



Kodak Highlights

May 1979

In this issue:

- Annual Meeting Review
- First Quarter Sales and Earnings



Contents

- 3 Report on Annual Meeting
 - 4 Management's address to shareowners
 - 13 Discussion session
 - 19 First quarter report to shareowners
-

On the Cover

Walter A. Fallon, chairman of the board and chief executive officer, reports to shareowners at the 1979 Annual Meeting in Rochester.

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Kodak Highlights is published quarterly for shareowners and others with an interest in the company.

May 1979/Volume 32/No. 2

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1979 Annual Meeting

The 78th Annual Meeting of Kodak Shareowners was held May 2 in Rochester, New York. Walter A. Fallon, board chairman and chief executive officer, presided.

More than 73 percent—118,509,308 of 161,375,931—of the company's shares outstanding and entitled to vote were present or represented by proxy at the meeting, which was attended by more than 2,000 shareowners.

The accounting firm of Price Waterhouse & Company was re-elected as auditors for 1979. The vote was 118,482,210 in favor and 219,945 against.

A proposal suggesting that the company notify shareowners of the availability of certain documents related to its pension plans was adopted by a vote of 118,125,865 (99.5%) in favor and 582,503 against (.5%). A proposal concerning restriction of sales in South Africa was defeated by a vote of 108,917,406 against (96.9%) and 3,522,708 in favor (3.1%).

The following directors were elected to serve until the 1980 meeting:

Roger E. Anderson
James S. Bruce
Colby H. Chandler
Kendall M. Cole
Charles T. Duncan
Walter A. Fallon
Douglass C. Harvey
Robert S. Hatfield
J. Paul Lyet
Toy F. Reid
Robert A. Sherman
John G. Smale
W. Allen Wallis
Gerald B. Zornow

Shareowners Hear Reports of Record Performance; Fallon, Chandler Comment on Kodak's Results

Walter A. Fallon, chairman and chief executive officer, and Colby H. Chandler, president, made the following reports at the 1979 Annual Meeting of Kodak Shareowners in Rochester, New York, May 2, 1979. Mr. Fallon's business report came first.

At last year's annual meeting, we gave Kodak shareowners a glimpse of our expectations. "Kodak," we said, "is well-positioned to move forward . . . to meet growing demand . . . to improve operating effectiveness . . . and to realize growth in corporate earnings." We noted that "the most searching analysis of every important aspect of our business . . . shows Kodak running smoothly and well."

Record Results

In many respects, we have come a long way during the past year. Worldwide sales in 1978 totaled a record \$7 billion, up 18 percent over 1977.

Net earnings increased by more than \$250 million to \$902 million, up 40 percent. It was the best annual gain in more than 20 years. Our return on shareowner's equity, at 19.6 percent, was the highest since 1973, a year when Kodak sales and earnings received a substantial boost from pocket cameras and 110 film.

Increased Dividends

Dividends to Kodak shareowners were \$376 million, up 11 percent. Twice during the year, the directors voted increases in the quarterly cash dividend, and they did so again this February. The dividend declared 10 weeks ago was 20 percent higher than the regular payment voted in the final quarter of 1978 and 50 percent larger than the payment authorized in the first quarter of last year.

To sum it up, 1978 was an exceptional year for Kodak. It was a year in which substantial gains in unit volume and improvements in our operational effectiveness produced dramatic results. Three-fourths of the company's one-billion-dollar increase in sales came about because customers bought more from us.

Productivity Improves

Along with growth in real demand came a dramatic improvement in Kodak productivity. While the productivity of all U.S. manufacturing companies increased about 3 percent last year, the rate of improvement at Kodak was about four times the national experience. Results of this kind don't just happen. For us, they came about because Kodak people recognized what had to be done.

You will probably recall—I know I do—that Kodak earnings were essentially flat from 1973 through 1977. During that interval, the company faced strong inflationary pressures, a general business recession and increased competition. And there was additional strain as we developed and introduced products for instant photography and office copying. The effect can be seen in these charts. Note the bulge in our capital expenditure at the decade's mid-point and erosion in rates of return, as we added people and tools for new product programs during an inflation-charged period.

Throughout this period we had two fundamental objectives. The first was short term: Earnings were to be maintained. Even though the ratio of net earnings to sales came under pressure, Kodak margins continued well in excess of the industrial average. At the same time, we strove to create the atmosphere and the conditions necessary for the turnaround of 1978.

Operating costs, always the subject of scrutiny, were controlled with special care, and various goal-setting procedures were put into play. The results expressed themselves in many ways. For example, the control of our inventories of 25,000 units with a value of \$1.3 billion is critical. Our millions of customers want Kodak products when they need them, and we must provide. Matching demand with the ability to supply can be a costly business. It is one we handle well. In 1977, our inventories actually declined slightly while sales were increasing 10 percent. Last year, inventories rose only 12 percent while sales were up 18 percent.

Another program with specific objec-



tives—division by division, department by department—led to more effective employment of Kodak people. The tools were natural attrition, hiring restraint and a process of internal reassignment. As a consequence, the company's worldwide employment declined by 3,300 in 1977. Last year, we added 1,100 men and women to the payroll. In those two years, sales rose by some 29 percent. When we talk about the skill of Kodak people and their sense of purpose, this is what we mean. More products, and better products, made and sold by an increasingly productive team. This is no annual report platitude. It is a fact, and one we are proud of.

Meanwhile, we moved ahead steadily in research and development. Creative research has always set the Kodak stage in terms of profitability.

