1. CONSOLIDATED OPERATING RESULTS

(1) Qualitative Information of Consolidated Performance

1. Overview of Consolidated Performance

Three months ended June 30, 2014 (From April 1, 2014 to June 30, 2014)

Three months (Apr–Jun)

Year-on-Year [Billions of yen]

	Apr-Jun /Mar 2015	Apr-Jun /Mar 2014	Increase (Decrease)	
Net sales	228.2	218.5	9.7	4.5%
Gross profit	114.4	102.3	12.0	11.8%
Operating income	11.6	7.8	3.8	49.1%
Ordinary income	10.4	7.0	3.3	48.2%
Income before income taxes and minority interests	11.7	6.0	5.7	95.2%
Net income	5.6	9.7	(4.1)	-42.7%
Net income per share [yen]	10.97	18.43	(7.45)	-40.5%
Capital expenditure	14.1	11.5	2.6	22.6%
Depreciation	11.6	11.6	0.0	0.2%
R & D expenses	18.2	17.2	1.0	5.9%
Free cash flow	(6.6)	3.3	(10.0)	-%
Number of employees [persons]	41,317	41,819	(502)	-1.2%
Exchange rates [yen]				
US dollar	102.16	98.76	3.4	3.4%
euro	140.07	128.95	11.12	8.6%

Reviewing the main businesses of Konica Minolta Group (the “Group”) during the first quarter of the consolidated fiscal year under review (April 1, 2014 to June 30, 2014; “the first quarter”), in the Business Technologies Business, sales volume of A3 color MFPs (Multi-functional peripherals) in the office services field expanded compared with the same period of the previous fiscal year. In addition, hybrid-type sales that combine MFPs with IT services produced good results in Europe and the United States. In the commercial/industrial print field, the effect of new products made a contribution to results and sales volumes of both color units and monochrome units for digital printing systems grew year on year. In the inkjet field, strong sales continued, particularly inkjet print heads and ink for industrial use.

In the Healthcare Business, regarding digital products, sales of digital X-ray diagnostic imaging systems were generally sluggish due to a decline in demand following the consumption tax hike as well as to the impact of a revision of medical treatment fees in Japan. Sales of film products increased year on year due to rising demand in emerging countries.

In the Industrial Business, the industrial optical systems field posted sales growth following the continued effects of M&As in the sensing field. Sales of lenses for industrial and professional use were robust. In the performance materials field, the entire small- and medium-size panel market continued to improve, with a shift to strong demand for large LCD TVs, which resulted in year-on-year gains in sales volumes for TAC films for LCD polarizers and VA-TAC films for increasing the viewing angle.

As a result, the Group recorded consolidated net sales of ¥228.2 billion, an increase of 4.5% year on year for the first quarter. Sales growth in the Business Technologies Business drove momentum for the entire Group.

Operating income amounted to ¥11.6 billion, an increase of 49.1% year on year, due to increased profit in the Business Technologies Business coupled with the contribution from a positive momentum in profit for the Industrial Business.

Ordinary income was ¥10.4 billion, an increase of 48.2% year on year, due to the increase in operating income. Income before income taxes and minority interests was ¥11.7 billion, an increase of 95.2% year on year, due in part to the recording of gain on sales of certain manufacturing equipment in the glass substrates for HDDs business that was terminated in the previous fiscal year.

Net income totaled ¥5.6 billion. The Group recorded ¥9.2 billion in tax effects resulting from a review of deferred tax assets in line with reorganization of the Group’s management system in the same term of the previous fiscal year, which led to a year-on-year increase in tax expenses and a decline in income of ¥ 4.1 billion.

Konica Minolta Inc. (the “Company”) has formulated a new three-year medium term business plan, “TRANSFORM 2016,” beginning this fiscal year. Under this plan, the Company aims to have an in-depth understanding of our customers’ needs and transform into a company that can provide high added value in order to outstrip global competition amid changes in the business environment. During the first quarter, steady progress was made in measures to strengthen OPS (Optimized Print Services) and MPM (Marketing Print Management) services, which have been positioned as growth drivers in the Business Technologies Business.

2. Overview by Segment

Three months ended June 30, 2014 (From April 1, 2014 to June 30, 2014)

Three months (Apr–Jun)
Year-on-Year [Billions of yen]

	Apr-Jun /Mar 2015	Apr-Jun /Mar 2014	Increase (Decrease)	
Business Technologies				
Net sales - external	**181.3**	**169.8**	11.5	6.8%
Operating income	11.8	10.1	1.7	17.1%
Healthcare				
Net sales – external	16.0	16.2	(0.1)	-1.1%
Operating income (loss)	(0.0)	0.0	(0.0)	-%
Industrial Business				
Net sales – external	30.0	31.0	(0.9)	-3.0%
Operating income	6.5	4.2	2.2	53.6%

Note: The reporting classification for the Industrial Inkjet Business has been changed from the Other segment to the Business Technologies Business segment from the first quarter of the current fiscal year. In line with this change, segment information for the same period of the previous fiscal year has been disclosed in accordance with the new reporting classification.

