Konica

SPEED

ALLIANCE

KONICA—On the Move

NETWORK

Annual Report 2000

PROFILE

From its origins dealing in photographic supplies more than 125 years ago, Konica has grown into a leading company in the global photographic and imaging industries that is recognized for the excellence and innovation of its products.

Emphasizing a "customer first" policy, Konica aims to synthesize advanced technologies in its development of environmentally sound products that respond accurately to diverse customer needs. The Company's product range includes photographic film and paper, photo-related industrial equipment, business machines, cameras, optical products, digital still cameras, and magnetic products.

Konica has reorganized 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.

In March 2000, Konica embarked on a new medium-term management plan, SAN 2003, with the goals of promoting the transition to an internal company system and transferring management resources to new high-growth business fields.

CONTENTS

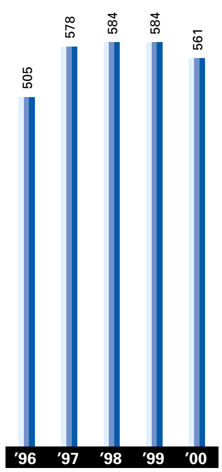
Financial Highlights

KONICA CORPORATION AND CONSOLIDATED SUBSIDIARIES
For the fiscal years ended March 31, 2000 and 1999

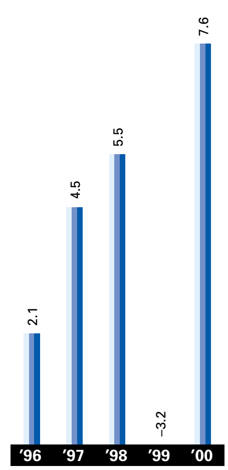
	Millions of yen		Thousands of U.S. dollars (Note)
	2000	1999	**2000**
For the Year:			
Net sales	**¥560,900**	¥584,342	**$5,284,032**
Operating income	**33,131**	14,575	**312,115**
Income (loss) before provision for income taxes	**15,206**	(10,872)	**143,250**
Net income (loss)	**7,627**	(3,166)	**71,851**
Capital expenditure	**30,237**	42,702	**284,852**
Depreciation and amortization	**30,687**	32,488	**289,091**
At Year-End:			
Total assets	**¥549,703**	¥589,201	**$5,178,549**
Shareholders' equity	**162,793**	158,742	**1,533,613**
Short- and long-term debt	**212,364**	242,199	**1,428,300**
Per Share of Common Stock (Yen and U.S. Dollars):			
Net income (loss)—primary	**¥ 21.3**	¥ (8.9)	**$ 0.20**
Cash dividends applicable to earnings of the year	**10.0**	10.0	**0.09**

Note: U.S. dollar amounts above and elsewhere in this report are translated from yen, for convenience only, at the rate of ¥106.15=US$1, the approximate exchange rate prevailing at March 31, 2000.

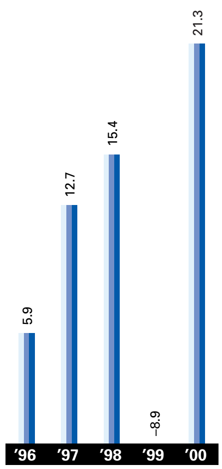
Net Sales
(Billions of yen)



Net Income
(Billions of yen)



Net Income per Share
(Yen)



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
Net Sales	560.9	750.0
Net Income	7.6	20.0
Free Cash Flow	50.0 for 1 year	50.0 for 4 years
Interest-Bearing Debt	212.4	less than 200
ROE (%)	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

T. Uematsu

Tomiji Uematsu
President and Chief Executive Officer

Providing Imaging Solutions in the Digital Age

Under SAN 2003, Konica is reforming its business to meet the needs of consumers with an ever-increasing wealth of information at its disposal. The words Speed, Alliance, and Network have been chosen because they best represent the qualities of solutions required in a networked society driven by digital technologies.

In the 21st century, Konica's aim is to open new fields of digital imaging and extend a tradition of delivering products and services that create time and make life more enjoyable for people around the world.

KONICA'S Solutions

Meeting Digital and Networking Demands

Konica is renowned for its silver-halide and electronic photography technologies. The Company is now fusing this imaging know-how with digital processes to open new possibilities for businesses and individual consumers.

Through its lineup of QD-21 digital minilabs, Konica has taken digital imaging to a new level, thereby creating profit opportunities for retailers and added convenience for digital camera users. The QD-21 series of digital photofinishing systems are easily linked to networking environments and can support all types of digital images. It also offers floppy disk and CD-ROM write services as well as a variety of other output and print capabilities. The value-creating potential that the QD-21 series offers retailers will become more evident as the trend toward the electronic processing and distribution of photographs gathers speed.

In the field of office equipment, Konica is making adjustments to its production network to meet the global demand for digital machines. In addition to the popular high-speed digital copiers manufactured in Japan, in 1999 the Company began manufacturing medium-speed copiers in Germany and low-speed copiers in China. Also, Konica

for Digital Demands

has entered the market for small-lot printing—the so-called print-on-demand market—by developing its high-speed digital copiers to meet the diverse small-lot printing needs. The functionality of Konica's digital copiers with networking capability is expanding, as they offer a range of document-editing software for the easy production of documents with a professional finish.

Medical imaging is another field in which Konica has taken the lead in the application of digital technologies. Since launching the first X-ray film in Japan, Konica has developed and brought to market a large number of medical imaging diagnostic systems. Today, the Company is shifting its emphasis to the development of total diagnostic support solutions based on digital technologies, with "digital," "dry," and "environmental consideration" as key words.

Today's media are continually diversifying, and in the graphic arts industry technological innovation must accelerate to enable the industry to keep pace with other, more modern media. Konica is meeting this challenge by converging its photographic and electronic technologies in high-definition products that boost output to unprecedented levels.

By 2003, the Company aims to increase the percentage of sales accounted for by digital products from the current level of approximately 30%, to 70%.

Konica Digital Medical Imaging System 2000

Anticipating New Market Needs

In line with its philosophy of raising customer satisfaction, Konica makes every effort to respond quickly to emerging technologies and demand for new types of digital products and services indispensable for today's—and the future's—networking community. The Company has a track record of taking the lead; in the field of optics technology, for instance, Konica was a pioneer in the development of aspherical plastic pick-up lenses for CD players. Since introducing them in 1984, the Company has maintained an approximate 70% share of the global market for pick-up lenses used in optical disk drives.

Thanks to agile maneuvering in fiscal 2000, Konica is again well positioned to capture growth opportunities in various markets.

One of our new businesses with great potential is TAC film, sales of which are expected to expand in tandem with the broader application of LCDs. TAC film is used to cover LCD polarizing plates, which adjust the direction of light. A new TAC film production plant in Kobe started operations in March 2000, helping Konica realize its goal of raising annual production capacity 50% by the spring of 2001.

