



Kodak Highlights

February 1980

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On the Cover

Featured here and on pages 8-9 are some of the 350,000 entries in the 1979 Kodak International Newspaper Snapshot Awards (KINSA). The cover scene was captured by Gavin Brown and submitted through the *Cleveland Press*.

Note: Kodak, Eastobond, Estron, Kodapak, Tenite, X-Omat, and Ektaprint are trademarks.

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

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Silver: A Statement from the Chief Executive Officer

To Kodak Shareowners:

The rapidly rising price of silver has been making news almost daily, and it has triggered a series of necessary price increases for Kodak film and paper.

It also has led to discussion of silver's availability and to talk of the impact of this rising cost on the photographic industry.

I'd like to share with you several important facts:

- Revenues from recent Kodak price increases are designed to offset the rising cost of silver and other materials, not to inflate profits.

- We see no difficulty in obtaining the high quality silver we need. The supply is ample. We do have continuing agreements with reputable suppliers, people we've been doing business with for more than 40 years. Under these agreements, we pay the suppliers the average market price during the month when silver deliveries are made.

- Despite our recent price increases, we believe photography is a good buy in today's marketplace, and we expect it to remain so.

As a matter of fact, the price consumers pay to take pictures increased much less rapidly over the last 10 years than the cost of many other products and services. The industry at all levels has done a remarkable job of keeping photography affordable for practically everyone. And technology has provided a broad range of product improvements which make picture-taking simpler and more satisfying.

There are some other aspects of the silver situation that need to be put into perspective.

As you probably know, Kodak buys about 50 million ounces of silver a year, 35 million for use in our manufacturing operations in this country. Given the enormous costs involved, we keep our silver inventories at an absolute minimum. The most recent silver prices enter rapidly into our manufacturing costs. This compels us to make timely increases in film and paper prices.

Fortunately, silver is not fully consumed during use. In this respect, it's not like oil and many other natural resources. Not all the silver contained in photographic products

can be recovered, but a reasonable amount can. And the current high cost of silver provides powerful incentive for further efforts and efficiencies in this area.

The ability to recover silver helps assure adequate levels of supply, since it represents a substantial addition to what is available from mining and other sources. And it explains in part why industrial demand for silver has been level during the past six years.

The principle of silver recycling is not unlike the principle associated with returnable beverage bottles. The initial purchase price includes a deposit. When the bottles are returned, the deposit is refunded. If the deposit suddenly soared from 15 cents per bottle to 90 cents (in much the same proportion as silver prices did during 1979), the principle would remain intact. The price of the beverage would be affected only by general cost inflation and the fact that some of the bottles are not returned.

What are we doing about the silver situation?

First, we are intensifying efforts to improve the effectiveness of silver recovery in the photographic industry.

We have tried, of course, and we will continue to try, to reduce the silver content of our products wherever possible—which means only when quality will not suffer.

We will continue our research efforts to find suitable alternatives to silver. There are areas of photography where the particular properties of silver (high speed and image amplification) are not essential. We already market nonsilver products for microimaging, the graphic arts, and instrumentation.

Most importantly, we will continue to assume a responsible pricing posture.

We are convinced that photography will continue to be an affordable medium, for amateurs and professionals alike.

Walter A. Fallon

Chairman and Chief Executive Officer

Eastman Kodak Company Budgets \$870 Million for Capital Additions



Capital projects, such as this high-speed bottling line for Kodak processing chemicals, emphasize productivity.

Eastman Kodak Company has plans for capital expenditures of \$870 million for improvements and additions to its worldwide operations in 1980.

Planned expenditures include \$660 million for the Photographic Division (\$482 million in US and Canada and \$178 million abroad) and \$210 million for Eastman Chemicals Division.

Worldwide expenditures for 1979 totaled \$603 million.

Walter A. Fallon, chairman and chief executive officer, commented on the 1980 plan:

“Throughout 1980, Kodak will continue to dedicate capital spending to those improvements and additions that will contribute to operational effectiveness. Measures to increase capacity or add to manufacturing efficiency have high priority in both the photographic and chemicals divisions.

“Sharply higher costs of raw materials underscore the significance of spending to



Conversion of boiler systems from natural gas to coal energy is among several major projects being completed at Eastman Chemicals Division plants.

increase our capacity to recover silver and other materials."

