1. CONSOLIDATED OPERATING RESULTS

(1) Qualitative Information of Consolidated Performance

a. Overview of Consolidated Performance

Nine months ended December 31, 2014 (From April 1, 2014 to December 31, 2014)

Nine months (Apr-Dec)
Year on Year [Billions of yen]

	Nine months ended December 31, 2014	Nine months ended December 31, 2013	Increase (Decrease)	
Net sales	733.8	682.8	50.9	7.5%
Gross profit	363.1	327.7	35.4	10.8%
Operating income	45.4	38.9	6.5	16.7%
Ordinary income	43.8	36.7	7.0	19.3%
Income before income taxes and minority interests	41.1	13.9	27.2	195.8%
Net income	21.9	10.8	11.1	103.4%
Net income per share [yen]	43.42	20.39	23.02	113.0%
Capital expenditure	33.0	31.3	1.7	5.6%
Depreciation	37.1	35.1	1.9	5.6%
R & D expenses	55.7	52.5	3.2	6.1%
Free cash flow	26.7	23.7	2.9	12.6%
Number of employees [persons]	41,939	41,042	897	2.2%
Exchange rates [yen]				
US dollar	106.87	99.39	7.48	7.5%
euro	140.30	132.23	8.07	6.1%

Reviewing the main business of the Konica Minolta Group (the "Group") during the first three quarters of the consolidated fiscal year under review (April 1, 2014 to December 31, 2014), in the Business Technologies Business, sales volume of A3 color MFPs (Multi-functional peripherals) in the office services field expanded over the same period of the previous fiscal year as hybrid-type sales that combine MFPs with IT services became more pervasive, particularly in the European and U.S. markets. Sales related to services and solutions are also increasing steadily. In the commercial/industrial print field, sales volume of digital color printing systems for production print businesses expanded at a good rate, led by new products. In addition, we conducted a corporate acquisition aimed at driving growth in the MPM (Marketing Print Management) service provision domain. Strong sales continued in the industrial inkjet business, particularly inkjet printheads.

In the Healthcare Business, despite solid performance in North America, China and India, conditions remained severe on the whole due to a cooling off in the market and the impact of intensifying competition in the core Japanese market.

In the Industrial Business, the sensing field along with lenses for industrial and professional use within the industrial optical systems field were solid in general. In the performance materials field, demand for large panels for LCD TVs and small- and medium-size panels for smartphones and tablets was robust, which resulted in year-on-year gains in sales volumes, particularly for VA-TAC films for increasing viewing angle.

As a result, the Group recorded consolidated net sales of ¥733.8 billion, an increase of 7.5% year on year for the first three quarters. The Business Technologies Business was the primary driver behind the sales growth.

Operating income amounted to ¥45.4 billion, an increase of 16.7% year on year, due to increased profit in the Business Technologies Business and the Industrial Business as well as the effect of the weaker yen.

Ordinary income was ¥43.8 billion, an increase of 19.3% year on year, attributable to the increase in operating income.

Income before income taxes and minority interests was ¥41.1 billion. Income improved 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 ¥21.9 billion, an increase of 103.4% 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.

b. Overview by Segment

Nine months ended December 31, 2014 (From April 1, 2014 to December 31, 2014)

Nine months (Apr-Dec)
Year on Year [Billions of yen]

	Nine months ended December 31, 2014	Nine months ended December 31, 2013	Increase (Decrease)	
Business Technologies				
Net sales - external	589.5	533.3	56.2	10.5%
Operating income	48.8	45.2	3.5	7.9%
Healthcare				
Net sales - external	55.2	55.1	0.0	0.1%
Operating income	1.3	2.3	(1.0)	-43.6%
Industrial Business				
Net sales - external	86.9	90.3	(3.3)	-3.8%
Operating income	16.2	12.3	3.8	31.4%

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. Efforts are being made to increase hybrid-type sales that include IT services, especially in the European and U.S. markets, while in MCS (Managed Content Services), which entails entering into a customer's business process and optimizing the company's content management, we will accelerate global development as well as further strengthen initiatives in the leading U.S. market.

Commercial/industrial print field:

Sales volume of color units exceeded the same period of the previous fiscal year due to solid performance mainly in new products such as “bizhub PRESS C1100” and “bizhub PRESS C1085” digital printing systems on the back of high market acclaim. In MPM (Marketing Print Management) services, which support the optimization of printing material costs and the improvement of business processes in a company's marketing department, we worked to strengthen our service provision capabilities by concluding a sale and purchase agreement related to the acquisition of Indicia Group Limited (headquartered in the UK), which specializes in the planning and execution of cross-media communications strategy in combination with printed materials and digital media, through Charterhouse PM Ltd. (headquartered in the UK), a Group company. (Results will be reflected from the fourth quarter.)

In industrial inkjet-related business, sales of components such as inkjet printheads posted high growth compared with the same period of the previous fiscal year.

As a result of these factors, net sales of the Business Technologies Business to outside customers stood at ¥589.5 billion, up 10.5% year on year and operating income was at ¥48.8 billion, up 7.9% 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, as well as the impact of the weak yen contributed to higher sales and profit in this segment.

