1. ANALYSIS of BUSINESS PERFORMANCE and FINANCIAL POSITION

(1) Business Performance Analysis

1. Overview of Performance

Fiscal year ended March 31 [Billions of yen]

	2014	2013	Increase (Decrease)	
Net sales	943.7	813.0	130.6	16.1%
Gross profit	451.4	375.5	75.9	20.2%
Operating income	58.1	40.6	17.4	43.0%
Ordinary income	54.6	38.9	15.7	40.4%
Income before income taxes and minority interests	23.5	33.8	(10.3)	-30.5%
Net income	21.8	15.1	6.7	44.5%
Net income per share [yen]	41.38	28.52	12.86	45.1%
Capital expenditure	47.3	38.4	8.9	23.3 %
Depreciation	47.3	45.9	1.3	3.0%
R & D expenses	71.1	71.5	(0.3)	-0.5%
Free cash flow	34.1	3.0	31.1	-%
Number of employees [persons]	40,401	41,844	(1,433)	-3.4%
Exchange rates [yen]				
US dollar	100.24	83.10	17.14	20.6%
euro	134.37	107.14	27.23	25.4%

Looking back on the business environment in the consolidated fiscal year under review, there was a feeling that the economy in Europe bottomed out around summer in 2013, and there were signs that corporate results are on a recovery track. The United States continued to register tones of recovery, characterized in particular by an improvement in the employment environment and an increase in personal consumption. In Japan, results took a favorable turn, especially for exporting companies on the back of persistent yen depreciation, and capital investment increased steadily as well. In contrast, economic growth tapered off in emerging countries such as those in Asia and Latin America as harsh conditions remained.

Looking at the main businesses in the consolidated fiscal year under review, in the Business Technologies Business, sales of core color MFPs (Multi-functional peripherals) for the office were strong, and sales volumes of color MFPs for the fiscal year increased compared with the previous fiscal year in all regions worldwide, including Japan, the United States and Europe. In particular, sales of high-segment models expanded. In the production print field, sales volumes of both color units and monochrome units exceeded 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 from the previous fiscal year in the display materials field due to deterioration in market conditions for notebook PCs, and the impact of inventory adjustments and diversification in components and materials used in TVs. In the sensing field, the continued effect of M&As contributed to expansion in sales and profit. In the optical products field, sales of pickup lenses for Blu-ray Discs™ were strong. In the Healthcare Business, sales of digital X-ray diagnostic imaging systems such as cassette-type Digital Radiography (DR) systems increased in both Japan and overseas.

In addition, we implemented measures aimed at driving sustainable growth during the fiscal year. In the Business Technologies Business, we enhanced our proposal-making capabilities to customers through hybrid-type sales models that combine various business solution services with MFPs and worked to expand sales of MFPs and boost high added value. In the Industrial Business, we implemented structural reform promoting a shift from business for the supply of components to product domains focused almost exclusively on digital consumer electronics, which are easily impacted by fluctuations in demand, to businesses related to industrial and professional use. In the Healthcare Business, we strengthened the sales channel in the DR market, which is expected to grow, and created a business promotion system for ultrasound diagnostic imaging equipment.

As a result, the consolidated net sales for the fiscal year under review of the Konica Minolta Group (the "Group") amounted to ¥943.7 billion, an increase of 16.1% year on year. In addition to the effect of foreign exchange rates based on persistent yen depreciation, sales growth of core products in the Business Technologies Business, improvement in product composition and the effect of M&As in particular contributed to the increase in sales.

Operating income was ¥58.1 billion, an increase of 43.0% year on year. Although profit was down in the Industrial Business, a significant increase in profit in the Business Technologies Business due primarily to measures to increase sales and reduce costs contributed to the overall increase in profit.

Ordinary income amounted to ¥54.6 billion, an increase of 40.4% year on year. Income before income taxes and minority interests was ¥23.5 billion, down 30.5% year on year, due primarily to the recording of loss on business withdrawal from the glass substrates for HDDs business and the recording of impairment loss for structures associated with the termination of the Group's production for film in the Healthcare Business. Net income totaled ¥21.8 billion, an increase of 44.5% year on year, after factoring in tax effects related to the impact of a review of deferred tax assets in line with reorganization of the Group's management system implemented in April 2013.