Major Photographic Division projects include:

Capacity expansion and improvements to film, paper and chemical manufacturing operations; improvement of facilities for recovery of silver and polyester film base materials; expanded manufacturing facilities and continued construction of a storage facility at Kodak Apparatus Division; and several projects related to environmental protection.

International Photographic Division projects include manufacturing improvements which will result in more efficient operations in Europe and Latin America. Distribution and marketing facilities will be expanded and improved in England, France, and Spain.

Major capital projects for Eastman Chemicals Division include:

Texas Eastman Company in Longview, Tex.—Completion of projects to expand

production of oxo-aldehydes and derivatives and Eastobond adhesives; completion of coal-fired boiler installations, and continuation of energy cost-savings projects.

At Tennessee Eastman Company in Kingsport, Tenn.—Continuation of projects to expand production of Estron filter tow and Kodapak polyester bottle polymer; expansion of production facilities for diketene and polyester prepolymer; initial stages of construction on facilities to produce industrial chemicals from coal (see related story), and completion of several energy conservation and environment related projects.

At Carolina Eastman Company in Columbia, S.C.—Expansion of polyester polymer production capacity and improvements to existing polyester polymer facilities.

At Arkansas Eastman Company in Batesville, Ark.—Continuation of expansion of production facilities for organic chemicals; and various environmental and support projects.

Kodak to Produce Chemicals from Coal In Series of New Plants In Tennessee

Kodak's dependence on petroleum-related chemicals will be reduced substantially with the construction of a series of new plants that will produce industrial chemicals from coal.

A new manufacturing process for the production of acetic anhydride will go on-stream in 1983 with the completion of the plants at the Tennessee Eastman Company complex in Kingsport, Tenn. Construction will begin later this year. An estimated one million barrels of oil a year will be conserved through the operation.

Acetic anhydride is important in the Eastman Chemicals Division's line of cellulose ester products. Cellulose esters are used in the manufacturing of photographic film base for amateur, professional and motion-picture films; Estron acetate tow and yarn; Tenite cellulosic plastics, and in coatings such as lacquer and furniture and automotive finishes.

Walter A. Fallon, Kodak chairman and chief executive officer, said that "the new

process puts Eastman Kodak Company at a new frontier of chemical technology.

"When the company first began making cellulose acetate film base for photographic film more than 50 years ago, Eastman Chemicals Division's acetic anhydride was derived through wood distillation," Fallon said. "Since the 1930s, our acetic anhydride has been produced from petroleum and natural gas derivatives. Now we are developing technical resources to use abundant coal supplies to produce acetic anhydride. From wood, to oil, and now to coal.

"It is especially fitting," he added, "that this new process, which will reduce our dependence on oil, conserve energy and keep Eastman at the forefront of chemical technology, occurs as Kodak begins its second century of operation. It epitomizes our Centennial theme, 'A 100-year start on tomorrow.'"

The process will require a series of new plants, according to Toy F. Reid, a Kodak executive vice president and general man-

ager of Eastman Chemicals Division. He described it this way:

—A coal gasification plant, supplied with oxygen from a new air-separation unit, will produce gases from coal. In the coal gasification process, coal will be reacted with oxygen in a closed reactor to produce a mixed gas stream.

—Gases generated in the gasification plant will be treated in a gas separation process which will remove sulfur from the gas stream.

—Further processing of the sulfur will result in the production of sulfuric acid, a chemical also used in the manufacture of Eastman Chemicals Division products.

—Part of the gas stream will be processed to produce methyl alcohol.

—The methyl alcohol will be reacted with acetic acid recovered from the cellulose ester process to produce methyl acetate. The methyl acetate and carbon monoxide then will be reacted to produce acetic anhydride.

The company also will construct a new steam plant to meet current needs in addi-

tion to the requirements associated with the new chemical plants. The coal gasification plant design will include a waste heat-recovery system.

While much of the technology for the new manufacturing process has been developed by Eastman scientists, certain processes will be licensed from others. Eastman expects to utilize coal gasification technology which it will license from Texaco Development Corporation.

Tennessee Eastman Company now produces acetic anhydride from petroleum-related materials supplied by Texas Eastman Company. Texas Eastman production of the acetaldehyde intermediate will continue. However, Tennessee Eastman's production of acetic anhydride from coal rather than petroleum-related materials will not only shift the source of this important chemical to a more readily available raw material but will result in significant energy savings in the form of natural gas and light oil that are required by the current acetic anhydride process.