In response to the surging popularity of digital imaging color prints, Konica expanded its production capacity for well-accepted, high-quality glossy inkjet paper fourfold during fiscal 2000. In addition to Konica brand paper, the Company began supplying glossy inkjet paper to major international makers on an OEM basis. To take the lead in emerging commercial-use markets and to further consumer-use, sheet-type inkjet paper, the Company introduced rolled inkjet paper for large format plotters, which is perfect for advertising, graphic design, and other large-format commercial printed material for displays.

Aspherical Plastic Pick-Up Lenses

Magneto-Optic (MO) Drive

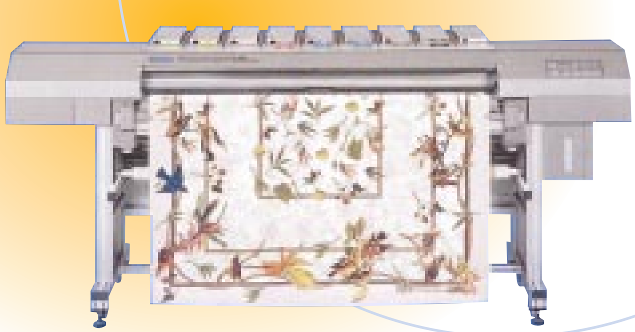
Konica also began leveraging its inkjet printer expertise in new markets. For example, Konica's inkjet textile printing system that prints digitally processed designs directly onto textiles is now recognized as the perfect system for small-lot printing among textiles and apparel-related markets. Konica started OEM shipments of the system in 1999 and will sell it under the Konica brand in Europe and the United States in 2000, with the aim of increasing its share of the global textile printing market to 30% by 2002.

By combining the various R&D and business sections engaged in inkjet activities, a new business unit, the Inkjet Business Group, was formed in October 1999. Konica's strengths in the emerging inkjet business lie in housing all of the key component technologies and software—inkjet paper, ink, printer head, printer, and color management software—within the Company. Building the Inkjet Business Group is a strategic priority for Konica, and the Company aims to increase related annual sales to ¥50 billion by 2004.

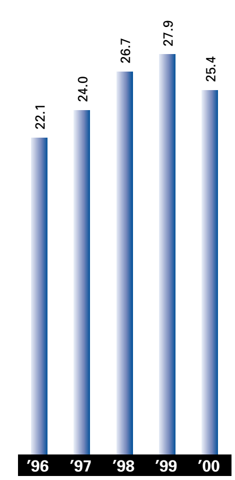
Making full use of IT is one of the key strategies under SAN 2003, and Konica is developing new business models and concepts to realize its goals.

Inkjet Papers

Inkjet Textile Printing System, Konica Nassenger



R&D Expenditures
(Billions of Yen)



Review of Operations & Outlook

OVERVIEW

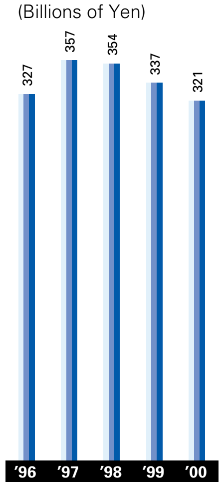
Photographic Materials and Photo-Related Industrial Equipment

(Consumer Imaging Company, Medical and Graphic Company, Inkjet Business Group, EM and ID Business Group)

Overall sales in this segment declined 5%, or ¥15.6 billion, to ¥321.1 billion, and accounted for 57.2% of total consolidated sales.

Operating income increased dramatically, up 497%, or ¥15 billion, to ¥18.2 billion.

Photographic Materials
(Billions of Yen)



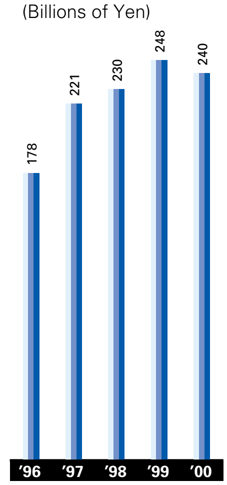
Business Machines, Cameras, and Optical Products

(Office Document Company, Optics Technology Company, Camera and Digital Photo Group)

Sales in this segment fell 3% from the previous fiscal year, to ¥239.8 billion, and accounted for 42.8% of total sales.

Operating income increased 37%, or ¥7 billion, to ¥24.8 billion.

Business Machines
(Billions of Yen)



Consumer Imaging Company

The Konica Color CENTURIA color print film series, which was released worldwide under a unified packaging scheme in January 1999, sold well in all markets. Also, Konica has extended the CENTURIA series to include films for the Advanced Photo System (APS). The Konica Color CENTURIA APS series incorporates the latest advances from Konica in color negative film manufacturing and emulsion technology to offer faithful color reproduction and spectacular image sharpness.

Konica Color CENTURIA series

In Japan, Konica increased sales of its popular Torikkiri Konica Mini Goody series, which has set new standards

Torikkiri Konica Mini Goody

for film-in camera picture quality, by expanding marketing channels.

Sales of photographic film and paper in the United States increased 22% during fiscal 2000, and Konica Photo Imaging, Inc., returned to profitability. Sales in Europe and Asia were also brisk, with concentrated marketing campaigns in Russia and selected Asian countries leading to significant increases in sales. However, depressed domestic demand resulted in a decline in overall photographic materials sales.

Konica Digital Minilab QD-21 Plus System

In the strategic photofinishing field, Konica added the low-end QD-21 Limited model and the standard QD-21 Plus model to its QD-21 digital minilab series.

Despite the sales decline, cost-cutting measures and business restructuring led to a sharp rise in operating income during fiscal 2000.

Medical and Graphic Company

Demand for X-ray film was stagnant in fiscal 2000 and price competition remained fierce. As the medical industry continued its shift toward the use of digital imaging processing equipment, Konica leveraged its sound reputation to strengthen its position in several key product categories.

Konica released the Konica DRY PRO 722, a high-performance, high-volume dry laser imager that uses ecologically sound dry silver-halide film technology. The Konica Direct Digitizer REGIUS Model 150 was also launched during the fiscal year. This cassette-type digital imaging system has a compact design and can be integrated with the Konica

Konica Direct Digitizer REGIUS Model 150

DRY PRO 722, which makes it ideally suited to emergency treatment situations. Konica is now refining its marketing activities to focus on total diagnostic support systems that employ dry digital processes.