'78 Earnings Strong

In 1978, Kodak earnings rebounded with strength. That happened because we were ready and able to capitalize on the economic opportunity of accelerating demand. Customers found our products especially attractive, because of their design and their value for the price. Value is a relative thing. For one, I am convinced that the relative appeal

of Kodak products and services has never been so high. During the last 10 years, prices of the materials we buy for use in the business increased at the average rate of 10 percent annually. Hourly pay rose at the rate of 8 percent. Over the same interval, Kodak selling prices increased by a much more modest 3½ percent a year.

That says something forceful about our ability to apply technology to the efficient production of goods and services. And it tells you that we have been putting Kodak profits to work. In the real world, there are only two uses for corporate profits. They are paid out as dividends to shareowners, to reward people who have risked their savings to invest in productive enterprise. What is left goes back into the business, to modernize and expand the nation's industrial plant.

Contrary to the popular notion, corporate profits—or earnings, as I prefer to call them—have not been unreasonably high. During the past 10 years, real earnings—that is, earnings without inflation—increased only 18 percent in this country. That's 1.7 percent a year. Real gross national product—the nation's output of goods and services—advanced 32 percent—nearly 3 percent a year.

In simple terms, that means we are producing more but earning less. Which, of



course, is one way to measure the effect of inflation.

Inflation

As a businessman, I am less concerned with the existence of inflation than I am with our attitude towards it. After all, we have recovered before from periods of substantial inflation. Can we recover again? I'm not sure. In the past, we have been a nation of inflation fighters. Today, there are disquieting signs that suggest we may be more inclined to live with inflation. If we lose our will and choose to live with inflation, our economy will gear itself to an unhappy and unavoidable outcome.

That outcome is an economy where wages are indexed, where prices are controlled, where profits are regulated—all in step with undisciplined acceleration in the cost of living. In such an environment, companies like Kodak will lose their distinction. They will be unable to reward shareowners and employees on the basis of innovation and superior performance.

That is the fundamental issue. It is much more serious than the question of whether wage and price control should be voluntary or mandatory. It is a question of leadership and the national will. It is a question of

personal discipline. It is one which asks whether this country will be able to compete effectively in the markets of the world. It is a question which asks whether we can sustain the progress we have made in the past. In the end it may be a question which asks do we want to.

First Quarter 1979

It is also a question much on our minds at Kodak as we set the company's course for 1979 and beyond. The beginning has been a good one. Last week, Kodak reported record sales and earnings for the first quarter of this year. Worldwide sales for the first 12 weeks of 1979 rose to \$1.6 billion, up 19 percent. Operating earnings were \$338 million, up 27 percent. Net earnings of \$197 million, 40 percent higher than the excellent results reported at this time last year.

I should note that the results of the first quarter of business for Kodak are seldom indicative of what may be expected for the full year. And I caution against the assumption that sales or earnings will continue at such high rates.

The general consensus among economists is that business activity will slow during the latter part of this year. Even so, we look forward to good sales.

Good Sales Ahead

Growing interest in amateur photography is worldwide. Kodak helped spark that trend. Kodak will continue to benefit from it, in 1979 and beyond. In applied fields—business systems, the graphic arts, health care, education, entertainment, professional and commercial photography—we foresee good growth this year. Sales of chemicals, plastics and fibers should increase, though the rate of gain may slow.

In newer fields, such as instant photography and office copying, we are well positioned to extend the trend of increasing customer acceptance. Kodak instant products were introduced three years ago. In that brief period, about 10 million Kodak instant cameras were shipped on a worldwide basis. Millions more will be sold this year, with the introduction during the summer of new cameras and improved instant color film. Another new Kodak entry, the Ektaprint office copier, is also striding into the marketplace. The number of Kodak copiers in place more than doubled in 1978, and we expect another good gain this year.

As always, the human element is the key. We are more than brick and mortar and financial reports. We are more than 120,000 men and women, and we have the skill, the resolve, and the drive to continue what began nearly 100 years ago and what has become since then, one of the most vigorous and successful companies in the history of modern industry.

I, for one, am confident that Kodak people will get the job done and, in summary, that 1979 will be a year of continued growth for Eastman Kodak Company.

Your company is, in fact, running smoothly and well. Here to tell you why and how is Kodak President Colby H. Chandler. He is in an excellent position to talk about what he knows best. The current operations of the company.

Colby . . .

Mr. Chandler addresses the shareowners.

Thank you, Walt. It is certainly a pleasure to review the best year in Kodak's history. I can't think of a better way to begin than with that part of our business closest to home. The Photographic Division.

Photographic Results

The Photographic Division accounted for nearly \$5.7 billion in sales in 1978–80 percent of all Kodak revenue.

Sales by the U.S. and Canadian Photographic Division totaled more than \$4 billion, an increase of 19 percent over 1977. More than half the photo division's dollars came from products for picture-taking. Picture-taking is getting easier for people, and as a result, people are taking more pictures. In the United States during the decade of the '70s, picture-taking has grown at a rate 25 percent faster than during the decade of the '60s. And in the last two years, growth has been at a phenomenal rate of twice the long-term trend.

Instant Photography

Instant photography is still in its early stages at Kodak. But it's coming of age very rapidly. The 10 million Kodak instant cameras now sold worldwide have made hundreds of millions of exposures on Kodak instant print film. Those products yield, we think, the finest instant color pictures in the world. But there are always ideas for improvement. In March, we announced an improved Kodak instant color film. It reproduces blues, greens and other colors even more accurately. It is sharper and finer grained as well. But it meets another important need: faster access time. Kodak instant prints will now be closer to "instant" than ever before. This will give you an idea of what that means.

(Short film on improved instant product is shown.)

