1. ANALYSIS of BUSINESS PERFORMANCE and FINANCIAL POSITION

(1) Qualitative Information on the Consolidated Business Performance

a. Overview of Performance

[Billions of yen]

	Three months ended June 30, 2015	Three months ended June 30, 2014	Increase (Decrease)	
Revenue	248.6	226.6	22.0	9.7%
Gross profit	119.7	112.8	6.8	6.1%
Operating profit	10.0	14.3	(4.3)	-30.3%
Profit before tax	10.3	14.4	(4.0)	-28.2%
Profit attributable to owners of the company	6.5	9.3	(2.7)	-29.6%
Basis of calculating basic quarterly earnings per share [yen]	13.19	18.34	(5.15)	-28.1%
Capital expenditure	7.8	14.1	(6.3)	-44.7%
Depreciation and amortization expenses	12.5	11.2	1.2	11.5%
Research and development expenses	19.2	18.1	1.1	6.1%
Free cash flow	(21.1)	(6.5)	(14.6)	—
Number of employees (consolidated) [persons]	42,321	41,317	1,004	2.4%
Foreign exchange rates [yen]				
US dollar	121.36	102.16	19.20	18.8%
euro	134.16	140.07	(5.91)	-4.2%

In the first quarter of this fiscal year (hereafter, "this quarter"), consolidated net sales of the Konica Minolta Group ("the Group") amounted to ¥248.6 billion, an increase of 9.7% year on year. Higher revenue in the Business Technologies Business and Healthcare Business compensated for lower revenue in the Industrial Business, while the effect of the weak yen against the dollar also contributed to sales growth.

Operating profit totaled ¥10 billion, down 30.3% year on year. Although higher sales for mainstay products in the Business Technologies Business and Healthcare Business resulted in higher profit, gross profit fell along with lower sales in the Industrial Business and, as a result, profit declined. The effect of the stronger yen against the euro in the first half of this quarter also pushed down profit.

The ¥4.3 billion decline in operating profit reflects ¥3.5 billion in special factors, namely ¥2.0 billion in one-off expenses for structural reforms carried out in this quarter, and ¥1.5 billion in gains on sales of assets posted in the first quarter of the previous fiscal year.

Profit before tax totaled ¥10.3 billion, down 28.2% year on year, as a result of improvements in net financial income.

As a result, Profit attributable to owners of the company was down 29.6% year on year to ¥6.5 billion.

<Structural reforms carried out in this quarter>

In line with its Medium Term Business Plan, TRANSFORM 2016, Konica Minolta Inc. ("the Company") worked to establish a more strong corporate structure, to improve its earning power as a manufacturing company and to bolster its human resources. In particular, the Company views reducing selling, general and administrative expenses company-wide as an urgent management issue, and has set up special early retirement program for general employees and managers at the Company as part of this effort. Accordingly, ¥2.0 billion in special extra retirement payments was posted in this quarter.

The Company and group companies both in Japan and overseas will continue to take the necessary actions to build a strong corporate structure.

b. Overview by Segment

[Billions of yen]

	Three months ended June 30, 2015	Three months ended June 30, 2014	Increase (Decrease)	
Business Technologies Business				
Net revenue - external	201.7	179.7	22.0	12.3%
Operating profit	13.2	12.9	0.3	2.6%
Healthcare Business				
Net revenue - external	17.8	16.0	1.8	11.2%
Operating profit	0.1	0.0	0.0	53.1%
Industrial Business				
Net revenue - external	28.1	30.0	(1.8)	-6.3%
Operating profit	5.8	7.8	(2.0)	-25.6%

i. Business Technologies Business

In the office services field, A3 color MFPs (multi-functional peripherals) sustained their momentum in this quarter, with sales volume increasing in all regions relative to the previous fiscal year. Sales volume increased for monochrome MFPs in Europe and China and in the OEM business over the previous year. Hybrid-type sales that combine MFPs with IT services achieved further success, mainly in Europe and the United States. With the aim of strengthening this sales system even more, the Group acquired SymQuest Group, Inc. (headquartered in Vermont), a dealer with a strong track record in hybrid-type sales in the United States.

