

*Konica has taken up the challenge to explore new business opportunities and develop completely new products. Over the years, our pioneering spirit has yielded many innovations, including the first brand name camera and first color film in Japan.*

# Consumer Imaging Company

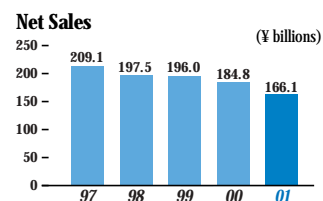
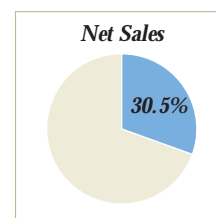
## **Working to Expand Asian Markets and Boost Demand for Digital Products**

For the fiscal year ended March 31, 2001, overall sales in this segment totaled ¥166.1 billion, a decrease of 10.1% from the previous year, and operating income fell to ¥6.9 billion, a drop of 22.5%.

In Asia, where we have undertaken aggressive marketing ahead of competitors to keep a tight grip on our large share of the market, we saw steady sales growth owing to our strong brand name, reputation for quality and extensive network of Konica Photo Express minilab shops. Sales in Japan and Western countries, on the other hand, declined due to the rapid growth of competitively priced digital cameras and to the falling prices of film paper. In Japan, we fought to maintain market prices in the face of strong downward pressure by introducing new products such as the Konica Color New Centuria 800 Super Zoom. Despite these efforts, however, the growing momentum toward lower prices had an adverse effect on sales performance. On a positive note, we succeeded with our planned efforts to reduce production costs and fixed sales costs. Prices dropped and sales fell in Western countries as well, though not on the same scale as in Japan.

In terms of future business development, as the trend toward

digitization increases around the globe, we will seek to boost sales with a two-pronged approach that matches conditions in different markets. First, in Asia, where we have already established a relatively high market share of around 30% and where growth potential is high, we will concentrate on selling film papers, using our powerful brand name and reputation for reliability to boost sales. Second, in Japan and Western countries, we will reinforce our efforts to reduce costs and respond to digital demand. Factors such as the Internet's growing popularity, the improved communication infrastructure, and the rapid penetration of digital cameras have given rise to expectations that online photo services will be established, particularly in Western countries. In North America, we have already begun laying the groundwork for digital photo-net print services, in alliance with several major Internet service providers. In Japan, we will restructure our labs and reinforce our service systems, centered on our Konica Photo Express and Konica Digital Photo Express minilab shops, of which there are already more than 1,000 across the nation. We will also work to improve our digital photo-net printing bases, starting with expanding and refining the digital services we offer at storefronts.



*Konica Color Centuria 400*



*Torikkiri Konica Mini Goody Super*



*Konica Digital Minilab QD-21 Super System*

# Office Document Company

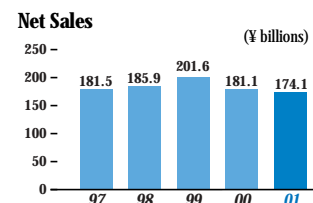
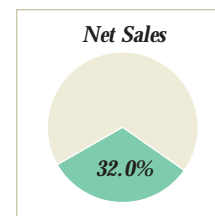
## **Full Entry into the “Solutions” Business, Backed by the Power of Direct Distribution**

Sales declined 3.9% compared with the prior year, to ¥174.1 billion, and operating income fell 48.6%, to ¥7.4 billion.

As a result of our steadily launching new mid-speed digital copiers, we gained a full lineup of products, and sales volume grew by more than double the rate of sales growth in worldwide markets. We fell short of our sales target, however, due to such factors as the yen's appreciation and the high sales ratio of low-speed machines, compared with high-speed machines. In Japan, sales on a volume basis climbed 7% as demand shifted to low-speed machines, but the sales amount inched up by only 3%. In North America, sales rose slightly on a volume basis, but the sales amount actually dipped due to the impact of the strengthened yen. In Europe, sales on a volume basis increased by about 4% thanks to a switch to digital copiers, and the sales amount climbed 6% on a local currency basis. The yen's appreciation, however, resulted in a significant drop in income. In April 2000, we publicly announced our business tie-up with Minolta Co., Ltd., and in December our joint-venture company commenced production of polymerization toner. Other joint activities began as well, such as the purchase of parts, supply of finished products and cooperative R&D efforts.

