

President and CEO
Fumio Iwai

AMID INCREASINGLY FIERCE GLOBAL COMPETITION AND RAPIDLY CHANGING MARKET STRUCTURES, KONICA IS PROGRESSING WITH A MAJOR SHIFT TOWARD DIGITAL FIELDS IN ITS BUSINESS FOCUS AS WELL AS WORKING TOWARD SPEEDY PRODUCT COMMERCIALIZATION AND FURTHER DEVELOPING ITS BUSINESS. THE COMPANY WILL ENHANCE ITS COMPETITIVENESS BY SPINNING OFF ALL OF ITS BUSINESS SEGMENTS INTO INDEPENDENT COMPANIES AND ESTABLISHING A HOLDING COMPANY IN APRIL 2003, OPENING A NEW ERA OF GROWTH FOR KONICA THROUGH FLEXIBLE DECISION MAKING CAPABILITIES AND STRONG DETERMINATION.



STRENGTHENING OUR COMPETITIVENESS THROUGH SPEEDY MANAGEMENT

Strengthening our competitiveness through quick-acting management is Konica's most urgent task in today's rapidly evolving market characterized by intensifying global competition. Realizing speedy management requires breaking away from past concepts while launching drastic management reforms.

Highlighting Konica's determination to achieve speedy management, the Company has formulated SAN Plan 2005, a new medium-term management plan. Moreover, in April 2003 Konica will separate all of its business segments into independent companies and establish a holding company that will own the equity in these companies. There have been very few instances in Japan in which business divisions have been spun off as entirely autonomous businesses, as there are a host of issues related to nurturing a corporate culture essential for ensuring that the setting up of independent companies successfully yields desired results. To prevail in an age of mounting competition, Konica is implementing dramatic management reforms with courage and flexible management decision making capabilities. Before explaining the specific details of SAN Plan 2005 and the establishment of business segments into separate companies, I will review our business results for fiscal 2002.

REVENUES DOWN, PROFITS UP IN FISCAL 2002

Konica posted mixed results in fiscal 2002, as it recorded lower sales but achieved growth in profits. Consolidated net sales amounted to ¥539.6 billion, down ¥4.1 billion from the previous fiscal year. On the other hand, net income rose ¥4.6 billion, to ¥11.1 billion, owing to an improvement in net interest expense that resulted from a reduction in interest-bearing debt and the effects of exchange rates. Although we operated in a persistently harsh environment, our performance benefited somewhat from the effects of the weakening of the U.S. dollar and the euro against the yen. Despite the rise in net income, Konica is not satisfied with its actual business results for the fiscal year.

By business segment, the Office Document Company, which handles such products as copiers and toner, made a large con-

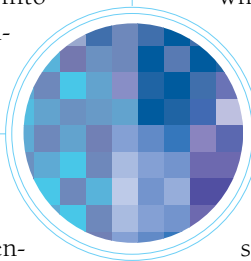
tribution to overall sales, posting a ¥12.2 billion rise in sales from the previous fiscal year, to ¥186.3 billion, and a ¥5.1 billion increase in operating income, to ¥12.5 billion. Particularly noteworthy was favorable sales of our highly acclaimed mid- and high-speed digital copiers, which underpinned sales in this segment. The Medical & Graphic Company reported a ¥2.0 billion decline in sales but registered a ¥1.5 billion increase in operating income. This segment handles medical and printing-use film and processing equipment.

On the other hand, the Consumer Imaging Company, which carries out business in color film and printing paper, continued to make important strides in trimming costs. However, this company posted declines in both revenues and income, with sales amounting to ¥11.1 billion and operating income totaling ¥2.9 billion. These decreases are attributable to a contraction of the domestic market and increasingly severe declines in prices. The EM & ID Business

Group, which handles CD and DVD pickup lenses and triacetyl cellulose (TAC) film, recorded declines in revenues and income, mirroring the effects of the global IT meltdown. In our inkjet business, which was expected to experience firm demand, our media business achieved steady growth during the fiscal year. In the printer business, we placed top priority on establishing core technologies and focused on the development of new high-speed, high-quality printers in our existing businesses. As a result, sales remained at the same level as in the previous year, but operating income declined ¥0.8 billion.