Business Technologies Business

Office service field:

The "bizhub-series" A3 color MFPs drove momentum for color units and sales volumes expanded. In OPS (Optimized Print Services), where we are strengthening our system globally and pushing for differentiation on a service front, we continued to cultivate and acquire new customers this fiscal year as well and sales grew steadily. In Europe and the United States, hybrid-type sales that combine MFPs with IT services penetrated the market and there were an increasing number of successful cases to report. Moreover, the Company acquired the document imaging solutions business of Pitney Bowes of Canada Ltd. (headquartered in Canada) in May 2014 with the aim of further bolstering competitiveness in this field.

Commercial/industrial print field:

Sales volumes expanded, particularly in color units, due to the contribution from new products such as "bizhub PRESS C1100" and "bizhub PRESS C1085" high-end color digital printing systems. Also, non-hardware sales grew year on year mainly on the back of the economic recovery. In the industrial inkjet business, sales of components such as inkjet print heads and ink showed high growth year on year. In MPM (Marketing Print Management) services, which improve the print service processes and support the planning and production of print material and digital media that meets various usage objectives such as sales promotions, we concluded an agreement to acquire Ergo Asia Pty Limited (headquartered in Australia) in June 2014 with the aim of strengthening business in Oceania and Asia to follow on from expansion in Europe (agreement took effect on July 1, 2014).

As a result of these factors, net sales of the Business Technologies Business to outside customers stood at ¥181.3 billion, up 6.8% year on year and operating income at ¥11.8 billion, up 17.1% year on year. Sales and profit in this segment increased due to an increase in gross profit in line with sales expansion and the effect of foreign exchange rates.

Healthcare Business

With regard to digital systems, sales of the mainstay cassette-type Digital Radiography system "AeroDR" struggled in Japan due to a decline in demand following a rush in demand prior to the consumption tax hike as well as to suppressed investment at hospitals and clinics owing to revision of medical treatment fees. However, total sales including business collaborations with sales partners launched overseas remained unchanged year on year. Demand for film products continued to expand in emerging countries and sales volumes increased year on year.

As a result of these factors, net sales of the Healthcare Business to outside customers were ¥16.0 billion, down 1.1% year on year, and operating income recorded a loss of ¥10 million.

Industrial Business

Industrial optical systems field:

Sales fell below the same period of the previous fiscal year due to the decrease in demand in lenses for compact cameras and withdrawal of the glass substrates for HDDs business. Despite this, in the sensing field, sales at Instrument Systems GmbH (headquartered in Germany) continued to be strong and sales and profit expanded. Sales of lenses for industrial use and professional use in the optical products field remained on par with the same period of the previous fiscal year and sales of pickup lenses for Blu-ray Discs™ were solid in the home video game console sector.

Performance materials field:

The overall market for small- and medium-size panels continued to improve and demand for large LCD TVs took a positive turn, and thus, sales volumes of thin plain TAC films for LCD polarizers and VA-TAC films for increasing the viewing angle, which are areas of comparative strength for the Group, increased year on year.

As a result of these factors, net sales of the Industrial Business to outside customers were ¥30.0 billion, down 3.0% year on year, and operating income was ¥6.5 billion, up 53.6% year on year. Sales decreased due to downsizing of the lens business for compact cameras and termination of the glass substrates for HDDs business. Profit increased, however, sales growth in TAC films and the positive result of structural reform in the industrial optical systems field.

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

(2) Financial Position

1. Analysis of Financial Position

		As of June 30, 2014	As of March 31, 2014	Increase (Decrease)
Total assets	[Billions of yen]	935.8	966.0	(30.1)
Total liabilities	[Billions of yen]	468.3	486.0	(17.6)
Net assets	[Billions of yen]	467.5	480.0	(12.5)
Equity ratio	[%]	49.8	49.5	0.3

Total assets at the end of the first quarter of the consolidated fiscal year under review were down ¥30.1 billion (3.1%) from the previous fiscal year-end, to ¥935.8 billion. Current assets fell ¥37.5 billion (6.4%) to ¥551.8 (59.0% to total assets) and noncurrent assets rose ¥7.3 billion (1.9%) to ¥384.0 billion (41.0% to total assets).

With respect to current assets, cash and deposits decreased ¥4.2 billion from the previous fiscal year-end to ¥91.2 billion, while securities decreased ¥16.4 billion, and as a result, cash and cash equivalents decreased ¥20.7 billion to ¥167.7 billion. Notes and accounts receivable-trade decreased ¥20.0 billion to ¥200.0 billion. Inventories increased ¥4.9 billion to ¥120.2 billion.