In March, we also introduced two new popularly priced instant cameras—the motorized, fixed-focus Colorburst 50 camera and the Handle 2 camera. Both feature design improvements that make it easier than ever to take colorful instant pictures. There will be more for consumers in the weeks ahead. This summer we will introduce the Colorburst 250 camera. It features a built-in electronic flash and a popular price.

New Traditional Cameras

Cameras with price appeal come in all shapes and sizes. The most popular conventional

still cameras ever have been 110 "pocket" cameras. This summer, Kodak will introduce three additions to the popular Ektra line, all with electronic flash. The Tele-Ektralite 20 camera will offer telephoto capability. The Ektralite 30 will offer aim and shoot capability with automatic exposure control. And the Tele-Ektralite 40 camera will combine all three features. It will feature telephoto capability, automatic exposure control and—like the others—built-in flash.

Photography becomes a better business for Kodak each year. Our products are a big part of the reason. But the growth of the U.S. population is an important factor, too. The people most active in photography—those 25 through 49 years old—make up an age group that will grow by 25 percent between 1975 and 1985. This group has proved an excellent market for Kodak in the last five years. And it helps explain why we expect the photo market to do well through 1985, and beyond. Last year, U.S. consumers snapped more than 10 billion pictures of all kinds. Some 9 billion of those pictures were made with conventional cameras and films—a full billion more than in 1977.

Professional & Photofinisher Markets

Consumer products aren't the only innovations driving the growth of photography. Kodak printers, processes and papers turn exposed film into color prints and transparencies. These products are constantly improving. Kodak Ektacolor 74 and 78 papers are selling well. The demand for all color papers is approaching our capacity to produce them. In 1978, Kodak Park, for the first time, made more than one billion linear feet of photographic paper. We expect to make even more this year as we aggressively market color papers against the stiff competition offered by overseas suppliers and others.

All these facts about Kodak marketing tell a big story. But they can't suggest how much fun it can be to take pictures. Kodak advertising tells that story over and over again to people everywhere. Here's a look at a recent pilot for a TV commercial for Kodak instant products.

(Television commercial shown.)

Health Science Products

All product concepts in the Photographic Division start by applying basic Kodak technology to what people really need. Nowhere is this more apparent than in the products of our Health Sciences Division. Radiography has become perhaps the most important diagnostic tool of the 20th Century. In hospitals, clinics, dentist's offices, and in industry, radiography is usually the best way—if not the only way—to look beneath the surface.

We are continuing a program to reduce the amount of silver needed for X-ray film, while maintaining the high quality of the radiograph itself. For users and for us, this is particularly significant at a time when the cost of silver threatens to climb even higher.

We are also moving ahead with new Ektachem technology. At the American Association for Clinical Chemistry meeting in July, we will describe how single-use ion-selective analysis can detect different electrolytes in a patient's blood. Like tests for glucose and blood urea nitrogen, these tests are in the group most frequently requested by physicians. The tests rely upon small, inexpensive, disposable slides. They, too, require a very small patient sample. They, too, will yield precise, accurate results. But they analyze the sample in a much different way. The first Ektachem analyzer reads the color of a processed slide and converts its optical density to a precise measurement. The new technology analyzes the electrical potential of the sample and converts a voltage reading to an electrolyte concentration.

Micrographic and Copy Products

Kodak's business systems people also make diagnoses. But here the return to Kodak comes not from the diagnosis, but from the treatment. When customers' information storage and retrieval problems can be effectively treated with Kodak micrographic and copy products, the results can be rewarding to them, to us and to you.

New copy products will become available this year. Two new document positioners automatically place originals of virtually all weights and sizes in exactly the right spot for copying. They then remove the original the



moment the copy is made, and position the next original in place. This speeds copy use, and keeps the information copied precisely aligned on all duplicates. A new sorter will handle multiple copy sets quickly and easily.

Our business systems sales people have been meeting management needs with microfilm for more than 50 years. Today they offer more than 1,900 products. Current best sellers include an IMT microimage terminal that uses a customer's computer to locate one document among millions, and display it in seconds. The Starvue and Oracle line of readers, reader-printers, microfilers, and automatic retrieval units, continues to be welcome by customers in applications serving all forms of industrial and commercial companies, banks, and government offices. Reliant microfilers, for years the most accepted microfilers used in financial institutions and businesses carry on their strong sales performance. And for customers who need the great amounts of data that only a computer can provide, the Komstar microfilmer uses a laser to write on a special dry-processed microfilm at speeds of 150 pages per minute, at savings up to 90 percent over comparable paper systems.

In sum, Kodak has been, and will continue to be, a source business people can turn to for

the systems of high quality and reliability in the modern office environment.

Motion Pictures

People are not accustomed to spending two or three hours staring silently at a single product. But that's what you do when you go to the movies. Very often, that product is made with our product: Eastman motion picture film.

We watched box office receipts climb about 15 percent in 1978. With the climb came increased revenues from theatrical products. Both Eastman color negative and Eastman print films sold at record levels, and growth is continuing. Many of the biggest hits of the late 1970s are now being followed by bigger, even splashier, sequels that will compete for even more box office dollars. And I know that many of you were watching television last month when Kodak gained another Oscar for its color intermediate II film.

The programs you watch on television are often made on Eastman products, too. More than 80 percent of prime time shows originate on film. Film offers television producers far more flexibility than alternate means of recording.

Graphics Products

And when you read your favorite magazine, Kodak products are in the picture as well. In 1979, our graphics products sales should benefit from the introduction of a new Polymatic Litho plate for extra long printing runs. The plate is coated with a non-silver photopolymer that produces images immediately following exposure. New machine processable films and chemicals were introduced last fall, and these, plus a new line film, should support this division well in 1979 and beyond.