In the commercial and industrial printing field, for the mainstay production print field, there was a significant increase in sales, primarily in Europe and the United States, of the “bizhub PRESS C1100,” a top-of–the-line digital color printing system launched last summer. This helped shift the sales mix towards high-end models. In addition, with the aim of expanding its business substantially in India, where growth has stood out among emerging countries, the Group acquired the production print business of Monotech Systems Limited, a major dealer headquartered in Chennai. The sales sites of the newly acquired business will be integrated with the Group’s existing direct sales network, enabling the provision of high-customer-satisfaction service and support direct from manufacturer to customers throughout India. Sales of 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, increased significantly, partly due to the addition of Ergo Asia Pty Limited (headquartered in Australia) as a consolidated subsidiary in the second quarter of the previous fiscal year. In the industrial inkjet business, sales of inkjet printheads and other components for large-format printers were strong.

As a result, revenue of the Business Technologies Business to external customers stood at ¥201.7 billion, up 12.3% year on year, and operating profit was ¥13.2 billion, up 2.6% year on year. Profitability came under pressure from higher selling, general and administrative expenses resulting from efforts to reinforce sales, as well as negative effects from the stronger yen relative to the euro. These and other factors were offset by cost reductions and by the impact of increased sales volume, resulting in higher sales and profit.

ii. Healthcare Business

In this quarter, results recovered in Japan after a slump in the first quarter of the previous fiscal year following the consumption tax rate hike, and were steady in the United States and India, where the sales system has been reinforced.

In the mainstay digital X-ray diagnostic imaging systems, sales of Computed Radiography (CR) and diagnostic ultrasound systems significantly increased in Japan, while sales of cassette-type Digital Radiography (DR) expanded overseas. In film products, sales in China were lackluster, and sales volume fell below levels of the same quarter of the previous fiscal year in Japan and overseas. At the same time, in light of the steady shift from analog to digital taking place in emerging countries, the Group signed an agreement to purchase Sawae Tecnologia Ltda. (headquartered in Minas Gerais, Brazil), an X-ray system equipment manufacturer that has been expanding throughout Brazil. By leveraging Sawae’s sales network, the Group will accelerate sales growth for the Group’s digital products in Brazil, where demand is expected to expand significantly.

As a result of these factors, revenue of the Healthcare Business to external customers amounted to ¥17.8 billion, an increase of 11.2% year on year. Operating profit was ¥126 million, up 53.1% from the ¥82 million recorded in the same period of the previous fiscal year.

iii. Industrial Business

In the performance materials field, the sales volume of VA-TAC films for increasing viewing angle for large LCD TVs and other TAC films was in line with the previous fiscal year, but sales of TAC film for notebook PCs decreased after robust demand in the first half of 2014. As a result, the sales volume for TAC films overall declined over the previous fiscal year.

In the field of optical systems for industrial use, sales of measuring instruments and lenses for industrial and professional use were strong. Sales of lenses to the compact digital camera market, which continues to shrink, and sales of lens units for mobile phones, a business that is in the process of being downsized by the Company, both fell below the levels of the previous fiscal year. In the measuring instruments business, one of the Group’s designated growth areas, the Group signed an agreement to acquire Radiant Vision Systems, LLC (headquartered in Washington), a sophisticated US company in this sector, with the aim of expanding further into the visual surface inspection market in such areas as display measurement.

As a result, revenue of the Industrial Business to external customers stood at ¥28.1 billion, down 6.3% year on year, and operating profit was ¥5.8 billion, down 25.6% year on year.

(2) Qualitative Information on the Consolidated Financial Position

a. Analysis of Financial Position

		June 30, 2015	March 31, 2015	Increase (Decrease)
Total assets	[Billions of yen]	974.7	994.2	(19.5)
Total equity	[Billions of yen]	533.3	529.5	3.8
Equity attributable to owners of the company	[Billions of yen]	532.5	528.4	4.0
Equity ratio attributable to owners of the company	[%]	54.6	53.1	1.5

Total assets at the end of the first quarter of the consolidated fiscal year under review were down ¥19.5 billion (2.0%) from the previous fiscal year-end, to ¥974.7 billion. Total current assets decreased ¥32.0 billion (5.6%) to ¥538.5 billion (55.3% to total assets) and total non-current assets increased ¥12.5 billion (3.0%) to ¥436.1 billion (44.7% to total assets).