KONICA LAUNCHES SAN PLAN 2005

In April 2002 Konica launched SAN Plan 2005, a new medium-term management plan. Based on the watchwords "Speed," "Alliance," and "Network," the basic objectives of SAN Plan 2005 are to reallocate Companywide resources and promote a shift toward growth businesses. Under this plan, we aim to realize such management goals as raising our corporate value in international markets and enhancing levels of satisfaction for our shareholders, customers, and employees. Konica reviews each SAN plan annually, and prior to SAN Plan 2005, we had formulated SAN Plan 2003 and SAN Plan 2004, both of which

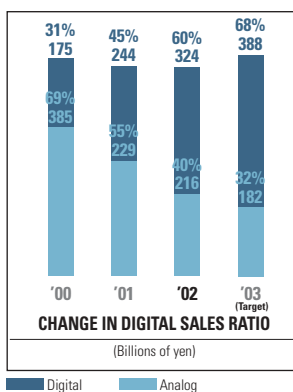


yielded significant results. While the trend toward digital networking is progressing even faster than expected, the business environment has become increasingly severe and companies lacking technological capabilities, cost competitiveness, and the ability to reform their management and business operations, have been forced from the market. Amid this environment, under SAN Plan 2005, Konica will also focus on such basic goals as progressing with business portfolio management, strengthening and utilizing its core technologies, and implementing a system for separate companies for each business segment as well as a holding company.

BUSINESS DOMAINS AND VISION

Before explaining the strategies we will implement to achieve our goals, I will clarify Konica's business domains and talk about Konica's vision.

Recent years have witnessed breathtaking advances in information systems propelled by the establishment of high-speed communications infrastructure and progress in developing new types of information terminals. The revolution in imaging technologies, which has supported advances in communications networks, is likely to significantly alter all of Konica's business fields. As these trends unfold, Konica's vision is to be an "Imaging Solutions Company," and the Company will focus on this field as a business domain where it will pursue growth by vigorously reforming its businesses in tandem with an emphasis on digitization of input and output devices. In output imaging, we will cultivate and strengthen our inkjet technologies as a third technology platform along with our existing silver halide and copier technologies as we undertake revolutionary new businesses. We will also proactively pursue new business opportunities in hard output and display fields. In input-imaging fields, we foresee plentiful opportunities in such upstream sectors as optical units and key devices for input devices, and will



focus on the development of this business.

COMPANYWIDE BUSINESS PORTFOLIO MANAGEMENT

In accordance with this vision, Konica will adopt management policies that include 1) implementing Companywide business portfolio management, 2) progressing further with digital networking, 3) enhancing management efficiency, 4) upgrading quality, and 5) implementing environmental accounting. In undertaking our Companywide business portfolio management, we have designated our optics and EM technology and inkjet technology businesses as strategic business fields and our office document business as our growth business. Accordingly, we will concentrate the allocation of management resources on these sectors as well as strengthen our ability to offer appealing products and bolster our marketing in these fields. We will energetically pursue both internal and external strategic alliances that utilize each partner's strengths, offer revolutionary new products and services drawing on our streamlined core technologies, and raise the value of our corporate brand. As an additional measure, we will introduce Konica Value Added (KVA), which focuses on the profitability of a project, as a new management indicator. With the aim of achieving returns in excess of capital costs, the Company will select and concentrate on those business segments that fulfill the criteria of KVA.

FURTHER PROMOTING DIGITAL NETWORKS

Determined to take advantage of the rapid expansion in digital networks, Konica will significantly shift its management resources toward digital business segments. Sales of digital products as a percentage of our net sales are rapidly growing. In fiscal 2000, digital products accounted for just 31% of total sales but surged to 60% of total sales in fiscal 2002. This trend is expected to gain momentum, and our goal is to increase digital-related products as a percentage of total company sales to 79% in fiscal 2006. Accordingly, we will raise the proportion of total investments allocated to digital products 14 percentage points from fiscal 2002 to 83% in fiscal 2006. At the same time, as it accelerates the introduction of new products and develops its businesses, the Company will vigorously

pursue alliances and joint development that allows the strength of both partners to be utilized to the fullest. Konica's digital products include digital minilab systems and supplies, digital cameras, medical and graphic digital systems, copying machines and supplies, optical pickup lenses, optical-related products, inkjet-related products, and electronics materials.

ESTABLISHING SEPARATE COMPANIES FOR EACH BUSINESS AND A HOLDING COMPANY

I will now explain our planned implementation of a system for separating each of the Company's key business segments into independent companies as well as a holding company for overseeing these companies. In June 1999, Konica introduced an internal company system aimed at speeding its business and clarifying responsibilities to better respond to volatile fluctuations in the business environment. Subsequently, however, mounting global competition, coupled with trend toward digital networks, triggered abrupt changes to the structure of our markets. To prevail in intense competition amid this environment, Konica decided to establish separate business companies for each of its businesses as well as a holding company for these companies, with a target date of April 2003. This reorganization is aimed at enhancing the speed of management to strengthen our competitiveness while clearly separating management and execution functions and maximizing our corporate value. The operating companies will become independent corporations possessing clearly delineated responsibilities and authority and will be better able to execute operations more quickly through the optimal management of each business. Concurrently, Konica will unify the individual business companies under the holding company and will carry out strategic decision-making initiatives based on its business portfolio.