In graphic imaging, although the decline in demand for equipment in the printing and pre-press fields bottomed out during the fiscal year, the market recovery was only slight. Konica transferred its presensitized plate business to Mitsubishi Chemical Corp. on March 31, 1999, to facilitate its strategy of concentrating greater resources in the color-proofing field. This move helped to raise Konica's marketing efficiency and improve profitability in the graphic imaging field. In Japan, Konica maintained its overwhelming lead in color

Konica Digital Konsensus

proofing, with the Konica Konsensus series of analog systems and Konica Digital Konsensus winning market praise for their high productivity and cost efficiency.

Inkjet Business Group

In October 1999, Konica combined the various business sections engaged in inkjet-related activities to create a new business unit.

The Konica Inkjet Paper Photolike QP series, a quick-drying photo-quality paper incorporating a unique multilayer, microporous coating technology developed by Konica, boasts a clear, sharp finish and has captured a large share of the domestic market.

With its strengths in photographic and chemical technologies, Konica is well positioned to develop faster, higher-resolution inkjet printer heads and ink as well as paper to capture unique business opportunities in this field.

Konica Inkjet Paper Photolike QP

EM and ID Business Group

Konica has entered the market for TAC film, demand for which is expected to increase 25% a year over the next four years. In March 2000, the Company commenced operations at a new production facility in Kobe, and Konica will rely on its outstanding manufacturing technology to secure the trust of customers for this technically advanced film.

Office Document Company

Sales by Konica's marketing subsidiaries increased, centering on digital copiers.

The cancellation of a contract to supply printers on an OEM basis led to a decline in office equipment sales.

Konica strengthened its series of high-speed copier/printers by introducing the Konica 7075 and Konica 7065 digital input/output system (DI/OS) machines. These systems include a number of high-value-added features, such as multiprotocol-compatible network printing systems and sophisticated finishing systems that enable optimal document-production efficiency in advanced networked offices. Konica also boosted its presence at the lower end of the digital copier market, introducing the Konica 7020 and the Konica 7030 to provide digital performance at more affordable prices.

Konica 7065

Konica is progressing rapidly with restructuring measures designed to ensure the provision of hardware and software services required for total document solutions in networked offices. In Europe, the Company has strengthened its direct marketing network and is working to achieve a uniform service level in all countries in the region. At the same time, Konica is looking to diversify into the print-on-demand market—a source of demand for document production and editing equipment—which is predicted to expand.

Optics Technology Company

Konica's aspherical plastic pick-up lenses for optical disks, the mainstay product in Konica's optical components business, have an outstanding reputation among makers of data input/output, recording, and storage media devices for audio equipment and computers. In fiscal 2000, the IT revolution continued to spur demand for optical disks, including CD-R, CD-RW, and

MO Drive

DVD disks, that offer convenience in storing large amounts of data. Higher sales of aspherical plastic pick-up lenses as well as camcorder lens units, compact camera lens units, and 3.5-inch MO drives supported a healthy increase in sales of optics technology products.

Camera and Digital Photo Group

Sales of compact cameras increased during the fiscal year, with APS cameras being the main contributors to sales growth. The popular Konica

Konica Revio Z3

Konica Digital Still Camera Q-M200

Revio series of APS cameras was expanded by the addition of the Konica Revio Z3. Featuring the same sleek design as earlier Konica Revio models, the Konica Revio Z3 includes a 3x zoom lens, a flash management function—which can save up to 50% on battery power—and a unique self-portrait mode, which enables photographers to perfectly frame self-portraits.

The Konica Digital Still Camera Q-M200 was a standout performer in digital still cameras—a product category in which Konica posted a large year-on-year gain in sales. Released in 1999, the Q-M200 offers resolution of more than two megapixels in a compact, lightweight design. OEM shipments also contributed to the sharp increase in digital camera sales.

Financial Review

(Consolidated Financial Statements)

OPERATING ENVIRONMENT

In fiscal 2000, ended March 31, 2000, despite signs of improvement in the Japanese economy, depressed consumer spending and a difficult employment market again prevented a full recovery. Conditions were better overseas, with the United States maintaining strong economic growth, European countries experiencing a steady rise in demand, and Asian economies starting to recover.

Amid these circumstances, Konica moved forward with a new four-year management plan, SAN 2003. Under this plan, the Company is implementing an internal company system and promoting business reforms that respond to the growing influence of digital technology on information imaging. Furthermore, Konica is strengthening its consolidated management and evaluating businesses based on their contribution to Group results.

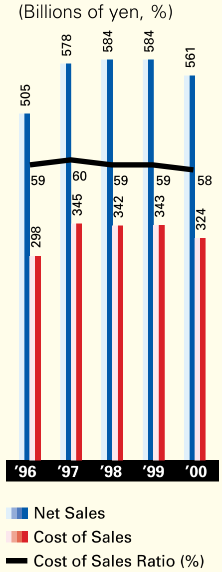
The new structure comprises the following internal companies and groups: Consumer Imaging Company, Medical and Graphic Company, Inkjet Business Group, and EM and ID Business Group (grouped as the Photographic Materials and Photo-Related Industrial Equipment segment); and Office Document Company, Optics Technology Company, and Camera and Digital Photo Group (grouped as the Business Machines, Cameras, and Optical Products segment).

SALES

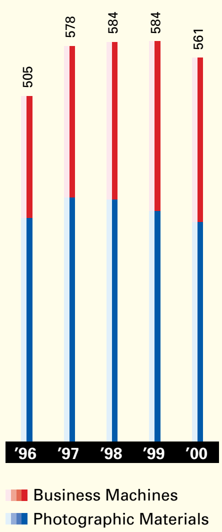
Consolidated net sales declined ¥23.4 billion, or 4.0%, to ¥560.9 billion. The main reasons for the decline were weak demand for consumer products in Japan as well as the appreciation of the yen against the U.S. dollar and the deutsche mark.

By segment, sales in the Photographic Materials segment declined ¥15.6 billion, or 4.6%, to ¥321.1 billion. Overseas, Konica enjoyed brisk demand for its films and photographic paper in Europe, Southeast Asia, and the United States. However, depressed market conditions in Japan (combined with adverse exchange rate movements) led to a decline in segment sales.

