

EASTMAN KODAK CO
Form 10-K/A
September 03, 2003

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SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K/A

AMENDMENT TO APPLICATION OR REPORT
Filed Pursuant to Section 13 or 15 (d) of
The Securities Exchange Act Of 1934

Eastman Kodak Company
(Exact name of registrant as specified in its charter)

AMENDMENT NO. 2

In response to the Securities and Exchange Commission's periodic review of our filings under the Securities Exchange Act of 1934, the undersigned registrant hereby files Amendment No. 2 to amend the following Items with respect to its Annual Report on Form 10-K for the year ended December 31, 2002:

- 1) The registrant has replaced the facing page of the Form 10-K with the current form of Form 10-K to disclose its accelerated filer status and the information within the Form 10-K that was incorporated by reference;
- 2) The registrant has amended Item 1, "Business," to: (1) include the required disclosure with respect to access to its filings on its website; and (2) disclose the significance of its digital minilab agreement to the Photography segment;
- 3) The registrant has amended Item 7, "Management Discussion and Analysis of Financial Condition and Results of Operations," to: (1) exclude the adjusted net earnings non-GAAP information from the "Summary" disclosure to comply with Item 10 of Regulation S-K and (2) disclose the impacts of the registrant's acquisition of ENCAD, Inc. on the Commercial Imaging segment's 2002 net worldwide sales and gross profit within the "2002 Compared with 2001 Results of Operations - Continuing Operations" disclosure;
- 4) The registrant has amended Item 11 to revise the Executive Compensation Table;
- 5) The registrant has amended Item 12 to include the information required by Regulation S-K Item 201(d);
- 6) The registrant has amended Item 14, "Controls and Procedures," to revise the language to be in accordance with

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the SEC's final adoption rules, "Management Assessment of Internal Controls."

- 7) The registrant has amended Item 15, "Exhibits, Financial Statement Schedules, and Reports on Form 8-K" to: (1) revise the language in its certifications that are filed pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (the "302 Certifications"), as now reflected in Exhibits 99.1 and 99.2, to be in accordance with the SEC's final adopting rules, "Management Assessment of Internal Controls;" (2) revise the Form reference and date in its 302 Certifications and in its certifications that are filed pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and as reflected in Exhibits 99.3 and 99.4, as a result of the amendment of the Form 10-K; (3) revise Exhibit 12, "Statement Re Computation of Ratio of Earnings to Fixed Charges"; (4) revise its Form 10-K filing to set forth each of the required exhibits under a separate header and "EX" document tag in its electronic filing; and (5) revise the "Index to Exhibits" to reflect the aforementioned changes for the 302 Certifications and to remove the page references to the exhibits that have been given separate headers and "EX" document tags, as described above.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this amendment to be signed on its behalf by the undersigned, thereunto duly authorized.

Eastman Kodak Company
(Registrant)

Robert P. Rozek
Controller

Date: September 3, 2003

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

X Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the year ended December 31, 2002 or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission File Number 1-87

EASTMAN KODAK COMPANY
(Exact name of registrant as specified in its charter)

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NEW JERSEY
(State of incorporation)

16-0417150
(IRS Employer
Identification No.)

343 STATE STREET, ROCHESTER, NEW YORK
(Address of principal executive offices)

14650
(Zip Code)

Registrant's telephone number, including area code: 585-724-4000

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|--------------------------------|--|
| Common Stock, \$2.50 par value | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes No

1 CONTINUED

At December 31, 2002 285,933,179 shares of Common Stock of the registrant were outstanding. The aggregate market value (based upon the closing price of these shares on the New York Stock Exchange at March 13, 2003) of the voting stock held by nonaffiliates was approximately \$8.3 billion.

DOCUMENTS INCORPORATED BY REFERENCE

PART III OF FORM 10-K

The following information was incorporated by reference from the 2003 Annual Meeting and Proxy Statement:

Item 10(a) - DIRECTORS OF THE REGISTRANT

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PART I

ITEM 1. BUSINESS

Eastman Kodak Company (the Company or Kodak) is engaged primarily in developing, manufacturing and marketing traditional and digital imaging products, services and solutions for consumers, professionals, healthcare providers, the entertainment industry and other commercial customers. Kodak is the leader in helping people take, share, enhance,

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preserve, print and enjoy images - for memories, for information, and for entertainment. The Company is a major participant in infoimaging - a \$385 billion industry composed of devices (digital cameras and personal data assistants (PDAs)), infrastructure (online networks and delivery systems for images) and services and media (software, film and paper) enabling people to access, analyze and print images. Kodak harnesses its technology, market reach and a host of industry partnerships to provide innovative products and services for customers who need the information-rich content that images contain.

The Company sells traditional film products in its consumer imaging, professional and entertainment imaging businesses within the Photography segment. Digital products are substituting for some of these products at varying rates. For example, the workflow improvements offered by digital are having relatively more significant effects in the professional markets, while digital is having very little impact in the entertainment markets. The future impact of digital substitution on these film markets is difficult to predict due to a number of factors, including the pace of digital technology adoption, the underlying economic strength or weakness in major world markets, household film and media usage following a digital camera purchase and the timing of digital infrastructure installation. Additionally, digital substitution is happening at a different pace depending on the geography. For example, the pace of digital substitution in the consumer film market is more rapid in Japan, followed by the U.S. and then by Western Europe. For 2002, the Company believes digital substitution reduced consumer film sales growth by approximately 3% in the U.S. For 2003, the Company estimates that digital substitution will reduce consumer film sales growth by 4% to 5% in the U.S.

A business discussion by reportable segments follows. Kodak's sales, earnings and identifiable assets by reportable segment for the past three years are shown in Note 22, "Segment Information."

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PHOTOGRAPHY SEGMENT

Sales from continuing operations of the Photography segment for 2002, 2001 and 2000 were (in millions) \$9,002, \$9,403 and \$10,231, respectively.

This segment includes traditional and digital product offerings for consumers, professional photographers and the entertainment industry. This segment combines traditional and digital photography and photographic services in all its forms - consumer, advanced amateur, and professional. Kodak manufactures and markets various components of these systems including films (consumer, professional and motion picture), photographic papers, processing services, photofinishing equipment, photographic chemicals, cameras (including one-time-use and digital) and projectors. Kodak has also developed products that bridge traditional silver halide and digital products. Product and service offerings include kiosks and scanning systems to digitize and enhance images, digital media for storing images, and a network for transmitting images. In addition, other digitization options have been created to stimulate more pictures in use, adding to the consumption of film and paper. These products serve amateur photographers, as well as professional, motion picture and television customers.

In January 2002, the Company completed its acquisitions of Spector Photo Group's (Spector's) operations in Austria and Percolor S.A.'s

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photofinishing operations in Spain. In December 2001, the Company completed its acquisitions of Colourcare Limited's wholesale photofinishing operations in the United Kingdom and Spector's wholesale photofinishing and distribution operations in France and Germany. These acquisitions are part of the Company's overall efforts to consolidate photofinishing operations in Western Europe.

In June 2001, the Company completed its acquisition of Ofoto, Inc. The acquisition of Ofoto is accelerating Kodak's growth in the online photography market and helping to drive more rapid adoption of digital and online services. Ofoto offers digital processing of digital images and traditional film, top-quality prints, private online image storage, sharing, editing and creative tools, frames, cards, photo calendars and other merchandise.

In February 2003, the Company completed the acquisition of Burrell Colour Labs, Inc. and its affiliates (BCL). BCL is a professional photo and imaging lab business, primarily serving weddings and portrait photographers. It is comprised of seven labs located mostly in Indiana, Kentucky, Washington state and California. As a result of BCL's exercise of its put option, Kodak purchased BCL, a longtime business partner. The Company has publicly acknowledged plans to sell the business to a suitable buyer and rely on BCL's management team to operate the business during its interim ownership period. Discussions regarding the sale of BCL to a third party, which Kodak initiated prior to the purchase agreement, are continuing.

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Marketing and Competition. The Company's strategies in the consumer imaging business are to extend the benefits of film and to drive outputs in all forms. Traditional products and services for the consumer are sold direct to retailers and through distributors throughout the world. Price competition continues to exist in all marketplaces. To mitigate the impacts of price competition, the Company has been successful in moving consumers up to higher value films and one-time-use cameras. To be more cost competitive with respect to one-time-use cameras, the Company is moving a large portion of its manufacturing to China. In extending the benefits of film and driving output in all forms, the Company introduced its high definition film in December 2002. Some digital substitution has occurred, primarily in the U.S. and Japan, as a number of consumers have begun to use digital cameras. While this substitution to date has had only an impact on the Company's film and paper sales, and processing services in the U.S., the Company has sought to offset this by providing its own digital products, digitization services and output services. During 2002, the Company introduced its Kodak PerfectTouch branded digital processing services. This service is expected to further the Company's strategies of expanding the benefits of film and driving output in all forms by providing high quality, branded output. The Company is beginning to realize the potential for significant growth in the sale of sensitized products outside the U.S., particularly in emerging markets including Russia, India and China, where the Company has expanded the number of outlets for Kodak products. The Company also has photofinishing laboratories throughout the world and supplies photographic papers and chemicals to other entities that provide photofinishing services. The Company's primary laboratories provide consumers the opportunity to receive film images in digital form, either through Kodak Picture CD or the Company's retail online partners. The Company has entered into a global supply agreement with one of the world's leading suppliers of minilabs in order to accelerate Kodak's participation in the rapidly growing market for digital

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minilabs used for on-site photo processing. However, given the volume of other supply arrangements that the Company enters into in the normal course of business, the global supply agreement for digital minilabs is not material in and of itself.

The Company's strategies in its consumer digital business are to drive image output in all forms and make digital easier. Consumer digital products including digital cameras and inkjet media for consumers are sold direct to retailers or distributors. Products are also available to customers through the Internet. Products such as the Company's EasyShare digital camera system with the docks are intended to simplify digital imaging for consumers and thereby increase the popularity for sharing and printing digital photo files. The Company faces competition from other electronics manufacturers in this market space, particularly on price and technological advances. Rapid price declines shortly after product introduction in this environment are common, as producers are continually introducing new models with enhanced capabilities, such as improved resolution and/or optical systems. Ofoto, the Company's online printing business, continues to demonstrate strong growth and is expected to begin the establishment of a customer base in selected overseas markets in 2003.

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Traditional and digital professional products and services are sold direct to professional photographers and laboratories, or through dealers throughout the world. The Company is experiencing price competition for its professional films and papers. The professional photography market space is increasingly being affected by digital substitution. To mitigate the impacts of price competition and digital substitution, the Company has introduced new products, systems, and solutions focused on improving the digital workflow for professional photographers and laboratories. These new innovative solutions range from digital capture devices (digital cameras and scanners) designed to improve the image acquisition or digitalization process, software products designed to enhance and simplify the digital workflow, output devices (thermal printers and digital silver halide writers) designed to produce high quality images, and media (thermal and silver halide media) optimized for digital workflows.

Throughout the world, almost all entertainment imaging products are sold direct to studios, laboratories, independent filmmakers, or commercial houses (for producing advertisements). The products are sold in a highly competitive environment, characterized by price competition. As the entertainment industry begins to adopt digital formats, the Company anticipates that it will face new competitors, including some of its current customers and other electronics manufacturers.

Kodak's advertising programs actively promote its photography group products and services in its various markets, and its principal trademarks, trade dress and corporate symbol are widely used and recognized. Kodak is frequently noted by trade and business publications as one of the most recognized and respected brands in the world.

HEALTH IMAGING SEGMENT

Sales from continuing operations of the Health Imaging segment for 2002, 2001 and 2000 were (in millions) \$2,274, \$2,262 and \$2,220, respectively.

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Products and services of the Health Imaging segment enable healthcare customers (e.g., hospitals, imaging centers, etc.) to capture, process, integrate, archive and display images and information in a variety of forms. These products and services provide intelligent decision support through the entire patient pathway from research to detection to diagnosis to treatment. The Health Imaging segment also provides products and services that help customers improve workflow and productivity in their facilities, which in turn helps them enhance the quality and productivity of healthcare delivery.

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Products of the Health Imaging segment include traditional analog medical films, chemicals, and processing equipment. Kodak's history in traditional analog imaging has made it a leader in this area and has served as the foundation for building its important digital imaging business. The segment provides digital medical imaging and information products, systems and solutions, which are key components of future sales and earnings growth. These include digital print films, laser imagers, computed and digital radiography systems, Picture Archiving and Communications Systems (PACS), and Radiology Information Systems (RIS). The Health Imaging segment serves the general radiology market and specialty health markets, including dental, mammography and oncology. The segment also provides molecular imaging for the biotechnology research market.

Marketing and Competition. In the U.S., Canada and Latin America, health imaging consumables and analog equipment are sold through distributors. A significant portion of digital equipment and solutions is sold direct to end users, with the balance sold through other equipment manufacturers (OEMs). In the U.S., group purchasing organizations (GPOs), which serve as buying agents for individual hospitals or groups of hospitals, account for a significant portion of film sales industry-wide. The Health Imaging segment has secured long-term contracts with virtually all the major GPOs and, thus, has positioned itself well against competitors. In Europe, consumables and analog equipment are sold primarily to end users, with a small portion sold through distributors. In Asia, these products are sold directly to end users, while sales of these products in Japan are split between distributors and end users. In all three areas - Europe, Asia and Japan - consumables and analog equipment are often sold as part of a media/equipment bundle. Digital equipment and solutions are sold direct to end users and through OEMs in these three geographic areas. Hospitals in Europe, which are a mix of private and government-funded types, employ a highly regimented tender process in acquiring medical imaging products. This process creates both a 6-to-18 month sales cycle and a competitive pricing environment. Additionally, the government-funded hospitals' budgets tend to be limited and restricted. That is because government reimbursement policies often drive the use of particular types of equipment and influence the transition from analog to digital imaging. These policies vary widely among European countries.

Worldwide, the medical imaging market is crowded with a range of aggressive competitors. To compete aggressively, Kodak's Health Imaging segment has developed a full portfolio of value-adding products and services. Some competitors offer digital solutions similar to those of Kodak, and other competitors offer similar analog solutions or a mix of analog and digital. Health Imaging has a wide range of solutions from analog to digital and everything in between. Moreover, the segment's portfolio is expanding into new areas, including information technology, thus enabling the segment to offer solutions that combine medical images and information, such as patient reports,

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into one unified package for medical practitioners. Kodak will continue to innovate products and services to meet the changing needs and preferences of the marketplace.

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COMMERCIAL IMAGING SEGMENT

Sales from continuing operations of the Commercial Imaging segment for 2002, 2001 and 2000 were (in millions) \$1,456, \$1,454 and \$1,417, respectively.

The Commercial Imaging segment encompasses Kodak's expertise in imaging solutions, providing image capture, analysis, printing and archiving. Markets for the segment include commercial printing, industrial, banking and insurance, and state, local and federal government applications. Products include aerial, industrial, graphic and micrographic films, micrographic peripherals, inkjet printers, high-speed production document scanners, digital imaging systems for commercial imaging satellites, and electro-optical systems for land and space borne telescopes and image and data analysis systems. The Company also provides maintenance and professional services for Kodak and other manufacturers' products, as well as providing imaging services to customers.

The segment includes document imaging products, graphics products, inkjet products, and products and services for government and commercial customers. Also included are the Company's interests in NexPress Solutions LLC (Nexpress) and Kodak Polychrome Graphics LLC (KPG). The Company's equity in the income or loss of these interests is reflected in other (charges) income.

The Company generates approximately \$250-\$300 million of annual revenues from multi-year U.S. government contracts, which the U.S. government has the right to terminate for convenience. Historically, terminations have been rare.

KPG is an unconsolidated joint venture between Kodak and Sun Chemical Corporation in which Kodak owns a 50% interest. This joint venture is responsible for the photographic plate business, as well as for marketing Kodak graphic arts film, and proofing materials and equipment.

NexPress is an unconsolidated joint venture between Kodak and Heidelberger Druckmaschinen AG (Heidelberg) in which Kodak owns a 50% interest that was originally formed for the purpose of developing and marketing new digital color printing solutions. In 1999, NexPress was expanded by Kodak and Heidelberg to include the black-and-white electrophotographic business.

In January 2002, Kodak acquired ENCAD, Inc. This entity is a wholly owned subsidiary of Kodak that is focused on the inkjet printing industry. The new company provides a full set of offerings, including inkjet printers, inks, media, software, and service. On December 17, 2002, it was announced that ENCAD, Inc. would become part of the newly formed components group along with the capture (document scanners) and Imagelink (microfilm) businesses. The formation of the components group will build a stronger equipment and consumables business within the Commercial Imaging segment by consolidating those product lines that utilize a two tier, indirect sales and distribution channel model.

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In February 2001, the Company completed its acquisition of substantially

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all of the micrographic imaging operations of the Bell & Howell Company. The acquired units provide business customers worldwide with maintenance for document imaging components, micrographic-related equipment, supplies, parts and service.

In 2000, the Company divested its Eastman Software subsidiary.

Marketing and Competition. Throughout the world, document imaging products are sold primarily through distributors and value added resellers. The end users of these products include businesses in the banking and insurance sectors. While there is price competition, the Company has been able to maintain price by adding more attractive features to its products through technological advances. The Company has developed a wide range of digital products to meet the needs of customers who are interested in converting from traditional analog technology to new enterprise digital workflow solutions. Maintenance and professional services for Kodak and other manufacturer's products are sold either through the product distribution channel or directly to the end users of equipment. The Company provides imaging services in Asia which are sold directly to its customers and include both commercial and government customers. The service business will continue to expand in the future by offering a wide range of solutions to its customers and through strategic acquisitions.

Graphic products are sold directly by the Company to KPG. The conversion to digital printing workflows has negatively affected the sale of graphic films. As customers convert to digital, the Company is pursuing alternative strategies to bundle Kodak product sales with KPG product offerings.

Similar to document imaging products, inkjet products are sold through a two-tiered distribution channel. Products are also sold through original equipment manufacturers (OEMs) and global integrators. The Company remains competitive by focusing on developing new ink and media formulations, new printer technologies, new software and training enhancements.

Government services are provided to national and local government agencies, their prime contractors and other qualified commercial organizations. The Company has been successful in acquiring recent contracts due to the Company's integration and program management expertise as well as specialized imaging solutions not available from its competitors. The segment's acquisition of Research Systems, Inc. allows the Company to offer advanced solutions to image analysis.

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ALL OTHER

Sales from continuing operations comprising All Other for 2002, 2001 and 2000 were (in millions) \$103, \$110, and \$126, respectively.

All Other consists primarily of the Kodak components group, which represents an effort by Kodak to diversify into high-growth product areas that are consistent with the Company's historical strengths in imaging science. The Kodak components group is comprised of the Kodak display business, the imaging sensor solutions business and an optics business. Products of this group include organic light emitting diode (OLED) displays, imaging sensor solutions, and optics and optical systems.

OLED technology, pioneered and patented by Kodak, enables full-color,

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full-motion flat-panel displays with a level of brightness and sharpness not possible with other technologies. Unlike traditional liquid-crystal displays (LCDs), OLEDs are self-luminous and do not require backlighting. This eliminates the need for bulky and environmentally undesirable mercury lamps and yields a thinner, more compact display. Unlike other flat panel displays, OLEDs have a wide viewing angle (up to 160 degrees), even in bright light. Their lower power consumption makes them especially well suited for portable and mobile devices. As a result of this combination of features, OLED displays communicate more information in a more engaging way while adding less weight and taking up less space.

On December 4, 2001, the Company and SANYO Electric Co., Ltd. announced the formation of a global business venture, the SK Display Corporation, to manufacture OLED displays for consumer devices such as cameras, PDAs, and portable entertainment machines. Kodak holds a 34% ownership interest and SANYO holds a 66% interest in the business venture.

RAW MATERIALS

The raw materials used by the Company are many and varied and generally available. Silver is one of the essential materials used in the manufacture of films and papers. The Company purchases silver from numerous suppliers under annual agreements or on a spot basis. Pulp is an essential material in the manufacture of photographic papers. The Company has contracts to acquire pulp from several vendors during the next two to four years. Electronic components are prevalent in the Company's equipment offerings. The Company has entered into contracts with numerous vendors to supply these components over the next one to two years.

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SEASONALITY OF BUSINESS

Sales and earnings of the Photography segment are linked to the timing of vacations, holidays and other leisure activities. They are normally lowest in the first quarter due to the absence of holidays and fewer people taking vacations during that time. In addition, the demand for photofinishing services is the lowest during the first quarter. Sales and earnings of this segment are normally strongest in the second and third quarter as demand for the products of this segment is high due to heavy vacation activity, and events such as weddings and graduations. During the latter part of the third quarter, demand for the products is high as dealers prepare for the holiday seasons. Demand for photofinishing services is also high during this heavy vacation period.

With respect to the Commercial Imaging and Health Imaging segments, the sales of consumable products, which generate the major portion of the earnings of these segments, tend to occur uniformly throughout the year. Sales of the lower margin equipment products in these segments tend to be highest in the fourth quarter as purchases by commercial and healthcare customers are linked to their year-end capital budget management process.

RESEARCH AND DEVELOPMENT

Through the years, Kodak has engaged in extensive and productive efforts in research and development.

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Research and development expenditures for the Company's three reportable segments and All Other for 2002, 2001 and 2000 were as follows:

| (in millions) | 2002 | 2001 | 2000 |
|--------------------|-------|-------|-------|
| Photography | \$513 | \$542 | \$575 |
| Health Imaging | 152 | 152 | 138 |
| Commercial Imaging | 63 | 58 | 61 |
| All Other | 34 | 27 | 10 |
| | ---- | ---- | ---- |
| Total | \$762 | \$779 | \$784 |

The downward trend in research and development expenditures in the Photography segment and upward trend in the other reportable segments and All Other reflect the shift in strategic focus from traditional products, such as color negative film and paper and color reversal films, to digital product areas, such as OLED technology, digital medical imaging and inkjet printing.

Research and development is headquartered in Rochester, New York. Other U.S. groups are located in Boston, Massachusetts; Washington, D.C; Dallas, Texas; Oakdale, Minnesota; Allendale, New Jersey; New Haven, Connecticut; and Fremont, California. Outside the U.S., groups are located in Australia, England, France, Japan, China and Canada. These groups work in close cooperation with manufacturing units and marketing organizations to develop new products and applications to serve both existing and new markets.

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It has been Kodak's general practice to protect its investment in research and development and its freedom to use its inventions by obtaining patents. The ownership of these patents contributes to Kodak's ability to provide leadership products and to generate revenue from licensing. The Company holds portfolios of patents in several areas important to its business, including color negative films, processing and papers; digital cameras; network photo fulfillment; and organic light-emitting diodes. Each of these areas is important to existing and emerging business opportunities that bear directly on the Company's overall business performance. The Company is beginning to leverage its patent portfolio, which has started to generate royalty income. Amounts to date have not been significant, but could be material in the future.

ENVIRONMENTAL PROTECTION

Kodak is subject to various laws and governmental regulations concerning environmental matters. Some of the U.S. federal environmental legislation having an impact on Kodak includes the Toxic Substances Control Act, the Resource Conservation and Recovery Act (RCRA), the Clean Air Act, and the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (the Superfund Law).

It is the Company's policy to carry out its business activities in a manner consistent with sound health, safety and environmental management practices, and to comply with applicable health, safety and environmental laws and regulations. Kodak continues to engage in a program for environmental protection and control.

Environmental protection is further discussed in the Management

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Discussion and Analysis of Financial Condition and Results of Operations, and Notes to Financial Statements.

EMPLOYMENT

At the end of 2002, the Company employed approximately 70,000 people, of whom approximately 39,000 were employed in the U.S.

AVAILABLE INFORMATION

Eastman Kodak Company makes available free of charge through its website, at www.Kodak.com/go/arp, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Commission.

Financial information by geographic areas for the past three years is shown in Note 22, "Segment Information."

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The accompanying consolidated financial statements and notes to consolidated financial statements contain information that is pertinent to management's discussion and analysis of financial condition and results of operations. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the related disclosure of contingent assets and liabilities.

The Company believes that the critical accounting policies and estimates discussed below involve additional management judgment due to the sensitivity of the methods and assumptions necessary in determining the related asset, liability, revenue and expense amounts.

REVENUE RECOGNITION

Kodak recognizes revenue when it is realized or realizable and earned. For the sale of multiple-element arrangements whereby equipment is combined with services, including maintenance and training, and other elements, including software and products, the Company allocates to, and recognizes revenue from, the various elements based on verifiable objective evidence of fair value (if software is not included or is incidental to the transaction) or Kodak-specific objective evidence of fair value if software is included and is other than incidental to the sales transaction as a whole. For full service solutions sales, which consist of the sale of equipment and software which may or may not require significant production, modification or customization, there are two acceptable methods of accounting: percentage of completion accounting and completed contract accounting. For certain of the Company's full service solutions, the completed contract method of accounting is being followed by the Company. This is due to

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insufficient historical experience resulting in the inability to provide reasonably dependable estimates of the revenues and costs applicable to the various stages of such contracts as would be necessary under the percentage of completion methodology. When the Company does have sufficient historical experience and the ability to provide reasonably dependable estimates of the revenues and the costs applicable to the various stages of these contracts, the Company will account for these full service solutions under the percentage of completion methodology.

The Company records reductions to revenue for customer incentive programs offered including cash and volume discounts, price protection, promotional, cooperative and other advertising allowances, slotting fees and coupons. The liability for the incentive programs is recorded at the time of sale. The Company determines the amount of the incentives that are based on estimates by using historical experience and internal and customer data. To the extent actual experience differs from estimates, additional reductions to revenue could be recorded. If market conditions were to decline, the Company may take actions to expand these customer offerings, which may result in incremental reductions to revenue.

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ALLOWANCE FOR DOUBTFUL ACCOUNTS

Kodak regularly analyzes its customer accounts and, when it becomes aware of a specific customer's inability to meet its financial obligations to the Company, such as in the case of bankruptcy filings or deterioration in the customer's overall financial condition, records a specific provision for uncollectible accounts to reduce the related receivable to the amount that is estimated to be collectible. The Company also records and maintains a provision for doubtful accounts for customers based on a variety of factors including the Company's historical experience, the length of time the receivable has been outstanding and the financial condition of the customer. If circumstances related to specific customers were to change, the Company's estimates with respect to the collectibility of the related receivables could be further adjusted. However, losses in the aggregate have not exceeded management's expectations.

INVENTORIES

Kodak reduces the carrying value of its inventory based on estimates of what is excess, slow-moving and obsolete, as well as inventory whose carrying value is in excess of net realizable value. These write-downs are based on current assessments about future demands, market conditions and related management initiatives. If, in the future, the Company determined that market conditions and actual demands are less favorable than those projected and, therefore, inventory was overvalued, the Company would be required to further reduce the carrying value of the inventory and record a charge to earnings at the time such determination was made. However, if in the future the Company determined that inventory write-downs were overstated and, therefore, inventory was undervalued, the Company would recognize the increase to earnings through higher gross profit at the time the related undervalued inventory was sold. However, actual results have not differed materially from management's estimates.

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VALUATION OF LONG-LIVED ASSETS, INCLUDING GOODWILL AND PURCHASED INTANGIBLE ASSETS

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The Company reviews the carrying value of its long-lived assets, including goodwill and purchased intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company assesses the recoverability of the carrying value of long-lived assets, other than goodwill and purchased intangible assets with indefinite useful lives, by first grouping its long-lived assets with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities (the asset group) and, secondly, estimating the undiscounted future cash flows that are directly associated with and expected to arise from the use of and eventual disposition of such asset group. The Company estimates the undiscounted cash flows over the remaining useful life of the primary asset within the asset group. If the carrying value of the asset group exceeds the estimated undiscounted cash flows, the Company records an impairment charge to the extent the carrying value of the long-lived asset exceeds its fair value. The Company determines fair value through quoted market prices in active markets or, if quoted market prices are unavailable, through the performance of internal analysis of discounted cash flows or external appraisals. The undiscounted and discounted cash flow analyses are based on a number of estimates and assumptions, including the expected period over which the asset will be utilized, projected future operating results of the asset group, discount rate and long-term growth rate.