NEW SUBSIDIARIES TO INCLUDE FOUR BUSINESS COMPANIES AND TWO COMMON FUNCTION COMPANIES

As shown in the diagram, by setting up our business segments as separate companies, our new organization will consist of four business companies and two common function companies, all of which will eventually become totally independent subsidiaries. Konica Consumer Imaging Company (tentative

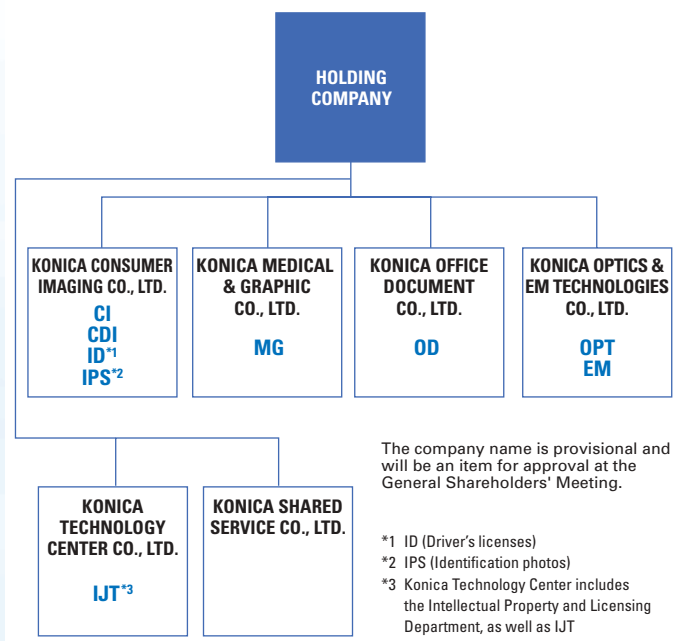
name) will take over the business of the Consumer Imaging Company as well as the ID systems (ID photo business) and camera businesses and will engage in the manufacture and sale of photosensitive materials and related products as well as cameras.

Konica Medical & Graphic Company (tentative name) will be the successor company for the Medical and Graphic Company and will engage in the manufacture and sale of such products as medical film, platemaking films, and processing systems.

Konica Office Document Company (tentative name) will take over the business of the Office Document Company and manufacture and sell such office equipment as copiers as well as related copier supplies. Konica Optics & EM Technologies Company (tentative name) will be the successor to the Optics Technology Company and will manufacture and sell optics products, related equipment, and electronics materials.

Konica Technology Center Company (tentative name) will take over the functions of the Central Research Laboratory, Ink Jet Technology Business Center, and the Intellectual Property

ORGANIZATION CHART (effective April 1, 2003)



and Licensing Department. It will undertake commissioned research, promote commercialization of new technologies, and offer a service for the monitoring and management of intellectual property.

Konica Shared Service Company (tentative name) will take over business for offering such shared indirect functions as common corporate services for strengthening the Group's foundation and enhancing its efficiency. It will offer various types of management support and indirect services.

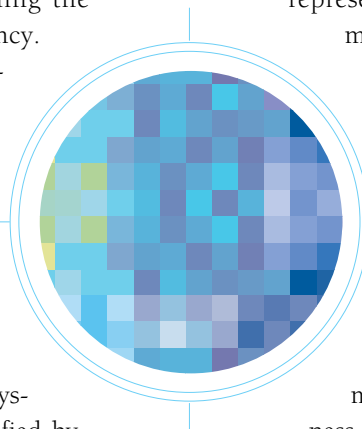
For an explanation of the business policies of each business company, with the exception of Konica Shared Service, please refer to the Review of Operations from pages 8 to 12.

Konica has already finished reorganizing its internal companies, business groups, and headquarters. We plan to implement this new system in April 2003 after a final decision is ratified by the Board of Directors and approved by a Special Shareholders' Meeting at the end of 2002. From April 2002, we plan to set up a simulated system for the separate companies and holding company and will carefully monitor management indicators and steadily reshape our organization to prepare for the implementation of this system.

