1. CONSOLIDATED OPERATING RESULTS

(1) Qualitative Information of Consolidated Performance

1. Overview of Consolidated Performance

Six months ended September 30, 2014 (From April 1, 2014 to September 30, 2014)

Six months (Apr–Sep)

Year-on-Year [Billions of yen]

	Six months ended September 30, 2014	Six months ended September 30, 2013	Increase (Decrease)	
Net sales	478.5	450.4	28.1	6.2%
Gross profit	236.9	214.0	22.9	10.7%
Operating income	29.1	24.1	4.9	20.7%
Ordinary income	28.6	21.4	7.1	33.4%
Income before income taxes and minority interests	27.4	0	27.3	—
Net income	14.6	5.5	9.1	164.2%
Net income per share [yen]	28.86	10.48	18.38	175.4%
Capital expenditure	25.6	19.4	6.1	31.6%
Depreciation	23.6	23.5	0	0.4%
R & D expenses	36.6	34.5	2.1	6.1%
Free cash flow	15.4	26.3	(10.9)	-41.5%
Number of employees [persons]	41,713	41,851	(138)	-0.3%
Exchange rates [yen]				
US dollar	103.04	98.85	4.19	4.2%
euro	138.92	130.00	8.92	6.9%

Reviewing the main businesses of Konica Minolta Group (the “Group”) during the first half of the consolidated fiscal year under review (April 1, 2014 to September 30, 2014), in the Business Technologies Business, A3 color MFPs (Multi-functional peripherals) in the office services field posted solid results, with sales volume expanding over the same period of the previous fiscal year. In Europe and the United States, hybrid-type sales that combine MFPs with IT services produced good results, and in particular, the number of successful cases is increasing in the United States, where the Company is pressing ahead with the proposal-based sales by business. In the commercial/industrial print field, the effect of new products made a contribution to results and sales volume of digital printing systems grew year on year. Strong sales continued in the inkjet business, particularly inkjet print heads for industrial use.

In the Healthcare Business, although sales expanded overseas, mainly in digital products, a revision of medical treatment fees continued to have an impact in Japan, where tough conditions persisted, including for mainstay cassette-type digital X-ray diagnostic imaging systems. In addition, we introduced new products that we developed in-house in diagnostic ultrasound systems, a new business domain, and strengthened this business.

In the Industrial Business, the industrial optical systems field posted sales growth on the back of consistently solid results in the sensing field, especially in the light source color measuring instrument field. Moreover, sales of lenses for industrial and professional use in the optical products field were solid on the whole. In the performance materials field, demand for large LCD TVs as well as small- and medium-size panels was robust, driving year-on-year gains in sales volumes for TAC films for LCD polarizers and VA-TAC films for increasing viewing angle.

As a result, the Group recorded consolidated net sales of ¥478.5 billion, an increase of 6.2% year on year for the first half. Sales growth in the Business Technologies Business drove momentum for the entire Group.

Operating income amounted to ¥29.1 billion, an increase of 20.7% year on year, due to increased profit in the Business Technologies Business, the contribution from a positive momentum in profit for the Industrial Business and the effect of the weaker yen.

Ordinary income was ¥28.6 billion, an increase of 33.4% year on year, attributable to the increase in operating income.

Income before income taxes and minority interests was ¥27.4 billion. Income increased significantly due to the recording of loss on withdrawal of the glass substrates for HDDs business in the previous fiscal year in the amount of ¥16.8 billion.

Net income totaled ¥14.6 billion, an increase of 164.2% year on year. Net income was up significantly due to the effect of an improvement in income before income taxes and minority interests, despite recording tax effects in the amount of ¥9.2 billion resulting from a review of deferred tax assets in line with reorganization of the Group's management system in the previous fiscal year.

