1. CONSOLIDATED OPERATING RESULTS

(1) Qualitative Information of Consolidated Performance

1. Overview of Performance

Six months ended September 30, 2013 (From April 1, 2013 to September 30, 2013)

Six months (Apr–Sep)
Year-on-Year [Billions of yen]

	Apr-Sep / Mar 2014	Apr-Sep / Mar 2013	Increase (Decrease)	
Net sales	450.4	383.8	66.6	17.4%
Gross profit	214.0	180.0	34.0	18.9%
Operating income	24.1	20.2	3.9	19.2%
Ordinary income	21.4	18.2	3.2	17.8%
Income before income taxes and minority interests	0.0	15.1	(15.0)	-99.6%
Net income	5.5	7.6	(2.0)	-27.0%
Net income per share [yen]	10.48	14.35	(3.86)	-27.0%
Capital expenditure	19.4	17.1	2.3	13.6%
Depreciation	23.5	21.7	1.8	8.4%
R & D expenses	34.5	34.6	(0.0)	-0.1%
Free cash flow	26.3	(9.5)	35.8	-%
Number of employees [persons]	41,851	40,271	1,580	3.9%
Exchange rates [yen]				
US dollar	98.85	79.41	19.44	24.5%
euro	130.00	100.64	29.36	29.2%

Reviewing the main business of the Konica Minolta Group during the first half of the consolidated fiscal year under review (April 1, 2013 to September 30, 2013), in the Business Technologies Business, sales were strong for A3 color MFPs (Multi-functional peripherals) in the office field, exceeding the same period of the previous fiscal year in all regions including Japan, the United States and Europe, which offset a decline in sales volumes of monochrome units. As a result, sales volumes of A3 MFPs overall exceeded the same period of the previous fiscal year. In addition, Konica Minolta has witnessed steady growth in its sales model that combines IT service and consulting service together with MFPs on the back of tie-ups with IT service providers acquired mainly through M&As over the past few years, predominantly in Europe and the United States. In the production print field, sales of color units were solid and overall sales volumes surpassed the same period of the previous fiscal year.

In the Industrial Business, sales volumes of TAC films for LCD polarizers and VA-TAC films for increasing the viewing angle were down on the same period of the previous fiscal year in the display materials field on account of deterioration in market conditions for notebook PCs and diversification in components and materials used for TVs. However, this progress was within the scope of expectation and in line with plans on the whole. Sales expanded steadily in the sensing field due to the successful effects of M&As conducted in the previous year. In the optical products field, lenses for cameras and lenses for projectors progressed in line with plans on the whole. In contrast, tough conditions persisted for glass substrates for HDDs owing to deterioration in the notebook PC market caused predominantly by the advent of tablet PCs.

In the Healthcare Business, sales were strong for digital X-ray diagnostic imaging systems such as cassette-type Digital Radiography (DR) systems. In addition to sales growth in Japan, successful sales alliances with partner companies overseas led to a significant increase in sales volumes for the period compared with the same period of the previous fiscal year.

As a result, the Konica Minolta Group recorded consolidated net sales of ¥450.4 billion, an increase of 17.4% year on year, for the first half of the fiscal year under review. In addition to increased earnings from foreign exchange rates in line with corrections to the high yen, the significant increase in earnings in the Business Technologies Business owing to strong product appeal for color MFPs and the effects of M&As had a positive impact on the segment overall.

Operating income was ¥24.1 billion, an increase of 19.2% year on year, despite a decrease in profit in the Industrial Business, due to a considerable increase in profit in the Business Technologies Business following sales growth and steady progress in cost reduction plans.

Ordinary income was ¥21.4 billion, an increase of 17.8% year on year. Income before income taxes and minority interests was ¥60 million, a decrease of 99.6% year on year, due to the recording of ¥16.8 billion as loss on business withdrawal in line with the decision to withdraw from the glass substrates for HDDs business. Net income amounted to ¥5.5 billion, down 27.0% year on year due primarily to tax effects related to a review of deferred tax assets in line with the Group reorganization implemented in April this year.