Healthcare Business

Sales volume of the mainstay cassette-type Digital Radiography system “AeroDR” increased in both Japan and overseas amid tough market conditions. In diagnostic ultrasound systems, an area we are striving to strengthen, we started sales of “SONIMAGE HS1,” a new product developed in-house, and it has been well received. In film products, sales in emerging countries were solid and we achieved sales volume roughly on par with the previous year.

As a result of these factors, net sales of the Healthcare Business to outside customers posted a level on par with the previous year, increasing by 0.1% year on year to ¥55.2 billion, while operating income decreased 43.6% to ¥1.3 billion due to significant advance expenses related to the launch of the diagnostic ultrasound systems business.

As part of efforts to bolster sales capabilities in the core Japanese market in this business field, sales collaboration with our Business Technologies products sales subsidiaries are being strengthened. Successful cases that have received high marks for proposing one-stop solutions to management issues in medical institutions by leveraging the collective capabilities of the Group are increasing.

Industrial Business

Industrial optical systems field:

Mainstay products were strong in general, notably spectrophotometers for displays in the sensing field as well as lenses for industrial and professional use and pickup lenses for Blu-ray Discs™ in the optical products field.

Performance materials field:

Market conditions for large panels and small- and medium-size panels were robust, supported by firm demand for large LCD TVs, increasing screen size and strong sales of smartphones and tablets. Amid such a demand climate, sales volume of TAC films increased year on year, particularly thin VA-TAC films for increasing viewing angle, which is an area of comparative strength for the Group.

As a result of these factors, net sales of the Industrial Business to outside customers were ¥86.9 billion, down 3.8% year on year, and operating income was ¥16.2 billion, up 31.4% 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 due to an increase in sales of TAC films and the positive effects of a series of structural reforms in the industrial optical systems field in the previous fiscal year.

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

<Reference>

Overview of Performance

Three months ended December 31, 2014 (From October 1, 2014 to December 31, 2014)

Year on Year [Billions of yen]

	Three months ended December 31, 2014	Three months ended December 31, 2013	Increase (Decrease)	
Net sales	255.3	232.4	22.8	9.8%
Gross profit	126.1	113.7	12.4	10.9%
Operating income	16.2	14.7	1.5	10.3%
Ordinary income	15.1	15.2	(0.0)	-0.6%
Income before income taxes and minority interests	13.7	13.8	(0.1)	-1.0%
Net income	7.3	5.2	2.0	39.0%
Net income per share [yen]	14.55	9.91	4.64	46.9%
Capital expenditure	7.4	11.8	(4.3)	-37.0%
Depreciation	13.4	11.5	1.8	16.2%
R & D expenses	19.0	17.9	1.1	6.2%
Free cash flow	11.3	(2.5)	13.9	－%
Exchange rates [yen]				
US dollar	114.54	100.46	14.08	14.0%
euro	143.07	136.69	6.38	4.7%

Three Months' Business Performance by Segment

Year on Year [Billions of yen]

	Three months ended December 31, 2014	Three months ended December 31, 2013	Increase (Decrease)	
Business Technologies				
Net sales - external	208.3	183.9	24.4	13.3%
Operating income	18.5	18.2	0.3	1.9%
Industrial Business				
Net sales - external	18.7	19.1	(0.4)	-2.2%
Operating income	0.2	0.4	(0.1)	-31.3%
Healthcare				
Net sales - external	27.4	27.8	(0.4)	-1.5%
Operating income	4.1	3.4	0.6	20.4%

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

a. Analysis of Financial Position

		As of December 31, 2014	As of March 31, 2014	Increase (Decrease)
Total assets	[Billions of yen]	991.6	966.0	25.5
Total liabilities	[Billions of yen]	491.3	486.0	5.3
Net assets	[Billions of yen]	500.3	480.0	20.2
Equity ratio	[%]	50.2	49.5	0.7

Total assets at the end of the third quarter of the consolidated fiscal year under review were up ¥25.5 billion (2.6%) from the previous fiscal year-end, to ¥991.6 billion. Current assets were up ¥5.5 billion (0.9%) to ¥594.9 billion (60.0% to total assets) and noncurrent assets were up ¥20.0 billion (5.3%) to ¥396.7 billion (40.0% to total assets).

With respect to current assets, cash and deposits increased ¥2.0 billion from the previous fiscal year-end, to ¥97.5 billion. In contrast, securities decreased ¥19.9 billion, and as a result, cash and cash equivalents decreased ¥17.9 billion to ¥170.5 billion. Notes and accounts receivable–trade increased ¥1.0 billion to ¥221.1 billion and lease receivables and investment assets increased ¥3.2 billion to ¥24.4 billion. Inventories increased ¥19.3 billion to ¥134.6 billion.

