262
	¥ 643	¥ 748	\$ 5,270
Lease rental income for the year.....	¥1,269	¥1,227	\$10,402
Depreciation for the year	1,104	—	9,049

As a result of the amendment to the Consolidated Financial Statement Regulations, the disclosure of information regarding leased assets and finance lease contracts as a lessee/lessor has become mandatory effective from the year ended March 31, 1999.

11. Segment Information

Segment information is reported in accordance with the requirements of the MOF. The photographic materials segment includes photographic film, photographic paper, photofinishing equipment and chemicals, videotapes and others. The business machines segment includes plain-paper copiers, printers, facsimile machines, cameras, optical products and others.

Report of Independent Certified Public Accountants

KONICA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Coopers
& Lybrand

**Chuo
Audit
Corporation**

certified public accountants

Head office:
Kasumigaseki Building
32nd Floor
3-2-5 Kasumigaseki
Chiyoda-ku
Tokyo 100-6088

telephone:(03)3581-6281

To: The Board of Directors of
KONICA CORPORATION

We have audited the accompanying consolidated balance sheets of KONICA CORPORATION and its subsidiaries as of March 31, 1999 and 1998, and the related consolidated statements of income, retained earnings, and cash flows for the years then ended, all expressed in Japanese Yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of KONICA CORPORATION and its subsidiaries as of March 31, 1999 and 1998, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1 (a)) applied on a consistent basis.

The amounts expressed in U.S. Dollars, provided solely for the convenience of the reader, have been translated on the basis set forth in Note 2 to the accompanying consolidated financial statements.

Chuo Audit Corporation

Tokyo, Japan
June 29, 1999

Chuo Audit Corporation is a member of Coopers & Lybrand International, a limited liability association incorporated in Switzerland.

Board of Directors

As of August 1999

Chairman of the Board

Takanori Yoneyama

President and Chief Executive Officer

Tomiji Uematsu

Senior Managing Director

Fumio Iwai

Managing Directors

Shin-ichiro Okajima

Masaru Matsuzawa

Mamoru Komiya

Takeo Koitabashi

Kokichiro Samejima

Shigeru Suzuki

Advisory Director

Megumi Ide

Directors

Yukio Moritoh

Kunio Ito

Takamasa Shintani

Masaru Kanbe

Satoru Hohnishi

Masanori Ishiko

Shigeo Hibino

Senior Corporate Auditor

Hideo Kubota

Corporate Auditors

Masayuki Matsumoto

Toru Nagai

Yasutaro Kanzaki

Investor Information

As of August 1999

Konica Corporation

26-2, Nishi Shinjuku 1-chome,
Shinjuku-ku, Tokyo 163-0512, Japan

Phone: (03) 3349-5251

Fax: (03) 3349-8998

Year of Establishment

1873

Paid-in Capital (as of March 31, 1999)

¥37,519 million (US\$308 million)

Stock Exchange Listings

Tokyo, Osaka, Nagoya, Niigata, Frankfurt, Düsseldorf

Number of Shareholders (as of March 31, 1999)

32,352

Independent Auditor

Chuo Audit Corporation

Transfer Agent for Common Stock

The Toyo Trust and Banking Co., Ltd.,
4-3, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-0005, Japan

Products

Consumer Imaging Products:

Color photographic film and paper, black-and-white film and paper, photofinishing equipment and chemicals, videotapes, floppy disks, etc.

Cameras and Digital Imaging Products:

Compact 35mm cameras, digital still cameras, inkjet media, etc.

Business Equipment:

Plain-paper copiers, full-color copiers, facsimile machines, color laser printers, etc.

Medical Imaging Products:

Medical imaging film and automatic processors, laser imagers, imaging cameras, etc.

Graphic Imaging and Industrial Products:

Platemaking film, typesetting paper, color-proofing systems, image processing systems, etc.

Optical Technology Products:

Plastic lenses, MO disk drives, etc.

