



Kodak Highlights

First Quarter 1980

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On the Cover

Our cover is a collage of people and events at the 1980 Annual Meeting of Kodak Shareowners. *Top, left:* Walter A. Fallon, chairman and chief executive officer, conducted the meeting. *Top, right:* Consumer Markets representatives explain to shareowners the benefits of new Kodak Ektra cameras featuring electronic Sensalite flash. *Bottom:* Financial analysts ponder management remarks during the meeting.

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

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1980 Annual Meeting

The 79th Annual Meeting of Kodak shareowners was held May 7 in Rochester, New York. Walter A. Fallon, board chairman and chief executive officer, presided.

More than 74 percent—119,830,196 of 161,391,806—of the company's shares outstanding and entitled to vote were present or represented by proxy at the meeting and voting in the election of directors. Attendance totaled more than 2,000 shareowners.

The accounting firm of Price Waterhouse & Company was reelected as auditors for 1980. The vote was 119,515,035 in favor (99.8%) and 189,833 against (0.2%).

A proposal suggesting that the company be divided into two separate entities was defeated by a vote of 113,992,968 against (99.1%) and 1,089,043 in favor (0.9%). A proposal requiring the withdrawal of Kodak business from South Africa was defeated by a vote of 110,505,430 against (98.7%) and

1,466,536 in favor (1.3%).

The following directors were elected to serve until the 1981 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
Juanita M. Krepes
J. Paul Lyet
Toy F. Reid
Robert A. Sherman
John G. Smale
W. Allen Wallis
Gerald B. Zornow

The Portrait and the Promise of a Century: Fallon, Chandler Report to Shareowners

Walter A. Fallon, chairman and chief executive officer, and Colby H. Chandler, president, made the following reports at the 1980 Annual Meeting of Kodak Shareowners in Rochester, New York, May 7, 1980. Mr. Fallon's business report came first.

In 1880, less than five miles from here, George Eastman began a remarkable enterprise. His first plates, films, and cameras were a result of his guiding business principle. Give people what they want—photographs of their most important moments—and success will follow.

Soon, his company offered a wider range of professional, medical, and chemical products based on an extension of that principle—give people what they need as well. His business grew by helping people in thousands of different jobs work more effectively, communicate more clearly, and better understand the world.

Giving people what they want and need became the tradition of Eastman Kodak Company. That tradition has led to a record of technical innovation and financial performance few companies can equal. To be here this morning with all of you who share in what George Eastman started is a satisfying experience. We hope you will be satisfied, too, with what we have to say about the company's performance and some of its goals, as we enter Kodak's second century.

Record 1979 Results

The experience of 1979 suggests how ready we are for the opportunities ahead.

Worldwide sales came to \$8 billion, an increase of 14 percent. For the first time in Kodak history, net earnings totaled \$1 billion, up 11 percent.

The good gains and record totals of 1979 are especially satisfying in light of troubling business conditions. Last year was a time of both brisk competition and dramatic increases in the cost of essential raw materials.

At the close of 1979, prices of supplies purchased by Kodak stood 77 percent higher than they had 12 months before. Silver,

which was selling then for \$28 an ounce, was a particular problem. But it was by no means the only problem. For example, prices of petrochemical feedstocks also rose substantially, along with those of many other materials.

A continuation of this inflationary trend can be seen in the results of the year to date.

First Quarter 1979

Sales in the first quarter of 1980 were up 30 percent, with a significant contribution from higher prices made necessary by spiraling raw material costs. Unit volume growth was particularly strong in international markets.

In fact, it was the unit we know as IPD—the International Photographic Division—that was largely responsible for the 9 percent increase in Kodak earnings during the first quarter.

Two important factors were at work during that quarter. They will bear heavily on our results for the balance of the year. The first is volume. It was better than expected, especially in international markets. The second is costs. They were somewhat lower than forecast earlier in the year, due principally to the cost of silver. The interplay of higher costs and unit volume will determine how well we perform in 1980.

As we said in this forum last year, fighting inflation "is a question of leadership, national will, and personal discipline." With interest rates near record peaks, with more than 200,000 automotive workers now unemployed, with housing starts in this country down by 50 percent, it appears we are receiving the discipline—like it or not.

And like it or not, that lesson is taking the form of the recession economists have forecast for some time.

Speaking of forecasts, we have often cautioned shareowners that first quarter results are rarely a good guide to Kodak's performance over the full year. Repetition of that caution is timely today.

While we expect sales will run well ahead in dollars during 1980, the state of the



economy cannot help but influence our volume in physical terms. Concerning earnings, our goal is twofold. We intend to protect current earnings while preparing for the time when the results of advancing technology and a more favorable climate for sales meet in the marketplace.

That is not a cryptic comment. It states clearly that we have the resources to invest heavily in our future while maintaining and adding to current earnings. Making earnings grow in these days of cost escalation is a challenge.

The Silver Situation

In recent months, the most talked about challenge facing Kodak centered on silver. Last week, the price of silver stood at less than \$14 an ounce, down from the peak of \$50 recorded in January but still well beyond the \$6 level prevailing little more than a year ago. Recent swings in the price of silver and the momentary alarm they caused in the financial community are well known to us all. Yet two factors are worth noting in Kodak's case.

First, the sharply higher silver costs of the

first quarter are now behind us. We believe some degree of stability has returned to the silver market. For the future, our best guess is that silver prices will fluctuate around current levels in the near term. Longer range, prices should increase at more or less historical rates.

Assuming this kind of stability, we have reviewed Kodak prices and made appropriate adjustments. We feel our current prices properly reflect the cost of doing business. They are also consistent with our historical pricing policies.