Note: Blu-ray Disc™ is a trademark of Blu-ray Disc Association

2. Overview by Segment

	Fiscal year ended March 31		[Billions of yen]	
	2014	2013	Increase (Decrease)	
Business Technologies				
Net sales - external	729.8	581.6	148.2	25.5%
Operating income	63.8	31.6	32.2	101.8%
Industrial Business				
Net sales - external	116.1	146.7	(30.6)	-20.9%
Operating income	15.1	23.6	(8.5)	-36.0%
Healthcare				
Net sales - external	82.3	72.7	9.6	13.2%
Operating income	4.5	3.3	1.1	34.4%

Business Technologies Business

Office field:

Sales of A3 color MFPs remained strong and sales volumes increased significantly compared with the previous fiscal year in all regions, including Japan, the United States and Europe, while the composition ratio of high-segment models increased, thereby contributing to sales expansion. Sales volumes of A3 monochrome units exceeded the previous year's result in contracting markets from the second half due in part to the effect of new products, and consequently, sales remained roughly on par with the previous year on a full-year basis. Also, we steadily increased customer numbers and expanded business foundations for OPS (Optimized Print Services) as a result of strengthening systems on a global scale, expanding service menu and reinforcing business-creation and proposal-making capabilities. In addition, we established hybrid-type sales models that combine various IT business solution services with MFPs for small- and medium-sized companies in Europe and the United States and strengthened our proposal-making capabilities to customers. By doing so, we were able to cultivate new customers, expand business scale and boost added value.

Production print field:

Sales volumes of color units and monochrome units exceeded the previous fiscal year. In addition, we expanded business for a wide variety of small-volume on-demand print services as well as production and print services for sales promotion materials by utilizing Kinko's Japan Co., Ltd. and Charterhouse Print Management Limited (headquartered in the UK), which we acquired in the previous fiscal year. As a result, we are providing a wider selection to meet customers' printing needs. In Europe, we formed a capital and business alliance with France-based MGI Digital Graphic Technology S.A. (MGI), which has promoted unique business development in growth markets such as plastic card printing with the aim of developing applications for package printing in addition to paper output in the existing commercial printing market.

As a result, net sales of the Business Technologies Business to external customers stood at ¥729.8 billion, up 25.5% year on year, and operating income was ¥63.8 billion, up 101.8% year on year. Net sales were up year on year owing to the effect of foreign exchange rates based on persistent yen depreciation, sales growth of core color units, improvement in product composition and the effect of M&As. Operating income increased considerably year on year due to an increase in gross profit following sales expansion and the effect of foreign exchange rates coupled with the year-round effect of measures to reduce production costs that included decreasing fixed costs in the production division by promoting production reform and unit procurement, conducting centralized purchasing of raw materials and digital components, and implementing Value Engineering (VE) activities.

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 previous fiscal year due to deterioration in the market for notebook PCs and in addition to the effect of inventory adjustments and diversification in components and materials used for TVs.

Sensing field:

The acquisition of Instrument Systems GmbH (headquartered in Germany) contributed to net sales and profit growth.

Optical products field:

Although sales of pickup lenses for Blu-ray Discs used in games for the home and lenses for large projectors were strong, lenses for cameras weakened due to a decline in demand.

As a result, net sales of the Industrial Business to external customers stood at ¥116.1 billion, down 20.9% year on year, and operating income was ¥15.1 billion, down 36.0% year on year.

Healthcare Business

In the Healthcare Business, sales of the cassette-type Digital Radiography system "AeroDR" remained solid and sales volumes expanded in Japan and the United States while we are steadily increasing introductions of this product at large-scale medical institutions. We have gradually increased the number of projects we are engaged in based on collaborations with leading sales partners that we have been promoting in Europe and the United States. In film products, sales in emerging countries grew, with overall sales surpassing the previous fiscal year.

In addition, we established an integrated system from development to production and sales for ultrasound diagnostic imaging equipment, which is positioned as a new growth driver, by maximizing use of the resources gained following the transfer of the business from Panasonic Healthcare Co., Ltd., and pushed ahead with preparations for full-fledged business development.

As a result, net sales of the Healthcare Business to external customers stood at ¥82.3 billion, up 13.2% year on year, and operating income was ¥4.5 billion, up 34.4% year on year.