Innovative research at Tennessee Eastman Company laboratories helped produce the unique process in which coal will be converted to chemicals beginning in 1983.

Copier Product Design: The Human Factor

A walk-up copier-duplicator that “talks” to you and even takes the paper right out of your hand. That’s what resulted when Eastman Kodak Company developed its new models of easy-to-use Kodak Ektaprint copier-duplicators with positioner and sorter, features that contribute dramatically to office productivity.

To achieve the result plus retain copy quality and machine reliability—main benefits of the original line of Ektaprint copiers—Kodak management once again called upon the expertise of the company’s human factors engineers, specialists in the study of human beings and how they interact with a system or product.

Members of the Human Factors Section of the Health, Safety and Human Factors Laboratory include physicians, psychologists, physiologists and engineers. They had a unique role in the design of the Ektaprint copier-duplicators from concept through product introduction.

Human factors research influenced the design of many new features which accelerate the copying process.

“We know from experience and research that people don’t usually read instructions so we had to have a machine that talked to them,” says Stanley Caplan, of Kodak’s Human Factors Section, one of the experts on the original design team for the new addition to the line of Ektaprint copier-duplicators that now includes 100P, 100PS, 150P, and 150PS models.

One of the outstanding features of all Ektaprint copier-duplicators is the micro-computer that “talks” to the user via the display panel. On the new positioner-sorter models, there are two control panels with different information.

Another important factor: “The first-time user doesn’t have to spend a lot of time trying to figure out how to use the machine,” Caplan says. “We’ve reduced the need to call in a key operator who is busy at other tasks. So we’ve contributed greatly to office productivity in these areas also.”

The Human Factors contribution included a survey of other copiers with analysis of how they were used. There was

research of user behavior to determine various design elements, particularly the sorter paper path and jam recovery. Studies were made to determine microcomputer logic requirements, and the design of the control panel, positioner and sorter.

“We had to start from scratch,” Caplan says, “because there wasn’t the right kind of published data on office copier usage. Office simulation studies, extensive interviewing and surveying to determine much of the research we needed.”

The Human Factors contribution continued through internal trade trials and field testing, and followed the product into the marketplace.



The display panel of the new line of Kodak Ektaprint copier-duplicators with positioner and sorter virtually tells the untrained user how to operate the machine.



James S. Thompson/*Kingsport Times-News*/Tennessee

1979 KINSA Awards

The Kodak International Newspaper Snapshot Awards (KINSA) contest is held annually to stimulate interest in amateur picture-taking. Included here are some of the 1979 award winners. More than 350,000 entries were submitted to 138 newspapers in the United States, Canada, and Mexico.

Although this was the 41st KINSA competition, its roots can be traced to 1897. That year the company held its first international amateur photo contest, which

attracted some 25,000 entries. Prizes totaled some \$3,000 (partly paid in gold, partly in Kodak merchandise). The 1979 contest offered 219 cash and/or travel prizes totaling \$55,000.

KINSA is one of about a half-dozen amateur competitions sponsored annually by Kodak. They are designed to promote interest in photography and the growth of the company.



Upper left: Lorraine Thompson/*The Journal Constitution*/ Atlanta, Ga.; upper right: Robert R. Wilson/*Press Enterprise*/Riverside, Calif.; lower left: Becky Moore/*Seattle Times*/ Washington; lower right: David Seth Haase/*Milwaukee Journal*/Wisconsin.

Higher Sales and Earnings Reported by Kodak for 1979

ROCHESTER, N.Y., Feb. 11—Eastman Kodak Company today reported higher sales and earnings for the whole of 1979 while noting that fourth quarter earnings were depressed by sharply higher costs.

Worldwide consolidated sales increased 14 percent to \$8.03 billion in 1979 (vs. \$7.01 billion a year ago). A majority of the gain was due to unit volume. Operating earnings of \$1.65 billion were about equal to those of 1978. Net earnings increased 11 percent to \$1 billion (vs. \$902.3 million for 1978). These earnings were equal to \$6.20 per share for the year (vs. \$5.59 per share for 1978). Net earnings benefited from higher interest income and a lower effective tax rate.