Second, there is no shortage of available silver. We foresee no problems getting all the silver we need. And, as often happens, the chaotic conditions of the silver market this year produced some positive results. For one thing, the experience served to reinforce our emphasis on the three R's of silver management: Recovery, replacement, and reduction. We're working harder than ever on each one.

Consider silver recovery. Recovery in-house and from the field is a productive source of silver. Silver recovery systems in use at Kodak Park recapture more than 99



percent of all the silver lost in the manufacturing process. We are working hard throughout the industry to help our customers improve their recovery systems.

Moreover, in the last five years, we have reduced the amount of silver in Kodak X-ray films by more than 20 percent while retaining the high image resolution necessary for medical diagnosis. We are working to reduce silver in dozens of other Kodak films and papers.

Finally, consider replacement. Silver's volatility has encouraged us to look for ways to replace it in films where high speed—the ability to record a proper exposure with relatively little light—is not essential. Some instrumentation films and graphic arts plates now use photoconductors to write with light. And two of our more recent products—Ektaprint copiers and Ektachem colorimetric slides—use no silver at all. I will have more to say about silverless technology later this morning.

Silver is not the only target for conservation and cost efficiency. We also are using technology to attack the increasing cost of petrochemical feedstocks used by the Eastman Chemicals Division.

Chemicals from Coal

"A historically important event occurred January 9, 1980, when Tennessee Eastman Company . . . announced plans to construct a major plant to synthesize acetic anhydride from coal." Those aren't my words, but those of Phillip H. Abelson, the editor of *SCIENCE* magazine, the journal of the American Association for the Advancement of Science.

His editorial was describing Tennessee Eastman's coal gasification project that will reduce our reliance on petroleum and natural gas derivatives. The new facilities are scheduled for operation in 1983. They will produce chemicals that would require the equivalent of one million barrels of oil per year, using traditional technology.

The benefit for Kodak and for the nation derives from research begun more than a decade ago. That's when Eastman scientists began to explore the chemical composition of small molecules such as carbon dioxide,

carbon monoxide and hydrogen. Within five years, this work had produced a plan for commercially practical synthesis. The transition from laboratory to full-scale production is now under way.

And our research may someday benefit others. As the *SCIENCE* magazine editorial concludes: "With the new and better process . . . engineered to be energy-efficient and . . . using cheaper feedstocks, the American chemical industry will be able to continue to compete favorably in domestic and world markets."

Competing favorably in world markets is the challenge both business and the nation will face in the 1980s. For both, productivity is the key. During the past 100 years, the output of goods and services per capita increased sixfold in this country. The result was a sixfold increase in our standard of living. As we produce more, we live better.

Kodak & Productivity

Since 1970, Kodak productivity has increased more than 50 percent, or twice as fast as the rest of manufacturing industry. Last year, Kodak productivity increased 5 percent, while U.S. industry reported a 1 percent decline.

Clearly, we are committed—to our shareowners and to ourselves—when it comes to improving the company's performance, to producing more and living better. If this nation is to live better, its people and its government need to make the same kind of commitment. And we must recognize that business and industry cannot be looked to as the sole source of productivity improvement in this country.

We are demanding people. In response to our demands, government spending at all levels—national, state, and local—continues to outpace growth in personal income. Today, our government spends the equivalent of 44 cents for every dollar of income earned by people in this country.

Inevitably, that means that we as individuals have less to spend the way we want to spend it. In the years between 1950 and 1970, the real disposable income of American families increased by more than 50 percent. In the 10 years since 1970, the



increase has been less than 8 percent.

To be sure, there are some signs that government is responding. We applaud recent reductions in the maximum tax rates applicable to the people of New York State, for example. At the same time, we note that our taxes here remain 50 percent higher than the average throughout the nation.

We applaud efforts to reduce regulatory overlap and, in particular, OSHA's recent elimination of more than 900 unneeded regulations. At the same time, we remind you that regulatory agencies—in response to our perceived mandate—cost the American economy more than \$100 billion last year. In terms we all can identify with, regulations have added \$700 to the price of an automobile and \$2,000 to the cost of a new home.

We applaud efforts to develop a national energy policy while noting that the U.S. Department of Energy cost U.S. taxpayers \$10 billion in 1979 alone. Meanwhile, certain of our opinion leaders and, yes, some political opportunists lay the blame for the nation's economic woes on business and industry. They invent slogans, misinterpret the role of profits, and introduce legislation that can only discourage our incentive and our investment.

It is time Americans understood that businesses, particularly high technology businesses, have been the strongest producers society has ever seen. From their workers

has come much of the prosperity we enjoy in this country. But there must be more motivation for millions of hardworking Americans than cost of living raises that don't quite keep up with inflation while fueling its corrosive fire.

Incentives Needed

Given the proper incentives, business and industry will do its part. We will spend large sums for research and development. We will invest heavily in new and better plants. We will promote productivity wherever opportunities can be found.

As citizens and as shareowners, you must ask government to do likewise. When manufacturing companies in this country increase their productivity by 1 percent, the net effect for the nation is a gain of less than half a percent. The work of the producers is diluted. It is not that the 15 million people who work in government do not perform well or usefully. It is simply that precious little of what they do for you can be bought and sold in the rest of the world.

During the past five years, government spending has increased at the average rate of nearly 11 percent a year. Nearly two of every 10 Americans at work outside the agricultural sector of our economy are employed today in government. Many more are engaged in the sole purpose of serving and supplying the government and its agencies.

Why do I feel it is appropriate to say these



things at an annual meeting of Eastman Kodak Company? After all, there is not much new in what I have said. But there is a point. You are not only shareowners in this company. You are also shareowners in the business of government.

As shareowners of this company, you expect management to be prudent. You look to us to produce products of value, with rates of return on your investment sufficient to reward you and sustain growth in the business.

