

## A Message from the President



**Tomiji Uematsu**  
President and Chief Executive Officer

In fiscal 2000, ended March 31, 2000, Konica Corporation recorded consolidated net sales of ¥560.9 billion, down ¥23.4 billion from the previous fiscal year. The main reason for this decline was the appreciation of the yen against both the dollar and the euro, which had a ¥43.7 billion impact on sales results.

In contrast, improvements in management efficiency—achieved through the restructuring and rationalization of domestic and overseas sales networks—and expansion into new business fields led to a sharp turnaround in profits. Operating income leapt 127.3%, to ¥33.1 billion, and net income recovered, to ¥7.6 billion.

President Tomiji Uematsu discusses Konica's performance and outlines future plans.

## **Q WHAT IS YOUR OPINION OF KONICA'S BUSINESS RESULTS FOR FISCAL 2000?**

Looking at the year-on-year changes, fiscal 2000 was undoubtedly an excellent year for Konica. Decisive action in recent years has laid the foundation for recovery. The promotion of our new corporate identity, restructuring of domestic and overseas marketing networks, liquidation of unprofitable operations, and implementation of marketing campaigns in Russia and selected Asian countries have all contributed to this rebound, which has exceeded our expectations and confirmed that we are on the right course for continued growth.

The most pleasing aspect of the results was the strong performances of both consumer- and office-use digital products. Our high-speed digital copier/printers—in which we are building an unrivaled reputation for efficiency in networked offices—and the Konica Digital Minilab QD-21 Plus System, a digital minilab that is revolutionizing the photofinishing business, are two prominent examples. In addition, our optics technology business grew markedly during the fiscal year and is fast becoming one of our business pillars.

The digitization of images and image processing technologies is the most influential trend in our operating environment, and implementing appropriate responses is the central theme

of our business strategies. Digital products now account for approximately 30% of sales, and we want to raise this ratio to 70% by the end of our current management plan.

## **Q COULD YOU OUTLINE THE MAIN GOALS OF KONICA'S NEW MANAGEMENT PLAN, SAN 2003?**

Most importantly, we want to set in place the business infrastructure and management practices necessary to raise our corporate value. We will promote a shift from performance benchmarks based on past results and concentrate on forward-oriented indicators, such as investment evaluation measures and international industry standards.

We believe that SAN 2003—focusing on Speed, Alliance, and Network—is the key to realizing our 21st century vision of being a company that provides creative imaging solutions to a networked society.

Organizational reforms, centering on the implementation of an internal company system, will be made to speed our product development, decision-making, and customer response times. With operating speed in mind, we reduced the number of members of our Board of Directors and introduced an executive officer system in June 2000.

Alliances are a strategy that we will pursue to achieve our goal of developing best-in-field products and businesses. In April 2000, we formed a tie-up with Minolta Co., Ltd., that will focus on technological cooperation in the area of digital copiers and copier supplies. Improved cost efficiencies and strengthened R&D capabilities will significantly enhance our prospects in the strategic digital copier/printer market.

Inkjet printing products, electronics materials, and optics technology products are three business fields in which we plan to invest aggressively and build new business pillars. At the same time, in our existing core businesses we will promote the transition to products suitable for use in digitally networked environments.

Specifically, we intend to raise profitability by increasing sales of consumable input and output materials for digital equipment. We will also utilize our superior photographic and chemical technologies to expand our shares of the markets for copier supplies, inkjet ink and paper, and aspherical plastic lenses.

## Consolidated Results/Targets

March 31	Billions of yen	
	2000	2004
<b>Net Sales</b>	560.9	750.0
<b>Net Income</b>	7.6	20.0
<b>Free Cash Flow</b>	50.0 for 1 year	50.0 for 4 years
<b>Interest-Bearing Debt</b>	212.4	less than 200
<b>ROE (%)</b>	4.7	10.0

Increasing free cash flow remains a high priority under SAN 2003. In fiscal 2000, our consolidated free cash flow improved dramatically, to ¥50 billion. While creating more streamlined operations, we are also intent on securing fund resources to support aggressive investment in new production capacity and R&D. We have established six project teams to study various ways in which we can lower our consolidated interest-bearing debt, which we plan to reduce to ¥200.00 billion, from ¥212.4 billion, by the end of the current fiscal year.

At the completion of SAN 2003, in March 2004, we aim to have consolidated net income of ¥20 billion, a return on equity (ROE) of 10%, and a higher credit rating. Needless to say, these targets may be revised in light of the market's consensus of Konica's performance.

**Q KONICA INTRODUCED AN INTERNAL COMPANY SYSTEM IN JUNE 1999. HOW WILL YOU BENEFIT FROM THIS ORGANIZATIONAL CHANGE?**

In addition to increasing the speed of decision making, it will help facilitate the allocation of management resources to high-growth areas. To promote the principles of individual responsibility and market competition, management must have the freedom as well as the motivation to perform well. Establishing truly independent business units will help us to develop in step with the diverse markets in which we operate.

**Q WHAT IS KONICA DOING TO STRENGTHEN CONSOLIDATED MANAGEMENT?**

As I mentioned previously, requiring management to deliver management results that meet the approval of investors is the best way to improve shareholder value.

We have adopted an accounting system that will require each internal company to produce consolidated accounts.

In line with this, the salaries of managers at each company will be linked to quantitative targets.

At the head office level, we are rationalizing functions to concentrate on formulating strategic plans and providing the professional services necessary to facilitate the establishment of independent internal companies.

From a regional perspective, our strategies are primarily determined by the nature of the markets in each region. In the United States, which leads the world in office networking, we are focusing on high-growth digital products and leveraging our expertise to capture larger shares of particular business segments. In growing Asian markets, where we have high market shares, our activities are weighted toward photographic film, paper, and equipment as well as establishing a base from which we can capitalize on the opportunities that further economic development will bring.

**Q ENVIRONMENTAL ISSUES ARE NOW PROMINENT SOCIAL AND BUSINESS THEMES. WHAT IS KONICA'S POLICY REGARDING THE ENVIRONMENT?**

Environmental preservation is certainly a topical—but by no means new—issue at Konica. We have conducted environmental assessments on all our products since 1993 and developed several breakthrough environmental technologies, particularly in photofinishing chemicals. Most recently, in February 2000, the Japan Environment Association (JEA) awarded its Eco mark to our digital copiers in recognition of their meeting international environmental standards.

In June 2000, we introduced environmental accounting standards to quantify the results of various environmental measures. This information will improve our ability to evaluate measures and plan more effective strategies to minimize the burden of our operations on the environment.

**Q WHAT IS YOUR OUTLOOK FOR FISCAL 2001?**

In line with SAN 2003 policies, we will continue our push into the digital arena and promote proposal-based marketing of products and services that create value for customers. We will also devote greater resources to emerging businesses, such as inkjet printers and triacetyl cellulose (TAC) film for polarizing plates used in LCDs, where our unique technologies position us well for expansion.

Fiscal 2000 was a year of confidence building at Konica, and we are committed to structural reforms and business development that will further enhance our ability to meet the needs of the global markets in the digital 21st century. I request the continued support and guidance of shareholders in fiscal 2001 as we work toward our goals.

August 2000



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President and Chief Executive Officer