To assess goodwill for impairment, the Company performs an assessment of the carrying value of its reporting units on an annual basis or when events and changes in circumstances occur that would more likely than not reduce the fair value of the Company's reporting units below their carrying value. If the carrying value of a reporting unit exceeds its fair value, the Company would perform the second step in its assessment process and would record an impairment charge to earnings to the extent the carrying amount of the reporting unit goodwill exceeds its implied fair value. The Company estimates the fair value of its reporting units through internal analysis and external valuations, which utilize income and market valuation approaches through the application of capitalized earnings, discounted cash flow and market comparable methods. These valuation techniques are based on a number of estimates and assumptions, including the projected future operating results of the reporting unit, discount rate, long-term growth rate and appropriate market comparables.

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The Company's assessments of impairment of long-lived assets, including goodwill and purchased intangible assets, and its periodic review of the remaining useful lives of its long-lived assets are an integral part of Kodak's ongoing strategic review of the business and operations, and are also performed in conjunction with the Company's periodic restructuring actions. Therefore, future changes in the Company's strategy, the ongoing digital substitution, the continuing shift from overnight photofinishing to onsite processing and other changes in the operations of the Company could impact the projected future operating results that are inherent in the Company's estimates of fair value, resulting in impairments in the future. Additionally, other changes in the estimates and assumptions, including the discount rate and expected long-term growth rate, which drive the valuation techniques employed to estimate the fair value of long-lived assets and goodwill could change and, therefore, impact the assessments of impairment in the future.

In performing the annual assessment of goodwill for impairment, the Company determined that none of the reporting units' carrying values

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were close to exceeding their respective fair values. See "Goodwill" under Note 1, "Significant Accounting Policies."

INVESTMENTS IN EQUITY SECURITIES

Kodak holds minority interests in certain publicly traded and privately held companies having operations or technology within its strategic area of focus. The Company's policy is to record an impairment charge on these investments when they experience declines in value that are considered to be other-than-temporary. Poor operating results of the investees or adverse changes in market conditions in the future may cause losses or an inability of the Company to recover its carrying value in these underlying investments. The remaining carrying value of the Company's investments in these equity securities is \$29 million at December 31, 2002.

INCOME TAXES

The Company records a valuation allowance to reduce its net deferred tax assets to the amount that is more likely than not to be realized. At December 31, 2002, the Company has deferred tax assets for its net operating loss and foreign tax credit carryforwards of \$16 million and \$99 million, respectively, relating to which the Company has a valuation allowance of \$16 million and \$56 million, respectively. The Company has considered future market growth, forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which the Company operates and prudent and feasible tax planning strategies in determining the need for these valuation allowances. If Kodak were to determine that it would not be able to realize a portion of its net deferred tax asset in the future for which there is currently no valuation allowance, an adjustment to the net deferred tax assets would be charged to earnings in the period such determination was made. Conversely, if the Company were to make a determination that it is more likely than not that the deferred tax assets for which there is currently a valuation allowance would be realized, the related valuation allowance would be reduced and a benefit to earnings would be recorded.

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The Company's effective tax rate considers the impact of undistributed earnings of subsidiary companies outside the U.S. Deferred taxes have not been provided for the potential remittance of such undistributed earnings, as it is the Company's policy to permanently reinvest its retained earnings. However, from time to time and to the extent that the Company can repatriate overseas earnings on a tax-free basis, the Company will pay dividends to the U.S. Material changes in the Company's working capital and long-term investment requirements could impact the level and source of future remittances and, as a result, the Company's effective tax rate. See Note 13, "Income Taxes."

The Company operates within multiple taxing jurisdictions and is subject to audit in these jurisdictions. These audits can involve complex issues, which may require an extended period of time for resolution. Although management believes that adequate provision has been made for such issues, there is the possibility that the ultimate resolution of such issues could have an adverse effect on the earnings of the Company. Conversely, if these issues are resolved favorably in the future, the related provisions would be reduced, thus having a positive impact on earnings.

WARRANTY OBLIGATIONS

Management estimates expected product failure rates, material usage and

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service costs in the development of its warranty obligations. In the event that the actual results of these items differ from the estimates, an adjustment to the warranty obligation would be recorded.

PENSION AND POSTRETIREMENT BENEFITS

Kodak's defined benefit pension and other postretirement benefit costs and obligations are dependent on assumptions used by actuaries in calculating such amounts. These assumptions, which are reviewed annually by the Company, include the discount rate, long-term expected rate of return on plan assets, salary growth, healthcare cost trend rate and other economic and demographic factors. The Company bases the discount rate assumption for its significant plans on the estimated rate at which annuity contracts could be purchased to discharge the pension benefit obligation. In estimating that rate, the Company looks to the AA-rated corporate long-term bond yield rate in the respective country as of the last day of the year in the Company's reporting period as a guide. The long-term expected rate of return on plan assets is based on a combination of formal asset allocation studies, historical results of the portfolio and management's expectation as to future returns that are expected to be realized over the estimated remaining life of the plan liabilities that will be funded with the plan assets. The salary growth assumptions are determined based on the Company's long-term actual experience and future and near-term outlook. The healthcare cost trend rate assumptions are based on historical cost and payment data, the near-term outlook and an assessment of the likely long-term trends.

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The Company evaluates its expected long-term rate of return on plan asset (EROA) assumption annually for the Kodak Retirement Income Plan (KRIP). To facilitate this evaluation, every two to three years, or when market conditions change materially, the Company undertakes a new asset liability study to reaffirm the current asset allocation and the related EROA assumption. Wilshire Associates, a consulting firm, completed a study (the Study) in September 2002, which led to several asset allocation shifts and a decrease in the EROA from 9.5% for the year ended December 31, 2002 to 9.0% for the year ended December 31, 2003. This factor, coupled with a decrease in the discount rate of 75 basis points from 7.25% for 2002 to 6.50% for 2003, and the fact that the transition asset, which provided approximately \$56 million of income in 2002, is fully amortized as of December 31, 2002, is expected to lower total pension income in the U.S. from \$197 million in 2002 to pension income in the range of \$49 million to \$59 million in 2003. This decrease in income will be partially offset by a decrease in pension expense in the Company's non-U.S. plans in the range of \$53 million to \$65 million. Additionally, the Company increased its healthcare cost trend rate assumption with respect to the Company's most significant postretirement plan, the U.S. plan, from 9% for 2003, decreasing to 5% by 2007 (as discussed in the Company's 2001 Annual Report on Form 10-K), to 12% for 2003, decreasing to 5% by 2010. This increase in the healthcare cost trend rate assumption, coupled with the decrease in the discount rate, is expected to increase the cost of this plan from \$222 million in 2002 to range of \$254 million to \$310 million in 2003. All these factors have been incorporated into the Company's earnings outlook for 2003.

Actual results that differ from our assumptions are recorded as unrecognized gains and losses and are amortized to earnings over the estimated future service period of the plan participants to the extent such total net recognized gains and losses exceed 10% of the greater of the plan's projected benefit obligation or the market-related value of assets. Significant differences in actual experience or significant

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changes in future assumptions would affect the Company's pension and postretirement benefit costs and obligations.

In accordance with the guidance under Statement of Financial Accounting Standards (SFAS) No. 87, the Company is required to record an additional minimum pension liability in its Consolidated Statement of Financial Position that is at least equal to the unfunded accumulated benefit obligation of its defined benefit pension plans. In the fourth quarter of 2002, due to the decreasing discount rates and the weak performance of the global equity markets in 2002, the Company increased its net additional minimum pension liability by \$577 million and recorded a corresponding charge to accumulated other comprehensive income (a component of stockholders' equity) of \$394 million, net of taxes of \$183 million. If discount rates and the global equity markets' performance continue to decline, the Company may be required to increase its additional minimum pension liabilities and record further charges to stockholders' equity in the future. Likewise, if discount rates increase and the performance of the global equity markets improve, the Company could be in a position to reduce its minimum pension liability and reverse the corresponding charges to equity.

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ENVIRONMENTAL COMMITMENTS

Environmental liabilities are accrued based on estimates of known environmental remediation exposures. The liabilities include accruals for sites owned by Kodak, sites formerly owned by Kodak, and other third party sites where Kodak was designated as a potentially responsible party (PRP). The amounts accrued for such sites are based on these estimates, which are determined using the ASTM Standard E 2137-01 "Standard Guide for Estimating Monetary Costs and Liabilities for Environmental Matters." The overall method includes the use of a probabilistic model that forecasts a range of cost estimates for the remediation required at individual sites. The Company's estimate includes equipment and operating costs for remediation and long-term monitoring of the sites. Such estimates may be affected by changing determinations of what constitutes an environmental liability or an acceptable level of remediation. The Company has an ongoing monitoring and identification process to assess how the activities with respect to the known exposures are progressing against the accrued cost estimates, as well as to identify other potential remediation sites that are presently unknown. To the extent that the current work plans are not effective in achieving targeted results, the proposals to regulatory agencies for desired methods and outcomes of remediation are not acceptable, or additional exposures are identified, Kodak's estimate of its environmental liabilities may change.

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DETAILED RESULTS OF OPERATIONS

Net Sales from Continuing Operations by Reportable Segment and All Other

| (in millions) | 2002 | Change | 2001 | Change | 2000 |
|-------------------|----------|--------|----------|--------|---------|
| Photography | | | | | |
| Inside the U.S. | \$ 4,034 | -10% | \$ 4,482 | -10% | \$4,960 |
| Outside the U.S. | 4,968 | + 1 | 4,921 | - 7 | 5,271 |
| | ----- | --- | ----- | --- | ----- |
| Total Photography | 9,002 | - 4 | 9,403 | - 8 | 10,231 |
| | ----- | --- | ----- | --- | ----- |
| Health Imaging | | | | | |
| Inside the U.S. | 1,088 | 0 | 1,089 | + 2 | 1,067 |

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| | | | | | |
|--------------------------|----------|------|----------|------|----------|
| Outside the U.S. | 1,186 | + 1 | 1,173 | + 2 | 1,153 |
| | ----- | --- | ----- | --- | ----- |
| Total Health Imaging | 2,274 | + 1 | 2,262 | + 2 | 2,220 |
| | ----- | --- | ----- | --- | ----- |
| Commercial Imaging | | | | | |
| Inside the U.S. | 818 | 0 | 820 | +15 | 715 |
| Outside the U.S. | 638 | + 1 | 634 | -10 | 702 |
| | ----- | --- | ----- | --- | ----- |
| Total Commercial Imaging | 1,456 | 0 | 1,454 | + 3 | 1,417 |
| | ----- | --- | ----- | --- | ----- |
| All Other | | | | | |
| Inside the U.S. | 53 | -22 | 68 | 0 | 68 |
| Outside the U.S. | 50 | +19 | 42 | -28 | 58 |
| | ----- | --- | ----- | --- | ----- |
| Total All Other | 103 | - 6 | 110 | -13 | 126 |
| | ----- | --- | ----- | --- | ----- |
| Total Net Sales | \$12,835 | - 3% | \$13,229 | - 5% | \$13,994 |
| | ===== | === | ===== | === | ===== |

Earnings (Loss) from Continuing Operations Before Interest, Other
(Charges) Income, and Income Taxes by Reportable Segment and All Other

(in millions)

| | | | | | |
|---|----------|-------|--------|------|----------|
| Photography | \$ 771 | - 2% | \$ 787 | -45% | \$ 1,430 |
| Health Imaging | 431 | + 33 | 323 | -38 | 518 |
| Commercial Imaging | 192 | + 12 | 172 | -26 | 233 |
| All Other | (28) | | (60) | | (11) |
| | ----- | ---- | ----- | --- | ----- |
| Total of segments | 1,366 | + 12 | 1,222 | -44 | 2,170 |
| Venture investment impairments and other asset write-offs | (32) | | (12) | | - |
| Restructuring (costs) credits and asset impairments | (114) | | (720) | | 44 |
| Wolf charge | - | | (77) | | - |
| Environmental reserve | - | | (41) | | - |
| Kmart charge | - | | (20) | | - |
| | ----- | ---- | ----- | --- | ----- |
| Consolidated total | \$ 1,220 | +247% | \$ 352 | -84% | \$ 2,214 |
| | ===== | ===== | ===== | === | ===== |

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Net Earnings (Loss) From Continuing Operations by Reportable Segment
and All Other

(in millions)

| | 2002 | Change | 2001 | Change | 2000 |
|---|--------|--------|--------|--------|----------|
| Photography | \$ 550 | + 3% | \$ 535 | -48% | \$ 1,034 |
| Health Imaging | 313 | + 42 | 221 | -38 | 356 |
| Commercial Imaging | 83 | - 1 | 84 | - 7 | 90 |
| All Other | (23) | | (38) | | (2) |
| | ----- | ---- | ----- | --- | ----- |
| Total of segments | 923 | + 15 | 802 | -46 | 1,478 |
| Venture investment impairments and other | | | | | |

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| | | | | | |
|-----------------------------|--------|-------|-------|------|----------|
| asset write-offs | (50) | | (15) | | - |
| Restructuring (costs) | | | | | |
| credits and asset | | | | | |
| impairments | (114) | | (720) | | 44 |
| Wolf charge | - | | (77) | | - |
| Environmental reserve | - | | (41) | | - |
| Kmart charge | - | | (20) | | - |
| Interest expense | (173) | | (219) | | (178) |
| Other corporate items | 14 | | 8 | | 26 |
| Tax benefit - PictureVision | | | | | |
| subsidiary closure | 45 | | - | | - |
| Tax benefit - Kodak Imagex | | | | | |
| Japan | 46 | | - | | - |
| Income tax effects on | | | | | |
| above items and taxes | | | | | |
| not allocated to segments | 102 | | 363 | | 37 |
| | ----- | ----- | ----- | --- | ----- |
| Consolidated total | \$ 793 | +879% | \$ 81 | -94% | \$ 1,407 |
| | ===== | ===== | ===== | === | ===== |

2002 COMPARED WITH 2001

RESULTS OF OPERATIONS - CONTINUING OPERATIONS

CONSOLIDATED

Net worldwide sales were \$12,835 million for 2002 as compared with \$13,229 million for 2001, representing a decrease of \$394 million, or 3% as reported, with no net impact from exchange. Declines in volume accounted for approximately 1.5 percentage points of the sales decrease, driven primarily by volume decreases in traditional film and U.S. photofinishing services. Declines in price/mix reduced sales for 2002 by approximately 1.5 percentage points, driven primarily by traditional consumer film products and health film and laser imaging systems.

Net sales in the U.S. were \$5,993 million for the current year as compared with \$6,459 million for the prior year, representing a decrease of \$466 million, or 7%. Net sales outside the U.S. were \$6,842 million for the current year as compared with \$6,770 million for the prior year, representing an increase of \$72 million, or 1% as reported, with no impact from exchange.

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Net sales in the Europe, Asia, Africa, and Middle East Region (EAMER) for 2002 were \$3,491 million as compared with \$3,333 million for 2001, representing an increase of 5% as reported, or 1% excluding the favorable impact of exchange. Net sales in the Asia Pacific region for 2002 increased slightly from \$2,231 million for 2001 to \$2,240 million for 2002, with no impact from exchange. Net sales in the Canada and Latin America region for 2002 were \$1,111 million as compared with \$1,206 million for 2001, representing a decrease of 8% as reported, or an increase of 6% excluding the negative impact of exchange.

Net sales for Emerging Market countries were \$2,425 million for 2002 as compared with \$2,371 million for 2001, representing an increase of \$54 million, or 2%. Sales growth in China and Russia of 25% and 20%, respectively, were the primary drivers of the increase in sales in Emerging Market countries, partially offset by decreased sales in Argentina, Brazil and Mexico of 53%, 11% and 6%, respectively. The sales growth in China resulted from strong business performance for

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health and consumer products. The sales growth in Russia is a result of the expansion of new channel operations for Kodak products and services and continued success in camera seeding programs. The sales declines in Argentina, Brazil and Mexico are reflective of the continued economic weakness currently being experienced by many Latin American emerging market countries. The emerging market portfolio accounted for approximately 19% and 35% of the Company's worldwide and non-U.S. sales, respectively, in 2002.

Gross profit was \$4,610 million for 2002 as compared with \$4,568 million for 2001, representing an increase of \$42 million, or 1%. The gross profit margin was 35.9% in the current year as compared with 34.5% in the prior year. The increase of 1.4 percentage points was primarily attributable to manufacturing productivity/cost, which favorably impacted gross profit margins by approximately 2.7 percentage points year-over-year due to reduced labor expense, favorable materials pricing and improved product yields. This increase was also attributable to costs associated with restructuring and the exit of an equipment manufacturing facility incurred in 2001 but not in the current year, which negatively impacted gross profit margins for 2001 by approximately 1.0 percentage point. The positive impacts to gross profit were partially offset by year-over-year price/mix declines, which reduced gross profit margins by approximately 2.3 percentage points. The price/mix decreases were primarily related to declining prices on consumer film, health laser imaging systems and consumer color paper, and product shifts primarily in the Photography segment.

Selling, general and administrative expenses (SG&A) were \$2,530 million for 2002 as compared with \$2,625 million for 2001, representing a decrease of \$95 million, or 4%. SG&A decreased slightly as a percentage of sales from 19.8% for the prior year to 19.7% for the current year. The net decrease in SG&A is primarily attributable to the cost savings from the employment reductions and other non-severance related components of the Company's focused cost reductions, offset by acquisitions in the Photography and Commercial segments and higher strategic venture investment impairments in 2002 when compared with 2001 of \$15 million.

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Research and development (R&D) costs remained relatively flat at \$762 million for 2002 as compared with \$779 million for 2001, representing a decrease of \$17 million, or 2%. As a percentage of sales, R&D costs also remained flat at 5.9% for both the current and prior years.

Earnings from continuing operations before interest, other (charges) income, and income taxes for 2002 were \$1,220 million as compared with \$352 million for 2001, representing an increase of \$868 million, or 247%. The primary reason for the increase in earnings from operations was a decrease in restructuring costs and asset impairments of \$586 million. Results for 2002 also benefited from the savings associated with restructuring programs implemented in 2001. In addition, results for 2001 included charges of \$138 million for the Wolf bankruptcy charge, environmental reserve and Kmart bankruptcy, and goodwill amortization charges of \$153 million.

Interest expense for 2002 was \$173 million as compared with \$219 million for 2001, representing a decrease of \$46 million, or 21%. The decrease in interest expense is primarily attributable to lower average borrowing levels and lower interest rates in 2002 relative to 2001. Other charges for the current year were a net charge of \$101 million as compared with a net charge of \$18 million for the prior year. The increase in other charges is primarily attributable to increased losses

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from the Company's NexPress and SK Display joint ventures as these business ventures are in the early stages of bringing their offerings to market, higher non-strategic venture investment impairments, higher losses related to minority interests and an increase in foreign exchange losses. This activity was partially offset by a gain recognized on the sale of assets in the current year.

The Company's effective tax rate from continuing operations decreased from 30% for 2001 to 16% for 2002. The effective tax rate from continuing operations of 16% for 2002 is less than the U.S. statutory rate of 35% primarily due to the charges for the focused cost reductions and asset impairments being deducted in jurisdictions that have a higher tax rate than the U.S. federal income tax rate, and also due to discrete period tax benefits of approximately \$99 million relating to the closure and restructuring of certain of the Company's business activities and other one-time items, which were partially offset by the impact of recording a valuation allowance to provide for certain tax benefits that the Company would be required to forgo in order to fully realize the benefits of its foreign tax credit carryforwards.

The effective tax rate from continuing operations of 30% for 2001 is less than the U.S. statutory rate of 35% primarily because of a tax benefit from favorable tax settlements in the third quarter of 2001, which was partially offset by the impact of nondeductible goodwill amortization in 2001.

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Excluding the items described above, the Company's effective tax rate from continuing operations decreased from 31% for 2001 to 27% for 2002. The lower effective tax from continuing operations in the current year as compared with the prior year is primarily attributable to the tax benefits from the elimination of goodwill amortization in 2002 and further increases in earnings in lower tax rate jurisdictions. The Company expects its effective tax rate to be approximately 27% in 2003.

Net earnings from continuing operations for 2002 were \$793 million, or \$2.72 per basic and diluted share, as compared with net earnings from continuing operations for 2001 of \$81 million, or \$.28 per basic and diluted share, representing an increase of \$712 million, or 879%. The increase in net earnings from continuing operations is primarily attributable to the reasons outlined above.

Photography

Net worldwide sales for the Photography segment were \$9,002 million for 2002 as compared with \$9,403 million for 2001, representing a decrease of \$401 million, or 4% as reported, with no net impact from exchange. Approximately 2.0 percentage points of the decrease was attributable to declines in volume, driven primarily by volume decreases in consumer and professional film and photofinishing, and approximately 2.0 percentage points of the decrease was attributable to declines in price/mix, driven primarily by consumer film products.

Photography segment net sales in the U.S. were \$4,034 million for the current year as compared with \$4,482 million for the prior year, representing a decrease of \$448 million, or 10%. Photography segment net sales outside the U.S. were \$4,968 million for the current year as compared with \$4,921 million for the prior year, representing an increase of \$47 million, or 1% as reported, with no impact from exchange.

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Net worldwide sales of consumer film products, including 35mm film, Advantix film and one-time-use cameras, decreased 6% in 2002 as compared with 2001, reflecting declines due to lower volumes of 2%, negative price/mix of 3%, and 1% negative impact of exchange. Sales of the Company's consumer film products within the U.S. decreased 12% in the current year as compared with the prior year, reflecting declines due to lower volumes of 7% and negative price/mix of 5%. The lower film product sales are attributable to a declining industry demand driven by a weak economy and the impact of digital substitution. Sales of the Company's consumer film products outside the U.S. remained flat, with declines related to negative exchange of 1% offsetting increases related to higher volumes of 1%.

The U.S. film industry volume decreased approximately 3% in 2002 as compared with 2001 due to continuing economic weakness and the impact of digital substitution. For the fifth consecutive year, the Company has met its goal of maintaining full year U.S. consumer film market share.

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Net worldwide sales of consumer color paper decreased 3% in 2002 as compared with 2001, reflecting declines due to volume and exchange of 2% and 1%, respectively. Net sales of consumer color paper in the U.S. decreased 7% in the current year as compared with the prior year, reflecting declines from lower volumes of 8%, partially offset by favorable price/mix of 1%. Net sales of consumer color paper outside the U.S. decreased 1%, reflecting a 1% decline related to negative price/mix and a 2% decline related to negative exchange, partially offset by a 2% increase in volume.

Net worldwide photofinishing sales, including Qualex in the U.S. and Consumer Imaging Services (CIS) outside the U.S., decreased 4% in 2002 as compared with 2001, 5% of which was attributable to lower volumes, partially offset by 1% favorable impact of exchange. In the U.S., Qualex's processing volumes (wholesale and on-site) decreased approximately 14% in 2002 as compared with 2001, which is composed of decreases in wholesale and on-site processing volumes of 13% and 16%, respectively. These declines reflect the effects of a continued weak film industry, the adverse impact of several hundred store closures by a major U.S. retailer, and the impact of digital substitution. During the current year, CIS revenues in Europe benefited from the acquisition of (1) Spector Photo Group's wholesale photofinishing and distribution operations in France, Germany, and Austria, (2) ColourCare Limited's wholesale processing and printing operations in the United Kingdom and (3) Percolor photofinishing operations in Spain. These benefits were partially offset by weak industry trends for photofinishing in the second half of the year.

The average penetration rate for the number of rolls scanned at Qualex's wholesale labs averaged 7.5% for 2002, reflecting an increase from the 5.3% rate in 2001. The growth was driven by continued consumer acceptance of Picture CD and Retail.com, the retail industry's leading e-commerce platform for business-to-business collaboration. In addition, the number of images scanned in the current year increased 19% as compared with the prior year.

Net sales from the Company's consumer digital products and services, which include picture maker kiosks/media and consumer digital services revenue from Picture CD, "You've Got Pictures", and Retail.com, remained flat in 2002 as compared with 2001. The Company has broadly enabled the retail industry in the U.S. with its picture maker kiosks

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and is focused on bringing to market new kiosk offerings, creating new kiosk channels, expanding internationally and continuing to increase the media burn per kiosk. Net worldwide sales of thermal media used in picture maker kiosks increased 11% in the current year as compared with the prior year.

Net worldwide sales of consumer digital cameras increased 10% in 2002 as compared with 2001 due to strong consumer acceptance of the EasyShare digital camera system, despite sensor component shortages earlier in the year. As a result, consumer digital camera market share increased modestly in 2002 compared with 2001.

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Net worldwide sales of inkjet photo paper increased 43% in 2002 as compared with 2001, primarily due to higher volumes. The double-digit revenue growth and the maintenance of market share are primarily attributable to strong underlying market growth, introduction of new products, continued promotional activity at key accounts and success in broadening channel distribution.

Net worldwide sales of professional sensitized products, including color negative, color reversal and commercial black and white films and sensitized paper, decreased 13% in 2002 as compared with 2001, reflecting primarily a decline in volume, with no impact from exchange. Overall sales declines were primarily the result of ongoing digital substitution and continued economic weakness in markets worldwide.

Net worldwide sales of origination and print film to the entertainment industry remained flat in 2002 as compared with 2001, with a 1% favorable impact from exchange offset by a 1% decline attributable to lower volumes. The decrease in volumes of net worldwide film sales was primarily attributable to economic factors impacting origination film for commercials and independent feature films, partially offset by an increase in print film volumes.

Gross profit for the Photography segment was \$3,219 million for 2002 as compared with \$3,402 million for 2001, representing a decrease of \$183 million or 5%. The gross profit margin was 35.8% in the current year as compared with 36.2% in the prior year. The 0.4 percentage point decrease was primarily attributable to decreases in price/mix that impacted gross profit margins by approximately 3.0 percentage points, partially offset by an increase in productivity/cost improvements that impacted gross margins by approximately 2.6 percentage points.

SG&A expenses for the Photography segment were \$1,935 million for 2002 as compared with \$1,963 million for 2001, representing a decrease of \$28 million or 1%. The net decrease in SG&A spending is primarily attributable to cost reduction activities and expense management, partially offset by increases in SG&A expense related to CIS photofinishing acquisitions in Europe. As a percentage of sales, SG&A expense increased from 20.9% in the prior year to 21.5% in the current year.

R&D costs for the Photography segment decreased \$29 million or 5% from \$542 million in 2001 to \$513 million in 2002. As a percentage of sales, R&D costs decreased slightly from 5.8% in the prior year to 5.7% in the current year.

Earnings from continuing operations before interest, other (charges) income, and income taxes for the Photography segment decreased \$16 million, or 2%, from \$787 million in 2001 to \$771 million in 2002, reflecting the combined effects of lower sales and a lower gross profit

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margin, partially offset by SG&A and R&D cost reductions and the elimination of goodwill amortization in 2002, which was \$110 million in 2001.

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Health Imaging

Net worldwide sales for the Health Imaging segment were \$2,274 million for 2002 as compared with \$2,262 million for 2001, representing an increase of \$12 million, or 1% as reported, or an increase of 2% excluding the negative net impact of exchange. The increase in sales was attributable to an increase in price/mix and volume of approximately 0.4 and 1.1 percentage points, respectively, primarily due to laser imaging systems and equipment services, partially offset by a decrease from negative exchange of approximately 0.8 percentage point.