I submit that your expectations for industry and for government are in conflict.

Too often, the goals for government are expressed in terms of more regulation, more services, and more public works. They are expressed without constraints such as return on investment or affordability. And they are established by your managers in government on the basis of their perception of what you want and what you ask for. The time has come, in this age of diminishing returns, to stop asking our government for more.

As this meeting goes forward, contrast your expectations of Kodak to those you associate with government. And think about what you can do to give government the right signals.

Government and business face hard challenges in the months and years ahead. Kodak is no exception. Doing our job well in today's business environment requires all the skill and dedication Kodak people can muster. To

their credit, those qualities were evident at every level of the company last year. And here to describe their performance is Kodak president, Colby Chandler.

Mr. Chandler addresses the shareowners.

Thank you Walt. I will concentrate today on the highlights of our 1979 performance, and focus on the specific directions that will mean the most to our future.

First, let me illustrate and describe for you the significance of the reorganization of the Photographic Division, now more than a year old. Our domestic and international photographic divisions are now a single operating unit. We are using our worldwide photographic manufacturing and marketing network in more efficient and effective ways. Around the globe, wherever you find the name Kodak, we are emphasizing the most profitable products and markets.

International Success

Consider our remarkable success last year in Latin American countries. We sold over two million cameras there in 1979. We plan to sell considerably more this year. Their high quality and low cost are bringing the pleasure of photography to many users for the first time. We make some of these cameras at the Kodak Apparatus Division in Rochester, some in Argentina, some in Brazil. The film they consume is made in Guadalajara, Mexico; the results are printed on paper coated in

Brazil.

Keeping Latin American photofinishers supplied with equipment, paper, and chemicals requires a very complex economic and production planning system. Our disciplined planners and strategists must constantly think in global terms. As last year's sales showed, when the job is done well, the results can be very rewarding.

In volatile markets such as Argentina, Brazil, and Mexico opportunities appear very quickly. As other developing countries around the world come to enjoy greater prosperity, millions of people with more disposable income will want to use Kodak products to put the times of their lives in focus.

Global Markets

Today, these growing market mean much to Kodak; tomorrow, they will mean even more. We no longer look at such markets solely in terms of cultural and regional preferences. Instead we see common patterns of consumption emerging where there are similar socio-economic levels. By viewing the highly developed countries as one type of market, the emerging countries as another, we can match our strengths to people's real needs, as those needs evolve.

Some people contend that companies cannot make suitable profits on goods sold overseas because of duties, shipping costs, and other factors.

In some instances, that is true. But our marketing people work to acquire a thorough knowledge of each market area so they may identify selected profitable sales opportunities as well as major growth prospects. Thus, international sales provide an important return for the company, and also represent some of our most attractive growth opportunities.

Product Interchange

We continue to make gains through our product interchange program (or PIP) for sensitized goods. Products supply-source decisions and capacity planning are conducted in ways that make optimum financial and strategic sense. We are beginning to see the results in improved productivity and more

uniform product quality.

PIP presents no small management challenge. At Kodak Park alone, we manufacture some 25,000 different products. While that number may not change significantly, the full image of the PIP program will be to reduce the number of products made in many Kodak plants.

By carefully analyzing costs and allocating capacity, we assign products to each plant according to our most effective use of equipment and people. PIP is thereby improving effectiveness in plant after plant around the world.

Cameras and other apparatus are also being made according to a plan which gives the most efficient use of our worldwide capacity. This new Ektra camera is made only in Germany, but the three other Ektra models announced last week are made in Rochester. All four models will be sold both here and overseas.

New Consumer Products

As consumers, you all know that it is not sufficient to skillfully manage manufacturing; what counts above all else is how well our products work for our customers. We expect that two of our new Ektra cameras will work especially well for customers.

They feature a Sensalite flash and do something no other pocket camera can. They are the only cameras made that automatically turn on their built-in electronic flash when it's needed—and turn it off when it isn't. Once again we've eliminated an operating decision for customers—so they can concentrate on pictures, rather than on buttons and dials.

Since George Eastman introduced the Kodak No. 1 camera, more than 550 Kodak still camera models have been designed with customers' needs in mind. Each one has done the job a little differently—and a little better—than the models that came before.

Product Improvements

Kodak films—the best in the world—are also getting better all the time. When Kodak was celebrating its 50th birthday back in 1930, 25 Kodak films were on the market. Twenty-five films is a great many, even today. But

Kodak now sells more than 400 films for thousands of photographic applications.

Take our newest Kodak instant color film. It delivers even better color than its predecessor. And it delivers its image twice as fast as before. The Colorburst cameras that expose it found millions of new customers around the world last year, often in overseas markets. Altogether, we have sold more than 13 million instant cameras, and thousands more are sold every day.

The Future

Instant technology required an enormous R&D effort that began more than 10 years ago. That effort continues today. Sales trends are steady, and with many more instant products reaching the market in the decade ahead, future sales should show continued growth.

New products for existing and new markets will determine our future success. In that respect, the 1980s will be much like the decade behind us. The 1970s saw the

introduction of 110-format cameras, Ektaprint copiers, Ektachem slides and analyzers, existing-light color films, and Kodak instant products.

These products and hundreds of others were based on research ideas that were proving their technical feasibility in the late 1960s. It took millions of hours of labor and many millions of dollars to bring these products to market. But time is proving our investment well worth it.

Kodak Copiers

Consider the Ektaprint copier. When it was first introduced, people immediately realized its copies were the finest available, usually indistinguishable from black-and-white originals, and often enhancing their appearance and readability. Customers later came to value the convenience of completely finished sets. New document positioners, and a sorter announced last year, made our Ektaprint line even more versatile.

Customers are responding with enthusiasm by continuing to order our copiers well ahead of our production schedule. We worked hard to develop a good customer service team; today, our service is the best in the industry.