2. Overview by Segment

Six months ended September 30, 2013 (From April 1, 2013 to September 30, 2013)

Six months (Apr–Sep) Year-on-Year [Billions of yen]

	Apr-Sep / Mar 2014	Apr-Sep / Mar 2013	Increase (Decrease)	
Business Technologies				
Net sales - external	344.8	264.9	79.8	30.1%
Operating income	26.0	13.0	13.0	99.7%
Industrial Business				
Net sales - external	62.4	79.4	(16.9)	-21.3%
Operating income	8.9	15.6	(6.6)	-42.5%
Healthcare				
Net sales - external	35.9	33.8	2.1	6.2%
Operating income	1.9	1.1	0.7	64.5%

Business Technologies Business

Office Field:

Sales of A3 color MFPs, an area of focus, continued to be strong and sales volumes increased significantly in all regions including Japan, the United States and Europe. Although sales of monochrome units decreased, sales volumes of A3 MFPs overall exceeded the same period of the previous fiscal year. In addition to sales growth in color units, sales of high-segment models in the product mix increased markedly year on year, which contributed to an increase in net sales. In Europe and the United States, we pushed ahead with collaborations with IT service providers that we acquired and with existing sales subsidiaries; the combination of document solutions in MFPs and IT service led to the provision of new value and helped us penetrate a new customer base, which contributed to sales expansion. Also, we expanded sales of OPS (Optimized Print Services), where we are strengthening systems on a global scale and pursuing differentiation on a service front.

Production Print Field:

Sales of color units were strong and sales volumes of color units and monochrome units combined for the period exceeded the same period of the previous fiscal year. In addition, signs of recovery in printing demand started to emerge and sales of non-hardware increased year on year. In Japan, we increased orders for the Centralized Reprographic Department market through the Group company Kinko's Japan Co., Ltd. (headquartered in Tokyo), which we acquired in the previous year. This acquisition has also enabled us to make our own unique proposals that combine print services from Kinko's Japan with our office equipment products and services, which is contributing to sales. In Europe, we expanded business domains to print management services related to optimization of printing costs developed by Charterhouse PM Limited (headquartered in the UK), which we acquired in the previous year. We are pushing ahead with transforming our business portfolio worldwide.

As a result of these factors, net sales of the Business Technologies Business to outside customers stood at ¥344.8 billion, up 30.1% year on year. This was due to sales growth of main products, particularly color units, and the effects of M&As conducted in the previous year coupled with the impact of foreign exchange rates in line with corrections to the high yen.

Operating income amounted to ¥26.0 billion, up 99.7% year on year. This marked a significant year-on-year gain due to an increase in gross profit in line with sales expansion and the effect of foreign exchange rates combined with steady progress in cost reduction plans that included reducing fixed costs in the production division and reducing variable costs through centralized purchasing of electronic components.

Industrial Business

Display Materials Field:

Sales volumes of TAC films for LCD polarizers and VA-TAC films for increasing the viewing angle both decreased compared with the same period of the previous fiscal year due to deterioration in the market for notebook PCs and the impact of diversification in components and materials used for TVs. Despite this, the decline fell within the scope of expectation; in part due to an increase in share in protective thin TAC films for TVs.

Optical Products Field:

Sales of lens products such as pickup lenses for optical disks, lenses for cameras, lenses for projectors and camera units for mobile phones progressed in line with plans on the whole. In contrast, orders of glass substrates for HDDs did not recover owing to deterioration in the notebook PC market caused predominantly by the advent of tablet PCs, with difficult conditions persisting.

Sensing Field:

Sales at Instrument Systems GmbH (headquartered in Germany), which was acquired in the previous year, were solid and contributed to business expansion.

As a result of these factors, net sales of the Industrial Business to outside customers were ¥62.4 billion, down 21.3% year on year, and operating income was ¥8.9 billion, down 42.5% year on year.

Healthcare Business

In the Healthcare Business, sales of the cassette-type Digital Radiography system "AeroDR" were strong and sales volumes increased significantly in the key regions of Japan, the United States and Europe. Sales collaborations with promising partners such as GE Healthcare are also building up results steadily. We worked to expand sales of the desktop Computed Radiography (CR) system "REGIUS Σ," particularly overseas, and results exceeded the same period of the previous fiscal year.

In film products, we improved profitability by switching to consignment production and actively expanded sales volumes, mainly in emerging countries.

As a result of these factors, net sales of the Healthcare Business to outside customers stood at ¥35.9 billion, up 6.2% year on year, and operating income was ¥1.9 billion, up 64.5% year on year.

<Reference>

Overview of Performance

Three months ended September 30, 2013 (From July 1, 2013 to September 30, 2013)

Year-on-Year [Billions of yen]

	Jul-Sep / Mar 2014	Jul-Sep / Mar 2013	Increase (Decrease)	
Net sales	231.9	194.4	37.4	19.3%
Gross profit	111.6	93.7	17.9	19.1%
Operating income	16.3	13.9	2.4	17.4%
Ordinary income	14.4	13.4	0.9	7.3%
Income before income taxes and minority interests	(5.9)	11.1	(17.0)	-%
Net income	(4.2)	7.4	(11.6)	-%
Net income per share [yen]	(7.95)	14.06	(22.00)	-%
Capital expenditure	7.9	9.3	(1.4)	-15.5%
Depreciation	11.9	11.0	0.9	8.4%
R & D expenses	17.3	17.0	0.3	1.8%
Free cash flow	22.9	6.7	16.2	240.3%
Exchange rates [yen]				
US dollar	98.95	78.62	20.33	25.9%
euro	131.05	98.36	32.69	33.2%