Net sales in the U.S. decreased slightly from \$1,089 for the prior year to \$1,088 million for the current year. Net sales outside the U.S. were \$1,186 million for 2002 as compared with \$1,173 million for 2001, representing an increase of \$13 million, or 1% as reported, or an increase of 2% excluding the negative impact of exchange.

Net worldwide sales of digital products, which include laser printers (DryView imagers and wet laser printers), digital media (DryView and wet laser media), digital capture equipment (computed radiography capture equipment and digital radiography equipment), services and Picture Archiving and Communications Systems (PACS), increased 5% in 2002 as compared with 2001. The increase in digital product sales was primarily attributable to higher digital media, service, digital capture and PACS volumes as the market for these products continues to grow.

Net worldwide sales of traditional products, including analog film, equipment, chemistry and services, decreased 4% in 2002 as compared with 2001. The decrease in sales was primarily attributable to a net decline in sales of analog film products. This net decrease was partly mitigated by an increase in sales of Mammography and Oncology (M&O) analog film products. Analog film products (excluding M&O) decreased 8% in 2002 as compared with 2001, reflecting declines due to volume, exchange and price/mix of approximately 5%, 2% and 1%, respectively. Although analog film volumes declined on a worldwide basis, current sales levels reflect an increase in traditional film market share. M&O sales increased 6% in the current year as compared with the prior year, reflecting higher volumes of approximately 8%, partially offset by decreases in price/mix and exchange of approximately 1% and 1%, respectively.

Gross profit for the Health Imaging segment was \$930 million for 2002 as compared with \$869 million for 2001, representing an increase of \$61 million, or 7%. The gross profit margin was 40.9% in 2002 as compared with 38.4% in 2001. The 2.5 percentage point increase was attributable to productivity/cost improvements, which increased gross profit margins by 2.9 percentage points due to favorable media and equipment manufacturing productivity led by DryView digital media, analog medical film, laser imaging equipment, and PACS, which were complemented by lower service costs and improved supply chain management. The positive effects of productivity/cost on gross profit margins were partially offset by a decrease in price/mix that impacted margins by approximately 0.5 percentage point due to declining digital laser media and analog medical film prices.

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The Company substantially completed the conversion of customers to the Novation GPO in 2001 and, therefore, the Company does not anticipate that this arrangement will have any additional significant potential impacts on gross profit trends in the future as was experienced in 2001.

SG&A expenses for the Health Imaging segment decreased \$20 million, or 5%, from \$367 million for 2001 to \$347 million for 2002. As a percentage of sales, SG&A expenses decreased from 16.2% for 2001 to 15.3% for 2002. The decrease in SG&A expenses is primarily a result of cost reduction activities and expense management.

R&D costs for the Health Imaging segment remained constant at \$152 million for 2002 and 2001. As a percentage of sales, R&D costs remained unchanged at 6.7% for both years.

Earnings from continuing operations before interest, other (charges) income, and income taxes for the Health Imaging segment increased \$108 million, or 33%, from \$323 million for 2001 to \$431 million for 2002. The increase in earnings from operations and the resulting operational earnings margin are primarily attributable to the combined effects of improvements in gross profit margins, lower SG&A expense, and the elimination of goodwill amortization in 2002, which was \$28 million in 2001.

Commercial Imaging

Net worldwide sales for the Commercial Imaging segment for 2002 increased slightly from \$1,454 million for 2001 to \$1,456 million for 2002, representing an increase of \$2 million, with no net impact from exchange. The slight increase in sales was attributable to an increase in price/mix of approximately 1.0 percentage point, which was almost entirely offset by declines in volume of approximately 0.9 percentage point related to graphic arts and micrographic products.

Net sales in the U.S. were \$818 million for 2002 as compared with \$820 million for 2001, representing a decrease of \$2 million. Net sales outside the U.S. were \$638 million in the current year as compared with \$634 million in the prior year, representing an increase of \$4 million, or 1%, with no impact from exchange.

Net worldwide sales of the Company's commercial and government products and services increased 7% in 2002 as compared with 2001. The increase in sales was principally due to an increase in revenues from government products and services under its government contracts.

Net worldwide sales for inkjet products were a contributor to the net increase in Commercial Imaging sales as these revenues increased 175% in 2002 as compared with 2001. The increase in sales was attributable to the 2002 acquisition of ENCAD, Inc., which represented approximately 5% of total net worldwide Commercial Imaging segment sales for 2002 and virtually all of the 175% increase in sales of inkjet products. The acquisition of ENCAD has improved the Company's channel to the inkjet printer market.

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Net worldwide sales of graphic arts products to Kodak Polychrome Graphics (KPG), an unconsolidated joint venture affiliate in which the Company has a 50% ownership interest, decreased 10% in 2002 as compared with 2001, primarily reflecting volume declines in graphic arts film. This reduction resulted largely from digital technology substitution

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and the effect of continuing economic weakness in the commercial printing market. The Company's equity in the earnings of KPG contributed positive results to other charges during 2002, but was not material to the Company's results from operations.

Gross profit for the Commercial Imaging segment for 2002 decreased slightly from \$451 million for 2001 to \$449 million for 2002. The gross profit margin was 30.8% for 2002 as compared with 31.0% for 2001. The gross profit margin remained relatively flat due to declines related to price/mix, which reduced margins by approximately 1.9 percentage points. These declines were offset by productivity/cost improvements, which increased margins by approximately 1.9 percentage points. ENCAD comprised approximately 3% of the gross profit dollars for 2002 and contributed to the year-over-year decrease in the gross profit margin percentage.

SG&A expenses for the Commercial Imaging segment decreased \$14 million, or 7%, from \$208 million for 2001 to \$194 million for 2002. As a percentage of sales, SG&A expenses decreased from 14.3% for 2001 to 13.3% for 2002. The primary contributors to the decrease in SG&A expenses were cost reductions from the prior year restructuring actions, which had a larger impact on the results of 2002 as compared with 2001, partially offset by the acquisition of ENCAD, Inc. in 2002, which increased SG&A by \$23 million.

R&D costs for the Commercial Imaging segment increased \$5 million, or 9%, from \$58 million for 2001 to \$63 million for 2002. The increase was due to the acquisition of ENCAD, Inc. in 2002, which increased R&D costs by \$8 million. As a percentage of sales, R&D costs increased from 4.0% in 2001 to 4.3% in 2002.

Earnings from continuing operations before interest, other (charges) income, and income taxes for the Commercial Imaging segment increased \$20 million, or 12%, from \$172 million in 2001 to \$192 million in 2002. The increase in earnings from operations is primarily attributable to overall expense management and the elimination of goodwill amortization in 2002, which was \$15 million in 2001, partially offset by a lower gross profit margin.

All Other

Net worldwide sales for All Other were \$103 million for 2002 as compared with \$110 million for 2001, representing a decrease of \$7 million, or 6%. Net sales in the U.S. were \$53 million in 2002 as compared with \$68 million for 2001, representing a decrease of \$15 million, or 22%. Net sales outside the U.S. were \$50 million in the current year as compared with \$42 million in the prior year, representing an increase of \$8 million, or 19%.

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Loss from continuing operations before interest, other (charges) income, and income taxes for All Other decreased \$32 million from a loss of \$60 million in 2001 to a loss of \$28 million in 2002. The reduction in the loss from operations was primarily attributable to cost reductions in certain miscellaneous businesses and the benefit of current year manufacturing productivity.

RESULTS OF OPERATIONS - DISCONTINUED OPERATIONS

In March 2001, the Company acquired Citipix from Groupe Hauts Monts

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along with two related subsidiaries involved in mapping services. Citipix was involved in the aerial photography of large cities in the United States, scanning of this imagery and hosting the imagery on the Internet for government, commercial and private sectors. The acquired companies were formed into Kodak Global Imaging, Inc. (KGII), a wholly owned subsidiary, which was reported in the commercial and government products and services business in the Commercial Imaging segment. Due to a combination of factors, including the collapse of the telecommunications market, limitations on flying imposed by the events of September 11th, delays and losses of key contracts and the global economic downturn, KGII did not achieve the financial results expected by management during both 2001 and 2002. In November 2002, the Company approved a plan to dispose of the operations of KGII.

Net sales from KGII for the years ended December 31, 2002 and 2001 were \$6 million and \$5 million, respectively. The Company incurred operational losses before income taxes from KGII for the years ended December 31, 2002 and 2001 of \$13 million and \$7 million, respectively. The Company recognized losses before income taxes in the fourth quarter of 2002 of approximately \$44 million for costs associated with the disposal of KGII. The disposal costs were comprised of impairment losses related to the write-down of the carrying value of goodwill, intangibles and fixed assets to fair value, losses recognized from the sale of certain assets, and the accrual of various costs related to the shutdown of KGII, including severance relating to approximately 150 positions.

Also during the fourth quarter of 2002, the Company recognized earnings before income taxes of \$19 million as a result of the favorable outcome of litigation associated with the 1994 sale of Sterling Winthrop Inc.

The loss from discontinued operations before income taxes for the years ended December 31, 2002 and 2001 was at an effective tax rate of 38% and 31%, respectively, resulting in the loss from discontinued operations, net of incomes taxes in the Consolidated Statement of Earnings of \$23 million and \$5 million, respectively.

For additional information, refer to Note 21, "Discontinued Operations."

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2001 COMPARED WITH 2000

RESULTS OF OPERATIONS - CONTINUING OPERATIONS

CONSOLIDATED

Net worldwide sales were \$13,229 million for 2001 as compared with \$13,994 million for 2000, representing a decrease of \$765 million, or 5% as reported, or 3% excluding the negative net impact of exchange. The decrease in net worldwide sales was comprised of declines in Photography sales of \$828 million, or 8%, and All Other sales of \$16 million, or 13%, partially offset by increases in Health Imaging sales of \$42 million, or 2%, and Commercial Imaging of \$37 million or 3%. The decrease in Photography sales was driven by declines in consumer, entertainment origination and professional film products, consumer and professional color paper, photofinishing revenues and consumer and professional digital cameras. Net sales in the U.S. were \$6,459 million for 2001 as compared with \$6,810 million for 2000, representing a decrease of \$351 million, or 5%. The U.S. economic condition throughout the year and the events of September 11th adversely impacted the Company's sales, particularly in the consumer film product groups within

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the Photography segment.

Net sales outside the U.S. were \$6,770 million for 2001 as compared with \$7,184 million for 2000, representing a decrease of \$414 million, or 6% as reported, or 1% excluding the negative impact of exchange. Net sales in the EAMER region for 2001 were \$3,333 million as compared with \$3,541 million for 2000, representing a decrease of 6% as reported, or 3% excluding the negative impact of exchange. Net sales in the Asia Pacific region for 2001 were \$2,231 million as compared with \$2,378 million for 2000, representing a decrease of 6% as reported, or a 1% increase excluding the negative impact of exchange. Net sales in the Canada and Latin America region for 2001 were \$1,206 million as compared with \$1,265 million for 2000, representing a decrease of 5% as reported, or an increase of 2% excluding the negative impact of exchange.

Net sales for Emerging Market countries were \$2,371 million for 2001 as compared with \$2,481 million for 2000, representing a decrease of \$110 million, or 4%. The decrease was primarily attributable to sales declines in Argentina, Brazil, China and Taiwan of 13%, 12%, 4% and 12%, respectively, which were primarily a result of economic weakness being experienced by these countries. These sales declines were partially offset by an increase in sales in Russia of 22%, which was primarily a result of the success in camera seeding programs. The emerging market portfolio accounted for approximately 18% and 35% of the Company's worldwide and non-U.S. sales, respectively, in both 2001 and 2000.

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Gross profit was \$4,568 million in 2001 as compared with \$5,619 million in 2000, representing a decrease of \$1,051 million, or 19%. The gross profit margin declined 5.7 percentage points from 40.2% in 2000 to 34.5% in 2001. The decline in margin was driven primarily by lower prices across many of the Company's traditional and digital product groups within the Photography segment, a significant decline in the margin in the Health Imaging segment, which was caused by declining prices and mix, and the negative impact of exchange. The decrease in margin was also attributable to an increase in restructuring costs incurred in 2001 as compared with 2000, which negatively impacted gross profit margins by approximately 0.9 percentage point.

SG&A expenses increased \$111 million, or 4%, from \$2,514 million in 2000 to \$2,625 million in 2001. SG&A expenses increased as a percentage of sales from 18.0% in 2000 to 19.8% in 2001. The increase in SG&A expenses is primarily attributable to charges of \$73 million that the Company recorded in 2001 relating to Kmart's bankruptcy, environmental issues and the write-off of certain strategic investments that were impaired, which amounted to \$12 million.

R&D expenses remained flat, decreasing \$5 million from \$784 million in 2000 to \$779 million in 2001. R&D expenses increased slightly as a percentage of sales from 5.6% in 2000 to 5.9% in 2001.

Earnings from continuing operations before interest, other (charges) income, and income taxes decreased \$1,862 million, or 84%, from \$2,214 million in 2000 to \$352 million in 2001. The decrease in earnings from operations is partially attributable to charges taken in 2001 totaling \$891 million primarily relating to restructuring and asset impairments, significant customer bankruptcies and environmental issues. The remaining decrease in earnings from operations is attributable to the decrease in sales and gross profit margin percentage for the reasons described above.

Interest expense for 2001 was \$219 million as compared with \$178

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million for 2000, representing an increase of \$41 million, or 23%. The increase in interest expense is primarily attributable to higher average borrowings in 2001 as compared with 2000. Other charges for the current year were \$18 million as compared with other income of \$96 million for the prior year. The decrease in other (charges) income is primarily attributable to increased losses from the Company's NexPress and Phogenix joint ventures in 2001 as compared with 2000 as these business ventures are in the early stages of bringing their offerings to market, and lower gains recognized from the sale of stock investments in 2001 as compared with 2000.

The Company's effective tax rate decreased from 34% for the year ended December 31, 2000 to 30% for the year ended December 31, 2001. The decline in the Company's 2001 effective tax rate as compared with the 2000 effective tax rate is primarily attributable to an increase in creditable foreign taxes and an \$11 million tax benefit related to favorable tax settlements reached in the third quarter of 2001, which were partially offset by restructuring costs recorded in the second, third and fourth quarters of 2001, which provided reduced tax benefits to the Company.

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Net earnings from continuing operations for 2001 were \$81 million, or \$.28 per basic and diluted share, as compared with net earnings from continuing operations for 2000 of \$1,407 million, or \$4.62 per basic share and \$4.59 per diluted share, representing a decrease of \$1,326 million, or 94%. The decrease in net earnings from continuing operations is primarily attributable to the reasons outlined above.

PHOTOGRAPHY

Net worldwide sales for the Photography segment were \$9,403 million for 2001 as compared with \$10,231 million for 2000, representing a decrease of \$828 million, or 8% as reported, or 5% excluding the negative net impact of exchange. The decrease in Photography sales was driven by declines in consumer, entertainment origination and professional film products, consumer and professional color paper, photofinishing revenues and consumer and professional digital cameras.

Photography net sales in the U.S. were \$4,482 million for 2001 as compared with \$4,960 million for 2000, representing a decrease of \$478 million, or 10%. Photography net sales outside the U.S. were \$4,921 million for 2001 as compared with \$5,271 million for 2000, representing a decrease of \$350 million, or 7% as reported, or 2% excluding the negative impact of exchange.

Net worldwide sales of consumer film products, which include 35mm film, Advantix film and one-time-use cameras, decreased 7% in 2001 relative to 2000, reflecting a 3% decline in both volume and exchange, and a 1% decline in price/mix. The composition of consumer film products in 2001 as compared with 2000 reflects a 2% decrease in volumes for Advantix film, a 7% increase in volume of one-time-use cameras and a 4% decline in volume of traditional film product lines. Sales of the Company's consumer film products within the U.S. decreased, reflecting a 5% decline in volume in 2001 as compared with 2000. Sales of consumer film products outside the U.S. decreased 9% in 2001 as compared with 2000, reflecting a 2% decrease in volume, a 2% decline in price/mix and 5% decline due to negative exchange.

During 2001, the Company continued the efforts to shift consumers to the differentiated, higher value MAX and Advantix film product lines. For

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2001, sales of the MAX and Advantix product lines as a percentage of total consumer roll film revenue increased from a level of 62% in the fourth quarter of 2000 to 68% by the fourth quarter of 2001.

The U.S. film industry volume was down slightly in 2001 relative to 2000; however, the Company maintained full-year U.S. consumer film market share for the fourth consecutive year. During 2001, the Company reached its highest worldwide consumer film market share position in the past nine years. The Company's traditional film business is developing in new markets, and management believes the business is strong. However, digital substitution is occurring and the Company continues its development and application of digital technology in such areas as wholesale and retail photofinishing. Digital substitution is occurring more quickly in Japan and more slowly in the U.S., Europe and China.

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Net worldwide sales of consumer color paper decreased 11% in 2001 as compared with 2000, reflecting a 4% decline in both volume and price/mix and a 3% decline due to exchange. The downward trend in color paper sales existed throughout 2001 and is due to industry declines resulting from digital substitution, market trends toward on-site processing where there is a decreasing trend in double prints, and a reduction in mail-order processing where Kodak has a strong share position. Effective January 1, 2001, the Company and Mitsubishi Paper Mills Ltd. formed the business venture, Diamic Ltd., a consolidated sales subsidiary, which is expected to improve the Company's color paper market share in Japan.

Net worldwide photofinishing sales, including Qualex in the U.S. and CIS outside the U.S., decreased 16% in 2001 as compared with 2000. This downward trend, which existed throughout 2001, is the result of a significant reduction in the placement of on-site photofinishing equipment due to the saturation of the U.S. market and the market's anticipation of the availability of new digital minilabs. During the fourth quarter of 2001, the Company purchased two wholesale, overnight photofinishing businesses in Europe. The Company acquired Spector Photo Group's wholesale photofinishing and distribution activities in France, Germany and Austria, and ColourCare Limited's wholesale processing and printing operations in the U.K. The Company believes that these acquisitions will facilitate its strategy to enhance retail photofinishing activities, provide access to a broader base of customers, create new service efficiencies and provide consumers with technologically advanced digital imaging services.

The Company continued its strong focus on the consumer imaging digital products and services, which include the picture maker kiosks and related media and consumer digital services revenue from picture CD, "You've Got Pictures" and Retail.com. Combined revenues from the placement of picture maker kiosks and the related media decreased 2% in 2001 as compared with 2000, reflecting a decline in the volume of new kiosk placements partially offset by a 15% increase in kiosk media volume. This trend in increased media usage reflects the Company's focus on creating new sales channels and increasing the media burn per kiosk. Revenue from consumer digital services increased 15% in 2001 as compared with 2000.

The Company experienced an increase in digital penetration in its Qualex wholesale labs. The principal products that contributed to this increase were Picture CD and Retail.com. The average digital penetration rate for the number of rolls processed increased each quarter during 2001 up to a rate of 6.7% in the fourth quarter, reflecting a 49% increase over the fourth quarter of 2000. In certain major retail accounts, the digital penetration reached levels of up to

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15%.

During the second quarter of 2001, the Company purchased Ofoto, Inc. The Company believes that Ofoto will solidify the Company's leading position in online imaging products and services. Since the acquisition, Ofoto has demonstrated strong order growth, with the average order size increasing by 31% in 2001 as compared with the 2000 level. In addition, the Ofoto customer base reflected growth of approximately 12% per month throughout 2001.

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Net worldwide sales of the Company's consumer digital cameras decreased 3% in 2001 as compared with 2000, reflecting volume growth of 35% offset by declining prices and a 2% decrease due to negative exchange. The significant volume growth over the 2000 levels was driven by strong market acceptance of the new EasyShare consumer digital camera system, competitive pricing initiatives, and a shift in the go-to-market strategy to mass-market distribution channels. These factors have moved the Company into the number two consumer market share position in the U.S., up from the number three position as of the end of 2000. Net worldwide sales of professional digital cameras decreased 12% in 2001 as compared with 2000, primarily attributable to a 20% decline in volume.

Net worldwide sales of inkjet photo paper increased 55% in 2001 as compared with 2000, reflecting volume growth of 42% and increased prices. The inkjet photo paper demonstrated double-digit growth year-over-year throughout 2001, reflecting the Company's increased promotional activity at key retail accounts, improved merchandising and broader channel distribution of the entire line of inkjet paper within the product group. Net worldwide sales of professional thermal paper remained flat, reflecting an 8% increase in volume offset by declines attributable to price and negative exchange impact of 7% and 1%, respectively.

Net worldwide sales of professional film products, which include color negative, color reversal and commercial black-and-white film, decreased 13% in 2001 as compared with 2000. The downward trend in the sale of professional film products existed throughout 2001 and is the result of ongoing digital capture substitution and continued economic weakness in a number of markets worldwide. Net worldwide sales of sensitized professional paper decreased 2% in 2001 as compared with 2000, reflecting a 4% increase in volume, offset by a 4% decrease in price and a 2% decline attributable to exchange.

Net worldwide sales of origination and print film to the entertainment industry decreased 4% in 2001 as compared with 2000. Origination film sales decreased 12%, reflecting a 9% decline in volume and a 3% decline due to the negative impact of exchange. The decrease in origination film sales was partially offset by an increase in print film of 4%, reflecting a 9% increase in volume, offset by declines attributable to exchange and price of 3% and 2%, respectively. After several consecutive years of growth in origination film sales, this decrease reflects a slight downward trend beginning in the second half of 2001 due to continued economic weakness in the U.S., which caused a decrease in television advertising spend and the resulting decline in the production of television commercials. Additionally, the events of September 11th caused a number of motion picture film releases and television show productions to be delayed or postponed.

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Gross profit for the Photography segment was \$3,402 million in 2001 as compared with \$4,099 million in 2000, representing a decrease of \$697

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million or 17%. The gross profit margin for the Photography segment was 36.2% in 2001 as compared with 40.1% in 2000. The 3.9 percentage point decrease in gross margin for the Photography segment was primarily attributable to continued lower effective selling prices across virtually all product groups, including the Company's core products of traditional film, paper, and digital cameras, unfavorable exchange and flat distribution costs on a lower sales base.

SG&A expenses for the Photography segment remained relatively flat, decreasing \$10 million, or 1%, from \$1,973 million in 2000 to \$1,963 million in 2001. As a percentage of sales, SG&A increased from 19.3% in 2000 to 20.9% in 2001. SG&A, excluding advertising, increased 4%, representing 14.6% of sales in 2001 and 12.9% of sales in 2000. R&D expenses for the Photography segment decreased \$33 million, or 6%, from \$575 million in 2000 to \$542 million in 2001. As a percentage of sales, R&D increased slightly from 5.6% in 2000 to 5.8% in 2001.

Earnings from continuing operations before interest, other (charges) income, and income taxes for the Photography segment decreased \$643 million, or 45%, from \$1,430 million in 2000 to \$787 million in 2001, reflecting the lower sales and gross profit levels described above.

HEALTH IMAGING

Net worldwide sales for the Health Imaging segment were \$2,262 million for 2001 as compared with \$2,220 million for 2000, representing an increase of \$42 million, or 2% as reported, or a 5% increase excluding the negative net impact of exchange.

Net sales in the U.S. were \$1,089 million for 2001 as compared with \$1,067 million for 2000, representing an increase of \$22 million or 2%. Net sales outside the U.S. were \$1,173 million for 2001 as compared with \$1,153 million for 2000, representing an increase of \$20 million, or 2% as reported, or 7% excluding the negative impact of exchange. Sales in emerging markets increased slightly, up 4% from 2000 to 2001.

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Net worldwide sales of digital products, which include laser imagers (DryView imagers and wet laser printers), digital media (DryView and Wet laser media), digital capture equipment (computed radiography capture equipment and digital radiography equipment) and PACS, increased 11% in 2001 as compared with 2000. The increase in digital sales was principally the result of a 184% increase in digital capture revenues resulting from a 201% increase in volume, due to new product introductions in 2000 and 2001. In the second and third quarter of 2000, the Company introduced new computer radiography and digital radiography products. In 2001, the Company's results include sales of these products for the full year, as well as sales of newer computed radiography products, which were launched in early 2001. The increase in revenues was partially offset by declines attributable to price and exchange. Laser imaging equipment, services and film also contributed to the increase in digital sales, as sales in these combined categories increased 3% in 2001 as compared with 2000. The 3% increase in these product groups was the result of increases in DryView laser imagers and media of 8% and 33%, respectively, which were partially offset by the expected decreases in wet laser printers and media of 8% and 29%, respectively, in 2001 as compared with 2000. Sales of PACS increased 9% in 2001 as compared with 2000, reflecting a 16% increase in volume, partially offset by declines attributable to price and exchange of 4% and 3%, respectively.

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Net worldwide sales of traditional medical products, which include analog film, equipment, chemistry and services, decreased 7% in 2001 as compared with 2000. This decline was primarily attributable to a 12% decrease in non-specialty medical sales. The decrease in these sales was partially offset by an increase in specialty Mammography and Oncology sales, which increased 4%, reflecting a 12% increase in volume, offset by declines attributable to price/mix and exchange of 6% and 2%, respectively. Additionally, Dental sales increased 3% in 2001 as compared with 2000, reflecting a 5% increase in volume, which was partially offset by declines of 1% attributable to both price/mix and exchange.

Gross profit for the Health Imaging segment was \$869 million for 2001 as compared with \$1,034 million for 2000, representing a decrease of \$165 million or 16%. The gross profit margin for the Health Imaging segment was 38.4% in 2001 as compared with 46.6% in 2000. The 8.2 percentage point decrease in gross margin was primarily attributable to selling price declines in 2001, driven by the continued conversion of customers to lower pricing levels under the Company's Novation GPO contracts and a larger product mix shift from higher margin traditional analog film toward lower margin digital capture and printing equipment. Additionally, in 2001 as compared with 2000, the Company incurred higher service costs due to an increase in volume of new digital capture equipment and systems placements, compounded by short-term start-up reliability issues with the new equipment.

SG&A expenses for the Health Imaging segment increased \$16 million, or 4%, from \$351 million in 2000 to \$367 million in 2001. As a percentage of sales, SG&A increased from 15.8% in 2000 to 16.2% in 2001.

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R&D expenses for the Health Imaging segment increased \$14 million, or 10%, from \$138 million in 2000 to \$152 million in 2001. As a percentage of sales, R&D increased from 6.2% in 2000 to 6.7% in 2001.

Earnings from continuing operations before interest, other (charges) income, and income taxes decreased \$195 million, or 38%, from \$518 million in 2000 to \$323 million in 2001, which is attributable to the decrease in the gross profit percentage in 2001 as compared with 2000, as described above.

COMMERCIAL IMAGING

Net worldwide sales for the Commercial Imaging segment were \$1,454 million for 2001 as compared with \$1,417 million for 2000, representing an increase of \$37 million, or 3% as reported, or 5% excluding the negative net impact of exchange.

Net sales in the U.S. were \$820 million for 2001 as compared with \$715 million for 2000, representing an increase of \$105 million, or 15%. Net sales outside the U.S. were \$634 million for 2001 as compared with \$702 million for 2000, representing a decrease of \$68 million, or 10% as reported, or 5% excluding the negative impact of exchange.

Net worldwide sales of document imaging equipment, products and services increased 8% in 2001 as compared with 2000. The increase in sales was primarily attributable to an increase in service revenue due to the acquisition of the Bell and Howell Imaging business in the first quarter of 2001. With the acquisition of the Bell and Howell Imaging business, the Company continues to secure new exclusive third-party maintenance agreements. The increase in revenue was also due to strong demand for

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the Company's iNnovation series scanners, specifically the new i800 series high-volume document scanner.