Both our sales and service force were trained and deployed so that they could grow with the product line. Our deliberate—and financially responsible—marketing effort is right on plan.

New Clinical Analyzer

We are following the same path with the Ektachem program. I remind you that the Ektachem program is still young. It will not contribute to earnings for some time. But our marketing trials show that the products now in customers' hands are meeting or exceeding our goals for accuracy, precision, reliability, and customer acceptance.

Usage rates are frequently running significantly higher than we forecast.

But that's not the big news in the Ektachem program. The big news is simply that in July, we will be announcing and demonstrating the Ektachem 400 analyzer.

At first it will analyze some dozen chemicals found in blood serum, and commonly



called for in routine and emergency cases. There is capacity, however, for adding more tests as we develop them.

The Ektachem 400 analyzer will be our first commercial entry into the clinical chemistry market; a market conservatively estimated to equal \$1 billion this year, and may exceed \$1.5 billion by 1985.

Its announcement today is indicative of our confidence in Kodak's ability to participate in this vital market and, also, of firm plans to move from a stage of testing technology into commercial sales.

Electronic Technology

Much of what we do is shaped by our estimates of future trends. We have known for some time that electronic technology will be with us in ways consumers are only beginning to realize.

Partly because of electronics, photographic equipment is becoming "smarter." From Kodak 110-format cameras to the automatic printers that "read" exposed negatives and adjust the printing mechanisms accordingly, photographic equipment is interpreting the images the film records to make the results more pleasing.

As Kodak copiers illustrate, office equipment is also getting smarter all the time. Our Business Systems sales were up strongly last year due in part to customers' acceptance of our IMT intelligent microimage terminals. These microprocessor-controlled retrieval units can search through thousands of microfilm images on a roll of film. They then display the desired document on a screen in seconds.

Last month, to complement the capabilities of the IMT terminal, we introduced microprocessor-controlled features in our most popular microfilm camera. This intelligent microfilmer can index microimage files by three separate categories, making them more compatible with popular document filing systems.

Machine intelligence that was once limited to data processing equipment is now available from Kodak at both ends of the microfilm system—in both an intelligent microfilmer and in an intelligent retrieval terminal.

We will be bringing electronic technology to other new products during the 1980s. Most of these new products will share a similarity with our new microfilm hardware. They will combine the intelligence of electronics with the remarkable benefits of photography to give users unique products that do old jobs better and new jobs as effectively as possible.

The Quality Key

A key to continuing effectiveness, of course, is quality. Our motion picture film sales enjoyed a good year in 1979 because, like so many other Kodak products, their quality and their marketing support remain unsurpassed.

Strong gains were recorded for films serving the entertainment industry. Sales to the television industry were also strong, as 80 percent of prime time TV continues to be produced on film.

Likewise, quality means a great deal to printers and publishers. As publishing capped its most successful decade ever, new magazines flourished. In part their appeal was due to the quality illustrations that result from Kodak graphic arts films, plates, and chemicals.

Other Kodak products—from professional darkroom equipment to X-ray film processors, from laser-powered computer output microfilers to inexpensive still cameras—brought customers of all ages and nations the extra quality edge they were looking for. That quality has been the key to our success for a century. It is better today than it has ever been in all products of the photographic division.

Of the company's \$8 billion in sales, \$6 billion came from the work of the 102,000 people who work in the Photographic Division. But an equally remarkable success story belongs to the nearly 19,000 Kodak people—or Eastman people as they are known to their customers—who work in the Eastman Chemicals Division.

Chemicals Division

Success in the chemicals business—as any security analyst will tell you—is very difficult to achieve. But Eastman people succeed.

The rate of return on the sales of our chemical products usually exceeds that of the industry. And again, the secret of our success is quality products at competitive prices and technical service second to none.

Many of the chemicals made in our plants in the sun belt are sold to other chemical companies whose names you know well.

This division's 300 chemicals, its plastics and plastics products, its 150 variations of three basic fibers, and its 130 textile dyes, appear in thousands of different forms from the handles on your screwdrivers to the printing inks in your favorite magazines.

But what makes the chemicals division even more valuable to shareowners are the fine rates of return the company enjoys on its consistently excellent products. We expect the products of our chemicals division to do well in the decade ahead, both at home and abroad.

I can sum up the state of our company at the end of its first century very simply. We're more efficient, more effective, more informed, more able than ever.

Following a succession of years with productivity gains two to three times the national average together with outstanding sales performance, we are beginning to expand our capital plant in ways we are confident will pay good returns. As you are about to learn, we begin the 1980s with confidence in our ability to reach our ambitious goals.

Mr. Fallon comments on Kodak's outlook.

For 100 years, we have applied Kodak's chemical and photographic technology to invent and improve the products people want and need. That mission will not change.

But the needs of the marketplace have changed at ever faster rates during Kodak's first century, and they will be changing in the 1980s as well. New Kodak products will evolve as our scientists and our engineers learn more.

To prepare, we will spend \$870 million to expand our capacity and improve our tools in 1980. We will build plants and add equipment to be ready for the worldwide demand we foresee. To show why we're



spending nearly a billion dollars on capital expansion, I will report, as candidly as our business interests allow, on the direction of three major product areas in the 1980s.

Directions for the '80s

First, we will make improved cameras and films to help people take better pictures of the scenes they most frequently photograph. Here it's useful to consider a three-dimensional mathematical model of more than a million pieces of information. Our scientists call it simply an analysis of "photographic space."

"Photographic space" comprises a continuous visual field and all the light within it that begins before your eyes and ends at the limits of your vision. At a child's birthday party, it could extend just a few feet lighted only by candles. At the beach, it may stretch to a distant horizon in the blazing sun. In short, photographic space means everything a photographer can see.