Our extensive service network deserves special mention this year. Many of the most expensive machines we sell are essential to our customers' daily business. When a Kodak copier, a processor or a microfilmer needs service, business can slow down or even stop. Fast, reliable service is essential. Kodak builds serviceability into its products at the design stage. As a result, complex products can be fixed easily, often by the customer. Some units contain sophisticated electronics packages that allow problems to be solved via direct telephone links to computers in Rochester. In short, Kodak service people try to eliminate downtime wherever technology can do it.

International Sales

Sales in the International Photographic Division in 1978 were nearly \$2.4 billion, an increase of 21 percent. That increase took place uniformly across major international marketing regions. These gains were largely a result of two complementary facts. Interest in photography is growing all over the world. From Japan to Brazil, from France to New Zealand, photography is enjoying the same boom it's enjoying here.

The other fact comes from the continuing prosperity of many of the 130 overseas countries where Kodak does business. As more and more countries improve their standards of living, more leisure time dollars are being spent on photography. These factors are drawing world markets closer together. As they fuse into one, we are looking at the world photographic market as a coherent whole, supplied by an integrated Kodak organization.

Manufacturing Flexibility

By viewing our worldwide photographic manufacturing facilities as components of one organization we can meet ever higher standards of product conformity and quality. We can now get the same high quality results on virtually any conventional sensitized product at any coating plant in the world. This gives us manufacturing flexibility and lets us truly optimize our global production resources to take full advantage of our manufacturing ability and to serve our marketing needs.

Capacity planning for photographic products is now being done on a worldwide basis. We can interchange our product supply sources to create the best possible use of our facilities, people and skills. A good example exists in Europe, where Kodak sales rose 21 percent last year. Before we began our product interchange program, we were making some 300 films and papers in the European region. That number will soon be reduced by more than half. European plants are sending their small production runs to Kodak Park, and concentrating on longer runs. At the same time, and to the same end, products are being interchanged between France and England.

Eventually, many films and papers will be made in high-volume runs at single locations in the region. It's more economical. We get better capacity utilization. We get better quality control. And when engineers work to produce long runs of fewer products, they can concentrate their energies at improving all aspects of production and quality.

Regional Sales

Meanwhile, the international division is selling more products than ever. A 21 percent gain was also realized in the Latin American Region. New manufacturing capability, the recovery of the Mexican economy, and good growth in Brazilian markets all spurred sales. Our Mexican facility in Guadalajara began shipping Kodacolor II film to countries in the Latin American Free Trade Association and instant cameras and film also sold well.

The Asian, African and Australasian region increased sales 22 percent. Like the

other regions, sales of instant and traditional cameras supported a record year and point to continued good growth in the years ahead.

Balance of Payments

Our international business is contributing, too, to the U.S. economy. About half of the nearly \$3 billion in international sales came from products made in this country, most within 10 miles of this building. In 1978, Kodak brought \$1 billion more into the U.S. than was paid out. In fact, last year Kodak's level of exports placed it among the top five U.S. companies.

Eastman Chemicals

Some of those goods are made in another Kodak hometown community, Kingsport, Tennessee—headquarters of the Eastman Chemicals Division. Last year, their sales totaled more than \$1.5 billion, up 11 percent from 1977.

It can be difficult to describe how the chemicals, fibers, and plastics produced by the division are used by Kodak customers. That's because terms like aldehydes, mod-acrylic fiber, polyolefin, and monoglycerides mean much to a chemist or chemical engineer—but not much to many of us.

But the chemicals, fibers, plastics, and other products produced by this division are with you every day. You don't see them, because they are in other products: ranging from soft drink bottles to printing inks. And even when you do use them directly in vitamin E or women's apparel, you may not associate them with Kodak.

But a look at the steady growth of the Eastman Chemicals Division tells an important story for every shareowner. That division now accounts for one dollar of every five in sales. By itself, Eastman Chemical sales would place this division among this country's top 200 industrial companies, and ahead of many well known chemical manufacturing companies. Its products are virtually everywhere, as you will see from this film summary (*slide sequence concludes Mr. Chandler's remarks*).

Mr. Fallon comments on Kodak's outlook.



Thank you Colby.

All of us at Kodak share a common goal: To get today's work done right. It is just as important to be ready for tomorrow. I can tell you today that Kodak will be ready to compete effectively in the markets of the 1980s.

During 1978 and 1979, we will have committed the better part of \$2 billion to the design and development of tomorrow's technology, in the form of new and improved products and in the facilities and tools needed to make them. In those two years, close to \$1 billion will be spent to enlarge and improve Kodak facilities, with about 80 percent of that spending dedicated to manufacturing expansions and improvements.

As we approach the company's 100th year it is fitting to point to that part of our commitment centered here in Rochester. Since the first of the year, we have announced projects which will add nearly a million square feet of manufacturing space to local Kodak installations. To put that into perspective, consider that all the retail outlets at Midtown Plaza comprise about 500,000 square feet, *half* the total Kodak will have added in Rochester during 1978 and 1979.



R&D Commitment

More than \$800 million will be spent over the same two years on research and development. Here, too, Rochester is the core, the root source of our technology. Kodak R&D spending currently accounts for about 2 percent of the total U.S. investment in research and development funded by American industry. Three of every four research dollars we spend are spent here, in Rochester.

Those dollars are paying off in knowledge. We are learning how to get more out of the silver halide crystal, thus reducing the amounts of valuable silver needed to capture and present an image. We are learning more about spectral and chemical sensitivity, and we are using that knowledge in ways that will produce continued improvement in the ability of films to record pictures in low light.