With respect to current assets, cash and cash equivalents decreased ¥37.8 billion from the previous fiscal year-end to ¥139.6 billion, and trade and other receivables decreased ¥3.7 billion to ¥249.1 billion, while inventories increased ¥7.8 billion to ¥128.6 billion.

With respect to non-current assets, property, plant and equipment increased ¥1.5 billion from the previous fiscal year-end to ¥183.1 billion despite overall ongoing depreciation, due primarily to capital investments in the Business Technologies Business. Goodwill and intangible assets increased ¥8.8 billion to ¥134.9 billion mainly due to acquisition. Other financial assets totaled ¥43.9 billion at the end of the first quarter, mainly due to an increase in investment securities of ¥1.4 billion attributable to the positive turnaround in the stock market.

Total liabilities at the end of the first quarter were ¥ 441.4 billion, a decrease of ¥23.3 billion (5.0%) from the previous fiscal year-end. Total current liabilities decreased ¥25.3 billion (9.0%) from the previous fiscal year-end to ¥256.5 billion, and total non-current liabilities increased ¥1.9 billion (1.1%) to ¥184.8 billion.

With respect to current liabilities, trade and other payables decreased ¥12.0 billion to ¥165.5 billion, bonds and borrowings decreased ¥5.7 billion to ¥47.5 billion, and income tax payables decreased ¥3.1 billion to ¥4.3 billion at the end of the first quarter. In addition, other current liabilities totaled ¥32.9 billion, due to a decrease in short-term employee benefits of ¥7.5 billion.

Non-current liabilities at the end of the first quarter totaled ¥63.1 billion as a result of an increase in retirement benefit liabilities of ¥1.1 billion.

Total equity at the end of the first quarter amounted to ¥533.3 billion, an increase of ¥3.8 billion (0.7%) from the previous fiscal year-end. Retained earnings decreased ¥9.5 billion from the previous fiscal year-end to ¥241.8 billion. This was the result of profit for the period of ¥6.5 billion and a decrease in retained earnings due to cash dividends of ¥5.0 billion and cancellation of the treasury shares of ¥11.0 billion.

Treasury shares decreased ¥4.3 billion from the previous fiscal year-end to negative ¥6.4 billion as a result of acquisition of the Company's own shares of ¥6.8 billion and cancellation of the treasury shares of ¥11.0 billion based on the resolutions at the Board of Directors meeting.

Other components of equity at the end of the first quarter totaled ¥55.1 billion, an increase of ¥9.2 billion from the previous fiscal year-end, due to an increase in exchange differences on translation of foreign operations of ¥8.2 billion and an increase in net gain on revaluation of financial assets measured at fair value of ¥1.1 billion.

As a result, equity attributable to owners of the company totaled ¥532.5 billion at the end of the first quarter, an increase of ¥4.0 billion (0.8%) from the previous fiscal year-end, and the equity ratio attributable to owners of the company increased 1.5 percentage points to 54.6%.

b. Cash Flows

[Billions of yen]

	Three months ended June 30, 2015	Three months ended June 30, 2014	Increase (Decrease)
Cash flows from operating activities	(4.5)	6.8	(11.4)
Cash flows from investing activities	(16.5)	(13.4)	(3.1)
Total (Free cash flow)	(21.1)	(6.5)	(14.6)
Cash flows from financing activities	(18.1)	(13.7)	(4.3)

During the first quarter of the fiscal year under review, net cash used in operating activities was ¥4.5 billion, while net cash used in investing activities, mainly associated with capital investment, totaled ¥16.5 billion. As a result, free cash flow (the sum of operating and investing activities) was an outflow of ¥21.1 billion.

Net cash used in financing activities was ¥18.1 billion.

In addition, cash and cash equivalents at the end of the first quarter of the consolidated fiscal year under review decreased ¥37.8 billion compared with the previous fiscal year-end to ¥139.6 billion, reflecting the effect of exchange rate changes on cash and cash equivalents.