Fourth quarter worldwide sales were \$2.59 billion (vs. \$2.31 billion a year ago), a gain of 12 percent. Operating earnings declined 20 percent from \$593.4 million in the fourth quarter of 1978 to \$472.5 million in 1979. Net earnings of \$294.7 million for the quarter declined 11 percent from the \$331.4 million reported a year ago. The quarterly net earnings were equal to \$1.82 per share in 1979 (vs. \$2.05).

Walter A. Fallon, chairman and chief executive officer, and Colby H. Chandler, president, commented on results for the year:

"While Kodak sales and earnings set new records in 1979, the year was one of unusual challenges. Rates of gain moderated during the year and earnings showed the effects of cost escalation. The impact of unparalleled increases in the cost of silver and the dramatic rise in feedstock prices began to take their toll in the fourth quarter.

"The situation called for measures to effectively contend with the pressure of rising costs," the Kodak executives said.

"Inventories were managed carefully, especially in product areas where turnover rates are affected by the highly seasonal nature of the business. Employment increased only one percent in contrast to the company's 14 percent sales gain. Capital spending was closely controlled, and energy conservation continued to produce good results.

"In short, the challenges of 1979 were met, and the year was one of satisfying progress for the company."

U.S. and Canadian Photographic Division: Sales of \$4.47 billion in 1979 were 11 percent higher than the 1978 total of \$4.04 billion. Increased unit volume and higher selling prices contributed about equally to the gain. Each markets division reported sales gains. Sales of amateur film were good, and sharply higher revenues from copy products were reported. Fourth quarter sales increased 8 percent to \$1.55 billion.

International Photographic Division: Greater volume during 1979 was the major factor in the 21 percent increase to \$2.87 billion from the 1978 total of \$2.38 billion. All markets divisions reported strong gains. Sales in the fourth quarter of \$801.1 million were 19 percent higher than the same period in 1978.

Eastman Chemicals Division: Continued good demand was reflected in sales of \$1.78 billion in 1979, a gain of 16 percent from the \$1.53 billion reported a year ago. While increased unit volume was the primary reason for the increase, higher selling prices also were a factor. The division operated close to capacity throughout the year and strong gains were reported in sales of chemicals, fibers, and plastics. Sales of \$566.9 million in the fourth quarter were 13 percent higher than a year ago.

Outlook

Fallon and Chandler commented on prospects for Kodak during the company's centennial year:

"More than ordinary uncertainty clouds the economic horizon. Most observers forecast a period of recession for the United States. Elsewhere, economic growth should continue, though at a slower rate. The problematical situation in the silver market is not likely to ease until world tensions moderate. And intense competition will certainly not diminish.

"Despite this environment, we expect worldwide sales to run ahead in dollars if not in physical terms. Concerning earnings, our goal is twofold: to protect current earnings while preparing for the time when a more favorable climate and the results of advancing technology merge in the marketplace."

The Berkey Case

The U.S. Supreme Court has declined to review a federal appeals court ruling that reversed almost all of the \$87.1 million awarded to Berkey Photo, Inc., in its antitrust suit against Kodak.

The court's action also means that Berkey cannot pursue a major part of its antitrust suit, and that is the allegation that Kodak was monopolistic in introducing the 110-size cameras and film in 1972. A jury had awarded Berkey \$45.8 million in trebled damages on that claim, but the appeals court had reversed the award.

Several Berkey claims are still outstanding, including the allegations that it was overcharged by Kodak for film and color paper from 1969 to 1977. The federal appeals court had ruled that these and other claims be sent back to the lower court for a new trial.