We are learning how to improve the exposure and process latitude of our films and papers. We are learning more about the chemistry of dyes and dye formers for better color materials. We are learning more about lasers that fulfill the literal definition of photography. They "write with light" in a controlled manner at remarkable speeds. We are learning more about charge coupled sensing devices and their possible applica-

tions. We are learning more about integrated circuits that save energy and improve reliability in a wide variety of apparatus. We are learning more about light-sensitive photopolymers and what they mean to various Kodak product lines. We are learning how to apply our skills in analytical chemistry to new testing procedures in the field of health care.

At Eastman Chemicals Division we are learning more about organic chemistry and the building blocks for high-technology chemicals. We are using optics and electronics to improve upon the performance characteristics of Kodak hardware. And we are learning more about process technology and industrial engineering, to make our plants here and abroad run more productively. As George Eastman once said of Kodak research and as we suggest in the following look at our activities, "we never reach the end of anything." (*Slide sequence shown*)

The 1980s will be a decade of excitement and opportunity for Kodak. We are preparing now for those opportunities. Kodak's emphasis on quality, in research as in all aspects of corporate life, has been present for nearly 100 years. This is an idea as right for the 1980s as it was for the 1880s. George



Eastman promised his customers "good goods." Good goods his company delivered. In the months and the years ahead, Kodak will be there with the best goods available. We hope you will be there with us. It promises to be a great experience.

Thank you very much.

Discussion Summary

The following summarizes various matters presented and discussed during the course of the business meeting. A complete transcript of the meeting is available. Send your request to: Shareowner Relations, Eastman Kodak Company, 343 State Street, Rochester, New York 14650.

Walter A. Fallon, chief executive officer and chairman of the board of directors, called the meeting to order at 10:30 a.m. May 2.

After the presentation of the agenda and the introduction of company officers and directors, the meeting moved on to the election of auditors and directors and then to the presentation and discussion of shareholder resolutions.

South Africa Statement

Mr. Fallon summarized the company's position and situation in South Africa as follows:

"You know it's our policy to sell Kodak products and services around the world within the guidelines of U.S. law. And we are only one of several companies which supply photographic products in South Africa. As a matter of fact, we have less than 20 percent of the market.

"We comply with U.S. embargo on sales

to and for use of the South African Government. During the last six months, representatives of Kodak South Africa have visited at least half of the 100 offices operated by the Department of Plural Relations in South Africa. Not one of those offices we visited was using Kodak products to photograph passbook applicants. In many of the population centers, our people have surveyed retail outlets that produce I.D. photographs for submission by passbook applicants and without exception we found no instance where Kodak products were used for that purpose.

"I'm not suggesting that no passphotos have ever been made on conventional film or paper. Perhaps some people coming in from the homelands do, on occasion, bring photographs with them as they apply for passbooks. Such instances are isolated. They're well beyond our control. And that's true for any company—photographic or otherwise—which markets products around the world. It's a fact that speaks to the difference between statements of policy and matters of practical fact.

"The facts of the situation are these. Kodak has not provided an I.D. system to the South African Government. We do not sell aerial film to the South African military. We have found no evidence that Kodak products are being used by any organized surveillance program in South Africa. If a program of that magnitude were undertaken, we'd know about it. One of the things we do is to record and analyze orders from nearly 400 major customers in South Africa. We installed a computer system last November to accomplish this. This enables us to detect any substantial change in buying patterns. In addition, our sales force is in daily contact with customers and their product needs, and we're in a position to take action if we identify any inappropriate use of our products. It's more important that we monitor their use rather than try to outlaw their use.

"Frankly I believe the real issue is not sales to the government. It's whether it is appropriate for the Kodak Company to do business in South Africa. On that question, there's no doubt we intend to keep our commitment to Kodak employees and to



work for constructive change.

"Let me remind you that we employ some 467 Kodak men and women in South Africa. Half are non-white. Of them, at least half have ten years service and half are more than 40 years old. We're concerned about their welfare and they've told us that they want us to stay. They're loyal Kodak people. They have initiative. They are working to improve their standards of living and their way of life. And they are the people who are going to bring constructive change to South Africa, not chaos. There's going to be change eventually in South Africa. It's just inconceivable that we would abandon them. We will continue to help them. To them, this is more than an iota of support.

"And I'm also pleased to tell you that we are contributing \$150,000 to three educational projects in South Africa. The first will bring a Kodak-sponsored black scholar to study at an American university. The second is called Project Pace involving the building of a technical-commercial school in Soweto. And the third is construction of facilities in Chamdor, a leading trade-management training center in Johannesburg. I think we're acting responsibly in South Africa, and I believe the overwhelming majority of our shareowners will urge us to stay."



The following is a summary of the discussion period after Mr. Fallon and Mr. Chandler concluded their report to shareowners.

A shareowner asked why Kodak had not raised its polyester staple prices in view of price increases by other manufacturers of this product. Mr. Fallon replied that the company is adhering to the Federal Government's guidelines. Under the price guidelines, Kodak may raise its U.S. selling prices by 3.1 percent in the 1978-1979 guideline year.

Another shareowner requested a management comment on the market value of Kodak stock. Mr. Fallon noted that the Dow Jones Average declined about 3 percent in 1978 while the value of Kodak stock increased about 15 percent. The current price represents a 15 percent premium over the Standard & Poors average price/earnings ratio, places Kodak higher than many quality companies, but reflects caution in the marketplace, he said. He noted that the number of Kodak shareholders increased to 250,000 last year.

Chemical Waste

A representative of an educational institution holding Kodak stock asked about the company's procedures in disposing of chemical waste materials. The chairman replied that Kodak's environmental protection program is multi-faceted. Precipitators, cyclone collectors and chemical incinerators are used to meet air quality standards. The chemical incinerator used at Kodak Park has been cited as a state-of-the-art operation, Fallon said. He noted that only chemically inert materials such as that coming from excavation sites or from plant boiler systems are deposited in landfills on company property.