As for future business development, we will pursue growth in four directions. First, our tie-up partner Minolta will take over development of low-speed machines while we focus on mid- and high-speed machines, areas where we are fundamentally strong. Second, we will work to expand business centered around polymerization toner, the next-generation toner we developed. For example, we will equip new products with polymerization toners to achieve even higher image quality. Third, we will strengthen our price-competitiveness by undertaking further cost-reduction measures.

With the digital copier now in its second generation, it is vital to reduce costs starting right at the design stage. One of our cost-reduction efforts will be to expand production in China of mid- and high-speed machines. Fourth, we will launch fully into the “solutions” business, such as print-on-demand (POD) services. In Europe and the United States, for example, we will enter the solutions business centered on high-speed machines, taking advantage of the powerful direct distribution systems and networks we have established there. As in the United States, we will also use our European solutions center to reinforce software development and sales support.



Konica 7035



Konica 7075

# Medical and Graphic Company

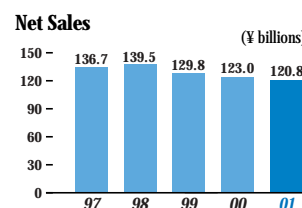
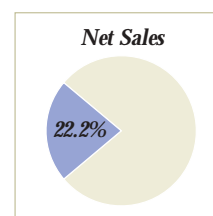
## *Expanding the Market with Highly Regarded Imaging Equipment and Dry Film*

Sales fell 1.9%, to ¥120.8 billion, but operating income advanced 11.9%, to ¥9.4 billion.

In the medical imaging field, increased networking and digitization in hospitals has fueled rapid growth in the market for dry-film X-ray imagers. We enjoyed significant sales growth in this area, thanks especially to highly regarded new products such as the Konica Direct Digitizer REGIUS Model 150 (a cassette-type digital imaging system with high levels of fineness) and the Konica Laser Imager DRYPRO Model 722 (a digital image output system with high levels of fineness). We posted significantly higher sales of our dry film, which has earned an outstanding reputation for image quality. Overseas, energetic sales promotion efforts helped boost sales of our graphic imaging products. However, sales fell in Japan, which is our main market, due to stagnant demand in the printing industry caused by the continued recession and intensified competition resulting from new models introduced by other industries.

As for future business development, the medical imaging products field has the potential to see continued annual

growth of around 5% to 6%, with most of that growth in digital products. We will focus on marketing our X-ray imaging equipment and dry film, both of which stand above the competition in quality and performance. Our dry film in particular has carved out a generous share of the market in Japan, and eventually we will undertake aggressive business development efforts in Western markets. In addition, we are constructing new dry-film production facilities to meet the expected rapid increase in demand. Since these new facilities will focus on state-of-the-art equipment, they will help us slash production costs when they commence operation in April 2002. In the graphic imaging products field, we expect business conditions to become increasingly bleak due to Japan's lingering recession and the trend toward filmless imaging promoted by digital technology. Our approach here will be to continue cutting costs by centralizing our production sites and generating more business from the printing and prepress markets, where we enjoy a strong reputation.



*Konica Laser Imager  
DRYPRO Model 722*



*Konica Direct Digitizer  
REGIUS Model 150*



*Konica Digital Konsensus*

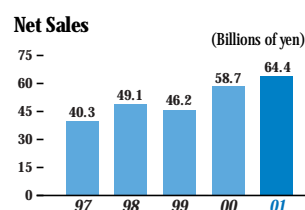
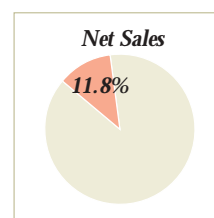
# Optics Technology Company and Camera & Digital Imaging Business Group

## *Achieving Growth by Developing High-Added-Value Products and Entering New Business Areas*

Sales rose 9.7%, to ¥64.4 billion, and operating income jumped 23.1%, to ¥12.8 billion.