Consolidated Statement of Earnings

Eastman Kodak Company and Subsidiary Companies

	Fourth Quarter Ended		For the Year Ended	
	Dec. 30, 1979 (16 Weeks)	Dec. 31, 1978 (17 Weeks)	Dec. 30, 1979 (52 Weeks)	Dec. 31, 1978 (53 Weeks)
(Dollar amounts and shares in thousands, except per share figures)				
Sales				
Sales to: Customers in the United States	\$1,560,242	\$1,452,261	\$4,468,356	\$4,081,765
Customers outside the United States	1,026,827	865,114	3,559,875	2,931,158
TOTAL SALES	<u>2,587,069</u>	<u>2,317,375</u>	<u>8,028,231</u>	<u>7,012,923</u>
Costs				
Cost of goods sold	1,626,958	1,278,590	4,843,112	4,000,464
Sales, advertising, distribution and administrative expenses	487,571	445,340	1,536,495	1,366,948
Total costs and expenses	<u>2,114,529</u>	<u>1,723,930</u>	<u>6,379,607</u>	<u>5,367,412</u>
Earnings				
EARNINGS FROM OPERATIONS	472,540	593,445	1,648,624	1,645,511
Interest income	43,836	32,347	117,743	76,144
Interest expense	7,179	5,527	24,774	18,754
Other income and (charges)	(18,494)	(2,341)	(34,329)	(21,617)
EARNINGS BEFORE INCOME TAXES	<u>490,703</u>	<u>617,924</u>	<u>1,707,264</u>	<u>1,681,284</u>
Provision for United States, foreign, and other income taxes	196,000	286,500	706,500	779,000
NET EARNINGS	<u>\$ 294,703</u>	<u>\$ 331,424</u>	<u>\$1,000,764</u>	<u>\$ 902,284</u>
Average number of common shares outstanding			161,384	161,376
Net earnings per share	\$ 1.82	\$ 2.05	\$ 6.20	\$ 5.59
Supplemental information:				
Provision for depreciation	\$ 114,762	\$ 111,064	\$ 361,320	\$ 342,148
Research and development expenses included in cost of goods sold	\$ 146,450	\$ 124,458	\$ 459,040	\$ 388,850
Companies operating outside the U.S.:				
Sales	\$ 954,167	\$ 802,983	\$3,305,451	\$2,735,047
Earnings from operations	121,747	131,187	481,773	411,375
Net earnings	75,124	69,384	289,261	219,638
Exchange losses and the effect of translation of net monetary assets	\$ 1,100	\$ 4,800	\$ 16,500	\$ 19,400
Cash dividends declared	\$ 177,529	\$ 161,379	\$ 468,017	\$ 376,008
Per common share	\$ 1.10	\$ 1.00	\$ 2.90	\$ 2.33
Capital expenditures	\$ 204,628	\$ 162,014	\$ 602,868	\$ 442,467
Cash and marketable securities			\$1,540,623	\$1,379,463
Net current assets			\$2,781,133	\$2,436,919
Number of shareowners at close of year			242,227	250,853



Purves



Lieser

Management Changes

John T. Purves was elected an assistant secretary of the company at the December 1979 meeting of the board of directors. After eight years in private law practice, he joined Kodak's corporate legal staff in 1976.

Ernst Lieser, manager, manufacturing for Kodak A.G. (West Germany), has been named general manager. He succeeds Helmut Nagel, who retired January 1 after 42 years with the company. Lieser joined Kodak in 1960 as assistant to the development manager and has served in a variety of management positions during his career. Manager, manufacturing, at Kodak A.G. since 1973, he was named deputy general manager in 1976.

News Snaps

■ A new organization called Consumer/Professional and Finishing Markets has been formed to serve Kodak customers. In combining the Consumer Markets Division and the Professional and Finishing Markets Division, the new organization reflects the changes that have taken place in the marketplace in the past decade, principally the strong interrelationship that has developed between the retail and photofinishing facets of the business. John R. Robertson, a company vice president, has been named general manager of the new organization.

■ Some 9,400 bank checks valued at \$4.7 million were reconstructed in only three days for Central Bank of Denver after the originals were destroyed by fire. The checks were reconstructed from rolls of Kodak microfilm, rapidly processed and printed by two of the company's microfilm laboratories,

thus minimizing any loss to the bank due to the accident. As part of the terms and conditions to users of Kodak microfilm, Kodak will print back check images from customers' microfilm without charge in case of emergency from such causes as flood, fire or theft.