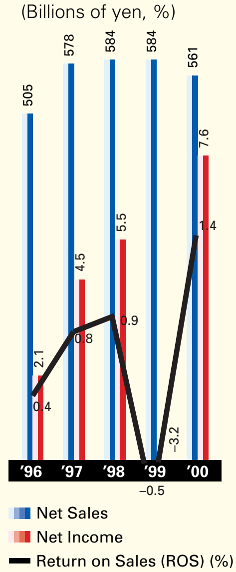
Net Sales, Cost of Sales, and Cost of Sales Ratio
(Billions of yen, %)



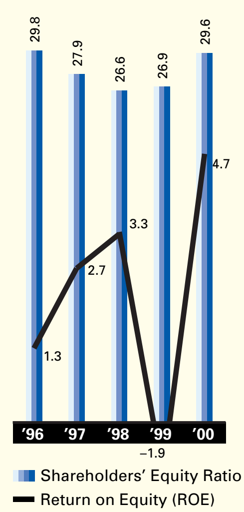
Net Sales by Product Segment
(Billions of yen)



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



Shareholders' Equity Ratio and Return on Equity
(%)



Sales in the Business Machines segment fell ¥7.9 billion, or 3.2%, to ¥239.8 billion, primarily as a result of the cancellation of an OEM contract to supply printers. Konica boosted sales of business machines in the United States and maintained its leading share of the market for high-speed digital copiers.

By geographic region, sales in Japan increased ¥4.1 billion, or 1.2%, to ¥332.6 billion. Overseas, sales in North America fell ¥21.2 billion, or 14.1%, to ¥129.2 billion; sales in Europe fell ¥7.9 billion, or 9.2%, to ¥78.1 billion; and sales in Asia increased ¥1.6 billion, or 8.4%, to ¥21.0 billion.

INCOME

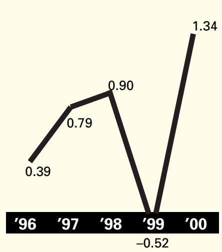
Due to measures to reduce procurement costs and improve the profit structure of the Company's product lineup, gross profit slipped only ¥4.6 billion, or 1.9%, to ¥237.2 billion, and the gross profit margin edged up to 42.3%, from 41.4%.

Selling, general and administrative (SG&A) expenses fell ¥23.2 billion, or 10.2%, to ¥204.1 billion. Savings achieved through the restructuring of marketing operations in the United States in fiscal 1999, the sale of the Company's presensitized plate business, and other organizational reforms contributed significantly to this steep reduction in expenses. SG&A expenses as a percentage of net sales fell from 38.9% to 36.4%. As a result, operating income rose ¥18.6 billion, or 127.3%, to ¥33.1 billion, and the operating income ratio improved to 5.9%, from 2.5%.

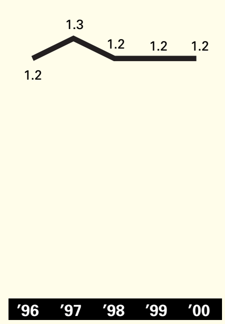
Total other income (expenses) declined ¥7.5 billion, or 29.6%, to expenses of ¥17.9 billion. This mainly reflects the sharp decline in restructuring costs and decrease in interest expenses that accompanied a reduction in interest-bearing debt. These gains more than offset foreign currency losses.

As a result, Konica posted net income of ¥7.6 billion, compared with a net loss of ¥3.2 billion in fiscal 1999. Net income per share (before dilution) surged from a net loss of ¥8.9 to net income of ¥21.3.

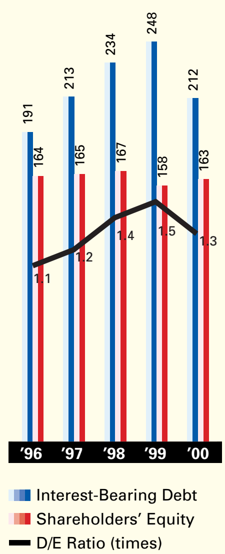
ROA
(%)



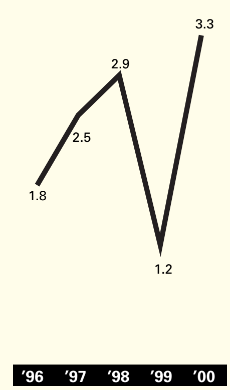
Current Ratio
(Times)



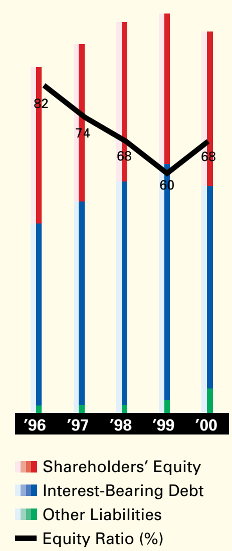
D/E Ratio
(Billions of yen, times)



Interest Coverage
(Times)



Composition of Total Capital Employed
(Billions of yen, %)



FINANCIAL POSITION

Total current assets as of March 31, 2000, stood at ¥335.9 billion, down ¥13.3 billion, or 3.8%, from the previous fiscal year-end. Trade receivables fell ¥13.9 billion, to ¥138.5 billion, and inventories dropped ¥15.6 billion, to ¥104.2 billion, reflecting slower sales activity during the fiscal year and efforts to streamline inventories. These declines, together with sales of marketable securities, more than offset a ¥15.0 billion increase in cash and cash equivalents and an ¥8.5 billion increase in other current assets.

Investments and other assets fell ¥7.4 billion, to ¥64.0 billion, mainly as a result of the write-off of investments in and loans to unconsolidated subsidiaries and affiliates and a decline in deferred income taxes prompted by the introduction of tax-effect accounting. Net property, plant and equipment dropped ¥19.4 billion, or 4.6%, to ¥406.3 billion. A ¥13.3 billion decline in machinery and equipment that accompanied the sale of businesses was the main contributor to this decline.

As a result, total assets at the end of the year stood at ¥549.7 billion, down ¥39.5 billion, or 6.7%, from the previous fiscal year-end.

Total liabilities fell ¥43.5 billion, or 10.1%, to ¥386.9 billion. Fund procurement and debt repayment activities resulted in total short- and long-term interest-bearing debt falling ¥35.5 billion, to ¥212.4 billion. Short-term loans plunged ¥27.5 billion, to ¥94.7 billion, as the Company reduced capital employed following restructuring in fiscal 1999. The Company aims to reduce total interest-bearing debt to ¥200.0 billion by March 2001.

Long-term debt fell ¥21.1 billion, to ¥77.7 billion, as a result of the transfer of debt to current liabilities.

Total shareholders' equity increased ¥4.1 billion, to ¥162.8 billion, in line with the increase in retained earnings. The equity ratio was 29.6%, up 2.7 percentage points from the previous fiscal year.

CASH FLOWS

Net cash provided by operating activities amounted to ¥61.3 billion, compared with ¥16.9 billion in the previous fiscal year. The main components of this amount were income before income taxes of ¥15.2 billion, adjustments for depreciation and amortization of ¥30.7 billion, and an increase in notes and accounts payable, to ¥14.0 billion.

Konica spent ¥23.0 billion for the acquisition of property, plant and equipment during the fiscal year, primarily to strengthen its production network. As a consequence, net cash used in investing activities amounted to ¥11.2 billion.