<Reference>

Overview of Performance

Three Months ended March 31, 2014 (From January 1, 2014 to March 31, 2014)

Year-on-Year [Billions of yen]

	4Q /Mar 2014	4Q /Mar 2013	Increase (Decrease)	
Net sales	260.8	235.3	25.5	10.9%
Gross profit	123.7	105.8	17.9	16.9%
Operating income	19.2	13.5	5.6	41.8%
Ordinary income	17.8	12.7	5.0	39.9%
Income before income taxes and minority interests	9.5	10.9	(1.3)	-12.2%
Net income	11.0	4.8	6.2	129.9%
Net income per share [yen]	21.16	9.07	12.10	133.5%
Capital expenditure	16.0	13.5	2.5	18.6%
Depreciation	12.2	12.7	(0.4)	-3.8%
R & D expenses	18.6	18.1	0.5	2.9%
Free cash flow	10.3	16.7	(6.3)	-38.0%
Exchange rates [yen]				
US dollar	102.78	92.42	10.36	11.2%
euro	140.79	122.04	18.75	15.4%

Three Months' Business Performance by Segment

Year-on-Year [Billions of yen]

	4Q /Mar 2014	4Q /Mar 2013	Increase (Decrease)	
Business Technologies				
Net sales - external	203.6	176.4	27.1	15.4%
Operating income	20.3	13.2	7.1	53.6%
Industrial Business				
Net sales - external	25.7	32.3	(6.5)	-20.4%
Operating income	2.7	2.1	0.6	29.6%
Healthcare				
Net sales - external	27.1	22.6	4.5	19.9%
Operating income	2.1	2.1	(0)	-0.5%

3. Outlook for the Fiscal Year Ending March 31, 2015

Looking at the global economic conditions surrounding the Group, moderate economic recovery is expected in Europe while corporate results are projected to remain strong in the United States and Japan. Economies in emerging countries are forecast to keep expanding due to recovery in the economies of industrialized countries despite lingering uncertainty in the Chinese economy.

As for the outlook for demand in the Group's related markets, in the Business Technologies Business, we expect demand for A3 color MFPs for the office to continue expanding in Europe and the United States. In emerging countries, demand for monochrome units is expected to grow and the overall market is projected to expand alongside economic growth. In the production print field, we expect sales of color units to expand and the number of units in the market to increase worldwide. In the Industrial Business, the market for notebook PCs is expected to continue contracting whereas continued high growth is forecast for smartphones and tablets, and the TV market is projected to expand moderately as well. In addition, mobile-type displays are expected to increase in volume terms and capital investment is forecast to increase in the manufacturing sector in line with proliferation of smartphones and tablets. In digital cameras, the market for compact types is expected to continue contracting due to smartphone growth, while sales of models with interchangeable lenses are projected to remain robust. In the Healthcare Business, high growth is forecast for cassette-type Digital Radiography (DR) systems in respective regions.

Considering the situation described above, we have made the following forecasts for the fiscal year ending March 31, 2015.

We assume exchange rates of 100 yen against the US dollar and 135 yen against the euro.

[Billions of yen]

	FY/Mar 2015 forecast	FY/Mar 2014	Increase
Net sales	1,000.0	943.7	56.2
Operating income	62.0	58.1	3.8
Ordinary income	57.0	54.6	2.3
Net income	26.0	21.8	4.1

Note: The above operating performance forecasts are based on future-related suppositions, 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.

(2) Financial Position

1. Analysis of Financial Position

		As of March 31, 2014	As of March 31, 2013	Increase
Total assets	[Billions of yen]	966.0	940.5	25.5
Net assets	[Billions of yen]	480.0	466.4	13.6
Net assets per share	[yen]	929.04	876.65	52.39
Equity ratio	[%]	49.5	49.4	0.1

At fiscal year-end, total assets were up ¥25.5 billion (2.7%) from the previous fiscal year-end to ¥966.0 billion. Current assets rose ¥9.7 billion (1.7%) to ¥589.3 billion (61.0% to total assets) and noncurrent assets rose ¥15.7 billion (4.4%) to ¥376.7 billion (39.0% to total assets).