Net worldwide sales of the Company's commercial and government products and services increased 16% in 2001 as compared with 2000. The increase in sales was principally due to an increase in revenues from government products and services under its government contracts.

Net worldwide sales for wide-format inkjet products were a contributor to the net increase in Commercial Imaging sales as these revenues increased 9% in 2001 as compared with 2000, reflecting year-over-year sales increases throughout 2001. The Company continues to focus on initiatives to grow this business as reflected in the acquisition of ENCAD, Inc. in January of 2002. Given ENCAD's strong distribution position in this industry, the acquisition of ENCAD is expected to provide the Company with an additional channel to the inkjet printer market.

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Net worldwide sales of graphic arts products to KPG decreased 15% in 2001 as compared with 2000. The largest contributor to this decline in sales was graphics film, which experienced a 20% decrease, reflecting a 19% decrease in volume and small declines attributable to price/mix and exchange. The decrease in sales to KPG is attributable to continued technology substitution and economic weakness. During 2001, KPG continued to implement the operational improvements it began in 2000, which returned the joint venture to profitability in the first quarter and throughout 2001. In the fourth quarter of 2001, KPG completed its acquisition of Imation's color proofing and software business. The Company believes that Imation's portfolio of products will complement and expand KPG's offerings in the marketplace, which should drive sell-through of Kodak's graphics products. The Company is the exclusive provider of graphic arts products to KPG. Net earnings from continuing operations include positive earnings from the Company's equity in the income of KPG.

Net worldwide sales of products to NexPress decreased in 2001 as compared with 2000, reflecting a 15% decrease in volume and declines in price/mix. In September 2001, the joint venture achieved its key milestone in launching the NexPress 2100 printer product at the Print '01 trade show. There is strong customer demand for the new printer, which the Company believes should drive increased sell-through of Kodak's products through the joint venture.

Gross profit for the Commercial Imaging segment was \$451 million for 2001 compared with \$473 million for 2000, representing a decrease of \$22 million, or 5%. The gross profit margin for the Commercial Imaging segment was 31.0% in 2001 as compared with 33.4% in 2000. The 2.4 percentage point decrease in gross margin was primarily attributable to lower selling prices in a number of product groups within the segment.

SG&A expenses for the Commercial Imaging segment increased \$32 million, or 18%, from \$176 million in 2000, to \$208 million in 2001. As a percentage of sales, SG&A increased from 12.4% in 2000 to 14.3% in 2001.

R&D costs for the Commercial Imaging segment decreased \$3 million, or 5%, from \$61 million in 2000 to \$58 million in 2001. As a percentage of sales, R&D decreased from 4.3% in 2000 to 4.0% in 2001.

Earnings from continuing operations before interest, other (charges) income, and income taxes decreased \$61 million, or 26%, from \$233 million in 2000 to \$172 million in 2001, which was attributable to the

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decrease in the gross profit percentage and an increase in SG&A expenses in 2001 as compared with 2000, as described above.

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ALL OTHER

Net worldwide sales of businesses comprising All Other were \$110 million for 2001 as compared with \$126 million for 2000, representing a decrease of \$16 million, or 13% as reported, with no impact from exchange. Net sales in the U.S. were flat at \$68 million for both 2001 and 2000, while net sales outside the U.S. were \$42 million for 2001 as compared with \$58 million for 2000, representing a decrease of \$16 million, or 28% as reported, or 30% excluding the net impact of exchange.

The decrease in worldwide net sales was primarily attributable to a decrease in optics revenues of 39% and a decrease in revenues due to the divestment of the Eastman Software business in 2000. These decreases were partially offset by a 10% increase in the sale of sensors.

In December 2001, the Company and SANYO announced the formation of a business venture, SK Display Corporation, to manufacture and sell active matrix OLED displays for consumer devices. Kodak holds a 34% ownership interest in this venture. For 2001, there were no sales relating to this business. In the future, the Company will derive revenue through royalty income and sales of raw materials and finished displays.

Loss from continuing operations before interest, other (charges) income, and income taxes increased \$49 million from a loss of \$11 million in 2000 to a loss of \$60 million in 2001. The increase in the loss was attributable to increased costs incurred for the continued development of the OLED technology, the establishment of the SK Display business venture and costs incurred to grow the existing optics and sensor businesses.

SUMMARY

(in millions, except per share data)

| | 2002 | Change | 2001 | Change | 2000 |
|---|----------|--------|----------|--------|----------|
| Net sales from continuing operations | \$12,835 | - 3% | \$13,229 | - 5% | \$13,994 |
| Earnings from continuing operations before interest, other (charges) income, and income taxes | 1,220 | +247 | 352 | -84 | 2,214 |
| Earnings from continuing operations | 793 | +879 | 81 | -94 | 1,407 |
| Loss from discontinued operations | (23) | -360 | (5) | | - |
| Net earnings | 770 | +913 | 76 | -95 | 1,407 |
| Basic earnings (loss) per share: | | | | | |
| Continuing operations | 2.72 | +871 | .28 | -94 | 4.62 |
| Discontinued operations | (.08) | -300 | (.02) | | - |
| Total | 2.64 | +915 | .26 | -94 | 4.62 |
| Diluted earnings (loss) per share: | | | | | |
| Continuing operations | 2.72 | +871 | .28 | -94 | 4.59 |
| Discontinued operations | (.08) | -300 | (.02) | | - |

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| | | | | | |
|-------|------|------|-----|-----|------|
| Total | 2.64 | +915 | .26 | -94 | 4.59 |
|-------|------|------|-----|-----|------|

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The Company's results as noted above include certain one-time items, such as charges associated with focused cost reductions and other special charges. These one-time items, which are described below, should be considered to better understand the Company's results of operations that were generated from normal operational activities.

2002

The Company's results from continuing operations for the year included the following:

Charges of \$114 million (\$80 million after tax) related to focused cost reductions implemented in the third and fourth quarters. See further discussion in the Restructuring Costs and Other section of Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and Note 14, "Restructuring Costs and Other."

Charges of \$50 million (\$34 million after tax) related to venture investment impairments and other asset write-offs incurred in the second, third and fourth quarters. See MD&A and Note 6, "Investments" for further discussion of venture investment impairments.

Income tax benefits of \$121 million, including a \$45 million tax benefit related to the closure of the PictureVision subsidiary in the second quarter, a \$46 million benefit from the loss realized on the liquidation of a Japanese photofinishing operations subsidiary in the third quarter, an \$8 million benefit from a fourth quarter property donation, and a \$22 million adjustment to reduce the Company's income tax provision due to a decrease in the estimated effective tax rate for the full year.

2001

The Company's results from continuing operations for the year included the following one-time items:

Charges of \$830 million (\$583 million after tax) related to the restructuring programs implemented in the second, third and fourth quarters and other asset impairments. See further discussion in MD&A and Note 14, "Restructuring Costs and Other."

A charge of \$41 million (\$28 million after tax) for environmental exposures. See MD&A and Note 10, "Commitments and Contingencies."

A charge of \$20 million (\$14 million after tax) for the Kmart bankruptcy. See MD&A and Note 2, "Receivables, Net."

Income tax benefits of \$31 million, including a favorable tax settlement of \$11 million and a \$20 million benefit relating to the decline in the year-over-year operational effective tax rate.

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2000

The Company's results from continuing operations for the year included the following one-time items:

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Charges of approximately \$50 million (\$33 million after tax) associated with the sale and exit of one of the Company's equipment manufacturing facilities. The costs for this effort, which began in 1999, related to accelerated depreciation of assets still in use prior to the sale of the facility in the second quarter, and costs for relocation of the operations.

RESTRUCTURING COSTS AND OTHER

Fourth Quarter, 2002 Restructuring Plan

During the fourth quarter of 2002, the Company announced a number of focused cost reductions designed to apply manufacturing assets more effectively in order to provide competitive products to the global market. Specifically, the operations in Rochester, New York that assemble one-time-use cameras and the operations in Mexico that perform sensitizing for graphic arts and x-ray films will be relocated to other Kodak locations. In addition, as a result of declining photofinishing volumes, the Company will close certain central photofinishing labs in the U.S. and EAMER. The Company will also reduce research and development and selling, general and administrative positions on a worldwide basis and exit certain non-strategic businesses. The total restructuring charges recorded in the fourth quarter of 2002 for these actions were \$116 million.

The following table summarizes the activity with respect to the restructuring and asset impairment charges recorded during the fourth quarter of 2002 for continuing operations and the remaining balance in the related restructuring reserves at December 31, 2002:

(dollars in millions)

| | Number of Employees | Severance Reserve | Inventory Write-downs | Long-lived Asset Impair- ments | Exit Costs Reserve | Total |
|----------------------|------------------------|----------------------|--------------------------|---|--------------------------|--------|
| | | | | | | |
| Q4, 2002 charges | 1,150 | \$ 55 | \$ 7 | \$ 37 | \$ 17 | \$ 116 |
| Q4, 2002 utilization | (250) | (2) | (7) | (37) | - | (46) |
| Balance at 12/31/02 | 900 | \$ 53 | \$ - | \$ - | \$ 17 | \$ 70 |

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The total restructuring charge of \$116 million for the fourth quarter of 2002 was composed of severance, inventory write-downs, long-lived asset impairments and exit costs of \$55 million, \$7 million, \$37 million and \$17 million, respectively, with \$109 million of those charges reported in restructuring costs (credits) and other in the accompanying Consolidated Statement of Earnings. The \$7 million charge for inventory write-downs for product discontinuances was reported in cost of goods sold in the accompanying Consolidated Statement of Earnings. The severance and exit costs require the outlay of cash, while the inventory write-downs and long-lived asset impairments represent non-cash items.

The severance charge related to the termination of 1,150 employees, including approximately 525 manufacturing and logistics, 300 service and photofinishing, 175 administrative and 150 research and development positions. The geographic composition of the employees terminated

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included approximately 775 in the United States and Canada and 375 throughout the rest of the world. The charge for the long-lived asset impairments includes the write-off of \$13 million relating to equipment used in the manufacture of cameras and printers, \$13 million for sensitized manufacturing equipment, \$5 million for lab equipment used in photofinishing and \$6 million for other assets that were scrapped or abandoned immediately. In addition, charges of \$9 million related to accelerated depreciation on long-lived assets accounted for under the held for use model of SFAS No. 144, was included in cost of goods sold in the accompanying Consolidated Statement of Earnings. The accelerated depreciation of \$9 million was comprised of \$5 million relating to equipment used in the manufacture of cameras, \$2 million for sensitized manufacturing equipment and \$2 million for lab equipment used in photofinishing that will be used until their abandonment in 2003. The Company will incur accelerated depreciation charges of \$16 million, \$6 million and \$3 million in the first, second and third quarters, respectively, of 2003 as a result of the actions implemented in the Fourth Quarter, 2002 Restructuring Plan.

In connection with the charges recorded in the Fourth Quarter, 2002 Restructuring Plan, the Company has 900 positions remaining to be eliminated as of December 31, 2002. These positions will be eliminated as the Company completes the closure of photofinishing labs and completes the planned downsizing of manufacturing and administrative positions. These positions are expected to be eliminated by the end of the second quarter of 2003. Severance payments will continue beyond the second quarter of 2003 since, in many instances, the terminated employees can elect or are required to receive their severance payments over an extended period of time. The Company expects the actions contemplated by the reserve for exit costs to be completed by the end of the third quarter of 2003. Most exit costs are expected to be paid during 2003. However, certain costs, such as long-term lease payments, will be paid over periods after 2003.

These restructuring actions as they relate to the Photography, Health Imaging and Commercial Imaging segments amounted to \$40 million, \$2 million and \$19 million, respectively. The remaining \$55 million were for actions associated with the manufacturing, research and development, and administrative functions, which are shared across all segments.

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Cost savings resulting from the implementation of all Fourth Quarter, 2002 Restructuring Plan actions are expected to be approximately \$90 million to \$95 million in 2003 and \$205 million to \$210 million on an annual basis thereafter.

In addition to the severance actions included in the \$55 million charge described above, further actions will be required related to the relocations of the Rochester, New York one-time-use camera assembly operations and the Mexican sensitizing operations. Upon completion of the final severance action plans, it is expected that an additional 500 to 700 manufacturing employees will be terminated. The total charge for these additional severance actions is expected to be approximately \$15 million to \$20 million.

As part of the Company's focused cost-reduction efforts, the Company announced on January 22, 2003 that it intended to incur additional charges in 2003 to terminate 1,800 to 2,200 employees, in addition to the employees included in the Fourth Quarter, 2002 Restructuring Plan. A significant portion of these reductions is related to the rationalization of the Company's photofinishing operations in the U.S.

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and EAMER. The total charges in 2003 are expected to be in the range of \$75 million to \$100 million. The savings from these additional reductions are estimated to be \$35 million to \$50 million in 2003 and \$65 million to \$85 million on an annual basis thereafter.

Third Quarter, 2002 Restructuring Plan

During the third quarter of 2002, the Company consolidated and reorganized its photofinishing operations in Japan by closing 8 photofinishing laboratories and transferring the remaining 7 laboratories to a joint venture it entered into with an independent third party. Beginning in the fourth quarter of 2002, the Company outsourced its photofinishing operations to this joint venture. The restructuring charge of \$20 million relating to the Photography segment recorded in the third quarter included a charge for termination-related benefits of approximately \$14 million relating to the elimination of approximately 175 positions, which were not transferred to the joint venture, and other statutorily required payments. The positions were eliminated as of September 30, 2002 and the related payments were made by the end of 2002. The remaining restructuring charge of \$6 million recorded in the third quarter represents the write-down of long-lived assets held for sale to their fair values based on independent valuations. An additional \$3 million was recorded in the fourth quarter for the write-down of these long-lived assets held for sale based on quotes obtained from potential buyers. All charges applicable to the Third Quarter, 2002 Restructuring Plan were included in the restructuring costs (credits) and other line in the accompanying Consolidated Statement of Earnings.

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Fourth Quarter, 2001 Restructuring Plan

As a result of the decline in the global economic conditions and the events of September 11th, the Company committed to actions in the fourth quarter of 2001 (the Fourth Quarter, 2001 Restructuring Plan) to rationalize worldwide manufacturing capacity, reduce selling, general and administrative positions on a worldwide basis and exit certain businesses. The total restructuring charges in connection with these actions were \$329 million.

The following table summarizes the activity with respect to the restructuring and asset impairment charges recorded during the fourth quarter of 2001 and the remaining balance in the related restructuring reserves at December 31, 2002:

(dollars in millions)

| | Number of Employees | Severance Reserve | Inventory Write-downs | Long-lived Asset Impair- ments | Exit Costs Reserve | Total |
|----------------------|------------------------|----------------------|--------------------------|---|--------------------------|--------|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| 2001 charges | 4,500 | \$ 217 | \$ 7 | \$ 78 | \$ 27 | \$ 329 |
| 2001 utilization | (1,300) | (16) | (7) | (78) | - | (101) |
| Balance at 12/31/01 | 3,200 | 201 | - | - | 27 | 228 |
| Q1, 2002 utilization | (1,725) | (32) | - | - | - | (32) |
| Balance at 3/31/02 | 1,475 | 169 | - | - | 27 | 196 |
| Q2, 2002 utilization | (550) | (43) | - | - | (10) | (53) |
| Balance at 6/30/02 | 925 | 126 | - | - | 17 | 143 |

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| | | | | | | |
|----------------------|-------|-------|------|-------|-------|-------|
| Q3, 2002 reversal | (275) | (12) | - | - | - | (12) |
| Q3, 2002 utilization | (125) | (37) | - | - | - | (37) |
| | ----- | ----- | --- | ----- | ----- | ----- |
| Balance at 9/30/02 | 525 | 77 | - | - | 17 | 94 |
| Q4, 2002 utilization | (325) | (21) | - | - | (4) | (25) |
| | ----- | ----- | --- | ----- | ----- | ----- |
| Balance at 12/31/02 | 200 | \$ 56 | \$ - | \$ - | \$ 13 | \$ 69 |

The total restructuring charge of \$329 million for the fourth quarter of 2001 was composed of severance, inventory write-downs, long-lived asset impairments and exit costs of \$217 million, \$7 million, \$78 million and \$27 million, respectively, with \$308 million of those charges reported in restructuring costs (credits) and other in the accompanying Consolidated Statement of Earnings. The balance of the charge of \$21 million, comprised of \$7 million for inventory write-downs relating to the product discontinuances and \$14 million relating to accelerated depreciation on the long-lived assets accounted for under the held for use model of SFAS No. 121, was reported in cost of goods sold in the accompanying Consolidated Statement of Earnings. The severance and exit costs require the outlay of cash, while the inventory write-downs and long-lived asset impairments represented non-cash items.

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The severance charge related to the termination of 4,500 employees, including approximately 1,650 manufacturing, 1,385 administrative, 1,190 service and photofinishing and 275 research and development positions. The geographic composition of the employees terminated included approximately 3,190 in the United States and Canada and 1,310 throughout the rest of the world. The charge for the long-lived asset impairments included the write-off of \$22 million relating to sensitized manufacturing equipment, lab equipment and leasehold improvements, and other assets that were scrapped or abandoned immediately and accelerated depreciation of \$17 million relating to sensitized manufacturing equipment, lab equipment and leasehold improvements, and other assets that were to be used until their abandonment in the first three months of 2002. The balance of the long-lived asset impairment charge of \$39 million included charges of \$30 million relating to the Company's exit of three non-core businesses, and \$9 million for the write-off of long-lived assets in connection with the reorganization of certain of the Company's digital camera manufacturing operations.

In the third quarter of 2002, the Company reversed \$12 million of the \$217 million in severance charges due primarily to higher rates of attrition than originally expected, lower utilization of training and outplacement services by terminated employees than originally expected and termination actions being completed at an actual cost per employee that was lower than originally estimated. As a result, approximately 275 fewer people will be terminated, including approximately 200 service and photofinishing, 50 manufacturing and 25 administrative. Total employee terminations from the Fourth Quarter, 2001 restructuring actions are now expected to be approximately 4,225.

During the fourth quarter of 2002, the Company recorded \$5 million of credits associated with the Fourth Quarter, 2001 Restructuring Plan in restructuring costs (credits) and other in the accompanying Consolidated Statement of Earnings. The credits were the result of higher proceeds and lower costs associated with the exit from non-core businesses.

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These restructuring actions as they relate to the Photography, Health Imaging and Commercial Imaging segments amounted to \$113 million, \$34 million and \$30 million, respectively. The remaining \$140 million were for actions associated with the manufacturing, research and development and administrative functions, which are shared across all segments.

The remaining actions to be taken by the Company in connection with the Fourth Quarter, 2001 Restructuring Plan relate primarily to severance and exit costs. The Company has approximately 200 positions remaining to be eliminated as of December 31, 2002. These positions will be eliminated as the Company completes the closure of photofinishing labs in the U.S., and completes the planned downsizing of manufacturing positions in the U.S. and administrative positions outside the U.S. These positions are expected to be eliminated by the end of the first quarter of 2003. A significant portion of the severance had not been paid as of December 31, 2002 since, in many instances, the terminated employees could elect or were required to receive their severance payments over an extended period of time. The Company expects the actions contemplated by the reserve for exit costs to be completed by the end of the first quarter of 2003. Most exit costs are expected to be paid during 2003. However, certain costs, such as long-term lease payments, will be paid over periods after 2003.

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Second and Third Quarter, 2001 Restructuring Plan

During the second and third quarters of 2001, as a result of a number of factors, including the ongoing digital transformation, declining photofinishing volumes, the discontinuance of certain product lines, global economic conditions, and the growing presence of business in certain geographies outside the United States, the Company committed to a plan to reduce excess manufacturing capacity, primarily with respect to the production of sensitized goods, to close certain central photofinishing labs in the U.S. and Japan, to reduce selling, general and administrative positions on a worldwide basis and to exit certain businesses. The total restructuring charges in connection with these actions were \$369 million and were recorded in the second and third quarters of 2001 (the Second and Third Quarter, 2001 Restructuring Plan).

The following table summarizes the activity with respect to the restructuring and asset impairment charges recorded during the second and third quarters of 2001 and the remaining balance in the related restructuring reserves at December 31, 2002:

(dollars in millions)

| | Number of Employees | Severance Reserve | Inventory Write-downs | Long-lived Asset Impair- ments | Exit Costs Reserve | Total |
|----------------------|------------------------|----------------------|--------------------------|---|--------------------------|--------|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Q2, 2001 charges | 2,400 | \$ 127 | \$57 | \$ 112 | \$ 20 | \$ 316 |
| Q3, 2001 charges | 300 | 7 | 20 | 25 | 1 | 53 |
| | ----- | ----- | --- | ----- | ----- | ----- |
| Subtotal | 2,700 | 134 | 77 | 137 | 21 | 369 |
| 2001 reversal | (275) | (20) | - | - | - | (20) |
| 2001 utilization | (1,400) | (40) | (77) | (137) | (5) | (259) |
| | ----- | ----- | --- | ----- | ----- | ----- |
| Balance at 12/31/01 | 1,025 | 74 | - | - | 16 | 90 |
| Q1, 2002 utilization | (550) | (23) | - | - | (2) | (25) |
| | ----- | ----- | --- | ----- | ----- | ----- |

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| | | | | | | |
|----------------------|-------|-------|------|------|------|-------|
| Balance at 3/31/02 | 475 | 51 | - | - | 14 | 65 |
| Q2, 2002 utilization | (100) | (11) | - | - | (2) | (13) |
| | ----- | ----- | --- | --- | --- | --- |
| Balance at 6/30/02 | 375 | 40 | - | - | 12 | 52 |
| Q3, 2002 reversal | (225) | (14) | - | - | (3) | (17) |
| Q3, 2002 utilization | (50) | (7) | - | - | - | (7) |
| | ----- | ----- | --- | --- | --- | --- |
| Balance at 9/30/02 | 100 | 19 | - | - | 9 | 28 |
| Q4, 2002 utilization | (100) | (8) | - | - | (4) | (12) |
| | ----- | ----- | --- | --- | --- | --- |
| Balance at 12/31/02 | 0 | \$ 11 | \$ - | \$ - | \$ 5 | \$ 16 |

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The total restructuring charge of \$369 million for the Second and Third Quarter, 2001 Restructuring Plan was composed of severance, inventory write-downs, long-lived asset impairments and exit costs of \$134 million, \$77 million, \$137 million and \$21 million, respectively, with \$271 million of those charges reported in restructuring costs (credits) and other in the accompanying Consolidated Statement of Earnings. The balance of the charge of \$98 million, composed of \$77 million for inventory write-downs relating to product discontinuances and \$21 million relating to accelerated depreciation on the long-lived assets accounted for under the held for use model of SFAS No. 121, was reported in cost of goods sold in the accompanying Consolidated Statement of Earnings. The severance and exit costs require the outlay of cash, while the inventory write-downs and long-lived asset impairments represent non-cash items.

The severance charge related to the termination of 2,700 employees, including approximately 990 administrative, 800 manufacturing, 760 service and photofinishing and 150 research and development positions. The geographic composition of the employees terminated included approximately 1,110 in the United States and Canada and 1,590 throughout the rest of the world. The charge for the long-lived asset impairments includes the write-off of \$61 million relating to sensitizing manufacturing equipment, lab equipment and leasehold improvements, and other assets that were scrapped or abandoned immediately and accelerated depreciation of \$33 million relating to sensitizing manufacturing equipment, lab equipment and leasehold improvements, and other assets that were to be used until their abandonment within the first three months of 2002. The total amount for long-lived asset impairments also includes a charge of \$43 million for the write-off of goodwill relating to the Company's PictureVision subsidiary, the realization of which was determined to be impaired as a result of the Company's acquisition of Ofoto in the second quarter of 2001.

In the fourth quarter of 2001, the Company reversed \$20 million of the \$134 million in severance charges as certain termination actions, primarily those in EAMER and Japan, will be completed at a total cost less than originally estimated. This is the result of a lower actual severance cost per employee as compared with the original amounts estimated and 275 fewer employees being terminated, including approximately 150 in service and photofinishing, 100 in administrative and 25 in R&D.

In the third quarter of 2002, the Company reversed \$14 million of the original \$134 million in severance charges due primarily to higher rates of attrition than originally expected, lower utilization of training and outplacement services by terminated employees than originally expected and termination actions being completed at an actual cost per employee that was lower than originally estimated. As

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a result, approximately 225 fewer employees will be terminated, including 100 in service and photofinishing, 100 in administrative and 25 in R&D. Also in the third quarter of 2002, the Company reversed \$3 million of exit costs as a result of negotiating lower contract termination payments in connection with business or product line exits.

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These restructuring actions as they relate to the Photography, Health Imaging and Commercial Imaging segments amounted to \$234 million, \$11 million and \$8 million, respectively. The remaining \$79 million were for actions associated with the manufacturing, research and development and administrative functions, which are shared across all segments.

Actions associated with the Second and Third Quarter, 2001 Restructuring Plan have been completed. A net total of 2,200 personnel were terminated under the Second and Third Quarter, 2001 Restructuring Plan. A portion of the severance had not been paid as of December 31, 2002 since, in many instances, the terminated employees could elect or were required to receive their severance payments over an extended period of time. Most of the remaining exit costs are expected to be paid during 2003. However, certain exit costs, such as long-term lease payments, will be paid after 2003.

Cost savings related to the Second and Third Quarter, 2001 Restructuring Plan and the Fourth Quarter, 2001 Restructuring Plan actions approximated \$450 million.

LIQUIDITY AND CAPITAL RESOURCES

2002

The Company's cash and cash equivalents increased \$121 million during 2002 to \$569 million at December 31, 2002. The increase resulted primarily from \$2,204 million of cash flows from operating activities, partially offset by \$758 million of cash flows used in investing activities and \$1,331 million of cash used in financing activities.

The net cash provided by operating activities of \$2,204 million for the year ended December 31, 2002 was partially attributable to (1) net earnings of \$770 million which, when adjusted for depreciation and amortization, and restructuring costs, asset impairments and other charges, provided \$1,673 million of operating cash, (2) a decrease in accounts receivable of \$263 million, (3) a decrease in inventories of \$88 million, (4) proceeds from the surrender of its company-owned life insurance policies of \$187 million, and (5) an increase in liabilities excluding borrowings of \$29 million, related primarily to severance payments for restructuring programs. The net cash used in investing activities of \$758 million was utilized primarily for capital expenditures of \$577 million, investments in unconsolidated affiliates of \$123 million, business acquisitions of \$72 million, of which \$60 million related to the purchase of minority interests in China and India, and net purchases of marketable securities of \$13 million. These uses of cash were partially offset by proceeds from the sale of properties of \$27 million. The net cash used in financing activities of \$1,331 million was primarily the result of net debt repayments of \$597 million, dividend payments of \$525 million and the repurchase of 7.4 million Kodak shares held by KRIP for \$260 million. Of the \$260 million expended, \$205 million was repurchased under the 1999 stock repurchase program, which is now completed. The balance of the amount expended of \$55 million was repurchased under the 2000 stock repurchase program.

Net working capital, excluding short-term borrowings, decreased to \$599 million at December 31, 2002 from \$797 million at December 31, 2001. This decrease is primarily attributable to an increase in accounts payable and other current liabilities, an increase in accrued income taxes, lower receivables and lower inventories partially offset by a higher cash balance.

The Company's primary estimated future uses of cash for 2003 include the following: dividend payments, debt reductions, acquisitions, and the potential repurchase of shares of the Company's common stock.