Three Months Business Performance by Segment

Year-on-Year [Billions of yen]

	Jul-Sep / Mar 2014	Jul-Sep / Mar 2013	Increase (Decrease)	
Business Technologies				
Net sales - external	177.2	134.6	42.6	31.7%
Operating income	16.3	10.0	6.3	63.9%
Industrial Business				
Net sales - external	31.4	38.8	(7.3)	-18.9%
Operating income	4.6	7.4	(2.7)	-36.8%
Healthcare				
Net sales - external	19.7	18.0	1.6	9.2%
Operating loss	1.8	1.3	0.5	39.8%

(2) Financial Position

1. Analysis of Financial Position

		As of September 30, 2013	As of March 31, 2013	Increase (Decrease)
Total assets	[Billions of yen]	960.9	940.5	20.3
Total liabilities	[Billions of yen]	479.7	474.1	5.5
Net assets	[Billions of yen]	481.2	466.4	14.7
Equity ratio	[%]	49.9	49.4	0.5

Total assets at the end of the second quarter of the consolidated fiscal year under review were up ¥20.3 billion (2.2%) from the previous fiscal year-end, to ¥960.9 billion. Current assets were up ¥16.9 billion (2.9%) to ¥596.5 billion (62.1% to total assets) and noncurrent assets were up ¥3.4 billion (0.9%) to ¥364.3 billion (37.9% to total assets).

With respect to current assets, cash and deposits decreased ¥3.3 billion from the previous fiscal year-end, to ¥90.0 billion. Meanwhile, securities increased ¥23.5 billion, and as a result, cash and cash equivalents increased ¥20.1 billion to ¥234.0 billion. Notes and accounts receivable-trade decreased ¥4.5 billion to ¥189.4 billion. Lease receivables and investment assets increased ¥2.7 billion to ¥18.7 billion. Inventories decreased ¥1.2 billion to ¥111.2 billion.

With respect to noncurrent assets, property, plant and equipment increased ¥15.5 billion from the previous fiscal year-end due primarily to capital expenditure in the Business Technologies Business and Industrial Business as well as construction of a new R&D building. Meanwhile, depreciation continued to advance on the whole and we recorded impairment loss following a decision to withdraw from the glass substrates for HDDs business. As a result, property, plant and equipment decreased ¥9.0 billion to ¥170.8 billion. Intangible assets decreased ¥2.1 billion to ¥108.7 billion due to advancing amortization on the whole.

In investments and other assets, investment securities increased ¥1.6 billion from the previous fiscal year-end to ¥24.8 billion. Deferred tax assets increased ¥13.9 billion to ¥46.9 billion due primarily to a review of recoverability in light of the reorganization of the group management system in April this year.

Total liabilities increased ¥5.5 billion (1.2%) from the previous fiscal year-end to ¥479.7 billion. Notes and accounts payable-trade decreased ¥4.7 billion to ¥80.6 billion. Accounts payable-other, accrued expenses and income taxes payable increased by ¥6.3 billion, ¥1.2 billion and ¥2.4 billion, respectively. Interest-bearing debt (the sum of short-term loans payable, long-term loans payable and bonds payable) decreased ¥0.5 billion to ¥224.3 billion.

Net assets were up ¥14.7 billion (3.2%) from the previous fiscal year-end to ¥481.2 billion. Retained earnings increased ¥1.7 billion to ¥231.4 billion, given net income of ¥5.5 billion and dividends paid of ¥3.9 billion. In accumulated other comprehensive income, foreign currency translation adjustment increased ¥11.3 billion in line with corrections to the high yen, mainly against the U.S. dollar and euro, and valuation difference on available-for-sale securities rose by ¥1.5 billion in line with a buoyant share market.

As a result, the shareholders' equity ratio at the end of the second quarter increased 0.5 percentage points to 49.9%.

2. Cash Flows

[Billions of yen]

	Apr-Sep / Mar 2014	Apr-Sep / Mar 2013	Increase (Decrease)
Cash flows from operating activities	46.0	17.4	28.5
Cash flows from investing activities	(19.6)	(26.9)	7.3
Total (Free cash flow)	26.3	(9.5)	35.8
Cash flows from financing activities	(8.1)	6.3	(14.5)

During the first half of the consolidated fiscal year under review, net cash provided by operating activities was ¥46.0 billion, while net cash used in investing activities, mainly associated with capital investment, totaled ¥19.6 billion. As a result, free cash flow (the sum of operating and investing activities) was an inflow of ¥26.3 billion.