The board should consider a stock dividend, suggested another shareowner. Mr. Fallon replied that the usual reasons for declaring stock dividends—to conserve cash or increase somewhat the attractiveness of the market price—do not apply to Kodak at this time. However, such action will be considered.



Dividend Payments

Another shareowner then commented on the yield (annual dividends per share as a percentage of current market value) of Kodak cash dividends. Mr. Fallon replied that the normal policy at Kodak is to pay out about half of net earnings in cash dividends, a payout rate in excess of the national industrial average.

Business and government regulation was the subject of one shareowner's comment. He asked management to speak out publicly on national issues which affect the company's interests. Mr. Fallon noted that the company does express its opinions on issues. It has a Government Relations department to provide facts about the business to legislators. Another shareowner suggested that the company form a political action committee. Mr. Fallon said that the company does not have such a committee at this time.

Berkey Litigation

Kendall M. Cole, Senior Vice President and General Counsel, then gave the shareowners an update on the Berkey litigation. Mr. Cole said that Kodak's appeal to the U.S. Court of Appeals for the Second Circuit is now complete. Oral argument was presented in mid-

April. Supplemental briefs have been filed by both parties, and the court's decision may come sometime before the end of the year.

A retired shareowner asked about increases in company pensions to offset cost of living advances. James S. Bruce, Senior Vice President and Director, Corporate Relations, said that the company is very concerned about the effect of inflation on pensions. Last fall, pension payments were increased by 12 percent for those who retired before 1973. An employee/shareowner commented on certain personnel and medical department responses to employee needs. Mr. Fallon replied that the company has definite practices and policies that cover all employees. He emphasized the company's willingness to discuss specific situations with individual employees.

Another shareowner asked whether Kodak used "flex time" for production personnel. Mr. Fallon replied that flex time has been investigated by Kodak manufacturing divisions. It was concluded that continuous manufacturing operations do not generally lend themselves to this type of work scheduling, which allows employee options on work arrival and departure times. In response to another question, Mr. Fallon said



that the company has a liberal sickness allowance plan which pays full wages from the first day of extended sick leave. He noted also that Kodak pay meets or exceeds wages paid for comparable work in the communities where company units operate.

Economic Factors

The effect of a possible economic slowdown concerned another shareowner. Mr. Fallon pointed to the company's excellent first quarter results as providing momentum which should permit Kodak to fare well during the balance of the year.

Another shareowner who had retired on disability after 38 years with Kodak rose to commend the company for its personnel relations policies. He also commended the medical department for service rendered to him at a time of illness.

Another shareowner asked whether Kodak was involved in supplying citizenship cards to blacks in the South African homelands. Mr. Fallon replied that the company has no involvement in any such matter. In addition, he said the company has not been in touch with the U.S. State Department on the matter, as the shareowner had implied.

A shareowner commented on a Kodak

sales representative's marketing approach. Mr. Fallon replied that the company is indeed eager to sell its products and sales representatives are expected to put forth their best efforts to make sales.

Tuition Assistance

A shareowner whose husband had his higher education financed through the company's tuition aid program expressed her thanks for this Kodak benefit. She also urged management to increase the number of television commercials aired by Kodak. She added her hope that the company would become more involved in computer technology.

Mr. Fallon said that some 2,500 employees attended advanced education classes in the 1978-1979 school year. He also said the company tries to balance its advertising and promotional efforts through a variety of media, effectively supporting the wide range of Kodak products. Although the company does not manufacture computers, it uses them extensively—in marketing, manufacturing, and distribution.

Efforts to be re-employed by Kodak after a long absence to raise her children prompted one shareowner to ask how she might find another job in the company. Mr. Fallon



replied that there is a definite company policy prohibiting discrimination against anyone because of age and stated that her application, among others, would be considered by the personnel department.

An employee/shareowner asked if management foresees the unionization of its U.S. employees. The chairman said that while Kodak operations overseas are unionized, none of the company's U.S. employees belong to unions. He said that individuals are free to choose a union, but that the company's record is one of treating employees fairly and equitably. He said he saw no reason for widespread interest in a union at Kodak U.S. operations.

A retired Kodak employee/shareowner noted that the company pays brokerage fees in certain stock purchase plans for employees, and wondered if such a plan might be available to retirees. Mr. Fallon replied that his suggestion would be considered. A number of shareowners commended the company for its treatment of employees, its performance in the last year, and for holding the annual meeting in Rochester, the company's hometown.

One shareowner suggested that the meeting be held in Rochester again next year. Mr.

Fallon replied that while he was pleased with the reception by shareowners in Rochester, it is the board of directors which must decide the location of the annual meeting.

The 1979 meeting took place at Kodak Park, the company's largest manufacturing facility. Management reports were accompanied by sophisticated audiovisual presentations. Some 1,000 slides were shown by a 15-projector arrangement coordinated by a mini-computer.

The meeting was adjourned at about 1 p.m.

First Quarter Report to Shareowners

In Summary

(in millions, except earnings per share)

	First Quarter		
	1979	1978	Change
Sales	\$1,644.0	\$1,377.7	+19%
Earnings from Operations	337.8	265.4	+27
Earnings before Income Taxes	355.0	262.0	+35
Net Earnings	197.5	141.0	+40
Per Share	\$1.22	\$.87	

Sales Advance

First quarter sales were up 19 percent as all three operating divisions contributed to the gain.