Thus, everything in photographic space is a potential picture. Professionals and ad-

vanced amateurs can gain access to virtually all the pictures there with higher-priced cameras, lenses, and lights. Their technical skill, their practiced technique, and their patience, can yield photos of breathtaking impact.

Snapshot Photography

Snapshot photographers often have less time and money to spend on photography. They prefer easy-to-use, reliable cameras and films. But they care as much about their pictures as professionals.

But problems sometimes arise if the snapshotter's eye sees more than the camera and film can record. Consider a night baseball game. Since the players on the field are clearly visible to the people in the stands, they provide natural subjects for pictures. Yet a fan with an inexpensive camera may think he can get a good photo of the field, with or without flash. But often he can't, because the camera and film combination doesn't have that capability. Once twilight falls, many cameras are limited by a flash



range of four to 10 feet.

Human factors play a role too. If the lens isn't focused, or a finger falls in front of the lens, or the subject is too close, or a hand too unsteady, a poor picture may result.

All these factors—light, distance, camera, film, processing, printing, human control, and more—enter into every photographic situation.

For the last 50 years, Kodak has been making photography more satisfying while giving consumers more and more access to photographic space.

From the introduction of panchromatic black-and-white film in the early 1930s, to the development of Ektachrome and Kodacolor films in the 1940s, to the introduction of color photofinishing systems in the '50s, to the 126 Instamatic and pocket Instamatic cameras of the '60s and '70s—Kodak has been giving people more photographic access to the real world before them.

Within the last five years, the introduction of 400-speed color films made low-light and flash pictures possible in previously unavailable areas of photographic space. Meanwhile, of course, Kodak cameras and films have become more reliable, more pleasing, and often a better value for the money.

We know what people like to photograph, where, when, and why. Our mathematical model records the circumstances of the photographic scene and traces a record of success and failure. Its peaks represent the distances and light levels where people today can and do take the most photos.

Improved Picture-taking

In the 1980s our objective is to fill that photographic space with pictures. We will market conventional and instant cameras and films that let people expand their success in peak regions, and give better results in those "valleys" where fewer photos can be taken today.

These products, now in development, will be balanced in terms of optimum systems performance, ease of use, reliability, and cost. For the amateur picture-taker, who represents the largest customer audience we serve, we have some great things in mind for



the years ahead.

With 100 years of experience in imaging, Kodak is uniquely capable of expanding the consumer's access to photographic space. And there is no way to do the job better than with silver halide technology. In terms of sensitivity to light and image amplification during development there is simply nothing like it.

Silver Substitutes

For at least a quarter of our first century, Kodak has been searching for a silver substitute. Lately, that search has been paying off in products which do not need silver to record an image. They rely instead on organic photoconductors that capture an image with remarkable sharpness and detail when an intense light source is present.

An organic photoconductive film is a silverless material that records light in a pattern of electric charges. That pattern can be developed and transferred to another medium—as the film belt on the Ektaprint copier transfers toner particles to paper. Or—as in the case with special recording



films—the photoconductive film itself becomes the final image.

Kodak now uses organic photoconductors in Ektaprint copiers and in three Ektavolt films for special applications. One film is used to print or duplicate aerial photos. The other two are used to record data from scientific instruments.

There are other photoconductors, notably selenium and zinc oxide, in use in many different copier and graphic arts products. But Kodak's organic photoconductive films and toners offer remarkably high image resolution. There are other advantages, too.

The process is fast and dry. The information on photoconductive films can be updated—unexposed areas can be recharged and toned without affecting previously recorded information. Their contrast is easily controlled in processing. They can be handled in roomlight before being charged. The same piece of film or paper could be developed as either a positive or a negative, by simply throwing a switch.

And organic photoconductive films are relatively inert: They will remain stable almost indefinitely after they are processed. Finally, we can easily add color to accent important information.

Organic photoconductive films have their limits, limits that may restrict their use to commercial, scientific, and industrial products. Their speed is slow, for one thing. Yet we can think of dozens of applications—from

graphic arts to microfilm—that combine to make a significant market.

We are having discussions with equipment manufacturers who may find it desirable to incorporate organic photoconductive film processors in their future hardware designs.

Graphic Arts Potential

For example, the graphic arts industry might welcome silverless phototypesetting papers, copy preparation systems, and color proofing materials—if the equipment and film were priced right. In recent months, several in-plant printers have saved money by switching from ink-and-water offset presses to Ektaprint copier/duplicators.

We believe organic photoconductors—complex chemicals coated in thin layers—have great potential in the graphic arts industry. In the future, the segments of this market will be different in terms of the way office copiers, duplicating equipment, and printing presses serve. The market will continue to grow, but within it there will be substantial change as technology evolves and systems productivity improves.

Health Care Markets

Kodak was selling x-ray film before the turn of the century. Yet in health sciences, as well, we can go far with products based on our chemicals and coating skill. The Ektachem



products we announced in 1978 suggest a potential for dozens of analytical applications across the biological and physical sciences.

Someday, dry chemistry systems could yield precise, reliable analysis right in the doctor's office as well as in the hospital.

Applications in hematology and microbiology could be useful for medical researchers. Industrial process control testing and quality control monitoring applications now done with wet chemistry might conceivably be done with dry films.

Agricultural testing, animal toxicity analysis, cell identification—even veterinary testing—might be handled with accurate, precise, dry methods. Or medical workers in underdeveloped countries could employ simple, self-contained slides in the field.

Improved photographic systems, organic photoconductors, and dry slides all illustrate the ways our photographic and coating technology may serve world markets in the next 10 years.