2. Overview by Segment

Six months ended September 30, 2014 (From April 1, 2014 to September 30, 2014)

Six months (Apr–Sep)
Year-on-Year

[Billions of yen]

	Six months ended September 30, 2014	Six months ended September 30, 2013	Increase (Decrease)	
Business Technologies				
Net sales - external	381.1	349.4	31.7	9.1%
Operating income	30.2	27.0	3.2	12. 0%
Healthcare				
Net sales - external	36.4	35.9	0.4	1.3%
Operating income	1.0	1.9	(0.8)	-46.4%
Industrial Business				
Net sales - external	59.4	62.4	(2.9)	-4.8%
Operating income	12.1	8.9	3.1	35.6%

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:

Results for A3 color MFPs remained solid, with sales volume expanding year on year in all regions. Hybrid-type sales produced good results on the back of continued marketing efforts mainly in Europe and the United States. In particular, we made progress in integrating the sales team for MFPs, which we reorganized by business type, and the sales team from an IT service company we acquired. This has led to an increasing number of successful cases that include cultivating major new customers by leveraging solutions and services as well as securing major contracts in IT services.

Commercial/industrial print field:

Sales volume expanded, particularly in color units, due to the high acclaim received in the commercial/industrial print market for new products such as “bizhub PRESS C1100” and “bizhub PRESS C1085” top-of-the-line color digital printing systems. In MPM (Marketing Print Management) services, where we are focusing on strengthening our business, we reinforced our Asia-Pacific organization through the acquisition of Ergo Asia Pty Ltd. (headquartered in Australia) in June of this year, following the acquisition of Charterhouse PM Ltd. (headquartered in the UK) in Europe, and we are making further progress in enhancing services and establishing a system for business expansion in North America, Japan and on a global scale. Sales of components such as industrial inkjet printheads also posted high growth on a year-on-year basis. In inkjet textile print systems, the Company acquired Verga IT S.r.l. (headquartered in Italy) to strengthen sales and service networks in the European market, which is the driving force behind the global printing market, thereby establishing its first sales company in this field. (Contract concluded with Verga IT S.r.l. and sales company established on October 1, 2014).

As a result of these factors, net sales of the Business Technologies Business to outside customers stood at ¥381.1 billion, up 9.1% year on year and operating income was at ¥30.2 billion, up 12.0% year on year. The increase in sales of color units centering on the service provision capabilities, an increase in gross profit in line with this and the impact of the weak yen contributed to higher sales and profit in this segment.

Healthcare Business

Although sales of the mainstay cassette-type Digital Radiography system "AeroDR" increased only slightly in Japan due to the impact of stagnation in willingness to invest on the part of medical institutions, sales volume expanded overseas due in part to business collaborations with key partners in Europe and the United States. In diagnostic ultrasound systems, we released "SONIMAGE HS1," a new product developed in conjunction with the ultrasound business of Panasonic Healthcare Co., Ltd. that we merged into our operations. The new product has been well received by the hospital market and has started to make contributions to business. Demand for film products continues to grow in emerging countries, with sales volume and sales amount posting gains in year-on-year terms.

As a result of these factors, net sales of the Healthcare Business to outside customers increased by 1.3% year on year to ¥36.4 billion, while operating income decreased 46.4% year on year to ¥1.0 billion due in part to an increase in business costs associated with the launch of the diagnostic ultrasound systems business.

Industrial Business

Industrial optical systems field:

In the sensing field, sales at Instrument Systems GmbH (headquartered in Germany) continued to be strong and profit expanded. Sales of lenses for industrial 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:

In the performance materials field, demand for large LCD TVs remained solid and the trend toward larger screen size continued. In addition, demand for small- and medium-size panels remained robust particularly for smartphones and tablets. Amid these market conditions, sales volumes of thin plain TAC films for LCD polarizers and VA-TAC films for increasing 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 ¥59.4 billion, down 4.8% year on year, and operating income was ¥12.1 billion, up 35.6% year on year. Sales decreased due to a reduction in demand for lenses used in compact cameras, downsizing of the lens business for mobile phone cameras and withdrawal of the glass substrates for HDDs business. Profit increased significantly due to the positive effects of an increase in sales of TAC films and sensing equipment and a series of structural reforms in the industrial optical systems field.