With respect to non-current assets, property, plant and equipment increased ¥7.5 billion from the previous fiscal year-end to ¥180.9 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. Intangible assets increased ¥3.6 billion to ¥115.0 billion. Investments and other assets increased ¥8.7 billion from the previous fiscal year-end to ¥100.7 billion, due mainly to increases in investment securities of ¥5.7 billion on the back of a positive upturn in the stock market and an increase of deferred tax assets of ¥1.3 billion.

Total liabilities were up ¥5.3 billion (1.1%) from the previous fiscal year-end to ¥491.3 billion. Notes and accounts payable–trade increased ¥1.4 billion to ¥97.6 billion and net defined benefit liability increased ¥12.7 billion to ¥66.3 billion. Accrued expenses increased ¥4.7 billion and income taxes payable increased ¥7.7 billion. On the other hand, interest-bearing debt (the sum of short-term loans payable, long-term loans payable and bonds payable) decreased ¥21.1 billion to ¥175.0 billion.

Net assets were up ¥20.2 billion (4.2%) from the previous fiscal year-end to ¥500.3 billion. Retained earnings decreased ¥14.6 billion to ¥227.8 billion. This was due to the recording of ¥21.9 billion in net income, a decrease of ¥8.9 billion due to dividend payments from 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 ¥6.5 billion due mainly to an increase based on acquisition of the Company's own shares in the amount of ¥14.2 billion and a decrease based on the cancellation of treasury shares in the amount of ¥20.7 billion. Accumulated other comprehensive income increased ¥27.9 billion to ¥39.5 billion due mainly to an increase of ¥24.5 billion in foreign currency translation adjustment and an increase of ¥2.8 billion in valuation difference on available-for-sale securities.

As a result, the shareholders' equity ratio at the end of the third quarter increased 0.7 percentage points from the end of the previous fiscal year to 50.2%.

b. Cash Flows

[Billions of yen]

	Nine months ended December 31, 2014	Nine months ended December 31, 2013	Increase (Decrease)
Cash flows from operating activities	71.4	61.8	9.5
Cash flows from investing activities	(44.6)	(38.1)	(6.5)
Total (Free cash flow)	26.7	23.7	2.9
Cash flows from financing activities	(47.2)	(19.0)	(28.1)

During the third quarter of the consolidated fiscal year under review, net cash provided by operating activities was ¥71.4 billion, while net cash used in investing activities, mainly associated with capital investment, totaled ¥44.6 billion. As a result, free cash flow (the sum of operating and investing activities) was an inflow of ¥26.7 billion.

Net cash used in financing activities was ¥47.2 billion.

In addition, cash and cash equivalents at the end of the third quarter of the consolidated fiscal year under review stood at ¥170.5 billion, down ¥17.9 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 three quarters of the consolidated fiscal year under review are as follows.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥71.4 billion (compared with net cash provided of ¥61.8 billion in the same period of the previous fiscal year). The Group reported income before income taxes of ¥41.1 billion, depreciation of ¥37.1 billion, and amortization of goodwill of ¥6.9 billion and an increase of ¥60 million due to a decrease in working capital, which were partially offset by the payment of ¥9.6 billion for income taxes and a decrease of ¥5.8 billion in provision for bonuses.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥44.6 billion (compared with net cash used of ¥38.1 billion in the same period of the previous fiscal year). Cash of ¥29.0 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 ¥10.3 billion for the payment for transfer of business and the purchase of shares of subsidiaries in the Business Technologies Business and ¥6.1 billion for the purchase of intangible assets.

As a result, free cash flow (the sum of operating and investing activities) was an inflow of ¥26.7 billion (an inflow of ¥23.7 billion in the same period of the previous fiscal year).

Cash Flows from Financing Activities

Net cash used in financing activities was ¥47.2 billion (compared with net cash used of ¥19.0 billion in the same period of the previous fiscal year), mainly reflecting a decrease of a total of ¥23.5 billion in short-term and long-term loans payable, a payment of ¥13.5 billion for the purchase of treasury shares, and a payment of ¥8.8 billion in dividends.

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

For the full-year consolidated results forecast, we have left the following performance projections for net sales, operating income, and ordinary income, which were revised upward in the "Second Quarter Consolidated Financial Results for the Fiscal Year ending March 31, 2015" (announced on October 31, 2014), unchanged in light of the progress in performance during the first three quarters of the fiscal year under review.

Factoring in the capital gains initiatives, etc. being pursued from a standpoint of improving capital efficiency as part of the medium term business plan, we have revised the previous forecast for net income upward by ¥3.0 billion.

Assumed exchange rates for the basis of the fourth quarter forecasts are ¥115 to the US dollar, marking depreciation of ¥10 from the previous forecast, and ¥135 to the euro (US$: ¥105, EUR: ¥135 at the time of the results announcement on October 31, 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)	1,010.0	65.0	61.0	30.0	59.37
Revised forecast (B)	1,010.0	65.0	61.0	33.0	65.31
Increase (decrease) (B - A)	—	—	—	3.0	5.93
Rate of change (%)	—	—	—	10.0	10.0
(Ref.) Results for the fiscal year ended March 31, 2014	943.7	58.1	54.6	21.8	41.38

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 to the nearest hundred million.*