High Technology Chemicals

Such opportunities in the Photographic Division are matched by the possibilities open to the chemists and engineers in the Eastman Chemicals Division. In the 1980s, we will be providing more and more high technology chemicals.

Such chemicals are difficult to synthesize, yet they are increasingly indispensable for

hundreds of special applications. And new capital programs such as the coal gasification project and a new hydrocarbon cracking plant announced this year promise to make our chemicals division more productive, more profitable than ever.

The success of Kodak's first 50 years began with the breakthrough of George Eastman's most important invention: roll film. And the second 50 years saw the company extend the consumer's access to the photographic space around us.

Two inventions—the masking process that made Kodacolor film possible, and the invention of cartridge loading cameras—were central to that achievement.

But my point is not to single out these inventions. Rather, my point is exactly the opposite. *No* Kodak invention—including George Eastman's first popular camera—could have succeeded if the inventor's flash of insight had not been followed by millions upon millions of hours of effort. Kodak people have believed deeply in the tradition established by George Eastman. They have been willing to work long and hard to maintain it.

Our plants were working at capacity in 1979 and they are today. So are 126,000 Kodak people around the world. For 100 years, their dedication has not slackened. I know from my experience that it will not slacken in the days and in the years ahead.

Thank you.

Discussion Summary

The following summarizes various matters presented and discussed during the course of the business meeting. A transcript of the complete 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 7.

After presentation of the agenda and introduction of officers and directors, the meeting then moved on to a discussion of the shareowner resolutions.

A statement issued by Mr. Fallon and read in part at the meeting summarized the company's position on a proposal that Kodak withdraw from South Africa:

"This is the third year in which shareowners have been asked to consider resolutions concerning the Kodak position on South Africa.

"There are some things we can do in that country. We can and we do provide our people there with good jobs, fair wages, and an equitable package of benefits. Those jobs, wages, and benefits depend upon the viability of our business in that country.

"We can and we do contribute to social progress in South Africa, upgrading the skills of our employees and contributing to causes and institutions dedicated to the education of black and colored South Africans.

"We can and we do work with others who are dedicated to peaceful change, as a signatory of the Sullivan principles and an active member of the American Chamber of Commerce in South Africa.

"There are other things we cannot do.

"We cannot withdraw without giving up the business and, with it, the jobs of black and colored South Africans. As I have said before, we will not abandon them.

"If Kodak remains in South Africa, we know we can make progress in the interest of our people. If we were to leave, we know we would do them harm. On the other hand, the benefits attributed to such an action by the proponents of this resolution are, at best, very uncertain.

"To us, it is that simple: certain harm to our people if we leave; certain progress if we stay; an uncertain situation if we leave the work to others. We are confident that Kodak shareowners will support the active course, as they have done for the past three years."

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

The first shareowner question involved Kodak's contracts with the U.S. Department of Defense. Mr. Fallon replied that the company operates the Holston Defense



Corporation in Kingsport, Tennessee, and the Lincoln Plant in Rochester, New York.

Proxy Matters

Mr. Fallon then replied to questions about the tabulation of shareowner proxies, the listing of the names of those proposing resolutions, and the company's handling of hazardous waste materials.

Proxy votes are recorded by the Inspectors of Election at Lincoln First Bank, the company's transfer agent, the chairman said. He noted that although it has not been the company's position to list in its proxy state-

ment the names of those who propose resolutions, consideration will be given to this in the future. As to hazardous waste materials, Mr. Fallon briefly reviewed company practices. His main points: Chemical wastes are incinerated. The company has no abandoned landfills. The Kodak Park landfill is on company property and is monitored continuously. Similar precautions in handling of waste materials are taken at Eastman Chemicals Division facilities.

Another shareowner suggested that the company consider manufacturing polypropylene film such as that used by the food





packaging industry. Toy E Reid, an executive vice president and general manager, Eastman Chemicals Division, replied that the division markets plastic resins to companies manufacturing such films. Further, the division thinks it best not to produce finished products in competition with its plastic resin customers.

A financial analyst asked for an elaboration on Mr. Fallon's remarks about "photographic space" during the management presentation. The chairman replied that he expects the company to make considerable gains over the next decade in helping picture-takers achieve satisfactory results in an increasing variety of photo situations.

Capital Expansion

An employee-shareowner then asked questions related to company operations and the composition of the board of directors.

Mr. Fallon replied that there was no truth to a rumor that the company's construction division is being phased out. Plans are to continue the operation. As to deferral of capital projects, he stated that the company has budgeted \$870 million for capital improvements in 1980. At this point he is optimistic that expansion will go forward as scheduled, in spite of economic recession. To a question about employee representation on the Kodak board of directors, the chairman emphasized the importance of maintaining good relations between management and employees. The most effective way to accomplish this, he said, is on a day-to-day basis rather than by changing the composition of the board of directors.

The United Community Chest of Greater Rochester and the company's policy toward employee contributions was the subject of a shareowner comment. Mr. Fallon pointed to the company's long tradition of support for the United Community Chest, noting that it is explicit company policy that all individual contributions should be made on a voluntary basis. In a related comment, a shareowner and employee of nearly 35 years stated that he had experienced no pressure to make such contributions.

A shareowner wondered if the company





is planning gifts for shareowners during the Centennial year. Mr. Fallon replied that while consideration was given to this idea, the cost of a meaningful gift for Kodak's more than 240,000 registered shareowners could be \$2 million or more.

A retiree asked if the company was considering an adjustment in pension payments because of inflation. Mr. Fallon said that the impact of inflation on Kodak retirees is of genuine concern to management. In the last 10 years, he noted, there have been four pension increases for Kodak retirees. And in the light of today's extraordinary inflation,

there will be another increase before the end of 1980. (Earlier in the meeting, Robert A. Sherman, senior vice president and director, Finance and Administration, confirmed that the company's pension plan is fully funded.)