In October 2001, the Company's Board of Directors approved a change in the dividend policy from quarterly dividend payments to semi-annual payments, which, when declared, will be paid on the Company's 10th business day each July and December to shareholders of record on the first business day of the preceding month. On April 11, 2002, the Company's Board of Directors declared a semi-annual cash dividend of \$.90 per share on the outstanding common stock of the Company. This dividend was paid on July 16, 2002 to shareholders of record at the close of business on June 3, 2002. On October 10, 2002, the Company's Board of Director's declared a semi-annual cash dividend of \$.90 per share on the outstanding common stock of the Company. This dividend was paid to the shareholders of record at the close of business on December 13, 2002.

Capital additions were \$577 million in 2002, with the majority of the spending supporting new products, manufacturing productivity and quality improvements, infrastructure improvements and ongoing environmental and safety initiatives. For the full year 2003, the Company expects its capital spending, excluding acquisitions and equipment purchased for lease, to be approximately \$600 million.

The cash outflows for severance and exit costs associated with the restructuring charges recorded in 2002 will be more than offset by the tax savings associated with the restructuring actions, primarily due to the tax benefit of \$46 million relating to the consolidation of its photofinishing operations in Japan recorded in the third quarter 2002 restructuring charge. During 2002, the Company expended \$220 million against the related restructuring reserves, primarily for the payment of severance benefits, which were mostly attributable to the 2001 restructuring actions. The remaining severance-related actions associated with the total 2001 restructuring charge will be completed by the end of the first quarter of 2003. Terminated employees could elect to receive severance payments for up to two years following their date of termination.

For 2003, the Company expects to generate \$450 million to \$650 million in cash flow after dividends, excluding the impacts on cash from the purchase and sale of marketable securities, the impacts from debt and transactions in the Company's own equity, such as stock repurchases and the proceeds from the exercise of stock options. The Company believes that its cash flow from operations will be sufficient to cover its working capital needs and the funds required for dividend payments, debt reduction, acquisitions and the potential repurchase of shares of the Company's common stock. The Company's cash balances and financing arrangements will be used to bridge timing differences between expenditures and cash generated from operations.

On July 12, 2002, the Company completed the renegotiation of its 364-

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day committed revolving credit facility (364-Day Facility). The new \$1,000 million facility is \$225 million lower than the 2001 facility due to a reduction in the Company's commercial paper usage and the establishment of the accounts receivable securitization program. As a result, the Company now has \$2,225 million in committed revolving credit facilities, which are available to support the Company's commercial paper program and for general corporate purposes. The credit facilities are comprised of the new 364-Day Facility at \$1,000 million expiring in July 2003 and a 5-year committed facility at \$1,225 million expiring in July 2006 (5-Year Facility). If unused, they have a commitment fee of \$3 million per year, at the Company's current credit rating of BBB+ (Standard & Poor's (S&P)) and Baa1 (Moody's). Interest on amounts borrowed under these facilities is calculated at rates based on spreads above certain reference rates and the Company's credit rating. Due to the credit rating downgrades mentioned below and the generally tight bank credit market, the borrowing costs under the new 364-Day Facility have increased by approximately 7 basis points on an undrawn basis and 40 basis points on a fully drawn basis at the Company's current credit ratings. The borrowing costs under the 5-Year Facility have increased by 6.5 basis points on an undrawn basis and 20 basis points on a fully drawn basis. These costs will increase or decrease based on future changes in the Company's credit rating.

In connection with the renegotiation of the \$1,000 million facility, the covenant under both of the facilities, which previously required the Company to maintain a certain EBITDA (earnings before interest, income taxes, depreciation and amortization) to interest ratio, was changed to a debt to EBITDA ratio. In the event of violation of the covenant, the facility would not be available for borrowing until the covenant provisions were waived, amended or satisfied. The Company was in compliance with this covenant at December 31, 2002. The Company does not anticipate that a violation is likely to occur.

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The Company has other committed and uncommitted lines of credit at December 31, 2002 totaling \$241 million and \$1,993 million, respectively. These lines primarily support borrowing needs of the Company's subsidiaries, which include term loans, overdraft coverage, letters of credit and revolving credit lines. Interest rates and other terms of borrowing under these lines of credit vary from country to country, depending on local market conditions. Total outstanding borrowings against these other committed and uncommitted lines of credit at December 31, 2002 were \$143 million and \$465 million, respectively. These outstanding borrowings are reflected in the short-term bank borrowings and long-term debt balances at December 31, 2002.

At December 31, 2002, the Company had \$837 million in commercial paper outstanding, with a weighted average interest rate of 1.97%. To provide additional financing flexibility, the Company entered into an accounts receivable securitization program, which provides for borrowings up to a maximum of \$400 million. At December 31, 2002, the Company had outstanding borrowings under this program of \$74 million. Based on the outstanding secured borrowings level of \$74 million, the estimated annualized interest rate under this program is 2.13%.

During the second quarter of 2001, the Company increased its medium-term note program from \$1,000 million to \$2,200 million for issuance of debt securities due nine months or more from date of issue. At December 31, 2002, the Company had debt securities outstanding of \$700 million under this medium-term note program, with none of this balance due within one year. The Company has remaining availability of \$1,200 million under its medium-term note program for the issuance of new

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notes.

Long-term debt and related maturities and interest rates were as follows at December 31, 2002 and 2001 (in millions):

| Country | Type | Maturity | Weighted-Average Interest Rate | 2002 | 2001 |
|---------|-------------|-----------|--------------------------------|---------|---------|
| U.S. | Term note | 2002 | 6.38% | \$ - | \$ 150 |
| U.S. | Term note | 2003 | 9.38% | 144 | 144 |
| U.S. | Term note | 2003 | 7.36% | 110 | 110 |
| U.S. | Medium-term | 2005 | 7.25% | 200 | 200 |
| U.S. | Medium-term | 2006 | 6.38% | 500 | 500 |
| U.S. | Term note | 2008 | 9.50% | 34 | 34 |
| U.S. | Term note | 2018 | 9.95% | 3 | 3 |
| U.S. | Term note | 2021 | 9.20% | 10 | 10 |
| China | Bank Loans | 2002 | 6.28% | - | 12 |
| China | Bank Loans | 2003 | 5.49% | 114 | 96 |
| China | Bank Loans | 2004 | 2.42% | - | 190 |
| China | Bank Loans | 2004 | 5.58% | 252 | 182 |
| China | Bank Loans | 2005 | 5.53% | 124 | 133 |
| Japan | Bank Loans | 2003 | 2.51% | - | 42 |
| Qualex | Term notes | 2003-2005 | 6.12% | 44 | - |
| Chile | Bank Loans | 2004 | 2.61% | 10 | 10 |
| Other | | | | 6 | 6 |
| | | | | ----- | ----- |
| | | | | \$1,551 | \$1,822 |
| | | | | ===== | ===== |

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During the quarter ended March 31, 2002, the Company's credit ratings for long-term debt were lowered by Moody's and by Fitch to Baal and A-, respectively. However, in connection with its downgrade, Moody's changed the Company's outlook from negative to stable. Additionally, Fitch lowered the Company's credit rating on short-term debt to F2. On April 23, 2002, S&P lowered the Company's credit rating on long-term debt to BBB+, a level equivalent to the Company's current rating from Moody's of Baal. S&P reaffirmed the short-term debt at A2 and maintained the Company's outlook at stable. These credit rating downgrade actions were due to lower earnings as a result of the continued weakened economy, industry factors and other world events. The reductions in the Company's long-term debt credit ratings have impacted the credit spread applied to Kodak's U.S. long-term debt traded in the secondary markets. However, this has not resulted in an increase in interest expense, as the Company has not issued any significant new long-term debt during this period. The reduction in the Company's short-term debt credit ratings has impacted the cost of short-term borrowings, primarily the cost of issuing commercial paper. However, this increased cost was more than offset by the lowering of market rates of interest as a result of actions taken by the Federal Reserve to stimulate the U.S. economy. As indicated above, the Company's weighted average commercial paper rate for commercial paper outstanding at December 31, 2002 was 1.97% as compared with 3.61% at December 31, 2001. The credit rating downgrades in the first half of 2002 coupled with the downgrades in the fourth quarter of 2001 would have resulted in an increase in borrowing rates; however, due to lower average debt levels and lower commercial paper rates, interest expense for the year ended December 31, 2002 is down relative to the year ended December 31, 2001.

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The above credit rating actions are not expected to have a material impact on the future operations of the Company. However, if the Company's credit ratings were to be reduced further, this could potentially affect access to commercial paper borrowing. While this is not expected to occur, if such an event did take place the Company could use alternative sources of borrowing including its accounts receivable securitization program, long-term capital markets debt, and its revolving credit facilities.

The Company is in compliance with all covenants or other requirements set forth in its credit agreements and indentures. Further, the Company does not have any rating downgrade triggers that would accelerate the maturity dates of its debt, with the exception of the following: a \$110 million note due April 15, 2003 and \$44 million in term notes that will amortize through 2005 that can be accelerated if the Company's credit rating from S&P or Moody's were to fall below BBB and BBB-, respectively; and the outstanding borrowings under the accounts receivable securitization program if the Company's credit ratings from S&P or Moody's were to fall below BBB- and Baa3, respectively, and such condition continued for a period of 30 days. Further downgrades in the Company's credit rating or disruptions in the capital markets could impact borrowing costs and the nature of its funding alternatives. However, the Company has access to \$2,225 million in committed bank revolving credit facilities to meet unanticipated funding needs should it be necessary. Borrowing rates under these credit facilities are based on the Company's credit rating.

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The Company guarantees debt and other obligations under agreements with certain affiliated companies and customers. At December 31, 2002, these guarantees totaled a maximum of \$345 million, with outstanding guaranteed amounts of \$159 million. The maximum guarantee amount includes: guarantees of up to \$160 million of debt for KPG (\$74 million outstanding) and up to \$19 million for other unconsolidated affiliates and third parties (\$17 million outstanding) and guarantees of up to \$166 million of customer amounts due to banks in connection with various banks' financing of customers' purchase of products and equipment from Kodak (\$68 million outstanding). The KPG debt facility and the related guarantee mature on December 31, 2005, but may be renewed at KPG's, Kodak's and the bank's discretion. The guarantees for the other third party debt mature between May 1, 2003 and May 31, 2005 and are not expected to be renewed. The customer financing agreements and related guarantees typically have a term of 90 days for product and short-term equipment financing arrangements, and up to 3 years for long-term equipment financing arrangements. These guarantees would require payment from Kodak only in the event of default on payment by the respective debtor. In some cases, particularly for guarantees related to equipment financing, the Company has collateral or recourse provisions to recover and sell the equipment to reduce any losses that might be incurred in connection with the guarantee. This activity is not material. Management believes the likelihood is remote that material payments will be required under these guarantees.

The Company also guarantees debt owed to banks for some of its consolidated subsidiaries. The maximum amount guaranteed is \$857 million, and the outstanding debt under those guarantees, which is recorded within the short-term borrowings and long-term debt, net of current portion components in the Consolidated Statement of Financial Position, is \$628 million. These guarantees expire in 2003 through 2005 with the majority expiring in 2003.

The Company may provide up to \$100 million in loan guarantees to support

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funding needs for SK Display Corporation, an unconsolidated affiliate in which the Company has a 34% ownership interest. As of December 31, 2002, the Company has not been required to guarantee any of the SK Display Corporation's outstanding debt.

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In certain instances when Kodak sells businesses either through asset or stock sales, the Company may retain certain liabilities for known exposures and provide indemnification to the buyer with respect to future claims for certain unknown liabilities existing, or arising from events occurring, prior to the sale date, including liabilities for taxes, legal matters, environmental exposures, labor contingencies, product liability, and other obligations. The terms of the indemnifications vary in duration, from one to two years for certain types of indemnities, to terms for tax indemnifications that are generally aligned to the applicable statute of limitations for the jurisdiction in which the divestiture occurred, and terms for environmental liabilities that typically do not expire. The maximum potential future payments that the Company could be required to make under these indemnifications are either contractually limited to a specified amount or unlimited. The Company believes that the maximum potential future payments that the Company could be required to make under these indemnifications are not determinable at this time, as any future payments would be dependent on the type and extent of the related claims, and all available defenses, which are not estimable. However, costs incurred to settle claims related to these indemnifications have not been material to the Company's financial position, results of operations or cash flows.

In certain instances when Kodak sells real estate, the Company will retain the liabilities for known environmental exposures and provide indemnification to the other party with respect to future claims for certain unknown environmental liabilities existing prior to the sale date. The terms of the indemnifications vary in duration, from a range of three to ten years for certain indemnities, to terms for other indemnities that do not expire. The maximum potential future payments that the Company could be required to make under these indemnifications are either contractually limited to a specified amount or unlimited. The Company believes that the maximum potential future payments that the Company could be required to make under these indemnifications are not determinable at this time, as any future payments would be dependent on the type and extent of the related claims, and all relevant defenses to the claims, which are not estimable. However, costs incurred to settle claims related to these indemnifications have not been material to the Company's financial position, results of operations or cash flows.

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The Company may enter into standard indemnification agreements in the ordinary course of business with its customers, suppliers, service providers and business partners. In such instances, the Company usually indemnifies, holds harmless and agrees to reimburse the indemnified party for all claims, actions, liabilities, losses and expenses in connection with any Kodak infringement of third party intellectual property or proprietary rights, or when applicable, in connection with any personal injuries or property damage resulting from any Kodak products sold or Kodak services provided. Additionally, the Company may from time to time agree to indemnify and hold harmless its providers of services from all claims, actions, liabilities, losses and expenses relating to their services to Kodak, except to the extent finally determined to have resulted from the fault of the provider of services relating to such services. The level of conduct constituting fault of the service provider will vary from agreement to agreement and may

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include conduct which is defined in terms of negligence, gross negligence, recklessness, intentional acts, omissions or other culpable behavior. The term of these indemnification agreements is generally perpetual. The maximum potential future payments that the Company could be required to make under the indemnifications are unlimited. The Company believes that the maximum potential future payments that the Company could be required to make under these indemnifications are not determinable at this time, as any future payments would be dependent on the type and extent of the related claims, and all relevant defenses to the claims, including statutes of limitation, which are not estimable. However, costs incurred to settle claims related to these indemnifications have not been material to the Company's financial position, results of operations or cash flows.

The Company has by-laws, policies, and agreements under which it indemnifies its directors and officers from liability for certain events or occurrences while the directors or officers are, or were, serving at Kodak's request in such capacities. Furthermore, the Company is incorporated in the State of New Jersey, which requires corporations to indemnify their officers and directors under certain circumstances. The Company has made similar arrangements with respect to the directors and officers of acquired companies. The term of the indemnification period is for the director's or officer's lifetime. The maximum potential amount of future payments that the Company could be required to make under these indemnifications is unlimited, but would be affected by all relevant defenses to the claims, including statutes of limitations.

The Company had a commitment under a put option arrangement with Burrell Colour Lab (BCL), an unaffiliated company, whereby the shareholders of BCL had the ability to put 100% of the stock to Kodak for total consideration, including the assumption of debt, of approximately \$63.5 million. The option first became exercisable on October 1, 2002 and was ultimately exercised during the Company's fourth quarter ended December 31, 2002. Accordingly, on February 5, 2003, the Company acquired BCL for a total purchase price of approximately \$63.5 million, which was composed of approximately \$53 million in cash and \$10.5 million in assumed debt. The exercise of the option had no impact on the Company's fourth quarter earnings.

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In connection with the Company's investment in China that began in 1998, certain unaffiliated entities invested in two Kodak consolidated companies with the opportunity to put their minority interests to Kodak at any time after the third anniversary, but prior to the tenth anniversary, of the date on which the companies were established. On December 31, 2002, an unaffiliated investor in one of Kodak's China subsidiaries exercised their rights under the put option agreement. Under the terms of the arrangement, the Company repurchased the investor's 10% minority interest for approximately \$44 million in cash. The exercise of this put option and the recording of the related minority interest purchased had no impact on the Company's earnings. The total exercise price in connection with the remaining put options, which increases at a rate of 2% per annum, is approximately \$60 million at December 31, 2002. The Company expects that approximately \$16 million of the remaining \$60 million in total put options will be exercised and the related cash payments will occur over the next twelve months.

Due to continuing declines in the equity markets in 2002 as well as the decline in the discount rate from December 31, 2001 to December 31, 2002, the Company was required to record a charge to the accumulated other comprehensive (loss) income component of equity of \$394 million, net of

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tax benefits of \$183 million, for additional minimum pension liabilities at December 31, 2002. The increase in additional minimum pension liabilities of \$577 million was recorded to the postretirement liabilities component on the Consolidated Statement of Financial Position at December 31, 2002. The increase in this component of \$684 million from December 31, 2001 to December 31, 2002 is primarily attributable to this increase in the additional minimum pension liabilities. The Company recorded the deferred income tax benefit of \$183 million in the other long-term assets component within the Consolidated Statement of Financial Position. The net increase in this component of \$296 million from December 31, 2001 to December 31, 2002 is partially attributable to the recording of these deferred income tax assets and the increase in the prepaid pension asset. The increase in the prepaid pension asset is primarily attributable to \$197 million of pension income generated from the U.S. pension plans in 2002.

During the fourth quarter of 2002, the Company funded one of its non-U.S. defined benefit plans in the amount of approximately \$38 million. The Company does not expect to have significant funding requirements relating to its defined benefit pension plans in 2003.

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Qualex, a wholly owned subsidiary of Kodak, has a 50% ownership interest in Express Stop Financing (ESF), which is a joint venture partnership between Qualex and Dana Credit Corporation (DCC), a wholly owned subsidiary of Dana Corporation. Qualex accounts for its investment in ESF under the equity method of accounting. ESF provides a long-term financing solution to Qualex's photofinishing customers in connection with Qualex's leasing of photofinishing equipment to third parties, as opposed to Qualex extending long-term credit. As part of the operations of its photofinishing business, Qualex sells equipment under a sales-type lease arrangement and records a long-term receivable. These long-term receivables are subsequently sold to ESF without recourse to Qualex. ESF incurs long-term debt to finance the purchase of the receivables from Qualex. This debt is collateralized solely by the long-term receivables purchased from Qualex and, in part, by a \$60 million guarantee from DCC. Qualex provides no guarantee or collateral to ESF's creditors in connection with the debt, and ESF's debt is non-recourse to Qualex. Qualex's only continued involvement in connection with the sale of the long-term receivables is the servicing of the related equipment under the leases. Qualex has continued revenue streams in connection with this equipment through future sales of photofinishing consumables, including paper and chemicals, and maintenance.

Qualex has risk with respect to the ESF arrangement as it relates to its continued ability to procure spare parts from the primary photofinishing equipment vendor (the Vendor) to fulfill its servicing obligations under the leases. This risk is attributable to the fact that, throughout 2002, the Vendor was experiencing financial difficulty which ultimately resulted in certain of its entities in different countries filing for bankruptcy on December 24, 2002. Although the lessees' requirement to pay ESF under the lease agreements is not contingent upon Qualex's fulfillment of its servicing obligations, under the agreement with ESF, Qualex would be responsible for any deficiency in the amount of rent not paid to ESF as a result of any lessee's claim regarding maintenance or supply services not provided by Qualex. Such lease payments would be made in accordance with the original lease terms, which generally extend over 5 to 7 years. ESF's outstanding lease receivable amount was approximately \$473 million at December 31, 2002.

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To mitigate the risk of not being able to fulfill its service obligations in the event the Vendor were to file for bankruptcy, Qualex built up its inventory of these spare parts during 2002 and began refurbishing used parts. To further mitigate its exposure, effective April 3, 2002, Kodak entered into certain agreements with the Vendor under which the Company paid \$19 million for a license relating to the spare parts intellectual property, an equity interest in the Vendor and the intellectual property holding company and an arrangement to purchase spare parts. After entering into these arrangements, the Company obtained the documentation and specifications of the parts it sourced solely from the Vendor and a comprehensive supplier list for the parts the Vendor sourced from other suppliers. However, under these arrangements, Kodak had a use restriction, which precluded the Company from manufacturing the parts that the Vendor produced and from purchasing parts directly from the Vendor's suppliers. This use restriction would be effective until certain triggering events occurred, the most significant of which was the filing for bankruptcy by the Vendor. As indicated above, the Vendor filed for bankruptcy on December 24, 2002. The arrangements that the Company entered into with the Vendor are currently being reviewed in the bankruptcy courts, and there is the possibility that such agreements could be challenged. However, the Company believes that it has a strong legal position with respect to the agreements and is taking the necessary steps to obtain the rights to gain access to the Vendor's tooling to facilitate the manufacture of the parts previously produced by the Vendor. Additionally, the Company has begun to source parts directly from the Vendor's suppliers. Accordingly, the Company does not anticipate any significant liability arising from the inability to fulfill its service obligations under the arrangement with ESF.

In December 2001, S&P downgraded the credit ratings of Dana Corporation to BB for long-term debt and B for short-term debt, which are below investment grade. This action created a Guarantor Termination Event under the Receivables Purchase Agreement (RPA) between ESF and its banks. To cure the Guarantor Termination Event, in January 2002, ESF posted \$60 million of additional collateral in the form of cash and long-term lease receivables. At that time, if Dana Corporation were downgraded to below BB by S&P or below Ba2 by Moody's, that action would constitute a Termination Event under the RPA and ESF would be forced to renegotiate its debt arrangements with the banks. On February 22, 2002, Moody's downgraded Dana Corporation to a Ba3 credit rating, thus creating a Termination Event.

Effective April 15, 2002, ESF cured the Termination Event by executing an amendment to the RPA. Under the amended RPA, the maximum borrowings have been lowered to \$400 million, and ESF must pay a higher interest rate on outstanding and future borrowings. Additionally, if there were certain changes in control with respect to Dana Corporation or DCC, as defined in the amended RPA, such an occurrence would constitute an event of default. Absent a waiver from the banks, this event of default would create a Termination Event under the amended RPA. The amended RPA arrangement was further amended in July 2002 to extend through July 2003. Under the amended RPA arrangement, maximum borrowings were reduced to \$370 million. Total outstanding borrowings under the RPA at December 31, 2002 were \$320 million.

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Dana Corporation's S&P and Moody's long-term debt credit ratings have remained at the February 22, 2002 levels of BB and Ba3, respectively. Under the amended RPA, if either of Dana Corporation's long-term debt ratings were to fall below their current respective ratings, such an

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occurrence would create a Termination Event as defined in the RPA.

The amended RPA arrangement extends through July 2003, at which time the RPA can be extended or terminated. If the RPA were terminated, Qualex would no longer be able to sell its lease receivables to ESF and would need to find an alternative financing solution for future sales of its photofinishing equipment. For the year ended December 31, 2002, total sales of photofinishing equipment were \$3.5 million. Under the partnership agreement between Qualex and DCC, subject to certain conditions, ESF has exclusivity rights to purchase Qualex's long-term lease receivables. The term of the partnership agreement continues through October 6, 2003. In light of the timing of the partnership termination, Qualex plans to utilize the services of Eastman Kodak Credit Corporation, a wholly owned subsidiary of General Electric Capital Corporation, as an alternative financing solution for prospective leasing activity with its customers.

At December 31, 2002, the Company had outstanding letters of credit totaling \$105 million and surety bonds in the amount of \$79 million primarily to ensure the completion of environmental remediations and payment of possible casualty and workers' compensation claims.

As of December 31, 2002, the impact that our contractual obligations are expected to have on our liquidity and cash flow in future periods is as follows:

| (in millions) | Total | 2003 | 2004 | 2005 | 2006 | 2007 | 2008+ |
|-----------------------------|---------|-------|-------|-------|-------|-------|-------|
| Long-term debt obligations | \$1,551 | \$387 | \$285 | \$332 | \$500 | \$ - | \$ 47 |
| Operating lease obligations | 355 | 102 | 72 | 56 | 42 | 32 | 51 |
| Purchase obligations | 1,159 | 265 | 239 | 205 | 116 | 77 | 257 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Total | \$3,065 | \$754 | \$596 | \$593 | \$658 | \$109 | \$355 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

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2001

Net cash provided by operating activities in 2001 was \$2,206 million, as net earnings of \$76 million, adjusted for depreciation and amortization, and restructuring costs, asset impairments and other charges, provided \$1,408 million of operating cash. Also contributing to operating cash was a decrease in receivables of \$254 million and a decrease in inventories of \$465 million. This was partially offset by decreases in liabilities, excluding borrowings, of \$111 million related primarily to severance payments for restructuring programs and reductions in accounts payable and accrued benefit costs. Net cash used in investing activities of \$1,188 million in 2001 was utilized primarily for capital expenditures of \$743 million, investments in unconsolidated affiliates of \$141 million, and business acquisitions of \$306 million. Net cash used in financing activities of \$808 million in 2001 was primarily the result of stock repurchases and dividend payments as discussed below.

The Company declared cash dividends per share of \$.44 in each of the first three quarters and \$.89 in the fourth quarter of 2001. Total cash dividends of \$643 million were paid in 2001. In October 2001, the Company's Board of Directors approved a change in dividend policy from quarterly dividend payments to semi-annual dividend payments. Dividends, when declared, will be paid on the 10th business day of July

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and December to shareholders of record on the first business day of the preceding month. These payment dates serve to better align the dividend disbursements with the seasonal cash flow pattern of the business, which is more concentrated in the second half of the year. This action resulted in the Company making five dividend payments in 2001.

Net working capital, excluding short-term borrowings, decreased to \$797 million from \$1,420 million at year-end 2000. This decrease is mainly attributable to lower receivable and inventory balances, as discussed above.

Capital additions, excluding equipment purchased for lease, were \$680 million in 2001, with the majority of the spending supporting new products, manufacturing productivity and quality improvements, infrastructure improvements, ongoing environmental and safety initiatives, and renovations due to relocations associated with restructuring actions taken in 1999.

Under the \$2,000 million stock repurchase program announced on April 15, 1999, the Company repurchased \$44 million of its shares in 2001. As of March 2, 2001, the Company suspended the stock repurchase program in a move designed to accelerate debt reduction and increase financial flexibility. At the time of the suspension of the program, the Company had repurchased approximately \$1,800 million of its shares under this program.

The net cash cost of the restructuring charge recorded in 2001 was approximately \$182 million after tax, which was recovered through cost savings in less than two years. The severance-related actions associated with this charge will be completed by the end of the first quarter of 2003.

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2000

Net cash provided by operating activities in 2000 was \$1,105 million, as net earnings of \$1,407 million, adjusted for depreciation and amortization, provided \$2,296 million of operating cash. This was partially offset by increases in receivables of \$247 million, largely due to the timing of sales late in the fourth quarter; increases in inventories of \$280 million, reflecting lower than expected sales performance in the second half of the year, particularly for consumer films, paper and digital cameras; and decreases in liabilities, excluding borrowings, of \$808 million related primarily to severance payments for restructuring programs and reductions in accounts payable and accrued benefit costs. Net cash used in investing activities of \$906 million in 2000 was utilized primarily for capital expenditures of \$945 million, investments in unconsolidated affiliates of \$123 million, and business acquisitions of \$130 million, partially offset by proceeds of \$277 million from sales of businesses and assets. Net cash used in financing activities of \$314 million in 2000 was the result of stock repurchases and dividend payments, largely funded by net increases in borrowings of \$1,313 million.

Cash dividends per share of \$1.76, payable quarterly, were declared in 2000. Total cash dividends of approximately \$545 million were paid in 2000.

Net working capital, excluding short-term borrowings and the current portion of long-term debt, increased to \$1,420 million from \$777 million at year-end 1999. This increase is mainly attributable to

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lower payable levels and higher receivable and inventory balances, as discussed above.