With respect to current assets, cash and deposits increased ¥2.0 billion from the previous fiscal year-end to ¥95.4 billion but securities decreased ¥27.5 billion to ¥92.9 billion, and cash and cash equivalents decreased ¥25.4 billion to ¥188.4 billion. Meanwhile, notes and accounts receivable-trade increased ¥26.0 billion to ¥220.1 billion, lease receivables and investment assets increased ¥5.2 billion to ¥21.2 billion. Inventories increased ¥2.7 billion to ¥115.2 billion.

With respect to noncurrent assets, property, plant and equipment decreased ¥6.5 billion from the previous fiscal year-end to ¥173.3 billion due primarily to continuing depreciation on the whole and impairment loss resulting from a decision to withdraw from the glass substrates for HDDs business, despite an increase in capital investment in the Business Technologies Business and Industrial Business coupled with construction of a new R&D building. Intangible assets increased ¥0.4 billion to ¥111.3 billion.

In investments and other assets, investment securities increased by ¥6.0 billion to ¥29.2 billion. Deferred tax assets increased ¥15.0 billion to ¥48.0 billion due primarily to a review of recoverable amount in light of reorganization of the Group's management system conducted in April 2013.

Total liabilities increased ¥11.8 billion (2.5%) year on year to ¥486.0 billion (50.3% to total assets). Notes and accounts payable-trade increased ¥10.8 billion to ¥96.2 billion and accounts payable-other and accrued expenses increased ¥12.8 billion to ¥74.3 billion. Provision for bonuses increased ¥2.1 billion. Net defined benefit liability increased ¥9.8 billion due to the application of accounting standards for retirement benefits. Interest-bearing debt (the sum of short-term loans payable, long-term loans payable and bonds payable) decreased ¥28.7 billion to ¥196.1 billion.

Net assets increased ¥13.6 billion (2.9%) from the previous fiscal year-end to ¥480.0 billion (49.7% to total assets). Retained earnings increased ¥12.7 billion to ¥242.4 billion due mainly to ¥21.8 billion recorded as net income and ¥9.2 billion in dividends from surplus. In addition, treasury stock increased ¥15.7 billion due to the acquisition of treasury stock. In accumulated other comprehensive income, foreign currency translation adjustment increased ¥23.3 billion as a result of persistent yen depreciation mainly against the U.S. dollar and the euro, and remeasurements of defined benefit plans recorded a loss of ¥8.4 billion due to the application of accounting standards for retirement benefits.

As a result, net assets per share came to ¥929.04 and the shareholders' equity ratio increased 0.1 percentage points from the end of the previous fiscal year to 49.5%.

2. Cash Flows

	Fiscal year ended March 31		[Billions of yen]
	2014	2013	Increase (Decrease)
Cash flows from operating activities	89.9	66.4	23.4
Cash flows from investing activities	(55.7)	(63.4)	7.6
Total (Free cash flow)	34.1	3.0	31.1
Cash flows from financing activities	(61.9)	(24.5)	(37.3)

During the fiscal year under review, net cash provided by operating activities was ¥89.9 billion, while net cash used in investing activities, mainly associated with capital investment and M&As, totaled ¥55.7 billion. As a result, free cash flow (the sum of operating and investing activities) was an inflow of ¥34.1 billion.

Net cash used in financing activities was ¥61.9 billion.

In addition, the effect of exchange rate changes increased cash and cash equivalents by ¥1.6 billion. As a result, cash and cash equivalents at the end of the fiscal year under review stood at ¥188.4 billion, declining ¥25.4 billion from the previous consolidated fiscal year-end.

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

Cash flows from operating activities

Net cash provided by operating activities stood at ¥89.9 billion (compared with net cash provided of ¥66.4 billion in the previous fiscal year). The Group reported income before income taxes and minority interests of ¥23.5 billion, depreciation and amortization of ¥47.3 billion, impairment loss of ¥17.4 billion and amortization of goodwill of ¥9.4 billion, which were partly offset by a decrease in working capital of ¥0.8 billion and payment of ¥13.7 billion for income taxes, among others.

Cash flows from investing activities

Net cash used in investing activities was ¥55.7 billion (compared with an outflow of ¥63.4 billion in the same period in the previous fiscal year). Cash of ¥36.4 billion was used in the acquisition of property, plant and equipment primarily as a result of investments in equipment in the Business Technologies Business and in investments relating to new businesses in the Industrial Business coupled with the construction of a new R&D building. Other cash outflows included ¥8.6 billion for the purchase of intangible assets, ¥6.1 billion for payments for transfer of business and ¥4.9 billion for purchase of investment securities.