During the discussion period, several individuals commended management for various employee and community-related practices and policies. A final comment came from an employee-shareowner who expressed support for the directors and management of the company.

The meeting was adjourned at approximately 12:45 p.m.

First Quarter Report to Shareowners

In Summary

(in millions, except earnings per share)

First Quarter

	1980	1979	Change
Sales	\$2,137.1	\$1,644.0	+30%
Earnings from Operations	368.2	337.8	+ 9
Earnings before Income Taxes	378.4	355.0	+ 7
Net Earnings	215.9	197.5	+ 9
Per Share	\$1.34	\$1.22	

Sales Advance

First quarter sales increased by 30 percent over the comparable period last year as all three operating divisions contributed to the gain.

Sales by Segment (in millions)

	First Quarter		
	1980	1979	Change
U.S. & Canadian Photographic	\$1,139.4	\$ 852.3	+34%
International Photographic	814.6	632.0	+29
Deduct: Interdivisional Sales	(240.5)	(191.0)	
Photographic Segment	1,713.5	1,293.3	+32
Chemicals Segment	479.9	397.2	+21
Deduct: Intersegment Sales	(56.3)	(46.5)	
Total Worldwide	\$2,137.1	\$1,644.0	+30%

The sales gain in the U.S. & Canadian Photographic Division was largely due to higher selling prices, although increased unit volume also contributed substantially. All markets divisions recorded strong revenue advances.

In the International Photographic Division, increased unit volume in all regions was the most important factor in the 29 percent sales gain.

The sales increase in the Eastman Chemicals Division resulted primarily from higher selling prices. Chemicals, fibers and plastics all contributed to the sales gain.

Sales to the U. S. Government and defense contractors amounted to \$58.2 million, and represented approximately 3 percent of total sales.

Operating Earnings Higher

The earnings gain was based on good results reported by overseas units. Costs of doing business, particularly in the area of purchased materials such as silver and petrochemicals, were sharply higher.

Costs and Expenses (in millions)

	First Quarter		
	1980	1979	Change
Cost of goods sold	\$1,388.0	\$976.1	+42%
Percent of Sales	65.0%	59.4%	
Sales, advertising, distribution and administrative expenses	\$ 380.9	\$330.1	+15%
Percent of Sales	17.8%	20.0%	

Cost of goods sold included research and development expenditures of \$117.2 million compared with \$103.8 million in the first quarter of 1979.

Earnings from Operations

	First Quarter		
	1980	1979	Change
Amount (in millions)	\$368.2	\$337.8	+9%
Percent of Sales	17.2%	20.6%	

Interest income was higher than in the first quarter a year ago as a result of increased yields. The after tax loss on exchange and the effect of translation of net monetary assets was \$8.6 million in the quarter compared with \$4.5 million a year ago. Other charges included an unrealized loss in equity securities of \$7.3 million compared with an unrealized gain of \$200 thousand last year. The provision for income taxes was \$162.5 million compared with \$157.5 million in the first quarter of 1979. The lower effective tax rate reflects an estimated increase in the investment tax credit and the tax benefit related to export sales (DISC).

Net Earnings	First Quarter		Change
	1980	1979	
Amount (in millions)	\$215.9	\$197.5	+9%
Percent of Sales	10.1%	12.0%	

Dividends to Shareowners

A cash dividend of 60 cents per share was declared in the quarter. Total dividends declared in the quarter amounted to \$96.8 million, the same as a year ago.

Capital Improvements

Capital expenditures totaled \$158.6 million during the quarter compared with \$111.8 million in the first quarter of last year.

Capital Expenditures (in millions)	First Quarter	
	1980	1979
U.S. & Canadian Photographic	\$ 90.7	\$ 59.2
International Photographic	32.5	22.8
Total Photographic	123.2	82.0
Eastman Chemicals	35.4	29.8
Total	\$158.6	\$111.8

The provision for depreciation was \$83.4 million, compared with \$80.3 million in the first quarter of 1979.

Financial Position

Working capital at the end of the quarter amounted to \$2,844.3 million, \$335.8 million higher than at the end of the first quarter 1979. Cash and marketable securities were \$1,353.3 million, compared with \$1,310.0 million a year ago. Worldwide inventories were \$1,655.0 million, up 26 percent from \$1,313.5 million a year ago. Receivables were \$1,546.9 million compared with \$1,228.9 million a year ago, an increase of 26 percent.

Outlook

There now seems to be a consensus among economists that the U.S. will be in a period of recession during the balance of the year, and some slowdown in the rate of economic expansion abroad is also foreseen. While Kodak sales will run ahead in dollars, the state of the economy will impact our volume as the year proceeds. The interplay of volume and business costs will determine how well we perform in 1980.

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. 23, 1980	Mar. 25, 1979
Sales	(in thousands, except earnings per share)	
Sales to: Customers in the United States	\$1,134,888	\$ 869,394
Customers outside the United States	<u>1,002,196</u>	<u>774,590</u>
TOTAL SALES	<u>2,137,084</u>	<u>1,643,984</u>
 Costs		
Cost of goods sold	1,387,991	976,026
Sales, advertising, distribution, and administrative expenses	<u>380,915</u>	<u>330,115</u>
Total costs and expenses	<u>1,768,906</u>	<u>1,306,141</u>
 Earnings		
EARNINGS FROM OPERATIONS	368,178	337,843
Interest income	34,393	28,246
Interest expense	7,806	5,006
Other income and (charges)	<u>(16,380)</u>	<u>(6,096)</u>
EARNINGS BEFORE INCOME TAXES	378,385	354,987
Provision for United States, foreign, and other income taxes	<u>162,500</u>	<u>157,500</u>
NET EARNINGS	<u>\$ 215,885</u>	<u>\$ 197,487</u>
Average number of shares of common stock outstanding	161,392	161,384
Net earnings per share	\$1.34	\$1.22