Net cash used in financing activities totaled ¥34.0 billion, in contrast with net cash provided by financing activities of ¥12.5 billion in fiscal 1999.The main reasons for the turnaround were ¥36.9 billion spent on the repayment of short- and long-term debt and ¥18.7 billion on the redemption of preferred stock.

As a result of these activities, cash and cash equivalents at the end of the year totaled ¥55.0 billion, compared with ¥40.1 billion at the previous fiscal year-end.

Six-Year Summary

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

	Millions of yen					
	2000	1999	1998	1997	1996	1995
For the Year:						
Net sales	**¥560,900**	¥584,342	¥584,402	¥578,081	¥505,349	¥517,601
Operating income	**33,131**	14,575	25,211	26,165	19,075	18,453
Income (loss) before provision for income taxes	**15,206**	(10,872)	15,984	16,205	9,530	8,214
Net income (loss)	**7,627**	(3,166)	5,501	4,541	2,119	3,843
At Year-End:						
Total assets	**¥549,703**	¥589,201	¥629,063	¥592,997	¥552,009	¥544,740
Total shareholders' equity	**162,793**	158,742	167,145	165,269	164,304	168,958
Interest-bearing debt	**212,364**	247,882	234,292	213,314	191,279	169,569
Per Share of Common Stock (Yen):						
Net income (loss)	**¥ 21.3**	¥ (8.9)	¥ 15.4	¥ 12.7	¥ 5.9	¥ 10.8
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, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2000	1999	**2000**
ASSETS			
Current Assets:			
Cash and cash equivalents	**¥ 55,022**	¥ 40,053	**$ 518,342**
Marketable securities (Note 4)	**17,463**	28,939	**164,512**
Notes and accounts receivable—trade (Note 5)	**138,475**	152,326	**1,304,522**
Less: Allowance for doubtful accounts	**(7,334)**	(7,599)	**(69,091)**
Inventories	**104,221**	119,827	**981,828**
Deferred tax assets (Note 7)	**9,585**	5,688	**90,297**
Other current assets	**18,465**	10,005	**173,952**
Total current assets	**335,899**	349,240	**3,164,381**
Investments and Other Assets:			
Investment securities (Note 4)	**17,820**	18,385	**167,876**
Long-term loans	**5,289**	3,788	**49,826**
Deferred tax assets (Note 7)	**15,694**	21,036	**147,847**
Other assets	**25,226**	28,249	**237,645**
Total investments and other assets	**64,030**	71,458	**603,203**
Property, Plant and Equipment:			
Land	**19,288**	20,579	**181,705**
Buildings and structures	**108,407**	109,834	**1,021,262**
Machinery and equipment	**276,926**	290,258	**2,608,818**
Construction in progress	**1,646**	5,003	**15,506**
	406,269	425,674	**3,827,310**
Less: Accumulated depreciation	**(265,154)**	(264,140)	**(2,497,918)**
Total property, plant and equipment	**141,114**	161,534	**1,329,383**
Accumulated Translation Adjustments	**8,659**	6,969	**81,573**
Total assets	**¥549,703**	¥589,201	**$5,178,549**

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

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2000	1999	**2000**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term loans (Note 6)	**¥ 94,722**	¥122,212	**$ 892,341**
Current portion of long-term debt (Note 6)	**39,985**	26,901	**376,684**
Notes and accounts payable—trade (Note 5)	**84,303**	96,134	**794,187**
Accrued expenses	**33,318**	23,276	**313,877**
Accrued income taxes (Note 7)	**3,080**	1,831	**29,016**
Other current liabilities	**17,157**	11,009	**161,630**
Total current liabilities	**272,568**	281,363	**2,567,763**
Long-Term Liabilities:			
Long-term debt (Note 6)	**77,657**	98,769	**731,578**
Accrued severance indemnities	**27,601**	27,459	**260,019**
Other long-term liabilities	**9,047**	3,738	**85,228**
Total long-term liabilities	**114,306**	129,966	**1,076,835**
Minority Interests	**36**	19,130	**339**
Shareholders' Equity (Note 9):			
Common stock, par value ¥50 per share:			
Authorized—800,000,000 shares			
Issued and outstanding—357,655,368 shares	**37,519**	37,519	**353,453**
Additional paid-in capital	**79,342**	79,343	**747,452**
Retained earnings	**45,932**	41,881	**432,708**
Less: Treasury common stock	**(0)**	(1)	**(0)**
Total shareholders' equity	**162,793**	158,742	**1,533,613**
Commitments and Contingent Liabilities (Note 10)			
Total liabilities and shareholders' equity	**¥549,703**	¥589,201	**$5,178,549**

Consolidated Statements of Income and Retained Earnings

KONICA CORPORATION AND CONSOLIDATED SUBSIDIARIES
For the fiscal years ended March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2000	1999	**2000**
Net Sales (Note 5)	**¥560,900**	¥584,342	**$5,284,032**
Cost of Sales (Note 5)	**323,710**	342,543	**3,049,553**
Gross profit	**237,190**	241,799	**2,234,480**
Selling, General and Administrative Expenses	**204,058**	227,224	**1,922,355**
Operating income	**33,131**	14,575	**312,115**
Other Income (Expenses):			
Interest and dividend income	**1,722**	1,974	**16,222**
Interest expenses	**(10,454)**	(13,749)	**(98,483)**
Foreign currency gains, net	**(4,739)**	—	**(44,644)**
Restructuring costs	**—**	(10,057)	**—**
Equity in earnings of unconsolidated subsidiaries and affiliates	**52**	—	**490**
Other, net	**(4,505)**	(3,615)	**(42,440)**
Total	**(17,924)**	(25,447)	**(168,855)**
Income (loss) before provision for income taxes	**15,206**	(10,872)	**143,250**
Provision for Income Taxes (Note 7):			
Current	**4,774**	2,794	**44,974**
Deferred	**2,808**	(10,269)	**26,453**
Total	**7,582**	(7,475)	**71,427**
Minority Interests in Earnings of Consolidated Subsidiaries	**3**	2	**28**
Equity in Earnings of Unconsolidated Subsidiaries and Affiliates	**—**	229	**—**
Net Income (Loss)	**7,627**	(3,166)	**71,851**
Retained Earnings at Beginning of the Year	**41,880**	50,284	**394,536**
Cumulative effect on prior years of change in accounting for income taxes	**—**	4,998	**—**
Appropriations:			
Cash dividends	**(3,576)**	(3,576)	**(33,688)**
Bonuses to directors and corporate auditors	**—**	(50)	**—**
Decrease in retained earnings resulting from restructuring	**—**	(6,609)	**—**
Total	**(3,576)**	(5,237)	**(33,688)**
Retained Earnings at End of the Year	**¥ 45,932**	¥ 41,881	**$ 432,708**