Capital additions were \$945 million in 2000, with the majority of the spending supporting manufacturing productivity and quality improvements, new products including e-commerce initiatives, digital photofinishing and digital cameras, and ongoing environmental and safety initiatives.

Under the \$2,000 million stock repurchase program announced on April 15, 1999, the Company repurchased 21.6 million shares for \$1,099 million in 2000. On December 7, 2000, Kodak's Board of Directors authorized the repurchase of up to an additional \$2,000 million of the Company's stock over the next 4 years.

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OTHER

Cash expenditures for pollution prevention and waste treatment for the Company's current facilities were as follows:

| (in millions) | 2002 | 2001 | 2000 |
|---|-------|-------|-------|
| Recurring costs for pollution prevention and waste treatment | \$ 67 | \$ 68 | \$ 72 |
| Capital expenditures for pollution prevention and waste treatment | 12 | 27 | 36 |
| Site remediation costs | 3 | 2 | 3 |
| | ---- | ---- | ---- |
| Total | \$ 82 | \$ 97 | \$111 |
| | ==== | ==== | ==== |

At December 31, 2002 and 2001, the Company's undiscounted accrued liabilities for environmental remediation costs amounted to \$148 million and \$162 million, respectively. These amounts are reported in other long-term liabilities in the accompanying Consolidated Statement of Financial Position.

The Company is currently implementing a Corrective Action Program required by the Resource Conservation and Recovery Act (RCRA) at the Kodak Park site in Rochester, NY. As part of this program, the Company has completed the RCRA Facility Assessment (RFA), a broad-based environmental investigation of the site. The Company is currently in the process of completing, and in some cases has completed, RCRA Facility Investigations (RFI) and Corrective Measures Studies (CMS) for areas at the site. At December 31, 2002, estimated future investigation and remediation costs of \$67 million are accrued on an undiscounted basis and are included in the \$148 million reported in other long-term liabilities.

Additionally, the Company has retained certain obligations for environmental remediation and Superfund matters related to certain sites associated with the non-imaging health businesses sold in 1994. In addition, the Company has been identified as a potentially responsible party (PRP) in connection with the non-imaging health businesses in five active Superfund sites. At December 31, 2002, estimated future remediation costs of \$49 million are accrued on an undiscounted basis and are included in the \$148 million reported in other long-term liabilities.

The Company has obligations relating to two former manufacturing sites

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located outside the United States. Investigations were completed in the fourth quarter of 2001, which facilitated the completion of cost estimates for the future remediation and monitoring of these sites. The Company's obligations with respect to these two sites include an estimate of its cost to repurchase one of the sites and demolish the buildings in preparation for its possible conversion to a public park. The repurchase of the site was completed in the first quarter of 2002. At December 31, 2002, estimated future investigation, remediation and monitoring costs of \$27 million are accrued on an undiscounted basis and are included in the \$148 million reported in other long-term liabilities.

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Additionally, the Company has approximately \$5 million accrued on an undiscounted basis in the \$148 million reported in other long-term liabilities at December 31, 2002 for remediation relating to other facilities, which are not material to the Company's financial position, results of operations, cash flows or competitive position.

Cash expenditures for the aforementioned investigation, remediation and monitoring activities are expected to be incurred over the next thirty years for each site. For these known environmental exposures, the accrual reflects the Company's best estimate of the amount it will incur under the agreed-upon or proposed work plans. The Company's cost estimates were determined using the ASTM Standard E 2137-01 "Standard Guide for Estimating Monetary Costs and Liabilities for Environmental Matters," and have not been reduced by possible recoveries from third parties. The overall method includes the use of a probabilistic model which forecasts a range of cost estimates for the remediation required at individual sites. The projects are closely monitored and the models are reviewed as significant events occur or at least once per year. The Company's estimate includes equipment and operating costs for remediation and long-term monitoring of the sites. The Company does not believe it is reasonably possible that the losses for the known exposures could exceed the current accruals by material amounts.

A Consent Decree was signed in 1994 in settlement of a civil complaint brought by the U.S. Environmental Protection Agency and the U.S. Department of Justice. In connection with the Consent Decree, the Company is subject to a Compliance Schedule, under which the Company has improved its waste characterization procedures, upgraded one of its incinerators, and is evaluating and upgrading its industrial sewer system. The total expenditures required to complete this program are currently estimated to be approximately \$27 million over the next six years. These expenditures are primarily capital in nature and, therefore, are not included in the environmental accrual at December 31, 2002.

The Company is presently designated as a PRP under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (the Superfund Law), or under similar state laws, for environmental assessment and cleanup costs as the result of the Company's alleged arrangements for disposal of hazardous substances at six such active sites. With respect to each of these sites, the Company's liability is minimal. Furthermore, numerous other PRPs have also been designated at these sites and, although the law imposes joint and several liability on PRPs, the Company's historical experience demonstrates that these costs are shared with other PRPs. Settlements and costs paid by the Company in Superfund matters to date have not been material. Future costs are also not expected to be material to the Company's financial position, results of operations or cash flows.

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The Clean Air Act Amendments were enacted in 1990. Expenditures to comply with the Clean Air Act implementing regulations issued to date have not been material and have been primarily capital in nature. In addition, future expenditures for existing regulations, which are primarily capital in nature, are not expected to be material. Many of the regulations to be promulgated pursuant to this Act have not been issued.

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Uncertainties associated with environmental remediation contingencies are pervasive and often result in wide ranges of outcomes. Estimates developed in the early stages of remediation can vary significantly. A finite estimate of cost does not normally become fixed and determinable at a specific time. Rather, the costs associated with environmental remediation become estimable over a continuum of events and activities that help to frame and define a liability, and the Company continually updates its cost estimates. The Company has an ongoing monitoring and identification process to assess how the activities, with respect to the known exposures, are progressing against the accrued cost estimates, as well as to identify other potential remediation sites that are presently unknown.

Estimates of the amount and timing of future costs of environmental remediation requirements are necessarily imprecise because of the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the identification of presently unknown remediation sites and the allocation of costs among the potentially responsible parties. Based upon information presently available, such future costs are not expected to have a material effect on the Company's competitive or financial position. However, such costs could be material to results of operations in a particular future quarter or year.

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NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS 143 addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset, and this additional carrying amount is expensed over the life of the asset. The Company is required to adopt SFAS 143 effective January 1, 2003. The Company is currently in the process of evaluating the potential impact that the adoption of the recognition provisions of SFAS 143 will have on its consolidated financial position and results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses the financial accounting and reporting for costs associated with exit or disposal activities and supercedes the Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires recognition of the liability for costs associated with an exit or

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disposal activity when the liability is incurred. Under EITF issue No. 94-3, a liability for an exit cost was recognized at the date of the Company's commitment to an exit plan. SFAS No. 146 also establishes that the liability should initially be measured and recorded at fair value. Accordingly, SFAS No. 146 will impact the timing of recognition and the initial measurement of the amount of liabilities the Company recognizes in connection with exit or disposal activities initiated after December 31, 2002, the effective date of SFAS No. 146.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires that a liability be recorded on the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees, including indemnifications, that an entity has issued and a rollforward of the entity's product warranty liabilities. The Company will apply the recognition provisions of FIN 45 prospectively to guarantees issued or modified after December 31, 2002. The disclosure provisions of FIN 45 are effective for financial statements of interim periods or annual periods ending after December 15, 2002. See Note 1 under "Warranty Costs" and Note 10 under "Other Commitments and Contingencies." The Company is currently in the process of evaluating the potential impact that the adoption of the recognition provisions of FIN 45 will have on its consolidated financial position and results of operations.

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In November 2002, the EITF reached a consensus on EITF Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." EITF Issue No. 00-21 provides guidance on how to determine when an arrangement that involves multiple revenue-generating activities or deliverables should be divided into separate units of accounting for revenue recognition purposes, and if this division is required, how the arrangement consideration should be allocated among the separate units of accounting. The guidance in the consensus is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The Company is currently evaluating the effect that the adoption of EITF Issue No. 00-21 will have on its results of operations and financial condition.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," which amends SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS No. 148 requires disclosure of the pro forma effect in interim financial statements. See "Stock-Based Compensation" within Note 1, "Significant Accounting Policies" for the additional annual disclosures made to comply with SFAS No. 148. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. As the Company does not intend to adopt the provisions of SFAS No. 123, the Company does not expect the transition provisions of SFAS No. 148 to have a material effect on its results of operations or financial condition.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities," which clarifies the application of Accounting Research Bulletin (ARB) No. 51, "Consolidated

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Financial Statements," relating to consolidation of certain entities. First, FIN 46 will require identification of the Company's participation in variable interest entities (VIE), which are defined as entities with a level of invested equity that is not sufficient to fund future activities to permit them to operate on a stand alone basis, or whose equity holders lack certain characteristics of a controlling financial interest. Then, for entities identified as VIE, FIN 46 sets forth a model to evaluate potential consolidation based on an assessment of which party to the VIE, if any, bears a majority of the exposure to its expected losses, or stands to gain from a majority of its expected returns. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For VIE created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. FIN 46 also sets forth certain disclosures regarding interests in VIE that are deemed significant, even if consolidation is not required. See Note 6, "Investments," for these disclosures. The Company is currently evaluating the effect that the adoption of FIN 46 will have on its results of operations and financial condition.

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RISK FACTORS

The following cautionary statements address a number of important factors that could cause the actual future results of the Company to differ from those expressed or implied in the forward-looking statements contained in this document. Additionally, because of the following factors, as well as other variables affecting our operating results, the Company's past financial performance should not be considered an indicator of future performance and investors should not use historical trends to anticipate results or trends in future periods.

Unanticipated delays in implementing certain product strategies (including category expansion, digitization, OLED displays and digital products) would affect Kodak's revenues. The process for each product strategy is complex. Kodak's ability to successfully transition products and deploy new products requires that Kodak make accurate predictions of the product development schedule as well as volumes, product mix, and customer demand. The Company may anticipate demand and perceived market acceptance that differs from the products realizable customer demand and revenue stream. In addition, if the pricing element of each strategy is not sufficiently competitive with those of current and future competing products, Kodak may lose market share, adversely affecting the Company's revenues and prospects.

Kodak's ability to implement its intellectual property licensing strategies could also affect the Company's revenue and earnings. Kodak has invested millions of dollars in technologies and needs to protect its intellectual property. The establishment and enforcement of licensing agreements provides a revenue stream in the form of royalties that protects Kodak's ability to further innovate and help the marketplace grow. Kodak's failure to properly manage the development of its intellectual property could adversely affect the future of these patents and the market opportunities that could result from the use of this property. Kodak's failure to manage the costs associated with the pursuit of these licenses could adversely affect the profitability of these operations.

In the event Kodak were unable to develop and implement e-commerce strategies that are in alignment with the trend toward industry

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standards and services, the Company's business could be adversely affected. The availability of software and standards related to e-commerce strategies is of an emerging nature. Kodak's ability to successfully align with the industry standards and services and ensure timely solutions, requires the Company to make accurate predictions of the future accepted standards and services.

Kodak's completion of planned information systems upgrades, including SAP, if delayed, could adversely affect its business. As Kodak continues to expand the planned information services, the Company must continue to balance the investment of the planned deployment with the need to upgrade the vendor software. Kodak's failure to successfully upgrade to the vendor-supported version could result in risks to system availability, which could adversely affect the business.

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Kodak intends to complete various portfolio actions required to strengthen its digital imaging portfolio, rationalize the photofinishing operations in the U.S. and EAMER and expand its services business. In the event that Kodak fails to effectively manage the highly profitable portfolio of its more traditional businesses simultaneously with the integration of these acquisitions, and should Kodak fail to streamline and simplify the business, Kodak could lose market opportunities that result in an adverse impact on its revenue.

In 2003, Kodak continues to focus on reduction of inventories, improvement in receivable performance, reduction in capital expenditures, and improvement in manufacturing productivity.

Unanticipated delays in the Company's plans to continue inventory reductions in 2003 could adversely impact Kodak's cash flow outlook. Planned inventory reductions could be compromised by slower sales that could result from continued weak global economic conditions. Purchasers' uncertainty about the extent of the global economic downturn could result in lower demand for products and services. The competitive environment and the transition to digital products and services could also place pressures on Kodak's sales and market share. In the event Kodak was unable to successfully manage these issues in a timely manner, they could adversely impact the planned inventory reductions.

Delays in Kodak's planned improvement in manufacturing productivity could negatively impact the gross margins of the Company. Again, a continued weak economy could result in lower volumes in the factory than planned, which would negatively impact gross margins. Kodak's failure to successfully manage operational performance factors could delay or curtail planned improvements in manufacturing productivity. If Kodak is unable to successfully negotiate raw material costs with its suppliers, or incurs adverse pricing on certain of its commodity-based raw materials, reduction in the gross margins could occur. Additionally, delays in the Company's execution of increasing manufacturing capabilities for certain of its products in some of its emerging markets, particularly China where it is more cost competitive, could adversely impact margins.

Unanticipated delays in the Company's plans to continue the improvement of accounts receivable and to reduce the number of days sales outstanding could also adversely impact Kodak's cash outlook. A continued weak economy could slow customer payment patterns. Competitive pressures in major segments may drive erosion in the financial condition of Kodak's customers. These same pressures may adversely affect efforts to shorten customer payment terms. Kodak's

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ability to manage customer risk while maintaining competitive share may adversely affect continued accounts receivable improvement in 2003.

In addition, if Kodak is not able to maintain flat capital spending relative to 2002 levels, this factor could adversely impact the Company's cash flow outlook. An increase in capital spending may occur if more projects than planned were found to generate significant positive returns in the future. Further, if the Company deems it necessary to spend more on regulatory requirements or there are unanticipated general maintenance obligations requiring more capital spending than planned, the additional monies required would create an adverse impact on Kodak's cash flow.

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Kodak's planned improvement in supply chain efficiency, if delayed, could adversely affect its business by impacting the shipments of certain products in their desired quantities and in a timely manner. The planned efficiencies could be compromised if Kodak expands into new markets with new applications that are not fully understood or if the portfolio broadens beyond that anticipated when the plans were initiated. The unforeseen changes in manufacturing capacity could compromise the supply chain efficiencies.

The risk of doing business in developing markets like China, India, Brazil, Argentina, Mexico, Russia and other economically volatile areas could adversely affect Kodak's operations and earnings. Such risks include the financial instability among customers in these regions, the political instability and potential conflicts among developing nations and other non-economic factors such as irregular trade flows that need to be managed successfully with the help of the local governments. Kodak's failure to successfully manage economic, political and other risks relating to doing business in developing countries and economically and politically volatile areas could adversely affect its business.

In early 2002, the United States dollar was eliminated as Argentina's monetary benchmark, resulting in significant currency devaluation. During the remainder of 2002, the currencies in both Argentina and Brazil experienced significant devaluation due to continuing difficult economic times. There can be no guarantee that economic circumstances in Argentina or elsewhere will not worsen, which could result in future effects on earnings should such events occur. The Company's failure to successfully manage economic, political and other risks relating to doing business in developing countries could adversely affect its business.

The Company, as a result of its global operating and financing activities, is exposed to changes in currency exchange rates and interest rates, which may adversely affect its results of operations and financial position.

Competition remains intense in the imaging sector in the photography, commercial and health segments. On the photography side, price competition has been driven somewhat by consumers' conservative spending behaviors during times of a weak world economy, international tensions and the accompanying concern over the possibility of war and terrorism. Some consumers have moved from branded products to private label products. On the health and commercial side, aggressive pricing tactics intensified in the contract negotiations as competitors were vying for customers and market share domestically. Continued economic weakness could also adversely impact Kodak's revenues and growth rate. Failure to successfully manage the consumers' return to branded

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products if and when the economic conditions improve could adversely impact Kodak's revenue and growth rate. If the pricing and programs are not sufficiently competitive with those offered by Kodak's current and future competitors, Kodak may lose market share, adversely affecting its revenue and gross margins.

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The Company's strategy to balance the consumer shift from analog to digital, and the nature and pace of technology substitution could impact Kodak's revenues, earnings and growth rate. Competition remains intense in the digital industry with a large number of competitors vying for customers and market share domestically and internationally. Kodak intends to continue new program introductions and competitive pricing to drive demands in the marketplace. The process of developing new products and services is complex and often uncertain due to the frequent introduction of new products that offer improved performance and pricing. Kodak's ability to successfully transition products and deploy new products requires that Kodak make accurate predictions of the product development schedule as well as volumes, product mix, customer demand and configuration. Kodak may anticipate demand and perceived market acceptance that differs from the product's realizable customer demand and revenue stream. Further, in the face of intense industry competition, any delay in the development, production or marketing of a new product could decrease any advantage Kodak may have to be the first or among the first to market. Kodak's failure to carry out a product rollout in the time frame anticipated and in the quantities appropriate to customer demand could adversely affect the future demand for its products and services and have an adverse effect on its business.

The impact of continuing customer consolidation and buying power could have an adverse impact on Kodak's revenue, gross margins, and earnings. In the competitive consumer retail environment there is a movement from small individually owned retailers to larger and commonly known mass merchants. In the commercial environment, there is a continuing consolidation of various group purchasing organizations. The resellers and distributors may elect to use suppliers other than Kodak. Kodak's challenge is to successfully negotiate contracts that provide the most favorable conditions to the Company in the face of price and program aggressive competitors.

Continued weak global economic conditions could adversely impact the Company's revenues and growth rate. Continued softness in the Company's markets and purchasers' uncertainty about the extent of the global economic downturn could result in lower demand for products and services. While worsening economic conditions have had a negative impact on results of operations, revenues, gross margins and earnings could further deteriorate as a result of economic conditions. Furthermore, there can be no assurances as to the timing of an economic upturn.

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The Company expects 2003 to be another difficult economic year compounded by rising political tensions, with a slight improvement in full year revenues. The Company expects earnings to be flat for the first quarter of 2003 compared with the same period last year. We do not expect to see any real upturn in the economy until 2004, with a very gradual return to consumer spending habits and behavior that will positively affect our business growth. The Company will continue to take actions to minimize the financial impact of this slowdown. These actions include efforts to better manage production and inventory levels and reduce capital spending, while at the same time reducing

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discretionary spending to further hold down costs. The Company will also complete the implementation of the restructuring programs announced in 2002, as well as implement new focused cost reduction actions in 2003, to make its operations more cost competitive and improve margins.

CAUTIONARY STATEMENT PURSUANT TO SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements in this report may be forward-looking in nature, or "forward-looking statements" as defined in the United States Private Securities Litigation Reform Act of 1995. For example, references to the Company's revenue and cash flow expectations for 2003 are forward-looking statements.

Actual results may differ from those expressed or implied in forward-looking statements. The forward-looking statements contained in this report are subject to a number of risk factors, including the successful: implementation of product strategies (including category expansion, digitization, OLED, and digital products); implementation of intellectual property licensing strategies; development and implementation of e-commerce strategies; completion of information systems upgrades, including SAP; completion of various portfolio actions; reduction of inventories; improvement in manufacturing productivity; improvement in receivables performance; reduction in capital expenditures; improvement in supply chain efficiency; development of the Company's business in emerging markets like China, India, Brazil, Mexico, and Russia. The forward-looking statements contained in this report are subject to the following additional risk factors: inherent unpredictability of currency fluctuations and raw material costs; competitive actions, including pricing; the nature and pace of technology substitution, including the analog-to-digital shift; continuing customer consolidation and buying power; general economic and business conditions; and other risk factors disclosed herein and from time to time in the Company's filings with the Securities and Exchange Commission, including but not limited to the items discussed in "Risk Factors" as set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this report.

Any forward-looking statements in this report should be evaluated in light of these important risk factors.

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MARKET PRICE DATA

| Price per share: | 2002 | | 2001 | |
|------------------|---------|---------|---------|---------|
| | High | Low | High | Low |
| 1st Quarter | \$34.30 | \$25.58 | \$46.65 | \$38.19 |
| 2nd Quarter | 35.49 | 28.15 | 49.95 | 37.76 |
| 3rd Quarter | 32.36 | 26.30 | 47.38 | 30.75 |
| 4th Quarter | 38.48 | 25.60 | 36.10 | 24.40 |

SUMMARY OF OPERATING DATA

A summary of operating data for 2002 and for the four years prior is shown on page 149 of the Company's Form 10-K for the year ended December 31, 2002 as originally filed on March 14, 2003.

PART III

ITEM 11. EXECUTIVE COMPENSATION

DIRECTOR COMPENSATION

Annual Payments

Non-employee directors receive:

- \$65,000 as a retainer, at least half of which must be taken in stock or deferred into stock units;
- 2,000 stock options; and
- reimbursement of out-of-pocket expenses for the meetings they attend.

The employee director receives no additional compensation for serving on the Board.

A change in the timing of the annual stock option grant to the non-employee directors was approved by the Board of Directors in October 2002. In order for it to coincide with the Company's annual management stock option grant, this grant will now be made in the fourth quarter, rather than the first quarter, of each year. As a result of this change, two grants were made in 2002; one in January 2002 and the other in November 2002. The next stock option grant to the Company's non-employee directors will be awarded in the fourth quarter of 2003.

Mr. Braddock will receive a retainer of \$100,000 per year for his services as presiding director in addition to his annual retainer as a director.

Deferred Compensation

Non-employee directors may defer some or all of their compensation into a phantom Kodak stock account or into a phantom interest-bearing account. Four current directors deferred compensation in 2002. In the event of a change in control, the amounts in the phantom accounts will generally be paid in a single cash payment.

Life Insurance

The Company provides \$100,000 of group term life insurance to each non-employee director. This decreases to \$50,000 at retirement or age 65, whichever occurs later.

Charitable Award Program

This program, which was closed to new participants effective January 1, 1997, provides for a contribution by the Company of up to \$1,000,000 following a director's death to a maximum of four charitable institutions recommended by the director. The individual directors derive no financial benefits from this program. It is funded by self-insurance and joint life insurance policies purchased by the Company. Mr. Braddock and Gov. Collins continue to participate in the program.

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Compensation of Named Executive Officers

The individuals named in the following table are the Company's Chief Executive Officer and the four other named executive officers under Section 229.402(a)(3) of Volume 17 of the Code of Federal Regulations during 2002. The figures shown include both amounts paid and amounts deferred.

SUMMARY COMPENSATION TABLE

| Name and Principal Position | Year | Annual Compensation | | | Long-Term Compensation | | | Payo LTIP Payou (e) |
|-----------------------------------|------|---------------------|-------------|--|-----------------------------------|--|------|------------------------------|
| | | Salary | Bonus (a) | Awards Other Annual Compen- sation (b) | Restricted Stock Awards (c) | Securities Underlying Options/ SARs (d) | | |
| D. A. Carp Chairman & CEO | 2002 | \$1,030,769 | \$2,327,325 | \$26,030 | \$4,249,010 | 175,000 | \$ - | |
| | 2001 | 1,000,000 | 507,500 | 25,695 | 2,968,751 | 410,000 | - | |
| | 2000 | 1,000,000 | 598,500 | -- | -- | 100,000 | - | |
| R. H. Brust Exec. V. P. & CFO | 2002 | 635,828 | 669,240 | -- | 424,162 | 42,000 | - | |
| | 2001 | 585,003 | 151,200 | -- | 430,414 | 78,000 | - | |
| | 2000 | 492,764 | 225,720 | -- | 467,542 | 228,000 | - | |
| M. M. Coyne Exec. V. P. | 2002 | 719,692 | 889,746 | 20,953 | 291,332 | 36,000 | - | |
| | 2001 | 667,984 | 176,400 | -- | 553,447 | 95,000 | - | |
| | 2000 | 449,449 | 400,075 | -- | 409,375 | 146,000 | - | |
| M. P. Morley Exec. V. P. & CAO | 2002 | 491,154 | 864,800 | -- | 368,669 | 35,000 | - | |
| | 2001 | 466,095 | 136,000 | -- | 430,414 | 42,000 | - | |
| | 2000 | 393,186 | 184,680 | -- | -- | 73,000 | - | |
| D. P. Palumbo Sr. V. P. | 2002 | 514,154 | 517,195 | -- | 365,915 | 169,443 | - | |
| | 2001 | 490,384 | 132,680 | -- | 461,070 | 36,400 | - | |
| | 2000 | 353,346 | 154,465 | -- | 310,000 | 120,000 | - | |

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- (a) This column shows Executive Compensation for Excellence and Leadership Plan (EXCEL), and its predecessor, Management Variable Compensation Plan, awards for services performed, not paid, in each year indicated. For M. P. Morley for 2002, the amount also includes a retention bonus of \$370,000 paid under his March 13, 2001 retention agreement.
- (b) Where no amount is shown, the value of personal benefits provided was less than the minimum amount required to be reported. For D. A. Carp, the amounts shown in this column represent tax payments made by the Company relating to his use of Company transportation. The Company requires D. A. Carp to use Company transportation for security reasons. For M. M. Coyne, the amount shown in this column represents tax payments made by the Company relating to his use of Company transportation and other Company paid travel expenses.
- (c) The awards shown represent grants of restricted stock or restricted stock units valued as of the date of grant. Dividends are paid on

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the restricted shares and restricted units as and when dividends are paid on Kodak common stock. The restrictions on the awards granted under the Executive Incentive Program lapse on December 31, 2003.

D. A. Carp - For 2002, 100,000 shares granted as a retention based award, valued on December 2, 2002 at \$36.73 per share and 18,611 shares awarded under the Executive Incentive Program, valued on February 18, 2003 at \$30.95 per share. For 2001, 20,000 shares granted in recognition of his election as Chairman, valued on January 12, 2001, at \$40.875 per share and 52,630 shares granted in substitution of, and not in addition to, the stock option grants the named executives would otherwise have received in January 2001 under the management stock option program, valued on January 16, 2001, at \$40.875 per share.

R. H. Brust - For 2002, 5,000 shares granted as a retention based award, valued on December 2, 2002 at \$36.73 per share and 7,771 shares awarded under the Executive Incentive Program, valued on February 18, 2003 at \$30.95 per share. For 2001, 10,530 shares granted in substitution of, and not in addition to, the stock option grants the named executives would otherwise have received in January 2001 under the management stock option program, valued on January 16, 2001, at \$40.875 per share. For 2000, 11,625 shares granted as a signing bonus valued on January 3, 2000, at \$40.2187 per share.

M. M. Coyne - For 2002, 9,413 shares awarded under the Executive Incentive Program, valued on February 18, 2003 at \$30.95 per share. For 2001, 13,540 shares granted in substitution of, and not in addition to, the stock option grants the named executives would otherwise have received in January 2001 under the management stock option program, valued on January 16, 2001, at \$40.875 per share. For 2000, 10,000 shares granted in recognition of his appointment as Group Executive of the Photography Group, valued on October 2, 2000 at \$40.9375.

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M. P. Morley - For 2002, 5,000 shares granted as a retention based award, valued on December 2, 2002 at \$36.73 per share and 5,978 shares awarded under the Executive Incentive Program, valued on February 18, 2003 at \$30.95 per share. For 2001, 10,530 shares granted in substitution of, and not in addition to, the stock option grants the named executives would otherwise have received in January 2001 under the management stock option program, valued on January 16, 2001, at \$40.875 per share.

D. P. Palumbo - For 2002, 5,000 shares granted as a retention based award, valued on December 2, 2002 at \$36.73 per share and 5,889 shares awarded under the Executive Incentive Program, valued on February 18, 2003 at \$30.95 per share. For 2001, 11,280 shares granted in substitution of, and not in addition to, the stock option grants the named executives would otherwise have received in January 2001 under the management stock option program, valued on January 16, 2001, at \$40.875 per share. For 2000, 5,000 shares granted in recognition of his appointment as President, Consumer Imaging, valued on September 11, 2000, at \$62.00 per share.