EFFECTS OF REORGANIZATION

When considering the adoption of this holding company system, I continually envisioned a system that functions practically and yields results. A prerequisite for such a system is a corporate culture conducive to ensuring business can be carried out with the necessary authority and responsibility. Regarding this point, Konica is unfortunately lacking in a number of areas. Nevertheless, I am aware that setting up our operations as separate companies is meaningless unless these companies are given adequate authority to execute their operations. Nevertheless, rather than immediately transfer all authority to the individual business companies, we have initially provided the holding company with authority for decisions on personnel matters and investment amounts in portfolio management. Specifically, the holding company, which manages

the portfolio, will determine investment amounts based on proposals from the individual business companies while the individual companies will make optimal investments in accordance with themes within the scope of the amount allocated. For personnel-related matters, the representatives of each business company are decided by the holding company and the representative of each company will choose the top management for individual companies.



THE BENEFITS OF THE SEPARATE COMPANIES AND HOLDING COMPANY SYSTEM

I am confident that the establishment of the separate companies and holding company will yield the three important benefits. First, we will be able to execute our operations more quickly. The spinning off of business segments into companies will help delineate the business domains of each company more clearly and will enable faster and more flexible decision making, thereby strengthening our competitiveness.

Second, each company will be more solidly positioned to pursue alliances. From the perspectives of technological innovation and future structural changes in the markets, such alliances will be essential for achieving growth. Until now, alliances with partners had to be formed with Konica as a whole. However, the establishment of separate companies will dramatically widen the scope of possibilities in forming tie-ups depending on specific business fields and allow each company to develop its own leading-edge technologies and cultivate new markets.

Third, internal corporate spirit will be revolutionized, as each company's business results become more transparent and the morale of individual employees will be heightened. Also, employees will feel closer to the management of their company. In addition, the performances of the individual companies will be strictly evaluated by the holding company. I believe that this will allow us to create a strict corporate culture that emphasizes performance and build an organization and cultivate personnel with a strong awareness of profit.

IMPLEMENTING “KONICA IN VIEW”

To the present, I have steadily implemented policies aimed at raising the transparency of our management to realize our disclosure concept of “Konica in View.” This reflects our commitment to becoming a company with highly transparent management that is open to all stakeholders, including customers, shareholders, citizens of the local community, business partners, and our own employees.

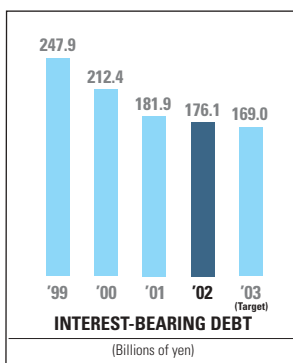
As I stated previously, until the Konica corporate culture fully develops, the best course of action is for the holding company to maintain constant authority over the new business companies. From this perspective, I am confident that the realization of the “Konica in View” will accelerate the development of the Konica corporate culture. Employees raised within the traditional Japanese corporate culture are undoubtedly harboring trepidations about the separate companies system. Precisely for this reason, I would like to show all employees Konica’s current situation and future prospects and call on all employees to think deeply about “Konica today, and Konica tomorrow.”

STRENGTHENING OUR CORPORATE GOVERNANCE

While introducing our system for separate companies and a holding company, we are also strengthening our corporate governance. In addition to adding two external directors, we are considering the rapid introduction of a U.S.-type commission system following revisions to the Japanese Commercial Code.

We have decided to introduce such a system based on the principles of shareholder-oriented management. Konica is a company built by shareholders and we must therefore meet the expectations

of shareholders, who have entrusted us with the management and operation of the Company’s business. Accordingly, we will emphasize management that strives to redistribute profits to shareholders as well maintain a keen awareness of the Company’s share prices with an eye to raising our corporate value.



BUILDING A NEW KONICA THROUGH STRONG DETERMINATION AND FLEXIBLE DECISION MAKING CAPABILITIES

In our fiscal 2001 annual report, I mentioned that the 21st century would be an age characterized by drastic change and intense competition and that the Company would meet the challenges of change with ambition and courage. Our determination in this area remains unchanged. If anything, by implementing our separate companies and holding company system, the direction that the Company should pursue has become even clearer. Through tireless determination and strong management, we will create a new age for Konica. As the industry undergoes a significant structural transformation, Konica will build a business model that responds quickly to the needs of the times and will promote management that emphasizes maintaining a sound balance sheet. This will enable Konica to raise its corporate value and meet the expectations of its shareholders.

In closing, we ask our shareholders for their continued guidance and support.

Fumio Iwai

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President and CEO
July 2002