In the optics technology field, our sales of aspherical plastic lenses for optical discs suffered a temporary slump due to falling demand for personal computers, yet for the year overall our sales posted nearly double-digit growth. As we continue using advanced technology in the design, processing and production stages to refine performance and achieve further downsizing, we have hopes that our aspherical plastic lenses for optical discs could capture a market share of around 70%. In addition, components such as optical scanning lenses for laser printers and optical units for VTRs and digital cameras enjoyed steady sales growth, and we launched a new type of 3.5-inch magneto-optical (MO) disk drive corresponding to the USB (640 MB). In both Japan and the West, the markets for film cameras suffered significant declines, and we saw decreases in sales volumes and amounts accordingly. On a brighter note, however, we saw considerably higher sales of digital cameras, centering on original equipment manufacturing (OEM) supply.

As for future business development, we view optics technology as a strategic business area despite the current unfavorable market conditions resulting from the stagnant personal computer market, and believe that high profitability is possible. To make this a reality, in the short term we are focusing on high-value-added products such as DVDs and aspherical plastic lenses for the next generation HD-DVDs. In addition, we are expanding our optical units business and shifting more production overseas to reduce costs. We will also find further applications for the optics/mechatronics technology we developed for the zoom lenses of cameras combined with VTRs or 3.5-inch MO disk drives. For example, this technology may find applications in portable information terminal instruments, such as micro camera units. To support this business development, we invested ¥2.5 billion in March 2001 to expand our facilities for producing aspherical plastic lenses for optical discs. The improved facilities turn out some 40 million pieces per month, helping us meet the market's rapidly increasing demand.



*Aspherical plastic lenses used in optical disk drives*



*Konica HEXAR RF*



*Konica Digital Revio KD-200Z*



# EM & ID Business Group

## *Strengthening Price-Competitiveness with Our Leading-Edge Fine-Filming Technology*

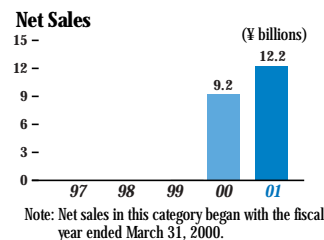
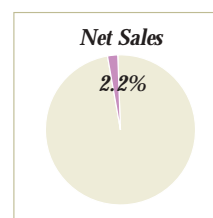
Sales surged 32.6%, to ¥12.2 billion, and operating income gained 44.4%, to ¥2.6 billion.

When our new factory commenced operation in March 2000, it marked our full entry into the triacetyl cellulose (TAC) film business for liquid crystal display (LCD) polarizing plates—an information technology (IT)-related product that shows significant growth potential. Our sales in this area enjoyed strong growth despite the fact that demand for LCD panels suffered a temporary slump following the slowdown of the U.S. economy. Moreover, our new factory gives us greater production capacity and achieves a level of product quality that meets even the market's most stringent

demands.

As for future business development, the tight supply and demand situation is expected to continue for a while, so in the near future we will focus on providing a stable supply of products to increase our market share. As part of this move, we are now beginning to serve as supplier to polarizing plate manufacturers in Taiwan and South Korea. We will also enhance our fine filming processes and technology to prepare for the intensifying price competition expected ahead. As fine filming technology is owned only by filmmakers, this will help us reduce costs and add value, which will improve our price-competitiveness. In addition, we are planning to begin production at

a second plant in April 2002, even though we just finished expanding our first plant in March 2001. The second plant became necessary due to the market's continued rapid growth.



# Inkjet Business Group

## *Developing the Component Business with Our Advanced Head Technology*

Sales climbed 46.4%, to ¥4.1 billion, and the operating income (loss) improved to ¥0.7 billion, a 30% decrease from the previous period.

Sales of media (paper) posted strong gains and played a large role in our increased income in this area. Leading the way was our Konica Inkjet Paper Photolike QP, whose superior gloss, high image quality and quick-drying microporous technology have earned high praise. Strong sales of this product helped us capture about 60% of the market for high-quality glossy paper. We also accelerated the start of our component business (inkjet heads and

inks) and began business negotiations related to OEM supply.

As for future business development, in the short term we will generate more business focusing on media (paper) and seek to expand the business of inkjet head and ink components. Especially, the industry is evolving quickly toward higher-density, 512-nozzle heads and a greater range of inks. Progress in these areas will help us expand our component business. Also, we are trying to gain a new foothold in the large-format printer field, marketing our large printers to the advertising and light printing industries. In our

marketing activities, we promote the high-performance heads, high printing speeds and superior image quality that distinguish our printers.