Net cash used in financing activities was ¥8.1 billion.

In addition, cash and cash equivalents at the end of the second quarter of the consolidated fiscal year under review stood at ¥234.0 billion, up ¥20.1 billion from the previous fiscal year-end, reflecting the effect of changes in exchange rates on cash and cash equivalents.

The details of cash flows associated with each activity during the first half of the consolidated fiscal year under review are as follows.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥46.0 billion (compared with net cash provided of ¥17.4 billion in the same period of the previous fiscal year). The Group reported income before income taxes of ¥60 million, depreciation of ¥23.5 billion, loss on the decision to withdrawal from the glass substrates for HDDs business, etc. of ¥12.6 billion, an increase of ¥9.7 billion in working capital and amortization of goodwill of ¥4.9 billion, which were partially offset by the payment of ¥5.4 billion for income taxes.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥19.6 billion (compared with net cash use of ¥26.9 billion in the same period of the previous fiscal year). Cash of ¥13.6 billion was used for capital investment in the Business Technologies Business and investment for new business in the Industrial Business as well as construction of a new R&D building. Other cash outflows included ¥4.2 billion for the purchase of intangible assets.

As a result, free cash flow (the sum of operating and investing activities) was an inflow of ¥26.3 billion (an outflow of ¥9.5 billion in the same period of the previous fiscal year).

Cash Flows from Financing Activities

Net cash used in financing activities was ¥8.1 billion (compared with net cash provided of ¥6.3 billion in the same period of the previous fiscal year), mainly reflecting a payment of ¥3.9 billion in dividends and a net decrease of ¥3.1 billion in interest-bearing debt.

(3) Outlook for the Fiscal Year Ending March 31, 2014

Looking at the global economic conditions surrounding the Konica Minolta Group from the second quarter, economic indicators have taken a favorable turn and signs that the global economy has bottomed out have emerged despite lingering uncertainties in the European economy, which is facing debt problems. In North America, corporate performance has been solid and the Japanese economy is on a growth track due in part to recovery in exports in line with corrections to the high yen. Although growth in emerging countries continues to slow, we expect the global economy to remain on a moderate recovery track.

In terms of the outlook for the core businesses of the Konica Minolta Group, demand is projected to continue growing for A3 color MFPs, a main product, in line with moderate economic recovery in the office field within the Business Technologies Business, which is expected to drive expansion in this business. In addition, we anticipate that demand will grow in developed countries for IT service solutions and for major accounts that operate globally in line with our OPS approach, and we will strive to continue increasing the scale of business in this core domain. In the production print field, we expect growth in demand particularly for the Commercial Printing business.

In the Industrial Business, deterioration in market conditions for notebook PCs is forecast to continue with a decline in demand in the TV market for the display materials field, while demand for mobile equipment such as smartphones and tablets is projected to keep expanding.

In the Healthcare Business, demand for digital X-ray diagnostic imaging systems, a core product, is projected to grow for each of cassette-type Digital Radiography (DR) systems in developed countries and desktop Computed Radiography (CR) systems in emerging countries which is expected to drive expansion in this business. In addition, ultrasound diagnostic imaging equipment is forecast to contribute to profit from January 2014 following the acquisition of the business from Panasonic Healthcare Co., Ltd.

In light of this business environment and the progress in performance during the first half, we have revised financial forecasts for the year ending March 31, 2014 as stated in the Notice of Revision of Consolidated Financial Results Forecast for the Year Ending March 31, 2014 announced today. The Group also changed the assumed exchange rates for the third quarter and beyond to ¥98 to the U.S. dollar and ¥128 to the euro, both depreciating ¥5 from initial projections (US$: ¥93, EUR: ¥123 at the time of the announcement on May 10, 2013).

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income Per Share
	[Billions of yen]	[Billions of yen]	[Billions of yen]	[Billions of yen]	[Yen]
Forecast previously announced (A)	900.0	55.0	53.0	26.0	49.03
Revised forecast (B)	930.0	58.0	54.0	18.0	33.94
Increase (decrease) (B - A)	30.0	3.0	1.0	(8.0)	—
Rate of change (%)	3.3	5.5	1.9	-30.8	—
(Ref.) Results for the fiscal year ended March 31, 2013	813.0	40.6	38.9	15.1	28.52

Note: The above operating performance forecasts are based on future-related assumptions, outlooks, and plans at the time this report was released, and they involve risks and uncertainties. It should be noted that actual results may differ significantly from these forecasts due to various important factors, such as changes in economic conditions, market trends, and currency exchange rates.

** Figures in qualitative information sections given as billions of yen have been rounded off by discarding figures less than one billion yen.*