	Yen		U.S. dollars (Note 2)
Per Share of Common Stock:			
Net income (loss)	**¥ 21.3**	¥ (8.9)	**$ 0.20**
Cash dividends applicable to earnings of the year	**10.0**	10.0	**0.09**

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, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2000	1999	**2000**
Cash Flows from Operating Activities:			
Income (loss) before provision for income taxes	**¥15,206**	¥(10,872)	**$143,250**
Depreciation and amortization	**30,687**	32,488	**289,091**
Loss on sales or disposal of property, plant and equipment	**1,172**	2,111	**11,041**
Allowance for doubtful receivables, net	**(1,494)**	1,376	**(14,074)**
Interest and dividend income	**(1,722)**	(1,974)	**(16,222)**
Interest expense	**10,454**	13,749	**98,483**
(Increase) decrease in notes and accounts receivable	**(7,821)**	5,621	**(73,679)**
Decrease in inventories	**7,493**	16,158	**70,589**
Decrease (increase) in notes and accounts payable	**13,973**	(42,368)	**131,634**
Write-down of marketable securities	**1,657**	269	**15,610**
Increase (decrease) in accrued value-added tax and others	**1,264**	(38)	**11,908**
Other	**2,583**	23,067	**24,333**
Subtotal	**73,452**	39,587	**691,964**
Interest and dividend income received	**1,662**	1,974	**15,657**
Interest expenses paid	**(10,345)**	(14,100)	**(97,456)**
Income taxes paid	**(3,505)**	(10,558)	**(33,019)**
Net cash provided by operating activities	**61,264**	16,903	**577,146**
Cash Flows from Investing Activities:			
Acquisition of marketable securities	**(674)**	(394)	**(6,350)**
Proceeds from sales of marketable securities	**3,416**	819	**32,181**
Acquisition of property, plant and equipment	**(22,962)**	(47,612)	**(216,317)**
Proceeds from sales of property, plant and equipment	**7,179**	12,073	**67,631**
Acquisition of investments in securities	**(167)**	(10)	**(1,573)**
Proceeds from sales of investments in securities	**506**	324	**4,767**
Other	**1,499**	2,095	**14,122**
Net cash used in investing activities	**(11,203)**	(32,705)	**(105,539)**
Cash Flows from Financing Activities:			
Decrease in short-term loans	**(23,422)**	(3,802)	**(220,650)**
Proceeds from long-term debt	**22,090**	29,432	**208,102**
Repayment of long-term debt	**(13,472)**	(2,780)	**(126,915)**
Proceeds from bonds	**3,000**	—	**28,262**
Dividends paid	**(3,576)**	(3,576)	**(33,688)**
Redemption of preferred stock	**(18,667)**	(6,782)	**(175,855)**
Net cash (used in) provided by financing activities	**(34,048)**	12,492	**(320,754)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(1,042)**	(527)	**(9,816)**
Net Increase (Decrease) in Cash and Cash Equivalents	**14,969**	(3,837)	**141,017**
Cash and Cash Equivalents of Newly Consolidated Subsidiaries	**—**	1,075	**—**
Cash and Cash Equivalents at Beginning of the Year	**40,053**	42,815	**377,325**
Cash and Cash Equivalents at End of the Year	**¥55,022**	¥40,053	**$518,342**

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

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 based on 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 the Securities and Exchange Law 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 submitted to the Director of Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan. In addition, the consolidated financial statements of cash flows are not required to be filed with the Ministry of Finance (MOF), but have been prepared and included in the consolidated financial statements.

The consolidated statements of cash flows have been required to be prepared with effect for the year ended March 31, 2000 in accordance with new accounting standards. These new standards specify a format which differs from that used in earlier years, and, accordingly, the comparative periods' consolidated statements of cash flows have been reformatted.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and, with certain exceptions which are not material, those of its subsidiaries in which it has control. All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated in consolidation.

Investments in unconsolidated subsidiaries and significant affiliates are accounted for by the equity method. Investments in insignificant affiliates are stated at cost.

The excess of cost over the underlying investments in subsidiaries is recognized as goodwill and is amortized on a straight-line basis over a five-year period.

(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").

All assets and liabilities denominated in foreign currencies (short-term monetary items) are translated into yen 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, additional paid-in capital and retained earnings accounts are translated at the historical rates and the statements of income and retained earnings are translated at average exchange rates.

(d) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuation in value.

(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. 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 the "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

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants taxes and enterprise taxes. Deferred income taxes are provided for in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements. The Company also provides for the anticipated tax effect of future remittances of retained earnings from overseas subsidiaries and affiliated companies.

(j) Research and Development Expenses

Expenses for research and development activities are charged to income as incurred.

(k) 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 ¥106.15=US$1, the rate of exchange on March 31, 2000, 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. Cash and Cash Equivalents

Cash and cash equivalents consisted of:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Cash and bank deposits	**¥53,618**	¥40,053	**$505,115**
Money management funds	**1,404**	—	**13,227**
Cash and cash equivalents	**¥55,022**	¥40,053	**$518,342**

4. Marketable Securities

The aggregate cost and market value of marketable securities included in investment securities as of March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Marketable securities included in current assets:			
Market value	**¥19,129**	¥17,861	**$180,207**
Carrying amount	**15,946**	16,723	**150,221**
Unrealized gain	**¥ 3,183**	¥ 1,138	**$ 29,986**
Investment securities:			
Market value	**¥26,280**	¥26,358	**$247,574**
Carrying amount	**15,706**	13,943	**147,960**
Unrealized gain	**¥10,574**	¥12,415	**$ 99,614**

Gross unrealized gains and losses pertaining to marketable equity securities as of March 31, 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	Gains	Losses	Gains	Losses
Current	¥ 5,961	¥2,660	$56,156	$25,059
Non-current	10,542	566	99,312	5,332

The net realized gains on marketable equity securities for the fiscal years ended March 31, 2000 and 1999 were ¥172 million (US$1,620 thousand) and ¥946 million, respectively.

The net valuation loss on marketable equity securities for the fiscal years ended March 31, 2000 and 1999 were ¥1,657 million (US$15,610 thousand) and ¥269 million, respectively.