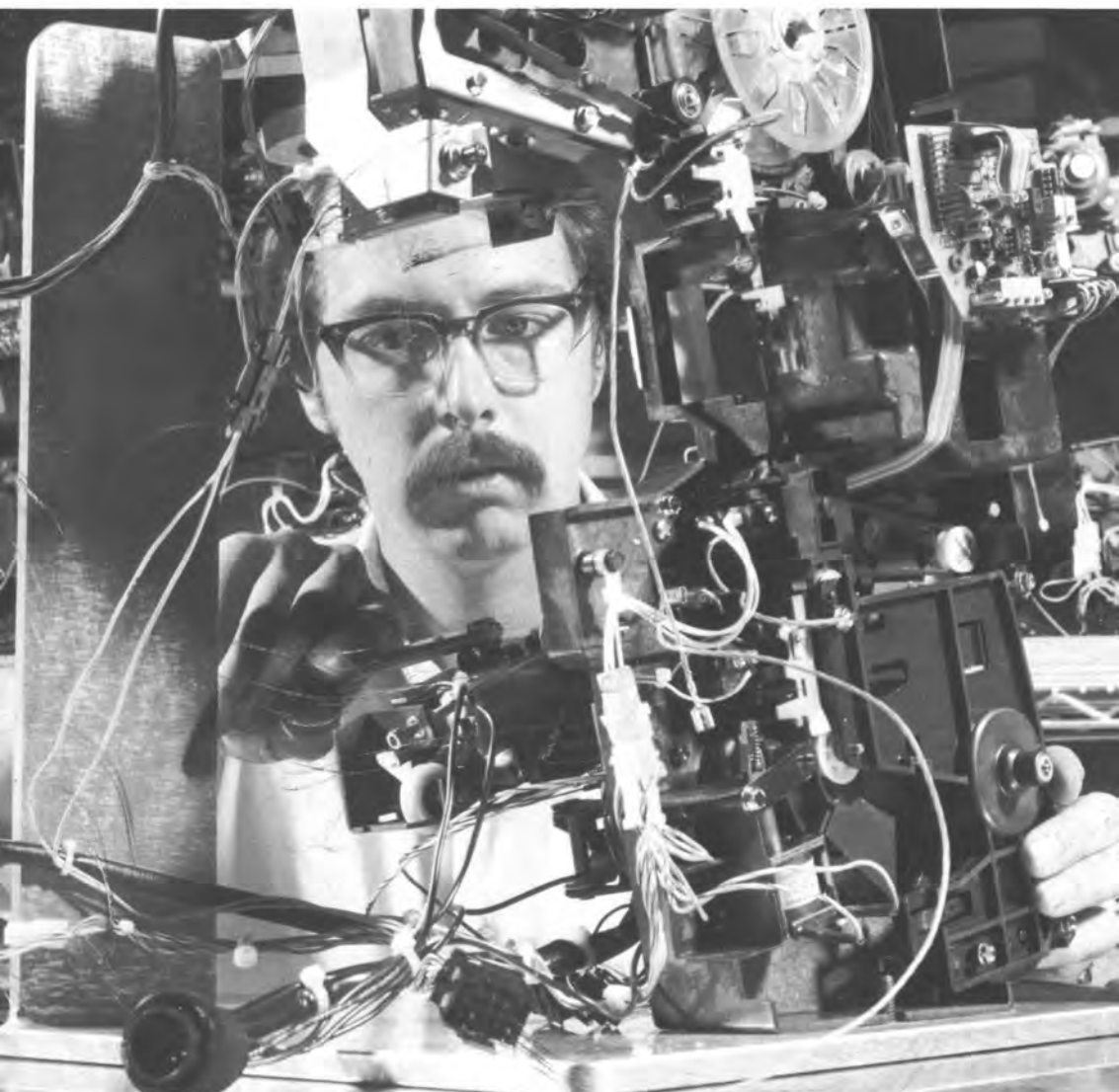
■ Kodak has announced a new tabletop x-ray film processor to provide operating economies for private offices and clinics where film volume is low, but high-quality radiographic processing is essential. The Kodak X-Omat M20 processor is also suitable for dispersed processing applications and for departments of nuclear medicine, ultrasound, CT scanning, and radiation therapy. The M20 processor is available in two models which will process all sizes of Kodak X-Omat films and a number of other Kodak x-ray films.



Top: Kodak Park, the company's largest manufacturing operation, in 1895; Left: the company's Rochester headquarters in 1892; Right: George Eastman in 1890 holds the Number Two Kodak camera during an ocean voyage.

KODAK HIGHLIGHTS
EASTMAN KODAK COMPANY
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An assembler at Kodak makes a delicate adjustment to the film transporter section of a microimage terminal. The terminal is used to retrieve and copy documents commonly stored on microfilm—such as invoices, charge tickets, or purchase orders. Record-keeping on microfilm takes up to 98 percent less space than paper documents.

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