URL: <http://www.konica.co.jp>

The Konica Group

As of August 1999

DOMESTIC OPERATIONS

MARKETING & SERVICE

Konica Marketing Corporation
Konica Medical Inc.
Kyoritsu Medical Electric Co., Ltd.
Konica Color Photo Equipment Co., Ltd.
Konica Business Machines Japan Co., Ltd.
Nihon ID System Co., Ltd.
Konica Logistics Co., Ltd.
Konica Meditech Service Corporation
Konica Sogo Service Co., Ltd.
Konica Engineering Co., Ltd.
Konica Service Co., Ltd.
Konica Technosearch Corporation

MANUFACTURING

Yamanashi Konica Co., Ltd.
Kofu Konica Co., Ltd.
Konica Gelatin Corporation
Konica Packaging Corporation
Konica Chemical Corporation
Konica Supplies Manufacturing Co., Ltd.
Konica Denshi Co., Ltd.
Konica Repro Co., Ltd.
Shinwa Digital Industry Co., Ltd.
Konica System Equipment Co., Ltd.

PHOTOFINISHING

Konica Color Imaging Corporation
Asia Color Co., Ltd.
Konica Color Kansai Co., Ltd.

OVERSEAS OPERATIONS

NORTH AMERICA & CENTRAL AMERICA

***Konica Headquarters North America, Inc.**
725 Darlington Avenue, Mahwah, NJ 07430, U.S.A.

Konica Photo Imaging, Inc.
725 Darlington Avenue, Mahwah, NJ 07430, U.S.A.
Tel: 201-574-4000

Konica Medical Imaging, Inc.
411 Newark-Pompton Turnpike, Wayne, NJ 07470, U.S.A.
Tel: 973-633-1500

KS & M Corporation
8 Haul Road, Wayne, NJ 07470, U.S.A.
Tel: 800-631-0293

Konica Graphic Imaging International, Inc.
71 Charles Street, Glen Cove, NY 11542-2837, U.S.A.
Tel: 516-674-2500

Konica Business Technologies, Inc.
500 Day Hill Road, Windsor, CT 06095, U.S.A.
Tel: 860-683-2222

Digitec Office Products, Inc.
16125 East Gale Ave., City of Industry, CA 91745, U.S.A.
Tel: 818-336-6669

Albin Industries, Inc.
P.O. Box 346, Farmington, MI 48332, U.S.A.
Tel: 810-478-0005

Konica Office Products, Inc.
534 Broad Hollow Rd., Melville, NY 11747, U.S.A.
Tel: 516-753-1700

Konica Manufacturing U.S.A., Inc.
6900 Konica Drive, Whitsett, NC 27377, U.S.A.
Tel: 336-449-8000

Konica Supplies Manufacturing U.S.A., Inc.
Upper Chesapeake Corporate Center, 1000 Konica Drive,
Elkton, MD 21921, U.S.A.
Tel: 410-398-7371

Konica Computer Solutions, Inc.
7710 Kanamar Court, San Diego, CA 92121, U.S.A.
Tel: 858-549-2199

***Konica Technology, Inc.**
47265 Fremont Blvd., Fremont, CA 94538, U.S.A.
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725 Darlington Avenue, Mahwah, NJ 07430, U.S.A.
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Konica Business Technologies Canada Inc.
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Konica Business Technologies de Mexico S.A. de C.V.
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EUROPE

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Tel: 08102-8040

Konica Business Machines Deutschland GmbH

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Konica Business Machines Europe GmbH

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Konica Graphic Imaging Europe GmbH

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Konica Bureautique S.A.

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Tel: 1268-53-4444

Konica Peter Llewellyn Ltd.

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Tel: 1792-466136

Konica East Direct Ltd.

Unit 7, Acorn Way, Oaktree Industrial Estate,
Mansfield NG18 3HD, U.K.
Tel: 1623-422227

Konica Nederland B.V.

Lagedijk 18, P.O. Box 288, 3400 AG IJsselstein, The Netherlands
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***Konica Capital EC (Holland) B.V.**

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ASIA & OCEANIA

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Hong Kong, S.A.R., China
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Units 1606-08, Tower 2, Grand Central Plaza,
138 Shatin Rural Committee Road, Shatin,
N.T., Hong Kong, S.A.R., China
Tel: 2688-0077

Konica (Dalian) Co., Ltd.

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Dalian Economic and Technical Development Zone, Dalian, China
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Konica Asia Headquarters Pte. Ltd.

401 Commonwealth Drive #01-04,
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Konica Singapore Pte. Ltd.

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Konica Australia Pty. Ltd.

A.B.E. Rentals Pty. Ltd.

K.B.A. Properties Pty. Ltd.

Apcco of Australia Pty. Ltd.

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***Konica Photochem (Thailand) Co., Ltd.**

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****Konica Shanghai Office**

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Tel: 21-6247-2767

* Unconsolidated subsidiary

** Representative office