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

<Reference>

Overview of Performance

Three months ended September 30, 2014 (From July 1, 2014 to September 30, 2014)

Year-on-Year [Billions of yen]

	Three months ended September 30, 2014	Three months ended September 30, 2013	Increase (Decrease)	
Net sales	250.2	231.9	18.3	7.9%
Gross profit	122.5	111.6	10.9	9.8%
Operating income	17.5	16.3	1.1	7.0%
Ordinary income	18.2	14.4	3.7	26.1%
Income before income taxes and minority interests	15.6	(5.9)	21.6	—
Net income	9.0	(4.2)	13.2	—
Net income per share [yen]	17.91	(7.95)	25.86	—
Capital expenditure	11.4	7.9	3.5	44.7%
Depreciation	12.0	11.9	0	0.6%
R & D expenses	18.3	17.3	1.0	6.3%
Free cash flow	22.0	22.9	(0.8)	-3.8%
Exchange rates [yen]				
US dollar	103.92	98.95	4.97	5.0%
euro	137.76	131.05	6.71	5.1%

Three Months Business Performance by Segment

Year-on-Year [Billions of yen]

	Three months ended September 30, 2014	Three months ended September 30, 2013	Increase (Decrease)	
Business Technologies				
Net sales - external	199.7	179.6	20.1	11.2%
Operating income	18.4	16.9	1.5	9.0%
Healthcare				
Net sales - external	20.3	19.7	0.6	3.3%
Operating income	1.0	1.8	(0.8)	-43.9%
Industrial Business				
Net sales - external	29.4	31.4	(2.0)	-6.5%
Operating loss	5.6	4.6	0.9	19.3%

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.

(2) Financial Position

1. Analysis of Financial Position

		As of September 30, 2014	As of March 31, 2014	Increase (Decrease)
Total assets	[Billions of yen]	957.2	966.0	(8.8)
Total liabilities	[Billions of yen]	476.4	486.0	(9.5)
Net assets	[Billions of yen]	480.7	480.0	0.6
Equity ratio	[%]	50.0	49.5	0.5

Total assets at the end of the second quarter of the consolidated fiscal year under review were down ¥8.8 billion (0.9%) from the previous fiscal year-end, to ¥957.2 billion. Current assets were down ¥22.3 billion (3.8%) to ¥566.9 billion (59.2% to total assets) and noncurrent assets were up ¥13.5 billion (3.6%) to ¥390.2 billion (40.8% to total assets).

With respect to current assets, cash and deposits decreased ¥8.0 billion from the previous fiscal year-end, to ¥87.4 billion. In addition, securities decreased ¥10.9 billion, and as a result, cash and cash equivalents decreased ¥19.0 billion to ¥169.4 billion. Notes and accounts receivable–trade decreased ¥8.0 billion to ¥212.1 billion. Inventories increased ¥5.8 billion to ¥121.1 billion.

With respect to non-current assets, property, plant and equipment increased ¥6.5 billion from the previous fiscal year-end to ¥179.9 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. Investments and other assets increased ¥6.9 billion from the previous fiscal year-end to ¥98.9 billion, due mainly to increases in investment securities and deferred tax assets.

Total liabilities decreased ¥9.5 billion (2.0%) from the previous fiscal year-end to ¥476.4 billion. Notes and accounts payable–trade decreased ¥7.4 billion to ¥88.7 billion, income taxes payable increased ¥4.9 billion to ¥10.5 billion and net defined benefit liability increased ¥11.4 billion to ¥65.0 billion. Interest-bearing debt (the sum of short-term loans payable, long-term loans payable and bonds payable) decreased ¥17.5 billion to ¥178.5 billion.

Net assets were up ¥0.6 billion (0.1%) from the previous fiscal year-end to ¥480.7 billion. Retained earnings decreased ¥16.8 billion to ¥225.5 billion. This was due to the recording of ¥14.6 billion in net income, a decrease of ¥3.8 billion due to dividend payments from year-end surplus, a decrease of ¥20.7 billion due to the cancellation of treasury shares and a decrease of ¥7.0 billion due to the application of accounting standards related to retirement benefits. Treasury shares decreased ¥9.0 billion due mainly to an increase based on acquisition of the Company's own shares in the amount of ¥11.8 billion and a decrease based on the cancellation of treasury shares in the amount of ¥20.7 billion. On the other hand, accumulated other comprehensive income increased ¥8.5 billion to ¥20.1 billion due mainly to an increase of ¥6.7 billion in foreign currency translation adjustment and an increase of ¥1.2 billion in valuation difference on available-for-sale securities.

As a result, the shareholders' equity ratio at the end of the second quarter increased 0.5 percentage points from the end of the previous fiscal year to 50.0%.