The total number and value of restricted stock held as of December 31, 2002 for each named individual (valued at \$35.04 per share) were: D. A. Carp - 208,706 shares - \$7,313,058 (includes 25,000 shares awarded in 2002, but granted on 01/01/03); R. H. Brust - 27,155 shares - \$951,511; M. M. Coyne - 25,180 shares - \$742,147;

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M. P. Morley - 35,857 shares - \$1,256,429; D. P. Palumbo - 18,780 shares - \$658,051.

- (d) On August 26, 2002, D. P. Palumbo received stock options to purchase 133,043 shares under the Stock Option Exchange Program. The remaining amounts for 2002 represent grants made in the fourth quarter of 2002 under the management stock option program. For D. A. Carp for 2001, the amount includes a grant of stock options to purchase 160,000 shares in recognition of his election as Chairman.
- (e) No awards were paid for the periods 2000-2002, 1999-2001, and 1998-2000 under the Performance Stock Program.
- (f) For R. H. Brust for 2002, the amount represents \$446,400 of principal and interest forgiven in connection with the loan from the Company as described on page 95 of the Proxy and \$41,639 as the Company contribution to the cash balance feature of the Kodak Retirement Income Plan; for 2001 the amount represents \$786,300 of principal and interest forgiven in connection with the loan and \$41,623 as the Company contribution to the cash balance feature. For D. P. Palumbo the amounts represent Company contributions to the cash balance feature of the Kodak Retirement income Plan in the years indicated.

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OPTION/SAR GRANTS IN LAST FISCAL YEAR

Individual Grants

| Name | Number of Securities Underlying Options/SARs Granted | Percentage of Total Options/SARs Granted to Employees in Fiscal Year | Exercise or Base Price Per Share | Expiration Date | Grant Date Present Value (c) |
|---------------|--|--|----------------------------------|------------------------------|------------------------------|
| D. A. Carp | 175,000 (a) | .00868 | \$36.66 | 11/21/12 | \$1,438,500 |
| R. H. Brust | 42,000 (a) | .00208 | 36.66 | 11/21/12 | 345,240 |
| M. M. Coyne | 36,000 (a) | .00179 | 36.66 | 11/21/12 | 295,920 |
| M. P. Morley | 35,000 (a) | .00174 | 36.66 | 11/21/12 | 287,700 |
| D. P. Palumbo | 36,400 (a) 133,043 (b) | .00181 .00660 | 36.66 31.30 | 11/21/12 5/18/07-11/15/11 | 299,208 796,928 |

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- (a) These options were granted in November 2002 under the management stock option program. Termination of employment, for other than death or a permitted reason, prior to the first anniversary of the grant date results in forfeiture of the options. Thereafter,

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termination of employment prior to vesting results in forfeiture of the options unless the termination is due to retirement, death, disability or an approved reason. Vesting accelerates upon death. One third of the options vest on each of the first three anniversaries of the date of grant.

- (b) These options were granted to D. P. Palumbo on August 26, 2002, under the Stock Option Exchange Program; they expire on the following dates: 733 on May 18, 2007; 2,500 on February 11, 2008; 69 on March 12, 2008; 4,700 on April 1, 2008; 390 on March 11, 2009; 8,251 on March 31, 2009; 13,333 on February 29, 2010; 66,667 on October 1, 2010, and 36,400 on November 15, 2011.
- (c) The present value of these options was determined using the Black-Scholes model of option valuation in a manner consistent with the requirements of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." For the options granted in November 2002 under the management stock option program, the following weighted-average assumptions were used: risk-free interest rate - 3.8%, expected option life - 7 years, expected volatility - 34%, and expected dividend yield -5.76%. For the options granted under the Stock Option Exchange Program, the following weighted-average assumptions were used: risk-free interest rate - 2.9%, expected option life - 4 years, expected volatility - 37%, and expected dividend yield - 5.76%.

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AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION/SAR VALUES

| Name | Number Of Shares Acquired on Exercise | Value Realized | Number of Securities Underlying Unexercised Options/SARs at Fiscal Year-End | | Value of Unexercised In-the-Money Options/ SARs at Fiscal Year-End* Value | |
|---------------|--|-------------------|---|--------------------|---|--------------------|
| | | | Exercis- able | Unexer- cisable | Exercis- able | Unexer- cisable |
| D. A. Carp | 7,638 | \$15,757 | 891,086 | 528,590 | \$477,023 | \$954,046 |
| R. H. Brust | - | - | 184,622 | 163,378 | 148,831 | 298,109 |
| M. M. Coyne | 2,630 | 6,188 | 231,473 | 161,389 | 181,269 | 362,538 |
| M. P. Morley | - | - | 259,671 | 95,696 | 80,140 | 160,520 |
| D. P. Palumbo | - | - | 70,977 | 98,466 | 265,454 | 232,127 |

* Based on the closing price on the New York Stock Exchange - Composite Transactions of the Company's common stock on December 31, 2002, of \$35.04 per share.

TEN-YEAR OPTION/SAR REPRICINGS

The table below lists certain information regarding our executive officers that elected to participate in our Stock Option Exchange Program, which you approved at a Special Meeting on January 25, 2002. Even though our Stock Option Exchange Program was not a "repricing" under GAAP, we are, nevertheless, required to provide this information. Under the Program, all of our employees, excluding our then six most senior executive officers, were given a one-time opportunity to exchange all of their then current options for proportionately fewer options at a new exercise price. The only named executive officer eligible to participate in the Program was Mr. Palumbo. He was not one of our six most senior executive officers at the time the Program was offered. More information about the Program can be found on page 113 in the Report of the Executive Compensation and Development Committee.

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| Name | Date | Number of Securities Underlying Options/SARs Repriced or Amended (#) (a) | Market Price of Stock at Time of Repricing or Amendment (\$) | Exercise Price at Time of Repricing or Amendment (\$) (b) | New Exercise Price (\$) | Length of Original Option Remaining as of Date of Repricing Amendment |
|---|---------|--|--|---|-------------------------|---|
| M. P. Benard Vice President | 8/26/02 | 56,068 | \$31.30 | \$54.12 | \$31.30 | 69 months |
| R. L. Berman Vice President | 8/26/02 | 49,923 | \$31.30 | \$45.93 | \$31.30 | 92 months |
| C. S. Brown, Jr. Senior Vice President | 8/26/02 | 120,489 | \$31.30 | \$51.08 | \$31.30 | 75 months |
| C. E. Gustin, Jr. Senior Vice President | 8/26/02 | 125,197 | \$31.30 | \$55.38 | \$31.30 | 66 months |
| C. A. Marchetto Senior Vice President | 8/26/02 | 58,701 | \$31.30 | \$45.10 | \$31.30 | 96 months |
| D. P. Palumbo Senior Vice President | 8/26/02 | 133,043 | \$31.30 | \$44.29 | \$31.30 | 100 months |
| E. G. Rodli Senior Vice President | 8/26/02 | 60,501 | \$31.30 | \$40.48 | \$31.30 | 103 months |
| R. P. Rozek Controller | 8/26/02 | 21,967 | \$31.30 | \$35.07 | \$31.30 | 109 months |
| W. C. Shih Senior Vice President | 8/26/02 | 104,700 | \$31.30 | \$51.21 | \$31.30 | 89 months |
| K. A. Smith-Pilkington Senior Vice President | 8/26/02 | 48,867 | \$31.30 | \$48.36 | \$31.30 | 90 months |
| J. C. Stoffel Senior Vice President | 8/26/02 | 82,581 | \$31.30 | \$49.36 | \$31.30 | 89 months |
| G. P. Van Graafeiland | 8/26/02 | 114,226 | \$31.30 | \$52.73 | \$31.30 | 66 months |

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Senior Vice
President

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- (a) The amounts shown are the aggregate numbers of shares underlying the options granted to the executive officers under the Stock Option Exchange Program.
- (b) The amounts shown are the weighted averages of the exercise prices at the time of the exchange of the options granted to the executive officers under the Stock Option Exchange Program.
- (c) The amounts shown are the weighted average number of months remaining in the option terms of the options granted to the executive officers under the Stock Option Exchange Program.

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Report of the Executive Compensation and Development Committee

ROLE OF THE COMMITTEE

The Executive Compensation and Development Committee, as of December 31, 2002, was made up of four independent members of the Board of Directors. The Committee members are neither employees nor former employees of the Company. The principal functions of the Committee include:

- periodically reviewing and approving the Company's executive compensation strategy and principles to ensure that they are aligned with the Company's business strategy and objectives, shareholder interests, desired behaviors and corporate culture;
- periodically reviewing the Company's executive compensation plans to ensure that they are consistent with the Company's executive compensation strategy and principles;
- reviewing and approving the adoption of, and changes to, the Company's executive compensation and its equity-based Compensation plans;
- overseeing the administration of the Company's executive compensation plans;
- annually reviewing and approving the goals and objectives relevant to the compensation of the CEO, evaluating the CEO's performance in light of these goals and objectives, and setting the CEO's individual elements of total compensation based on this evaluation;
- overseeing the compensation of the Company's executive officers;
- reviewing the process and plans for the assessment and selection of candidates for the positions of CEO and President; and
- periodically reviewing the Company's executive staffing plan for meeting present and future leadership needs.

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To help it perform its functions, the Committee makes use of Company resources and periodically uses the services of outside compensation consultants. In the past, the Company alone has retained the services of such consultants. In order to play a more significant role in the selection and engagement of these consultants, the Committee recently revised its policy concerning the use of outside compensation consultants. As a result of this change, the Committee will retain the services of outside consultants to assist in the fulfilling of its responsibilities.

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EXECUTIVE COMPENSATION PHILOSOPHY

The goal of the Company's executive compensation program is to attract, retain and motivate world-class executive talent to achieve the Company's short- and long-term business goals. Towards this end, the Company's executive compensation strategy leverages all elements of market competitive total compensation to drive profitable growth and superior long-term shareholder value consistent with the Company's values. Plan design and performance-based differentiation are designed to drive extraordinary rewards for outstanding performance.

Consistent with this strategy, the following principles provide a framework for the Company's executive compensation program:

- total target compensation for executives should be market competitive. Market competitive is defined as the 50th percentile with differences where warranted;
- the mix of total compensation elements will reflect competitive market requirements and strategic business needs;
- a significant portion of each executive's compensation should be at risk, the degree of which will positively correlate to the level of the executive's responsibility;
- compensation is linked to both qualitative and behavioral expectations, and key operational and strategic metrics;
- interests of executives are linked with the Company's owners through stock ownership; and
- executive compensation will be differentiated on the following bases:
 - base salaries - on relative responsibility,
 - short-term variable elements - on performance, and
 - long-term variable elements - on performance and potential.

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EXECUTIVE COMPENSATION PRACTICES

Each year, the Company participates in surveys conducted by external consultants. The companies included in these surveys are those the Company competes with for executive talent. Most, but not all, of these companies are included in the Dow Jones Industrial Index shown in the Performance Graph on page 100. Starting in 2002, the Company also began

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measuring the competitiveness of its executive compensation program against a comparison group of approximately 15 other leading companies, referred to in this Report as the "Peer Group." The following criteria was used to select the Peer Group: market capitalization, revenue, consumer/commercial/hi-tech mix, mix of high growth and steady growth companies, similar industry and data availability. The data received from the Peer Group is size adjusted so proper comparisons may be drawn. Based on the survey data and Peer Group results and consistent with the Company's executive compensation principles, the target compensation of the Company's senior executives is set at market competitive levels.

In the summer of 2002, the Committee conducted an in depth analysis of the compensation it pays to its executive officers. With the assistance of the Company and an independent compensation consultant, the market competitiveness of each of the three components of executive compensation paid to its executive officers, i.e., base salary, target short-term variable pay and long-term incentives, was evaluated. The results of this study reveal that the base salary and target short-term variable pay paid to the Company's executive officers is market competitive. With regard to the long-term incentive compensation paid to the Company's executive officers, the study found that this component was also market competitive due in significant part to the adoption of the Executive Incentive Program described later in this Report and awards of restricted stock to selected executive officers.

COMPONENTS OF EXECUTIVE COMPENSATION PROGRAM

The three components of the Company's executive compensation program are:

- base salary,
- short-term variable pay, and
- long-term incentives.

Base Salary

Base salary is the only fixed portion of an executive's compensation. Each executive's base salary is reviewed annually based on the executive's relative responsibility.

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Short-Term Variable Pay

Effective January 1, 2002, Kodak implemented EXCEL (Executive Compensation for Excellence and Leadership), a new executive assessment and short-term variable pay plan for its executives. Three key principles underlie EXCEL: alignment, simplicity and discretion. Alignment to Company objectives is achieved through the two performance metrics used to fund the plan: revenue growth and economic profit. The inclusion of revenue growth as a performance metric emphasizes the Company's need for sustained profitable growth. The use of economic profit stresses the continuing need for earnings growth and balance sheet management. Simplicity is accomplished through ease of plan administration. Under EXCEL, each participant has 3-4 key performance goals. Discretion, the third key principle, may be used to adjust the size of the plan's funding pool, modify the funding pool's allocation to the Company's units, and determine the performance and rewards of the plan's participants.

Participants in EXCEL are assigned target awards for the year based on a percentage of their base salaries as of the end of that year. This percentage is determined by the participant's wage grade. For 2002,

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target awards ranged from 25% of base salary, to 155% of base salary for the CEO.

Each year the Compensation Committee establishes a performance matrix for the year based on the plan's two performance metrics of revenue growth and economic profit. This matrix determines the percentage of the plan's target corporate funding pool that will be earned for the year based on the Company's actual performance against these two metrics. The target corporate funding pool is the aggregate of all participants' target awards for the year. Under the performance matrix, the corporate funding pool will fund at 100% if target performance for each performance metric is met.

The Compensation Committee may use its discretion to adjust (upward or downward) the amount of the corporate funding pool for any year. Examples of situations where the Compensation Committee may choose to exercise this discretion include unanticipated economic or market changes, extreme currency exchange effects, management of significant workforce issues, significant changes in investable cash flow, inventory turns, receivables, or capital expenditures, or dramatic shifts in customer satisfaction.

The CEO allocates the corporate funding pool among the Company's units. Each business unit has its own targets for revenue growth and economic profit for the year. Actual performance against these targets accounts for 75% of the business unit's allocation. The remaining 25% is determined based on overall Company performance for the year measured against the Company's revenue growth and economic profit targets.

Within each staff, regional, functional, and business unit, local senior management allocates the unit's funds to its participants based on each participant's individual performance.

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In 2002, Kodak substantially beat its performance target for economic profit. In terms of revenue, Kodak exceeded its threshold performance goal and came close to achieving its performance target in 2002. As a result of these strong results, EXCEL's corporate funding pool funded at a level sufficient to pay out at a 143% of target level under the performance matrix established for the year.

In fixing the corporate funding pool for the year, the Committee noted that this performance was accomplished despite continuing difficult industry and global economic conditions. The Committee also took into account management's performance in maintaining worldwide film market share, exceeding its 2002 operating cash flow plan by \$658 million, satisfying its target inventory and receivables goals for 2002, and effectively managing other discretionary parts of the business. Against these positive results, the Committee also considered management's inability to satisfy its target customer satisfaction goals for the year.

After looking at these extraordinary results, the Committee increased the size of the award pool by 12% so that larger allocations could be made to the Company's units where appropriate. None of the named executive officers, with the exception of Mr. Palumbo, benefited from this adjustment. The Summary Compensation Table on page 74 lists for 2002 the awards to the named executive officers.

Long-Term Incentives

Long-term compensation is delivered through stock options, the

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Performance Stock Program and restricted stock.

The Company maintains a management stock option program. Stock options encourage the Company's executives to act as owners, which helps to further align their interests with the interests of the Company's shareholders. The Committee generally grants stock options once per year under this program. The options are priced at 100% of the fair market value of the Company's stock on the day of grant. The Company bases target grant ranges on the median survey values of the companies it surveys. Grants to individual executives are then adjusted based in large part on the executive's performance potential. Management recommends the size of the stock option awards to the executive officers which are then reviewed and approved by the Committee.

The Performance Stock Program places a portion of the Company's top executives' long-term compensation at risk. The program measures performance over a three-year period based on the Company's total shareholder return relative to those companies within the Standard & Poor's 500 Composite Price Index. A description of the program, as well as the threshold, target and maximum awards for the named executive officers appears on page 101. Based on the Company's performance over the three-year performance cycle ending in 2002, no awards were paid for this cycle.

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To incent the accomplishment of several, specific Company-wide objectives, the Committee approved a one-time, performance-based, long-term award program, i.e., the Executive Incentive Program, under the 2002-2004 cycle of the Performance Stock Program. A description of the Executive Incentive Program appears on page 100. The program contains an interim award opportunity to encourage its participants to achieve the program's goals before year-end 2003. Under this feature, each participant was eligible to receive an interim award equal to 30% of their target award if two pre-established performance goals were achieved by year-end 2002. Since both of these goals were achieved, each program participant received an interim award in the form of restricted shares or units of the Company's common stock, the restrictions on which lapse on December 31, 2003. The interim awards paid to the named executive officers are listed under the column entitled "Restricted Stock Awards" in the Summary Compensation Table on page 74.

>From time to time, the Company grants restricted stock awards to selected executives. These awards are generally made to either (1) induce the recipients to remain with or to become employed by the Company; or (2) recognize exceptional performance.

SHARE OWNERSHIP PROGRAM

The interests of the Company's executives should be inseparable from those of its shareholders. The Company aims to link these interests by encouraging stock ownership on the part of its executives.

One program designed to meet this objective is the Company's share ownership program. Under this program, each senior executive is required to own stock of the Company worth a multiple of their base salary. These multiples range from one times base salary to four times base salary for the CEO.

Today, the program applies to approximately 20 senior executives, all of whom have either satisfied or are on track to satisfy the requirements.

STOCK OPTION EXCHANGE PROGRAM

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On November 12, 2001, the Board of Directors approved the Stock Option Exchange Program. The Company's shareholders subsequently approved the plan amendments necessary to implement this program at their Special Meeting on January 25, 2002. Under this program, all of the Company's employees, excluding its six then most senior executive officers, were given a one-time opportunity to exchange all of their current options for a proportionately fewer options at a new exercise price.

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The exchange ratio for the program, i.e., how many current options an employee had to surrender in order to receive one new option, was based on the Black-Scholes option valuation model. Using this model, the value of each option was determined both before and after the exchange. For purposes of determining current value, the Company used 90% of an option's current Black-Scholes value. These values were then compared to determine an appropriate exchange ratio based on the current option's existing exercise price. While some options were exchanged on a one-for-one basis, in the vast majority of cases, an employee exchanged two or three existing options for a single new one.

The exercise price of the new options was \$31.30, the mean between the high and low trading price at which the Company's common stock traded on August 26, 2002, the date the new options were granted. All of the new options had the same vesting terms as the surrendered options they replaced. Each new option also had a term equal to the remaining term of the option it replaced. The other terms and conditions of the new options were generally identical to the surrendered options they replaced.

The only named executive officer eligible to participate in the program was Mr. Palumbo. He was not one of the Company's six most senior executive officers at the time the program was offered. The table on page 99, entitled "Ten-Year Option/SAR Repricing," describes the number of options Mr. Palumbo, as well as all of the other executive officers who elected to participate in the program, received as a result of the exchange.

CHIEF EXECUTIVE OFFICER COMPENSATION

The Committee determined Mr. Carp's compensation for 2002 in line with the executive compensation philosophy and practices described above in this Report. Mr. Carp's compensation for 2002 is described below:

Base Salary

The Committee increased Mr. Carp's base salary to \$1,100,000 effective May 5, 2003. Consistent with the Company's executive compensation policy, the Committee established Mr. Carp's new base salary based on his relative responsibility. Mr. Carp's new base salary is market competitive when viewed in comparison to the survey data and Peer Group data mentioned earlier in this Report. To preserve the Company's deductibility of all of Mr. Carp's base salary for U.S. income tax purposes, payment of \$100,000 of his base salary will not be made until after his retirement from the Company.

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Short-Term Variable Pay

Mr. Carp's short term variable pay, like that of all the Company's other executives, is payable based upon the successful attainment of specific financial goals established by the Committee at the start of each year

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under its short-term variable pay plan, EXCEL. For 2002, these financial goals were based on revenue growth and economic profit. As reported earlier, the Company significantly exceeded its economic profit goal for the year and nearly achieved its revenue goal. Based on these strong results, the plan's performance matrix provided for funding at a level sufficient to pay out at 143% of target. The Committee also considered Mr. Carp's performance against his key EXCEL performance goals. The Committee noted Mr. Carp's strong performance against his diversity and leadership excellence goals, generally good results with regard to his strategy and development execution goals, and inability to fully achieve his customer satisfaction goals. Based on these results, the Committee fixed Mr. Carp's 2002 award at level equal to what was generated by the performance matrix under EXCEL. The amount of the award is listed in the Summary Compensation Table on page 74.

Stock Options

Effective November 22, 2002, the Committee granted a stock option award to Mr. Carp of 175,000 shares. These options were granted under the same terms and conditions as awards made to all executives generally under the Company's management stock option program. Mr. Carp's award was approved by the Committee based on its review of benchmark data and assessment of the contributions Mr. Carp has made, and continues to make, to the Company.

Performance Stock Program

Based on the Company's financial performance over the three-year period ending in 2002, Mr. Carp did not receive an award for the 2000-2002 performance cycle. As reported previously, Mr. Carp did receive an interim award under the Executive Incentive Plan, a special program established under the 2002-2004 performance cycle. The interim award earned by Mr. Carp is listed under the column entitled "Restricted Stock Awards" in the Summary Compensation Table on page 74.

Restricted Stock Unit Award

In November 2002, the Company approved a retention-based award to Mr. Carp consisting of restricted stock units corresponding to 100,000 shares of common stock. Effective December 2, 2002, 75,000 of these units were awarded; the remaining 25,000 units were awarded effective January 1, 2003. All of the units vest on the third anniversary of the date of grant, but payment for the units may not be received before the fourth anniversary of the date of grant. The award is listed in the Summary Compensation Table on page 74 under the column entitled "Restricted Stock Awards."

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COMPANY POLICY ON QUALIFYING COMPENSATION

Under Section 162(m) of the Internal Revenue Code, the Company may not deduct certain forms of compensation in excess of \$1,000,000 paid to any of the named executive officers that are employed by the Company at year-end. The Committee believes that it is generally in the Company's best interests to have compensation be deductible under Section 162(m). The Committee also feels, however, that there may be circumstances in which the Company's interests are best served by maintaining flexibility regardless of whether compensation is fully deductible under Section 162(m).

Richard S. Braddock, Chair
Timothy M. Donahue

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Durk I. Jager
Hector de J. Ruiz

LONG-TERM INCENTIVE PLAN

Each February the Executive Compensation and Development Committee approves a three-year performance cycle under the Performance Stock Program. Participation in the program is limited to selected senior executives. The program's performance goal is total shareholder return equal to at least that earned by a company at the 50th percentile in terms of total shareholder return within the Standard & Poor's 500 Composite Stock Price Index.

After the close of a cycle, the Committee calculates the percentage earned of each participant's target award. No awards are paid unless the performance goal is achieved. Fifty percent of the target award is earned if the performance goal is achieved. One hundred percent is earned if total shareholder return for the cycle equals that of a company at the 60th percentile within the Standard & Poor's 500 Composite Stock Price Index.

The Committee has the discretion to reduce or eliminate the award earned by any participant based upon any criteria it deems appropriate. Awards are paid in the form of restricted stock, which restrictions lapse at age 60. The table below shows the threshold (i.e., attainment of the performance goal), target and maximum number of shares for the named executive officers for each cycle. No awards were earned for the 2000-2002 performance cycle as shown in the "LTIP Payouts" column of the Summary Compensation Table on page 74.

The Executive Compensation and Development Committee approved a performance-based, long-term award program, i.e., the Executive Incentive Program, under the 2002-2004 cycle of the Performance Stock Program. The purposes of this one-time program are to increase by year-end 2003 investable cash flow and the financial performance of certain strategic product groups. In this regard, certain target and threshold performance goals were established by the Committee based on these two metrics for the two-year period commencing January 1, 2002, and ending December 31, 2003.

Awards under the Executive Incentive Program will be coordinated with awards received under the 2002-2004 performance cycle of the Performance Stock Program. As a result, any award earned by a participant under the 2002-2004 performance cycle of the Performance Stock Program will be reduced by the amount of any award earned by the participant under the Executive Incentive Program.

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Participation in the Executive Incentive Program is limited to 18 selected key executive officers, including the five named executive officers. Each participant's target award under the program is 75% of the participant's total target annual compensation (annual base salary plus target EXCEL award) expressed in the form of shares of common stock based on a March 8, 2002, stock price of \$32.37 per share. Any awards earned under the program will be paid in the form of the Company's common stock.

In order to encourage strong performance against the program's two metrics in 2002, participants were given the opportunity to earn a portion of their target award after the first year of the program's two-year performance cycle. Payment of this interim award was based

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on achieving certain pre-established interim goals by year-end 2002. Each participant was eligible for an interim award equal to 30% of his or her target award under the program. The interim awards were payable in the form of restricted shares of the Company's common stock, the restrictions on which lapse at year-end 2003. In determining a participant's award for the entire two-year cycle, any interim award earned by a participant will be subtracted from the award the participant would otherwise receive under the program.

As explained in the Report of the Executive Compensation and Development Committee on page 112, both of the program's interim goals were achieved by year-end 2002. As a result, each program participant received an interim award. The interim awards paid to the named executive officers are included in the amounts shown under the column entitled "Restricted Stock Awards" in the Summary Compensation Table on page 74.

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LONG-TERM INCENTIVE PLAN -- AWARDS IN LAST FISCAL YEAR

| Name | Number of Shares, Units or Other Rights | Performance Or Other Period Until Maturation or Payout | Estimated Future Payouts Under Non-Stock Price-Based Plans | | |
|---------------|---|--|--|--------------------|-------------------------|
| | | | Threshold # of Shares | Target # of Shares | Maximum # of Shares (b) |
| D. A. Carp | N/A | 2000-2002 | 10,000 | 20,000 | |
| | | 2001-2003 | 10,000 | 20,000 | |
| | | 2002-2004 | 10,000 | 20,000 | [62,037] |
| R. H. Brust | N/A | 2000-2002 | 2,625 | 5,250 | |
| | | 2001-2003 | 2,625 | 5,250 | |
| | | 2002-2004 | 2,625 | 5,250 | [25,904] |
| M. M. Coyne | N/A | 2000-2002 | 1,813 | 3,625 | |
| | | 2001-2003 | 3,400 | 6,800 | |
| | | 2002-2004 | 3,400 | 6,800 | [31,376] |
| M. P. Morley | N/A | 2000-2002 | 1,813 | 3,625 | |
| | | 2001-2003 | 2,625 | 5,250 | |
| | | 2002-2004 | 2,625 | 5,250 | [19,926] |
| D. P. Palumbo | N/A | 2000-2002 | N/A (a) | N/A (a) | |
| | | 2001-2003 | 1,988 | 3,975 | |
| | | 2002-2004 | 1,988 | 3,975 | [19,631] |

(a) D. P. Palumbo did not participate in the 2000-2002 performance cycle of the Performance Stock Program.

(b) The shares in brackets are the named executive officers' target awards under the Executive Incentive Program.