5. Investments in and Loans to Unconsolidated Subsidiaries and Affiliates

The following investments in and loans to unconsolidated subsidiaries and affiliates as of March 31, 2000 and 1999 were included in investment securities:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Investments	**¥6,298**	¥3,205	**$59,331**
Loans	**335**	442	**3,156**
	¥6,633	¥3,647	**$62,487**

A summary of transactions at the balance sheet dates with these unconsolidated subsidiaries and affiliates is as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Sales	**¥16,480**	¥18,256	**$155,252**
Purchases	**21,436**	21,739	**201,941**

Transaction balances as of March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Trade receivables	**¥7,282**	¥6,019	**$68,601**
Trade payables	**7,530**	6,104	**70,937**

6. Short-Term & Long-Term Debt

Loans

Short-term and long-term loans as of March 31, 2000 and 1999 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2000		1999	**2000**
		(Interest rate)		
Short-term loans	**¥ 94,722**	4.51%	¥122,212	**$ 892,341**
Current portion of long-term loans	**39,985**	4.54%	25,822	**376,684**
Long-term loans	**16,907**	3.16%	36,594	**159,275**
	¥151,614		¥184,629	**$1,428,300**

The annual maturities of long-term loans as of March 31, 2000 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2002	¥10,195	$96,043
2003	3,782	35,629
2004	2,286	21,536
2005	526	4,955

Bonds

Bonds as of March 31, 2000 and 1999 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Bonds	**¥60,750**	¥57,570	**$572,303**

The annual maturity of long-term loans as of March 31, 2000 is as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2001	¥ 0	$ 0
2002	15,000	141,309
2003	15,000	141,309
2004	5,000	47,103
2005	5,000	47,103

7. Income Taxes

The statutory tax rates used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2000 and 1999 were 42.1% and 47.7%, respectively. Due to a change in the tax rate during the year ended March 31, 1999, the balances of deferred tax assets and deferred tax liabilities were ¥3,793 million and ¥239 million less, respectively, than they would have been using the tax rate applicable for the year ended March 31, 1998.

At March 31, 2000 and 1999, the reconciliation of the statutory tax rate to the effective income tax rate was as follows:

	2000	1999
Statutory tax rate	**42.1%**	47.7%
Accumulated deficit	**9.9**	—
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	**(2.2)**	(7.8)
Effective tax rate	**39.9**	70.2

At March 31, 2000 and 1999, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen	
	2000	1999
Gross deferred tax assets:		
Tax effect on loss of a consolidated subsidiary previously not recognized	**¥ 2,528**	¥12,814
Tax loss carryforward	**10,894**	7,668
Temporary difference carrying from restructuring	**—**	1,886
Reserve for employees' retirement allowance	**3,977**	3,036
Inventories, etc.	**5,015**	3,827
Other, net	**9,465**	5,704
Subtotal	**31,879**	34,935
Valuation allowance	**(4,980)**	(6,413)
Deferred tax assets total	**26,899**	28,522
Deferral of taxes on fixed assets	**(1,619)**	(1,798)
Net deferred tax assets	**¥25,279**	¥26,724

8. Research and Development Expenses

Total amounts charged to income for the fiscal years ended March 31, 2000 and 1999 were ¥25,376 million (US$239,058 thousand) and ¥27,944 million, respectively.

9. 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, 2000, the shareholders approved a cash dividend to be paid to shareholders on record as of March 31, 2000 totaling ¥1,788 million (US$16,844 thousand), at the rate of ¥5.00 (US$0.05) per share of common stock. The related appropriation of retained earnings to the legal reserve was made in the amount of ¥178 million (US$1,677 thousand).

10. Commitments and Contingent Liabilities

The Company and its subsidiaries were contingently liable, as of March 31, 2000, for trade notes discounted with banks of ¥89 million (US$838 thousand) and for loans guaranteed of ¥4,923 million (US$46,378 thousand).

11. 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
	2000	1999	**2000**
Machinery & equipment	**¥12,154**	¥ 6,016	**$114,498**
Tools & furniture	**4,171**	5,747	**39,293**
Others	**647**	422	**6,095**
	16,973	12,185	**159,886**
Less: Accumulated depreciation	**(5,907)**	(6,042)	**(55,648)**
Net book value	**¥11,066**	¥ 6,143	**$104,249**
Depreciation	**¥ 2,087**	¥ 1,998	**$ 19,661**

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, 2000 and 1999 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Due within one year	**¥ 2,869**	¥1,844	**$ 27,028**
Due over one year	**8,196**	4,299	**77,211**
	¥11,066	¥6,143	**$104,239**
Lease rental expenses for the year	**¥ 2,087**	¥1,998	**$ 19,661**

2. Operating leases

The scheduled maturities of future lease rental payments on such lease contracts as of March 31, 2000 and 1999 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Due within one year	**¥ 5,235**	¥ 6,565	**$ 49,317**
Due over one year	**17,025**	22,400	**160,386**
	¥22,260	¥28,965	**$209,703**

Lessor

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Leased tools & furniture:			
Purchase cost	**¥1,919**	¥1,880	**$18,078**
Accumulated depreciation	**(1,564)**	(1,321)	**(14,734)**
Net book value	**¥ 355**	¥ 559	**$ 3,334**

The scheduled maturities of future lease rental income on such lease contracts as of March 31, 2000 and 1999 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Due within one year	**¥ 300**	¥ 367	**$ 2,826**
Due over one year	**107**	276	**1,008**
	¥ 408	¥ 643	**$ 3,834**
Lease rental income for the year	**¥1,318**	¥1,269	**$12,416**
Depreciation for the year	**1,146**	1,104	**10,796**

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, 2000.

12. 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.

Segment Information

KONICA CORPORATION AND CONSOLIDATED SUBSIDIARIES
For the fiscal years ended March 31, 2000 and 1999

BY PRODUCT

	Millions of yen				
	Photographic materials	Business machines	Total	Elimination & corporate	Consolidation
2000: Net sales					
Outside	**¥321,084**	**¥239,816**	**¥560,900**	**¥ —**	**¥560,900**
Intersegment	**866**	**1,336**	**2,203**	**(2,203)**	**—**
Total	**321,951**	**241,152**	**563,103**	**(2,203)**	**560,900**
Operating expenses	**303,792**	**216,365**	**520,158**	**7,610**	**527,769**
Operating income	**¥ 18,158**	**¥ 24,786**	**¥ 42,945**	**¥ (9,813)**	**¥ 33,131**
Assets	**¥291,906**	**¥189,067**	**¥480,973**	**¥68,730**	**¥549,703**
Depreciation	**15,023**	**14,362**	**29,385**	**1,301**	**30,687**
Capital expenditure	**11,748**	**17,416**	**29,164**	**1,072**	**30,237**

	Millions of yen				
	Photographic materials	Business machines	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	¥589,201
Depreciation	16,545	14,834	31,379	1,109	32,488
Capital expenditure	16,568	25,295	41,863	839	42,702