2. Cash Flows

[Billions of yen]

	Six months ended September 30, 2014	Six months ended September 30, 2013	Increase (Decrease)
Cash flows from operating activities	44.4	46.0	(1.5)
Cash flows from investing activities	(29.0)	(19.6)	(9.4)
Total (Free cash flow)	15.4	26.3	(10.9)
Cash flows from financing activities	(33.4)	(8.1)	(25.2)

During the first half of the consolidated fiscal year under review, net cash provided by operating activities was ¥44.4 billion, while net cash used in investing activities, mainly associated with capital investment, totaled ¥29.0 billion. As a result, free cash flow (the sum of operating and investing activities) was an inflow of ¥15.4 billion.

Net cash used in financing activities was ¥33.4 billion.

In addition, cash and cash equivalents at the end of the second quarter of the consolidated fiscal year under review stood at ¥169.4 billion, down ¥19.0 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 ¥44.4 billion (compared with net cash provided of ¥46.0 billion in the same period of the previous fiscal year). The Group reported income before income taxes of ¥27.4 billion, depreciation of ¥23.6 billion, and amortization of goodwill of ¥4.7 billion, which were partially offset by the payment of ¥6.3 billion for income taxes, decrease in accounts payable–other and accrued expenses of ¥3.2 billion and a decrease of ¥200 million due to an increase in working capital.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥29.0 billion (compared with net cash used of ¥19.6 billion in the same period of the previous fiscal year). Cash of ¥18.0 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 for new business in the Industrial Business. Other cash outflows included ¥8.2 billion for the payment for transfer of business and the purchase of shares of subsidiaries in the Business Technologies Business and ¥3.5 billion for the purchase of intangible assets.

As a result, free cash flow (the sum of operating and investing activities) was an inflow of ¥15.4 billion (an inflow of ¥26.3 billion in the same period of the previous fiscal year).

Cash Flows from Financing Activities

Net cash used in financing activities was ¥33.4 billion (compared with net cash used of ¥8.1 billion in the same period of the previous fiscal year), mainly reflecting a net decrease of ¥17.4 billion in interest-bearing debt, payment of ¥11.0 billion for the purchase of treasury shares and payment of ¥3.8 billion in dividends.

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

Looking at the global economic conditions surrounding the Konica Minolta Group from the third quarter, the U.S. economy is showing signs of recovery while foundations for economic recovery in Europe are weak and sluggish growth is expected to continue in emerging countries. With regard to the Japanese economy, corporate results are forecast to be solid on the back of the weak yen while personal consumption is expected to stagnate.

In terms of the outlook for demand in markets related to the Company, we forecast a continued business expansion trend in the Business Technologies Business as a result of moderate business recovery in the office service field and commercial/industrial print field. In the Healthcare Business, we expect favorable conditions to continue overseas as well as moderate recovery in willingness to invest on the part of medical institutions following stagnation in Japan.

In the Industrial Business, the sensing field within the industrial optical systems field is expected to be impacted by a decline in demand for new products in the mobile equipment market, especially smartphones and tablets, while lenses for industrial and professional use are expected to be affected by the tough market conditions. In the performance materials field, the business environment for TAC films is forecast to be robust until year-end on the back of solid demand in the TV market, but demand is expected to decrease after the new year due primarily to seasonal factors.

In light of the forecast of the business environment and the progress in performance during the first half, we have revised financial forecasts for the year ending March 31, 2015 as follows. Assumed exchange rates for the basis of the forecasts are ¥105 to the U.S. dollar, marking depreciation of ¥5 from the initial projection, and ¥135 to the euro (US$: ¥100, EUR: ¥135 at the time of the announcement on May 9, 2014).

	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)	1,000.0	62.0	57.0	26.0	51.51
Revised forecast (B)	1,010.0	65.0	61.0	30.0	59.37
Increase (decrease) (B - A)	10.0	3.0	4.0	4.0	7.85
Rate of change (%)	1.0	4.8	7.0	15.4	15.3
(Ref.) Results for the fiscal year ended March 31, 2014	943.7	58.1	54.6	21.8	41.38

Notes:
The forecast previously announced for net income per share states the revised figure provided at the first quarter results announcement on July 30.

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.*