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EMPLOYMENT CONTRACTS AND ARRANGEMENTS

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DANIEL A. CARP

Effective December 10, 1999, the Company entered into a letter agreement with Mr. Carp providing for his employment as President and Chief Executive Officer. The letter agreement provides for a base salary of \$1,000,000, subject to annual adjustment, and a target annual bonus of 105% of his base salary. Mr. Carp's compensation will be reviewed annually by the Executive Compensation and Development Committee. The Executive Compensation and Development Committee approved an increase of Mr. Carp's annual base salary to \$1,100,000 effective May 5, 2003. Mr. Carp's target award under the Company's variable pay plan will remain at 155% of his base salary.

If the Company terminates Mr. Carp's employment without cause, Mr. Carp will be permitted to retain his stock options and restricted stock. He will also receive severance pay equal to three times his base salary plus target annual bonus and prorated awards under the Company's bonus plans. The letter agreement also provides that for pension purposes, Mr. Carp will be treated as if he were age 55, if he is less than age 55 at the time of his termination, or age 60, if he is age 55 or older but less than age 60, at the time of his termination of employment.

In the event of Mr. Carp's disability, he will receive the same severance pay as he would receive upon termination without cause; except it will be reduced by the present value of any Company-provided disability benefits he receives. The letter agreement also states that upon Mr. Carp's disability, he will be permitted to retain all of his stock options.

ROBERT H. BRUST

The Company employed Mr. Brust under an offer letter dated December 20, 1999, that was amended on November 12, 2001. In addition to the information provided herein and in the Proxy Statement, the amended offer letter provides Mr. Brust a special severance benefit. If, during the first seven years of Mr. Brust's employment, the Company terminates his employment without cause, he will receive severance pay equal to two times his base salary plus target annual bonus. After completing five years of service with the Company, Mr. Brust will be allowed to keep his stock options upon his termination of employment for other than cause.

MARTIN M. COYNE

Effective November 15, 2001, the Company entered into a retention agreement with Mr. Coyne. In addition to the information provided herein and in the Proxy Statement, the letter agreement provides Mr. Coyne a special severance benefit equal to two times his total target annual compensation if he is terminated without cause prior to February 7, 2004. In such event, the letter agreement also requires the Company to recommend to the Executive Compensation and Development Committee that Mr. Coyne be permitted to retain his stock options, restricted stock and awards under the Performance Stock Program. The letter agreement sets Mr. Coyne's target award under the Company's variable pay plan at 85% of his annual base salary.

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MICHAEL P. MORLEY

Effective March 13, 2001, the Company entered into a retention agreement with Mr. Morley to encourage him to delay his retirement

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until at least January 1, 2003. This letter agreement was subsequently amended on December 12, 2002. In addition to the information provided herein and in the Proxy Statement, the letter agreement provided Mr. Morley a retention benefit of \$370,000 if he remained employed through December 31, 2002. Twenty thousand dollars of this amount was paid in March 2002, the balance was paid in January 2003. The letter agreement also made Mr. Morley eligible for a severance allowance equal to one times his total target annual compensation, less the amount of any base salary paid to him in 2002, if he was terminated without cause prior to December 31, 2002. The letter agreement required the Company to recommend to the Executive Compensation and Development Committee that Mr. Morley be permitted, upon his termination of employment, to retain his stock options, restricted stock, restricted stock units and awards under the Performance Stock Program.

CHANGE IN CONTROL ARRANGEMENTS

The Company maintains a change in control program to provide severance pay and continuation of certain welfare benefits for virtually all U.S. employees. A "change in control" is generally defined under the program as:

- the incumbent directors cease to constitute a majority of the Board, unless the election of the new directors was approved by at least two-thirds of the incumbent directors then on the Board;
- the acquisition of 25% or more of the combined voting power of the Company's then outstanding securities;
- a merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company or any of its subsidiaries that requires the approval of the Company's shareholders; or
- a vote by the shareholders to completely liquidate or dissolve the Company.

The purpose of the program is to assure the continued employment and dedication of all employees without distraction from the possibility of a change in control. The program provides for severance payments and continuation of certain welfare benefits to eligible employees whose employment is terminated, either voluntarily with "good cause" or involuntarily, during the two-year period following a change in control. The amount of the severance pay and length of benefit continuation is based on the employee's position. The named executive officers would be eligible for severance pay equal to three times their total target annual compensation. In addition, the named executive officers would be eligible to participate in the Company's medical, dental, disability and life insurance plans until the first anniversary of the date of their termination of employment. The Company's change in control program also requires, subject to certain limitations, tax gross-up payments to all employees to mitigate any excise tax imposed upon the employee under the Internal Revenue Code.

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Another component of the program provides enhanced benefits under the Company's retirement plan. Any participant whose employment is terminated, for a reason other than death, disability, cause or voluntary resignation, within five years of a change in control is given credit for up to five additional years of service. In addition,

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where the participant is age 50 or over on the date of the change in control, up to five additional years of age is given for the following plan purposes:

- to determine eligibility for early and normal retirement;
- to determine eligibility for a vested right; and
- to calculate the amount of retirement benefit.

The actual number of years of service and years of age that is given to such a participant decreases proportionately depending upon the number of years that elapse between the date of a change in control and the date of the participant's termination of employment. If the plan is terminated within five years after a change in control, the benefit for each participant will be calculated as indicated above.

In the event of a change in control which causes the Company's stock to cease active trading on the New York Stock Exchange, the Company's compensation plans will generally be affected as follows:

- under the Executive Deferred Compensation Plan, each participant will be paid the amount in his or her account;
- under EXCEL, each participant will be paid a pro rata target award for the year in which the change in control occurs;
- under the Performance Stock Program, each participant will be awarded a pro rata target award for each pending performance cycle and all awards will be cashed out based on the change in control price;
- under the Company's stock option plans, all outstanding options will vest in full and be cashed out based on the difference between the change in control price and the option's exercise price; and
- under the Company's restricted stock programs, all of the restrictions on the stock will lapse and the stock will be cashed out based on the change in control price.

RETIREMENT PLAN

The Company funds a tax-qualified defined benefit pension plan for virtually all U.S. employees. Effective January 1, 2000, the Company amended the plan to include a cash balance feature. All of the named executive officers, with the exception of Mr. Brust and Mr. Palumbo, participate in the non-cash balance portion of the plan. The cash balance feature covers all new employees hired after March 31, 1999, including Mr. Brust, and all other employees who elected to participate, including Mr. Palumbo.

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Retirement income benefits are based upon an employee's average participating compensation (APC). The plan defines APC as one third of the sum of the employee's participating compensation for the highest consecutive 39 periods of earnings over the 10 years ending immediately prior to retirement or termination of employment. Participating compensation, in the case of the named executive officers, is base salary and EXCEL awards, including allowances in lieu of salary for authorized periods of absence, such as illness, vacation or holidays.

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For an employee with up to 35 years of accrued service, the annual normal retirement income benefit is calculated by multiplying the employee's years of accrued service by the sum of (a) 1.3% of APC, plus (b) 0.3% of APC in excess of the average Social Security wage base. For an employee with more than 35 years of accrued service, the resulting amount is increased by 1% for each year in excess of 35 years.

The retirement income benefit is not subject to any deductions for Social Security benefits or other offsets. The normal form of benefit is an annuity, but a lump sum payment is available in limited situations.

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PENSION PLAN TABLE

ANNUAL RETIREMENT INCOME BENEFIT STRAIGHT LIFE ANNUITY BEGINNING AT AGE 65

| Remuneration | Years of Service | | | | | |
|--------------|------------------|-----------|-----------|-----------|------------|------------|
| | 3 | 20 | 25 | 30 | 35 | 40 |
| \$ 500,000 | \$24,000 | \$160,000 | \$200,000 | \$240,000 | \$ 280,000 | \$ 294,000 |
| 750,000 | 36,000 | 240,000 | 300,000 | 360,000 | 420,000 | 441,000 |
| 1,000,000 | 48,000 | 320,000 | 400,000 | 480,000 | 560,000 | 588,000 |
| 1,250,000 | 60,000 | 400,000 | 500,000 | 600,000 | 700,000 | 735,000 |
| 1,500,000 | 72,000 | 480,000 | 600,000 | 720,000 | 840,000 | 877,000 |
| 1,750,000 | 84,000 | 560,000 | 700,000 | 840,000 | 980,000 | 1,029,000 |
| 2,000,000 | 96,000 | 640,000 | 800,000 | 960,000 | 1,120,000 | 1,176,000 |

NOTE: For purposes of this table, Remuneration means APC. To the extent that an employee's annual retirement income benefit exceeds the amount payable from the Company's funded plan, it is paid from one or more unfunded supplementary plans.

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The following table shows the years of service credited as of December 31, 2002, to each of the named executive officers. This table also shows the amount of each named executive officer's APC at the end of 2002. Mr. Brust and Mr. Palumbo, who participated in the cash balance feature in 2002, are not listed.

Retirement Plan

| Name | Years of Service | Average Participating |
|------|------------------|-----------------------|
|------|------------------|-----------------------|

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Compensation

| | | |
|--------------|-------|-------------|
| D. A. Carp | 32 | \$1,711,871 |
| M. M. Coyne | 20(a) | 916,032 |
| M. P. Morley | 38(b) | 647,702 |

- (a) If Mr. Coyne remains employed until February 7, 2004, he will be credited with eight extra years of service for purposes of calculating his retirement benefit.
- (b) Under Mr. Morley's retention agreement, if he elects upon his retirement to take a lump sum distribution of his retirement benefit, the amount of his benefit will be calculated using a discount rate no less favorable than the discount rate used under the Company's pension plan to calculate the retirement benefits of participants who retired effective January 1, 2003.

Cash Balance Feature

Under the cash balance feature of the Company's pension plan, the Company establishes an account for each participating employee. Every month the employee works, the Company credits the employee's account with an amount equal to four percent of the employee's monthly pay. In addition, the ongoing balance of the employee's account earns interest at the 30-year Treasury bond rate. To the extent federal laws place limitations on the amount of pay that may be taken into account under the plan, four percent of the excess pay is credited to an account established for the employee in an unfunded supplementary plan. If a participating employee leaves the Company and is vested (five or more years of service), the employee's account balance will be distributed to the employee in the form of a lump sum or monthly annuity. Participating employees whose account balance exceeds \$5,000, also have the choice of leaving their account balances in the plan to continue to earn interest.

In addition to the benefits described above, Mr. Brust is covered under a special supplemental pension arrangement established under his amended offer letter. This arrangement provides Mr. Brust a single life annuity of \$12,500 per month upon his retirement if he remains employed with the Company for at least five years. If Mr. Brust remains employed until January 3, 2007, he will, in lieu of receiving the \$12,500 per month annuity, be treated as if eligible for the non-cash balance portion of the plan. For this purpose, Mr. Brust will be credited with 18 years of extra service in addition to his actual service. In either case, Mr. Brust's supplemental benefit will be offset by his cash balance benefit.

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Performance Graph -- Shareholder Return

The following graph compares the performance of the Company's common stock with the performance of the Standard & Poor's 500 Composite Stock Price Index and the Dow Jones Industrial Index, by measuring the changes in common stock prices from December 31, 1997, plus assumed reinvested dividends.

[THE FOLLOWING WAS REPRESENTED AS A LINE CHART IN THE PRINTED MATERIAL]

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| | EK | S&P 500 | DJIA |
|------------|---------|---------|---------|
| 12/31/97 | \$100.0 | \$100.0 | \$100.0 |
| 12/31/98 | \$121.8 | \$128.3 | \$118.0 |
| 12/31/99 | \$115.0 | \$155.1 | \$149.9 |
| 12/31/00 | \$71.4 | \$141.1 | \$142.8 |
| 12/31/01 | \$56.6 | \$124.4 | \$135.0 |
| 12/31/2002 | \$70.9 | \$97.1 | \$115.0 |

The graph assumes that \$100 was invested on December 31, 1997, in each of the Company's common stock, the Standard & Poor's 500 Composite Stock Price Index and the Dow Jones Industrial Index, and that all dividends were reinvested. In addition, the graph weighs the constituent companies on the basis of their respective market capitalizations, measured at the beginning of each relevant time period.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

As required by Item 201(d) of Regulation S-K, the Company's total options outstanding of 42,277,000 have been granted under equity compensation plans that have been approved by security holders and that which have not been approved by security holders as follows:

(Amounts in thousands,
except per share amounts)

| | Options Outstanding at December 31, 2002 | Weighted- Average Exercise Price of Options Outstanding at December 31, 2002 | Number of Options Available for Future Grants as of December 31, 2002 |
|---|---|---|---|
| Equity compensation plans approved by security holders approved plans | 31,356 | \$46.17 | 7,813 |
| Equity compensation plans not approved by security holders | 10,921 | 55.27 | 5,124 |
| Total | 42,277 | \$48.52 | 12,937 |

The Company's equity compensation plans approved by security holders include the 2000 Plan, the 1995 Plan and the 1990 Plan. The Company's equity compensation plans not approved by security holders include the Eastman Kodak Company 1997 Stock Option Plan and the Kodak Stock Option Plan. The 5,124,000 of options available for grant as of December 31, 2002 under equity compensation plans not approved by security holders all relate to the Kodak Stock Option Plan; however, in accordance with an amendment that is effective January 1, 2003, no options will be granted in the future under this plan.

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Beneficial Security Ownership
of Directors, Nominees and Executive Officers

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| Directors, Nominees and Executive Officers | Number of Common Shares Owned on January 2, 2003 |
|---|---|
| Richard S. Braddock | 26,893 (a) (b) |
| William W. Bradley | 6,120 (a) (b) |
| Robert H. Brust | 216,994 (a) (b) |
| Daniel A. Carp | 1,126,870 (a) (b) |
| Martha Layne Collins | 18,889 (a) (b) |
| Martin M. Coyne | 259,439 (a) (b) |
| Timothy M. Donahue | 8,292 (a) (b) |
| William H. Hernandez (d) | 2,055 (a) |
| Durk I. Jager | 18,171 (a) (b) |
| Debra L. Lee | 11,180 (b) |
| Delano E. Lewis | 6,236 (a) (b) |
| Michael P. Morley | 305,023 (a) (b) |
| Paul H. O'Neill (d) | 2,090 (a) |
| Daniel P. Palumbo | 92,587 (a) (b) |
| Hector de J. Ruiz | 8,697 (b) |
| Laura D'Andrea Tyson | 10,235 (a) (b) |
| All Directors, Nominees and Executive Officers as a Group (27), including the above | 2,930,227 (a) (b) (c) |

(a) Includes the following Kodak common stock equivalents, which are held in deferred compensation plans: R. S. Braddock - 6,006; W. W. Bradley - 458; R. H. Brust - 11,673; D. A. Carp - 193,803; M. L. Collins - 9,689; M. M. Coyne - 15,010; T. M. Donahue - 2,292; W. H. Hernandez - 555; D. I. Jager - 9,171; D. E. Lewis - 2,036; M. P. Morley - 42,016; P. H. O'Neill - 1,090; D. P. Palumbo - 12,505; L. D. Tyson - 1,315; and all directors, nominees and executive officers as a group - 400,125.

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(b) Includes the following number of shares which may be acquired by exercise of stock options: R. S. Braddock - 6,000; W. W. Bradley - 4,000; R. H. Brust - 184,622; D. A. Carp - 891,086; M. L. Collins - 6,000; M. M. Coyne - 231,473; T. M. Donahue - 4,000; D. I. Jager - 6,000; D. L. Lee - 6,000; D. E. Lewis - 4,000; M. P. Morley - 259,671; D. P. Palumbo - 70,977; H. de J. Ruiz - 4,000; L. D. Tyson - 6,000; and all directors, nominees and executive officers as a group - 2,284,195.

(c) The total number of shares beneficially owned by all directors, nominees and executive officers as a group is less than 1% of

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the Company's outstanding shares.

- (d) Messrs. O'Neill and Hernandez joined the Company's Board of Directors in February 2003, and they are included here for informational purposes only. Their shareholdings, shown here as of March 14, 2003, are not included in the totals shown above and in these footnotes for all directors, nominees and executive officers as a group.

The above table reports beneficial ownership in accordance with Rule 13d-3 under the Securities Exchange Act of 1934. This means all Company securities over which the directors, nominees and executive officers directly or indirectly have or share voting or investment power are listed as beneficially owned. The figures above include shares held for the account of the above persons in the Eastman Kodak Shares Program and the Kodak Employees' Stock Ownership Plan, and the interests of the above persons in the Kodak Stock Fund of the Eastman Kodak Employees' Savings and Investment Plan, stated in terms of Kodak shares.

ITEM 14. Controls and Procedures

In accordance with the Securities Exchange Act Rules 13a-15 and 15d-15, the Company's management, under the supervision of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this annual report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the Company's disclosure controls and procedures were effective. There have been no significant changes in internal controls over financial reporting or in other factors that could significantly affect internal controls over financial reporting subsequent to the date of such evaluation.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

| | Page No. |
|---|----------|
| (a) 1. Consolidated financial statements (the page number references for the information listed under Item 15 (a) 1. relate to the Company's Form 10-K for the year ended December 31, 2002 as originally filed on March 14, 2003): | |
| Report of independent accountants | 78 |
| Consolidated statement of earnings | 79 |
| Consolidated statement of financial position | 80 |
| Consolidated statement of shareholders' equity | 81-83 |
| Consolidated statement of cash flows | 84-85 |
| Notes to financial statements | 86-148 |
| 2. Financial statement schedules: | |
| II - Valuation and qualifying accounts | 106 |

All other schedules have been omitted because they are not applicable or the information required is shown in the financial statements or notes thereto.

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3. Additional data required to be furnished:

Exhibits required as part of this report are listed in the index appearing on pages 107 through 112.

(b) Report on Form 8-K.

No reports on Form 8-K were filed or required to be filed during the quarter ended December 31, 2002.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EASTMAN KODAK COMPANY
(Registrant)

By:

Daniel A. Carp
Chairman & Chief Executive Officer,
President & Chief Operating Officer

By:

Robert H. Brust
Chief Financial Officer, and
Executive Vice President

Robert P. Rozek
Controller

Date: March 14, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Richard S. Braddock, Director

Durk I. Jager, Director

William W. Bradley, Director

Debra L. Lee, Director

Daniel A. Carp, Director

Delano E. Lewis, Director

Martha Layne Collins, Director

Paul H. O'Neill, Director

Timothy M. Donahue, Director

Hector de J. Ruiz, Director

William H. Hernandez, Director

Laura D'Andrea Tyson, Director

Date: March 14, 2003

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Schedule II

Eastman Kodak Company and Subsidiary Companies
Valuation and Qualifying Accounts
(in millions)

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| | Balance at Beginning of Period | Additions Charged to Earnings | Deductions Amounts Written Off | Balance at End of Period |
|--|--------------------------------------|-------------------------------------|--------------------------------------|--------------------------------|
| Year ended December 31, 2002 | | | | |
| Deducted in the Statement of Financial Position: | | | | |
| From Current Receivables | | | | |
| Reserve for doubtful accounts | \$ 92 | \$ 92 | \$80 | \$104 |
| Reserve for loss on returns and allowances | 17 | 17 | 1 | 33 |
| | ---- | ---- | --- | ---- |
| TOTAL | \$109 | \$109 | \$81 | \$137 |
| | ===== | ===== | ==== | ===== |
| From Long-Term Receivables and Other Noncurrent Assets | | | | |
| Reserve for doubtful accounts | \$ 51 | \$ 13 | \$11 | \$ 53 |
| | ===== | ===== | ==== | ===== |
| Year ended December 31, 2001 | | | | |
| Deducted in the Statement of Financial Position: | | | | |
| From Current Receivables | | | | |
| Reserve for doubtful accounts | \$ 62 | \$ 95 | \$65 | \$ 92 |
| Reserve for loss on returns and allowances | 27 | 12 | 22 | 17 |
| | ---- | ---- | --- | ---- |
| TOTAL | \$ 89 | \$107 | \$87 | \$109 |
| | ===== | ===== | ==== | ===== |
| From Long-Term Receivables and Other Noncurrent Assets | | | | |
| Reserve for doubtful accounts | \$ 8 | \$ 46 | \$ 3 | \$ 51 |
| | ===== | ===== | ==== | ===== |
| Year ended December 31, 2000 | | | | |
| Deducted in the Statement of Financial Position: | | | | |
| From Current Receivables | | | | |
| Reserve for doubtful accounts | \$104 | \$ 38 | \$80 | \$ 62 |
| Reserve for loss on returns and allowances | 32 | 8 | 13 | 27 |
| | ---- | ---- | --- | ---- |
| TOTAL | \$136 | \$ 46 | \$93 | \$ 89 |
| | ===== | ===== | ==== | ===== |
| From Long-Term Receivables and Other Noncurrent Assets | | | | |
| Reserve for doubtful accounts | \$ 7 | \$ 4 | \$ 3 | \$ 8 |
| | ===== | ===== | ==== | ===== |

Eastman Kodak Company and Subsidiary Companies
Index to Exhibits

Exhibit
Number

- (3) A. Certificate of Incorporation.
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 25, 1988, Exhibit 3.)
- B. By-laws, as amended through April 24, 2001.
(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001, Exhibit 3.)
- (4) A. Indenture dated as of January 1, 1988 between Eastman Kodak Company as issuer of (i) 9 3/8% Notes Due 2003, (ii) 9.95% Debentures Due 2018, (iii) 9 1/2% Notes Due 2008, (iv) 9.20% Debentures Due 2021, and (v) 7.25% Notes Due 2005, and The Bank of New York as Trustee.
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 25, 1988, Exhibit 4.)
- B. First Supplemental Indenture dated as of September 6, 1991 and Second Supplemental Indenture dated as of September 20, 1991, each between Eastman Kodak Company and The Bank of New York as Trustee, supplementing the Indenture described in A.
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1991, Exhibit 4.)
- C. Third Supplemental Indenture dated as of January 26, 1993, between Eastman Kodak Company and The Bank of New York as Trustee, supplementing the Indenture described in A.
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1992, Exhibit 4.)
- D. Fourth Supplemental Indenture dated as of March 1, 1993, between Eastman Kodak Company and The Bank of New York as Trustee, supplementing the Indenture described in A.
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1993, Exhibit 4.)

Eastman Kodak Company and certain subsidiaries are parties to instruments defining the rights of holders of long-term debt that was not registered under the Securities Act of 1933. Eastman Kodak Company has undertaken to furnish a copy of these instruments to the Securities and Exchange Commission upon request.

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Exhibit
Number

- (10) B. Eastman Kodak Company Insurance Plan for Directors.
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 29, 1985, Exhibit 10.)
- C. Eastman Kodak Company Deferred Compensation Plan for Directors, as amended February 11, 2000.
(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999, and the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1999, Exhibit 10.)
- E. 1982 Eastman Kodak Company Executive Deferred Compensation Plan, as amended effective December 9, 1999.
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1996, and the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999, and the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1999, Exhibit 10.)
- G. Eastman Kodak Company 1990 Omnibus Long-term Compensation Plan, as amended effective as of November 12, 2001.
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1996, the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1997, the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998, the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999, the Annual Report on Form 10-K for the fiscal year ended December 31, 1999, and the Annual Report on Form 10-K for the fiscal year ended December 31, 2001, Exhibit 10.)

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Eastman Kodak Company and Subsidiary Companies
Index to Exhibits (continued)

Exhibit
Number

- I. Eastman Kodak Company 1995 Omnibus Long-Term Compensation Plan, as amended effective as of November 12, 2001.
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1996, the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1997, the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1998, the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998, the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998, the Quarterly Report on Form 10-Q for the quarterly period

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ended September 30, 1999, the Annual Report on Form 10-K for the fiscal year ended December 31, 1999, and the Annual Report on Form 10-K for the fiscal year ended December 31, 2001, Exhibit 10.)

J. Kodak Executive Financial Counseling Program.
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1992, Exhibit 10.)

K. Personal Umbrella Liability Insurance Coverage.

Eastman Kodak Company provides \$5,000,000 personal umbrella liability insurance coverage to its directors and approximately 160 key executives. The coverage, which is insured through The Mayflower Insurance Company, Ltd., supplements participants' personal coverage. The Company pays the cost of this insurance. Income is imputed to participants.

(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1995, Exhibit 10.)

L. Kodak Executive Health Management Plan, as amended effective January 1, 1995.
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1995 and the Annual Report on Form 10-K for the fiscal year ended December 31, 2001, Exhibit 10.)

M. Martin M. Coyne Agreement dated November 9, 2001.
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 2001, Exhibit 10.)

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Eastman Kodak Company and Subsidiary Companies Index to Exhibits (continued)

Exhibit
Number

N. Kodak Stock Option Plan, as amended and restated August 26, 2002.

O. Eastman Kodak Company 1997 Stock Option Plan, as amended, effective as of March 13, 2001.
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1999 and the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001, Exhibit 10.)

P. Eric Steenburgh Agreement dated March 12, 1998.
(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1998, Exhibit 10.)

Notice of Award of Restricted Stock Units dated February 11, 2000 under the 2000 Omnibus Long-Term Compensation Plan.

(Incorporated by reference to the Eastman Kodak Company

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Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2000, Exhibit 10.)

Amendment, dated December 1, 2001.

(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 2001, Exhibit 10.)

Letter, dated December 28, 2001.

(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 2001, Exhibit 10.)

- Q. Eastman Kodak Company 2001 Short-Term Variable Pay to Named Executive Officers.
(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2002, Exhibit 10.)

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Eastman Kodak Company and Subsidiary Companies Index to Exhibits (continued)

Exhibit Number

- R. Eastman Kodak Company 2000 Omnibus Long-Term Compensation Plan, as amended effective as of November 12, 2001.
(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999, and the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999, the Annual Report on Form 10-K for the fiscal year ended December 31, 1999, and the Annual Report on Form 10-K for the fiscal year ended December 31, 2001, Exhibit 10.)
- S. Executive Compensation for Excellence and Leadership Plan, (formerly known as the 2000 Management Variable Compensation Plan), as amended and restated effective as of January 1, 2002.
(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002, Exhibit 10.)
- T. Eastman Kodak Company Executive Protection Plan, effective July 25, 2001.
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1999 and the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2001, Exhibit 10.)
- U. Eastman Kodak Company Estate Enhancement Plan, as adopted effective March 6, 2000.
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1999, Exhibit 10.)
- V. Michael P. Morley Agreement dated March 13, 2001.

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Amendment, dated February 19, 2003, to Agreement dated March 13, 2001.

- W. Daniel A. Carp Agreement dated November 22, 1999.
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1999, Exhibit 10.)

\$1,000,000 Promissory Note dated March 2, 2001.
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 2000, Exhibit 10.)

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Eastman Kodak Company and Subsidiary Companies Index to Exhibits (continued)

Exhibit
Number

- X. Robert H. Brust Agreement dated December 20, 1999.
(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 1999, Exhibit 10.)

Amendment, dated February 8, 2001, to Agreement dated December 20, 1999.

(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001, Exhibit 10.)

Amendment, dated November 12, 2001, to Agreement dated December 20, 1999.

(Incorporated by reference to the Eastman Kodak Company Annual Report on Form 10-K for the fiscal year ended December 31, 2001, Exhibit 10.)

- Y. Patricia F. Russo Agreement dated April 1, 2001.
(Incorporated by reference to the Eastman Kodak Company Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001, Exhibit 10.)

(12) Statement Re Computation of Ratio of Earnings to Fixed Charges.

(21) Subsidiaries of Eastman Kodak Company.

(23) Consent of Independent Accountants.

(99) Eastman Kodak Employees' Savings and Investment Plan Annual Report on Form 11-K for the fiscal year ended December 30, 2002 (filed by Amendment No. 1 to the 2002 Form 10-K on June 27, 2003).

(99.1) Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

(99.2) Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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- (99.3) Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (99.4) Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.