The details of cash flows associated with each activity during the period are as follows.

Cash flows from operating activities

Net cash used in operating activities for the three months ended June 30, 2015 was ¥4.5 billion, compared to net cash provided of ¥6.8 billion in the same period of the previous fiscal year, as a result of cash inflow due to profit before tax of ¥10.3 billion, depreciation and amortization expenses of ¥12.5 billion and a decrease in trade and other receivables of ¥12.6 billion; and cash outflow due to a decrease in trade and other payables of ¥20.2 billion, income taxes paid of ¥6.4 billion, an increase in inventories of ¥4.8 billion and a decrease in short-term employee benefits of ¥4.7 billion.

Cash flows from investing activities

Purchases of property, plant and equipment amounted to ¥6.8 billion mainly attributable to capital investments in the Business Technologies Business. In addition, purchases of investments in subsidiaries of ¥4.6 billion and payments for transfer of business of ¥2.8 billion were recognized related to the Business Technologies Business. As a result, net cash used in investing activities was ¥16.5 billion, compared to net cash used of ¥13.4 billion in the same period of the previous fiscal year.

As a result, free cash flow (the sum of operating and investing activities) was an outflow of ¥21.1 billion (an outflow of ¥6.5 billion in the same period of the previous fiscal year).

Cash flows from financing activities

Net cash used in financing activities was ¥18.1 billion, compared to net cash used of ¥13.7 billion in the same period of the previous fiscal year, due to purchase of treasury shares of ¥6.8 billion, a decrease in short-term loans payable of ¥5.8 billion, and cash dividend paid of ¥4.9 billion.

(3) Qualitative Information on the Consolidated Results Forecast

The full-year forecasts for the fiscal year ending March 31, 2016 remain unchanged from the initial forecasts announced on May 13, 2015 as the Company's core businesses have been generally strong, in line with the business plan, although the outlook for internal and external business environments of the Company is still uncertain. Exchange rates used as the basis for performance forecasts for the remaining period of the fiscal year ending March 31, 2016 are unchanged from the initially assumed 120 yen against the US dollar and 130 yen against the euro.

In order to achieve the targets above, the Company is striving to enhance its earning power as a manufacturer in pursuing high-value-added businesses through a shift in the focus of our business and establishing a strong corporate structure through manufacturing and corporate innovation under the Medium Term Business Plan.

[Billions of yen]

	Results forecasts for the fiscal year ending March 31, 2016 (IFRS)	Actual results for the fiscal year ended March 31, 2015 (IFRS)
Revenue	1,100.0	1,002.7
Operating profit	77.0	65.7
Profit attributable to owners of the company	50.0	40.9
ROE (Note)	10.0%	8.7%

Notes: ROE = Profit attributable to owners of the company divided by the total of share capital, share premium, retained earnings and treasury shares (average at start of fiscal year and end of fiscal year).

ROE based on profit attributable to owners of the company divided by equity attributable to owners of the company (average at start of fiscal year and end of fiscal year) was 8.0% for the fiscal year ended March 31, 2015.

[Billions of yen]

	Revenue - external		Operating Profit	
	Results forecast for the fiscal year ending March 31, 2016	Actual results for the fiscal year ended March 31, 2015	Results forecast for the fiscal year ending March 31, 2016	Actual results for the fiscal year ended March 31, 2015
Business Technologies Business	890.0	808.2	84.0	72.6
Healthcare Business	85.0	78.5	4.0	2.1
Industrial Business	125.0	112.7	21.0	19.7

Note: The above results 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. SUMMARY INFORMATION (NOTES)

Changes in accounting policy

The significant accounting policies applied to the Group's condensed consolidated financial statements are identical to those applied to the consolidated financial statements for the previous fiscal year ended March 31, 2015, except for the accounting standard provided below.

The Group has applied the following standard from the three months ended June 30, 2015. The application of this standard had no material effect on the Group's condensed consolidated financial statement.

Standard	Outline
IAS 19 Employee Benefits	Amendment of accounting for contributions from employees or third parties