	Thousands of U.S. dollars (Note 2)				
	Photographic materials	Business machines	Total	Elimination & corporate	Consolidation
2000: Net sales					
Outside	**$3,024,814**	**$2,259,218**	**$5,284,032**	**$ —**	**$5,284,032**
Intersegment	**8,158**	**12,586**	**20,754**	**(20,754)**	**—**
Total	**3,032,972**	**2,271,804**	**5,304,786**	**(20,754)**	**5,284,032**
Operating expenses	**2,861,912**	**2,038,295**	**4,900,217**	**71,691**	**4,971,917**
Operating income	**$ 171,060**	**$ 233,509**	**$ 404,569**	**$ (92,445)**	**$ 312,115**
Assets	**$2,749,939**	**$1,781,130**	**$4,531,069**	**$647,480**	**$5,178,549**
Depreciation	**141,526**	**135,299**	**276,825**	**12,256**	**289,091**
Capital expenditure	**110,674**	**164,070**	**274,743**	**10,099**	**284,852**

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

BY REGION

	Millions of yen						
	Japan	North America	Europe	Asia and Other	Total	Elimination & corporate	Consolidation
2000: Net sales							
Outside	**¥332,649**	**¥129,152**	**¥78,079**	**¥21,019**	**¥560,900**	**¥ —**	**¥560,900**
Intersegment	**106,253**	**7,406**	**869**	**12,755**	**127,285**	**(127,285)**	**—**
Total	**438,903**	**136,558**	**78,949**	**33,774**	**688,186**	**(127,285)**	**560,900**
Operating expenses	**405,206**	**131,520**	**78,259**	**32,946**	**647,933**	**(120,164)**	**527,769**
Operating income	**¥ 33,697**	**¥ 5,037**	**¥ 689**	**¥ 828**	**¥ 40,252**	**¥ (7,121)**	**¥ 33,131**
Assets	**¥342,434**	**¥ 97,036**	**¥42,037**	**¥14,151**	**¥495,659**	**¥ 54,044**	**¥549,703**

	Millions of yen						
	Japan	North America	Europe	Asia and Other	Total	Elimination & corporate	Consolidation
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 (loss)	¥ 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

	Thousands of U.S. dollars (Note 2)						
	Japan	North America	Europe	Asia and Other	Total	Elimination & corporate	Consolidation
2000: Net sales							
Outside	**$3,133,764**	**$1,216,963**	**$735,553**	**$198,012**	**$5,284,032**	**$ —**	**$5,284,032**
Intersegment	**1,000,970**	**69,769**	**8,187**	**120,160**	**1,199,105**	**(1,199,105)**	**—**
Total	**4,134,734**	**1,286,732**	**743,749**	**318,172**	**6,483,146**	**(1,199,105)**	**5,284,032**
Operating expenses	**3,817,296**	**1,239,001**	**737,249**	**310,372**	**6,103,938**	**(1,132,021)**	**4,971,917**
Operating income	**$ 317,447**	**$ 47,462**	**$ 6,491**	**$ 7,800**	**$ 379,208**	**$ (67,084)**	**$ 312,115**
Assets	**$3,225,944**	**$ 914,140**	**$396,015**	**$133,311**	**$4,669,421**	**$ 509,129**	**$5,178,549**

EXPORT SALES

	Millions of yen	Thousands of U.S. dollars (Note 2)	Percentage of net sales
2000: Sales to			
North America	**¥139,380**	**$1,313,048**	**24.8%**
Europe	**85,694**	**807,292**	**15.3**
Asia and Other	**79,001**	**744,239**	**14.1**
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

Report of Independent Certified Public Accountants

KONICA CORPORATION AND CONSOLIDATED SUBSIDIARIES

ChuoAoyama Audit Corporation

PRICEWATERHOUSECOOPERS

Kasumigaseki Bldg. 32nd Floor
3-2-5, Kasumigaseki, Chiyoda-ku,
Tokyo 100-6088, Japan

To: The Board of Directors of
KONICA CORPORATION

We have audited the accompanying consolidated balance sheets of KONICA CORPORATION and its consolidated subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of income and 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 consolidated subsidiaries as of March 31, 2000 and 1999, 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) applied on a consistent basis.

As described in Note 1, effective the year ended March 31, 2000, KONICA CORPORATION and its consolidated subsidiaries have adopted new Japanese accounting standards for the preparation of consolidated financial statments and research and development costs.

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.

ChuoAoyama Audit Corporation

Tokyo, Japan
June 29, 2000

Board of Directors

As of August 2000

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
Shigeru Suzuki

Advisory Director
Megumi Ide

Directors
Takamasa Shintani
Masaru Kanbe

Senior Corporate Auditor
Hideo Kubota

Corporate Auditors
Masayuki Matsumoto
Yasuyuki Wakahara
Kazunobu Kato

Executive Officers
Fumio Iwai
Shigeru Suzuki
Tadashi Kojima
Yukio Morito
Kunio Ito
Yasumitsu Tsunoda
Hirofumi Sakaguchi
Shunpei Iwano
Hisashi Yamaguchi
Hideaki Iwama
Teruo Kawaura
Tomohisa Saito

Associate Directors
Satoru Honishi
Kiyoshi Izawa
Tomoaki Nakamura
Genichiro Kazama
Tadashi Kabasawa

Investor Information

As of August 2000

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, 2000)
¥37,519 million (US$308 million)

Stock Exchange Listings
Tokyo, Osaka, Nagoya, Frankfurt, Düsseldorf

Number of Shareholders (as of March 31, 2000)
35,168

Independent Auditor
ChuoAoyama 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 film and paper, black-and-white film and paper, inkjet media, photofinishing equipment and chemicals, etc.

Cameras and Digital Imaging Products:
Compact 35mm cameras, digital still cameras, 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.

Magnetic Products:
Videotapes, floppy disks, etc.

Optics Products:
Aspherical plastic lenses, zoom lens units, MO disk drives, etc.

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

The Konica Group

As of August 2000

DOMESTIC OPERATIONS

MARKETING & SERVICE

Konica Marketing Corporation
Konica Medical Inc.
Kyoritsu Medical Electric Co., Ltd.
Konica Color Photo Equipment Co., Ltd.
Konica Color Imaging Corporation
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.
Konica System Equipment Co., Ltd.

OVERSEAS OPERATIONS

NORTH AMERICA & CENTRAL AMERICA

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Tel: 201-236-3700

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Tel: 201-574-4000

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

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.
2064 East University Dr., Compton, CA 90220, U.S.A.
Tel: 800-934-2679

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

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Konica Business Machines Europe GmbH
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Konica Singapore Pte. Ltd.
401 Commonwealth Drive #01-04,
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Konica Australia Pty. Ltd.

A.B.E. Rentals Pty. Ltd.

K.B.A. Properties Pty. Ltd.

Apeco of Australia Pty. Ltd.
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* Unconsolidated subsidiary
** Representative office

KONICA CORPORATION

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