As a result, free cash flow (the sum of operating and investing activities) was an inflow of ¥34.1 billion (compared with an inflow of ¥3.0 billion in the same period of the previous fiscal year).

Cash flows from financing activities

Net cash used in financing activities was ¥61.9 billion (compared with an outflow of ¥24.5 billion in the same period of the previous fiscal year), mainly reflecting an expenditure of ¥15.8 billion for the acquisition of treasury stock, a payment of ¥9.2 billion in dividends, and a net decrease of ¥33.4 billion in short- and long-term loans.

[Cash flow indicators]

	Fiscal year ended March 31				
	2010	2011	2012	2013	2014
Shareholders' equity ratio [%]	48.5	50.6	48.1	49.4	49.5
Market price-based shareholders' equity ratio [%]	66.8	43.7	42.5	38.8	51.3
Debt redemption period [years]	1.7	2.8	3.1	3.4	2.2
Interest coverage ratio	29.3	21.9	30.0	25.6	30.7

Notes:

Shareholders' equity ratio: Shareholders' equity / Total assets
Market price-based shareholders' equity ratio: Market capitalization / Total assets
Debt redemption period: Interest-bearing debt / Cash flow from operating activities
Interest coverage ratio: Cash flow from operating activities / Interest payments

Market capitalization is calculated as the share price at period-end multiplied by the number of shares outstanding at period-end (excluding treasury stock). Net cash flow from operating activities figures are those stated in the consolidated statements of cash flows. Interest-bearing debt is all liabilities reflected on the consolidated balance sheets that are subject to bonds payable and loans payable. Interest payments are those stated in the consolidated statements of cash flows.

Cash flow outlook for the fiscal year ending March 31, 2015

The Group expects that free cash flow (the sum of operating and investing activities) will be an inflow of ¥2.0 billion in the fiscal year ending March 31, 2015, primarily reflecting aggressive investment activities.

(3) Basic Policy Regarding Profit Distribution, Dividends for the Fiscal Year Under Review and Projected Dividends for the Current Fiscal Year, and Acquisition of Treasury Stock

1. Basic policy regarding profit distribution

The policy regarding the payment of dividends from retained earnings, etc. calls for the basic approach of making a comprehensive evaluation of consolidated performance and funding requirements to promote strategic investments in growth fields while seeking to sustain shareholder returns. As for a specific dividend target, Konica Minolta Inc. (the "Company") is aiming to sustain a dividend payout ratio of 25% or more over the medium to long term.

With respect to the acquisition of treasury stock, the Company intends to make appropriate decisions by viewing it as a means of profit distribution while giving due consideration to such factors as the Company's financial situation and stock price trends.

2. Dividends for the fiscal year under review and the current fiscal year

With respect to dividends from retained earnings for the fiscal year under review, the Company will distribute a year-end dividend of 7.5 yen per share, the same amount as the previous year-end. Combined with the dividend of 10 yen per share already paid at the end of the second quarter (common dividend of 7.5 yen and commemorative dividend of 2.5 yen), the total annual dividend will be 17.5 yen per share.

Regarding ordinary dividends for the fiscal year ending March 31, 2015, the Company plans to distribute a total annual dividend of 20 yen per share in order to strengthen shareholder returns, assuming we achieve the results forecasts outlined above.

3. Acquisition of treasury stock

At the Board of Directors Meeting held on January 30, 2014, the Company approved the following items related to the acquisition of its own shares based on Article 156 of the Company Law, which is applicable in accordance with Article 165, Paragraph 3 of the same law.

(1) Type of stock to be acquired: Common stock
(2) Number of shares to be acquired: Limited to 20 million
(3) Total value of stock to be acquired: Limited to ¥20 billion
(4) Acquisition period: January 31, 2014 to April 30, 2014

The Company completed the acquisition of its own shares on April 14, 2014 after reaching the upper limit.

** Units of less than 100 million yen in "1. ANALYSIS of BUSINESS PERFORMANCE and FINANCIAL POSITION" have been omitted.*