With respect to noncurrent assets, property, plant and equipment increased ¥2.2 billion from the previous fiscal year-end to ¥175.5 billion, due primarily to construction of a new R&D building and capital investment in the Business Technologies Business as well as investment related to new businesses in the Industrial Business. Intangible assets decreased ¥0.3 billion compared with the previous fiscal year-end to ¥111.0 billion, due to advancing amortization on the whole.

Investments and other assets increased ¥5.4 billion from the previous fiscal year-end to ¥97.4 billion.

Total liabilities at the end of the first quarter of the consolidated fiscal year under review decreased ¥17.6 billion (3.6%) from the previous fiscal year-end to ¥468.3 billion (50.0% to total assets). Notes and accounts payable-trade declined ¥11.2 billion to ¥84.9 billion. Provision for bonuses decreased ¥6.1 billion and accounts payable-other and accrued expenses decreased ¥4.2 billion. Net defined benefit liability increased ¥10.9 billion to ¥64.4 billion. Interest-bearing debt (the sum of short-term loans payable, long-term loans payable and bonds payable) fell ¥6.8 billion to ¥189.2 billion.

Net assets at the end of the first quarter of the consolidated fiscal year under review decreased ¥12.5 billion (2.6%) from the previous fiscal year-end to ¥467.5 billion (50.0% to total assets). Retained earnings decreased ¥5.2 billion compared to the previous fiscal year-end to ¥237.2 billion, due mainly to ¥5.6 billion recorded as net income, a decrease of ¥3.8 billion due to dividend payments from year-end surplus and a decrease of ¥7.0 billion due to application of accounting standards for retirement benefits. In addition, treasury share increased ¥4.1 billion due to the acquisition of the Company’s own shares. Accumulated other comprehensive income decreased ¥3.1 billion from the previous fiscal year-end (27.0%) to ¥8.4 billion, due to a decrease in foreign currency translation adjustments of ¥3.7 billion.

As a result, the shareholders’ equity ratio increased 0.3 percentage points from the end of the previous fiscal year to 49.8%.

2. Cash Flows

[Billions of yen]

	Apr-Jun /Mar 2015	Apr-Jun /Mar 2014	Increase (Decrease)
Cash flows from operating activities	6.7	14.9	(8.1)
Cash flows from investing activities	(13.4)	(11.5)	(1.8)
Total (Free cash flow)	(6.6)	3.3	(10.0)
Cash flows from financing activities	(13.7)	(3.4)	(10.3)

During the first quarter of the fiscal year under review, net cash provided by operating activities was ¥6.7 billion, while net cash used in investing activities, mainly associated with capital investment, totaled ¥13.4 billion. As a result, free cash flow (the sum of operating and investing activities) was an outflow of ¥6.6 billion.

Net cash used in financing activities was ¥13.7 billion.

In addition, cash and cash equivalents at the end of the first quarter of the consolidated fiscal year under review decreased ¥20.7 billion compared with the previous fiscal year-end to ¥167.7 billion, reflecting the effect of changes in exchange rates on cash and cash equivalents.

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 amounted to ¥6.7 billion (compared with ¥14.9 billion in the same period of the previous fiscal year). Cash flow increased due primarily to income before income taxes and minority interests of ¥11.7 billion, depreciation and amortization of ¥11.6 billion and working capital of ¥1.6 billion, while cash flow decreased due mainly to a decline of ¥6.9 billion in accounts payable-other and accrued expenses, a decrease of ¥6.1 billion in the provision of bonuses and ¥5.1 billion for the payment of income taxes.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥13.4 billion (compared with ¥11.5 billion in the same period of the previous fiscal year). Cash of ¥8.8 billion was used for the purchase of property, plant and equipment as a result of construction of a new R&D building, capital investment in the Business Technologies Business and investment in new business for the Industrial Business Other cash outflows were ¥4.7 billion in payments for transfer of business in the Business Technologies Business.

As a result, free cash flow (the sum of operating and investing activities) was an outflow of ¥6.6 billion (an inflow of ¥3.3 billion in the same period of the previous fiscal year).

Cash Flows from Financing Activities

Net cash used in financing activities was ¥13.7 billion (¥3.4 billion in the same period of the previous fiscal year), mainly reflecting a decrease of a total of ¥6.0 billion in short-term and long-term loans payable, ¥3.7 billion in cash dividends paid and ¥3.5 billion for purchase of treasury shares.

(3) Outlook for the Fiscal Year Ending March 31, 2015

Full-year forecasts remain unchanged from initial forecasts announced on May 9, 2014 in light of progress in the first quarter of the fiscal year under review and outlook for the second quarter.

Assumed exchange rates for the second quarter are unchanged from the start of the period at 100 yen against the US dollar and 135 yen against the euro.

[Billions of yen]

	FY ending March 2015 Full year - Announced on May 9, 2014 -
Net sales	1,000.0
Operating income	62.0
Ordinary income	57.0
Net income	26.0

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.

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