Sales by Segment (in millions)	First Quarter		
	1979	1978	Change
U.S. & Canadian Photographic	\$ 852.3	\$ 729.5	+17%
International Photographic	632.0	510.9	+24
Deduct: Interdivisional Sales	(191.0)	(154.2)	
Photographic Segment	1,293.3	1,086.2	+19
Chemicals Segment	397.2	335.9	+18
Deduct: Intersegment Sales	(46.5)	(44.4)	
Total Worldwide	\$1,644.0	\$1,377.7	+19%

In the U.S. & Canadian Photographic Division, unit volume accounted for most of the sales gain. Higher sales were reported by all markets divisions. Business systems sales were especially strong, as copier revenues rose sharply.

In the International Photographic Division, higher unit volume in all regions was the principal factor in the sales increase.

Higher sales in the Eastman Chemicals Division were the result, primarily, of increased unit volume. Selling prices were only slightly higher than a year ago. Sales were strong for chemicals, plastics, and fibers.

Sales to the U.S. Government and defense contractors amounted to \$48.7 million, and represented approximately 3 percent of total sales.

Earnings Improve

Earnings advanced on the strength of increased volume and improved productivity. Selling prices were moderately higher in keeping with the government's guidelines. Prices of purchased materials and services, wages, and benefits were at higher levels.

Costs and Expenses (in millions)	First Quarter		
	1979	1978	Change
Cost of goods sold	\$976.1	\$832.0	+17%
Percent of Sales	59.4%	60.4%	
Sales, advertising, distribution and administrative expenses	\$330.1	\$280.3	+18%
Percent of Sales	20.0%	20.3%	

Cost of goods sold included research and development expenditures of \$103.8 million compared with \$85.7 million in the first quarter of 1978.

Earnings from Operations	First Quarter		
	1979	1978	Change
Amount (in millions)	\$337.8	\$265.4	+27%
Percent of Sales	20.6%	19.3%	

Interest income was substantially higher than in the first quarter a year ago as a result of increased yields on a higher balance of securities. Exchange losses, after tax, and the effect of translation of net monetary assets amounted to \$4.5 million in the quarter compared with \$9.6 million a year ago. The provision for income taxes was \$157.5 million, or 30 percent higher than the \$121.0 million in the first quarter of 1978. The main reason for the lower effective tax rate was the reduction, effective this year, in the statutory U.S. corporate income tax rate from 48 percent to 46 percent.

Net Earnings	First Quarter		Change
	1979	1978	
Amount (in millions)	\$197.5	\$141.0	+40%
Percent of Sales	12.0%	10.2%	

Dividends to Shareowners

The cash dividend per share declared in the quarter was 60 cents compared with the regular dividend of 50 cents in the final quarter of 1978 and 40 cents declared in the first quarter of last year. Total dividends declared amounted to \$96.8 million for the first quarter of 1979.

Capital Improvements

Capital expenditures totaled \$111.8 million during the quarter.

Capital Expenditures (in millions)	First Quarter	
	1979	1978
U.S. & Canadian Photographic	\$ 59.2	\$49.4
International Photographic	22.8	19.1
Total Photographic	82.0	68.5
Eastman Chemicals	29.8	13.1
Total	\$111.8	\$81.6

The provision for depreciation was \$80.3 million, compared with \$72.1 million recorded in the first quarter of 1978.

Financial Position

Working capital at the end of the quarter amounted to \$2,508.5 million, or \$474.9 million higher than at the end of the first quarter in 1978. Cash and marketable securities were \$1,310.0 million, compared with \$973.2 million a year ago. Worldwide inventories were \$1,313.5 million, up 14 percent from \$1,150.5 million a year ago. Receivables were \$1,228.9 million, as compared with \$969.7 million a year ago.

Outlook

While economic growth is predicted to slow somewhat this year, we anticipate that 1979 will be another year of good results for the company.

Recent Development

On April 18, 1979, appeals from the judgment in the Berkey Photo antitrust litigation were argued before the United States Court of Appeals for the Second Circuit.

W. A. Fallon
Chairman

C. H. Chandler
President

Consolidated Statement of Earnings

Eastman Kodak Company and Subsidiary Companies

	For the Quarter (12 Weeks) Ended	
	Mar. 25, 1979	Mar. 19, 1978
Sales	(in thousands, except earnings per share)	
Sales to: Customers in the United States	\$ 869,394	\$ 759,187
Customers outside the United States	774,590	618,504
TOTAL SALES	<u>1,643,984</u>	<u>1,377,691</u>
Costs		
Cost of goods sold	976,026	832,024
Sales, advertising, distribution, and administrative expenses	330,115	280,300
Total costs and expenses	<u>1,306,141</u>	<u>1,112,324</u>
Earnings		
EARNINGS FROM OPERATIONS	337,843	265,367
Interest income	28,246	15,689
Interest expense	5,006	3,568
Other income and (charges)	(6,096)	(15,477)
EARNINGS BEFORE INCOME TAXES	<u>354,987</u>	<u>262,011</u>
Provision for United States, foreign, and other income taxes	157,500	121,000
NET EARNINGS	<u>\$ 197,487</u>	<u>\$ 141,011</u>
Average number of shares of common stock outstanding	161,384	161,377
Net earnings per share	\$1.22	\$.87

Consolidated Statement of Retained Earnings

Retained Earnings		
Retained earnings at beginning of year	\$4,184,403	\$3,658,127
Net earnings	197,487	141,011
TOTAL	<u>4,381,890</u>	<u>3,799,138</u>
Cash dividends declared at \$.60 per share (\$.40 in 1978)	96,831	64,551
RETAINED EARNINGS at end of quarter	<u>\$4,285,059</u>	<u>\$3,734,587</u>

Supplemental information:

1. Research and development costs included in cost of goods sold	\$ 103,797	\$ 85,716
2. Operations of subsidiary companies outside the U.S. included in Consolidated Statement of Earnings:		
Sales	\$ 710,298	\$ 579,229
Earnings from operations	95,766	72,343
Net earnings	54,948	34,588

Consolidated Balance Sheet

Eastman Kodak Company and Subsidiary Companies

Assets	Mar. 25, 1979	Dec. 31, 1978	Mar. 19, 1978
Current Assets		(in thousands)	
Cash	\$ 112,034	\$ 143,910	\$ 80,366
Marketable securities	1,197,965	1,235,553	892,786
Receivables	1,228,896	1,266,941	969,713
Inventories	1,313,479	1,233,340	1,150,539
Prepaid charges applicable to future operations	126,612	119,949	132,075
Total current assets	<u>3,978,986</u>	<u>3,999,693</u>	<u>3,225,479</u>
Properties			
Land, buildings, machinery, and equipment at cost	5,621,611	5,515,252	5,214,713
Less: Accumulated depreciation	<u>2,854,875</u>	<u>2,778,122</u>	<u>2,551,525</u>
Net properties	<u>2,766,736</u>	<u>2,737,130</u>	<u>2,663,188</u>
Other Assets			
Unamortized excess cost of investments in consolidated subsidiaries over net assets acquired	8,196	8,603	9,771
Long-term receivables and other noncurrent assets	53,462	55,641	47,866
TOTAL ASSETS	<u>\$6,807,380</u>	<u>\$6,801,067</u>	<u>\$5,946,304</u>
Liabilities and Shareowners' Equity			
Current Liabilities			
Payables	\$ 976,635	\$1,002,158	\$ 853,809
Taxes—Income and other	397,004	399,237	273,500
Dividends payable	<u>96,831</u>	<u>161,379</u>	<u>64,551</u>
Total current liabilities	<u>1,470,470</u>	<u>1,562,774</u>	<u>1,191,860</u>
Other Liabilities and Deferred Credits			
4½% convertible debentures—due 1988	66,056	66,056	66,056
Other long term liabilities	111,792	110,702	105,647
Deferred income taxes	<u>200,561</u>	<u>203,854</u>	<u>174,876</u>
Total liabilities and deferred credits	<u>1,848,879</u>	<u>1,943,386</u>	<u>1,538,439</u>
Shareowners' Equity			
Common stock			
Par value—paid in or transferred from retained earnings*	403,966	403,966	403,966
Additional capital paid in or transferred from retained earnings	269,476	269,312	269,312
Retained earnings	<u>4,285,059</u>	<u>4,184,403</u>	<u>3,734,587</u>
Total shareowners' equity	<u>4,958,501</u>	<u>4,857,681</u>	<u>4,407,865</u>
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY	<u>\$6,807,380</u>	<u>\$6,801,067</u>	<u>\$5,946,304</u>

*\$2.50 par value, 360,000,000 shares authorized; Issued: 161,586,494 shares; 688,083 authorized but unissued shares of common stock are reserved for the conversion of the debentures issued by Eastman Kodak International Capital Company, Inc. 41,058 shares have been issued as a result of conversions to date.

Consolidated Statement of Changes in Financial Position

Eastman Kodak Company and Subsidiary Companies

	For the Quarter (12 Weeks) Ended	
	Mar. 25, 1979	Mar. 19, 1978
(in thousands)		
Funds Provided by:		
Net earnings	\$ 197,487	\$ 141,011
Charges to earnings not requiring cash outlay:		
Depreciation	80,279	72,133
Plant and equipment retired, less accumulated depreciation	1,937	3,333
Provision for deferred income taxes, net	6,600	6,000
Amortization of excess cost of investments in subsidiaries over net assets acquired	407	408
Total from earnings	<u>286,710</u>	<u>222,885</u>
Decrease in receivables	38,045	46,038
TOTAL FUNDS PROVIDED	<u><u>324,755</u></u>	<u><u>268,923</u></u>
Funds Used for:		
Dividends to shareowners	96,831	64,551
Additions to properties	111,822	81,572
Decrease in current liabilities	92,304	46,605
Increase in inventories	80,139	51,395
Other items, net	13,123	9,541
TOTAL FUNDS USED	<u>394,219</u>	<u>253,664</u>
Increase (decrease) in cash and marketable securities	(69,464)	15,259
Cash and marketable securities, beginning of year	1,379,463	957,893
Cash and marketable securities, end of quarter	<u><u>\$1,309,999</u></u>	<u><u>\$ 973,152</u></u>

Supplemental information:

Analysis of Inventories	Mar. 25,	Dec. 31,	Mar. 19,
	1979	1978	1978
(in thousands)			
Raw materials	\$ 325,011	\$ 322,700	\$ 306,518
Work in process	439,750	404,678	389,720
Finished goods	548,718	505,962	454,301
Total, per Balance Sheet	<u><u>\$1,313,479</u></u>	<u><u>\$1,233,340</u></u>	<u><u>\$1,150,539</u></u>

Financial statements for the quarter have been prepared by the company in accordance with the accounting policies stated in the 1978 Annual Report and should be read in conjunction with the Notes to Financial Statements appearing in that report. The statements are based in part on approximations and have not been audited by independent accountants. The year-end statements will be audited.

Lowrie G. Piercy, General Comptroller
April 26, 1979

KODAK HIGHLIGHTS
EASTMAN KODAK COMPANY
343 STATE STREET
ROCHESTER, N.Y. 14650

Bulk Rate
U.S. Postage Paid
Eastman Kodak Company



Shareowners attending the 1979 Kodak Annual Meeting in Rochester, New York, heard reports from Walter A. Fallon, chairman and chief executive officer, and Colby H. Chandler, president.