Consolidated Statement of Retained Earnings

Retained Earnings		
Retained earnings at beginning of year	\$4,717,150	\$4,184,403
Net earnings	<u>215,885</u>	<u>197,487</u>
TOTAL	4,933,035	4,381,890
Cash dividends declared at \$.60 per share	<u>96,835</u>	<u>96,831</u>
RETAINED EARNINGS at end of quarter	<u>\$4,836,200</u>	<u>\$4,285,059</u>

Supplemental information:

1. Research and development costs included in cost of goods sold	\$ 117,160	\$ 103,797
2. Operations of subsidiary companies outside the U.S. included in Consolidated Statement of Earnings:		
Sales	\$ 925,724	\$ 710,298
Earnings from operations	148,459	95,766
Net earnings	<u>81,620</u>	<u>54,948</u>

Consolidated Balance Sheet

Eastman Kodak Company and Subsidiary Companies

	Mar. 23, 1980	Dec. 30, 1979	Mar. 25, 1979
Assets			
Current Assets			
Cash	\$ 143,129	\$ 183,510	\$ 112,034
Marketable securities	1,210,145	1,357,113	1,197,965
Receivables	1,546,887	1,386,101	1,228,896
Inventories	1,654,955	1,439,468	1,313,479
Prepaid charges applicable to future operations	148,809	155,928	126,612
Total current assets	<u>4,703,925</u>	<u>4,522,120</u>	<u>3,978,986</u>
Properties			
Land, buildings, machinery, and equipment at cost	6,191,185	6,040,536	5,621,611
Less: Accumulated depreciation	<u>3,159,829</u>	<u>3,080,496</u>	<u>2,854,875</u>
Net properties	<u>3,031,356</u>	<u>2,960,040</u>	<u>2,766,736</u>
Other Assets			
Unamortized excess cost of investments in consolidated subsidiaries over net assets acquired	6,551	6,960	8,196
Long-term receivables and other noncurrent assets	70,343	65,008	53,462
TOTAL ASSETS	<u>\$7,812,175</u>	<u>\$7,554,128</u>	<u>\$6,807,380</u>
Liabilities and Shareowners' Equity			
Current Liabilities			
Payables	\$1,402,514	\$1,227,721	\$ 976,635
Taxes—Income and other	360,310	335,737	397,004
Dividends payable	96,835	177,529	96,831
Total current liabilities	<u>1,859,659</u>	<u>1,740,987</u>	<u>1,470,470</u>
Other Liabilities and Deferred Credits			
4½% convertible debentures—due 1988	66,056	66,056	66,056
Other long term liabilities	133,066	126,484	111,792
Deferred income taxes	243,673	229,998	200,561
Total liabilities and deferred credits	<u>2,302,454</u>	<u>2,163,525</u>	<u>1,848,879</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			
	269,555	269,487	269,476
Retained earnings	4,836,200	4,717,150	4,285,059
Total shareowners' equity	<u>5,509,721</u>	<u>5,390,603</u>	<u>4,958,501</u>
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY	<u>\$7,812,175</u>	<u>\$7,554,128</u>	<u>\$6,807,380</u>

*Common stock: \$2.50 par value, 360,000,000 shares authorized, 161,586,494 shares issued. Of the shares authorized, 688,083 shares are reserved for the conversion of the debentures issued by Eastman Kodak International Capital Company, Inc.

Consolidated Statement of Changes in Financial Position

Eastman Kodak Company and Subsidiary Companies

	For the Quarter (12 Weeks) Ended	
	Mar. 23, 1980	Mar. 25, 1979
	(in thousands)	
Funds Provided by:		
Net earnings	\$ 215,885	\$ 197,487
Charges to earnings not requiring cash outlay:		
Depreciation	83,370	80,279
Retirement of properties, net	3,930	1,937
Provision for deferred income taxes, net	20,500	6,600
Amortization of excess cost of investments in subsidiaries	409	407
Total from earnings	324,094	286,710
Increase (decrease) in current liabilities	118,672	(92,304)
TOTAL FUNDS PROVIDED	442,766	194,406
 Funds Used for:		
Dividends to shareowners	96,835	96,831
Additions to properties	158,616	111,822
Increase (decrease) in: Receivables	160,786	(38,045)
Inventories	215,487	80,139
Other items, net	(1,609)	13,123
TOTAL FUNDS USED	630,115	263,870
Decrease in cash and marketable securities	(187,349)	(69,464)
Cash and marketable securities, beginning of year	1,540,623	1,379,463
Cash and marketable securities, end of quarter	<u>\$1,353,274</u>	<u>\$1,309,999</u>

Supplemental Information:

	Mar. 23, 1980	Dec. 30, 1979	Mar. 25, 1979
	(in thousands)		
Analysis of Inventories			
Raw materials	\$ 462,988	\$ 368,293	\$ 325,011
Work in process	583,130	465,084	439,750
Finished goods	608,837	606,091	548,718
Total, per Balance Sheet	<u>\$1,654,955</u>	<u>\$1,439,468</u>	<u>\$1,313,479</u>

The financial statements have been prepared by the company in accordance with the accounting policies stated in the 1979 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 by Price Waterhouse & Co.

On February 19, 1980, the United States Supreme Court declined to review the Berkey case which now has been remanded to the United States District Court in New York City for further proceedings.

Lowrie G. Piercy, General Comptroller
May 1, 1980

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

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Eastman Kodak Company Corporate Policy Committee members listen as Walter A. Fallon, chairman and chief executive officer, welcomes shareowners to the 1980 Annual Meeting in Rochester, New York.