1. ANALYSIS of BUSINESS PERFORMANCE and FINANCIAL POSITION

(1) Qualitative Information on the Consolidated Business Performance

a. Overview of Performance

[Billions of yen]

	Six months ended September 30, 2015	Six months ended September 30, 2014	Increase (Decrease)	
Revenue	507.2	474.4	32.7	6.9%
Gross profit	244.2	233.2	11.0	4.7%
Operating profit	28.2	30.8	(2.6)	-8.5%
Profit before tax	27.3	31.7	(4.4)	-14.0%
Profit attributable to owners of the company	17.3	19.4	(2.0)	-10.7%
Basic earnings per share attributable to owners of the company [yen]	34.82	38.17	(3.35)	-8.8%
Capital expenditures	22.1	25.6	(3.5)	-13.7%
Depreciation and amortization expenses	24.9	22.7	2.2	9.7%
Research and development expenses	38.0	36.3	1.7	4.7%
Free cash flow	(40.3)	15.8	(56.2)	—%
Number of employees (consolidated) [persons]	42,853	41,713	1,140	2.7%
Foreign exchange rates [yen]				
US dollar	121.80	103.04	18.76	18.2%
euro	135.07	138.92	(3.85)	-2.8%

In the six months ended September 30, 2015 (hereafter, “period under review”), consolidated revenue of the Konica Minolta Group (hereafter, “the Group”) amounted to ¥507.2 billion, an increase of 6.9% year on year. By segment, revenues in the Industrial Business declined in the field of Performance Materials, but in the Business Technologies Business higher sales of color products, acquisitions and the effects of the weaker yen against the US dollar resulted in an increase in revenue, while due to a recovery in domestic sales the Healthcare Business again posted higher revenue.

Operating profit was ¥28.2 billion, falling by 8.5% over the same period in the previous year. The Business Technologies Business secured a rise in profits despite the continuation in the trend of the yen strengthening against the euro and its significant impact on profits. Also, while the Healthcare Business posted strong sales of main products both in Japan and overseas and consequently higher profits, falling sales in the Industrial Business led to lower profits. The changes in profit in these business divisions overlapped with one-off costs associated with the restructuring that was implemented in the first half of the period under review, causing a decline in profit for the Group as a whole.

Quarterly profit before tax came to ¥27.3 billion (down 14.0% year on year) and profit for the quarter attributable to the owners of the company was ¥17.3 billion (down 10.7% year on year).

<M&A during the period under review>

In line with the TRANSFORM 2016 Medium Term Business Plan, the Group is driving ahead with measures aimed at transforming itself into a customer-centric group of companies and at realizing sustainable profit growth. In the field of measuring instruments in the Industrial Business, the Group took steps during the period under review to establish itself as the global top leader as a result of our “Genre-top strategy” in the display/light source color measurement in which it excels. Aiming to shift the area of our business with a view to expanding into related growth fields, the Group acquired Radiant Vision Systems, LCC (hereafter, "Radiant"), a leading US provider of test and measurement solutions to the flat panel display industry. In the Healthcare Business, the Group acquired Brazilian X-ray system equipment manufacturer Sawae Tecnologia Ltda in July in order to promote the expansion of operations in overseas markets where demand is growing. In the United States the Group entered into an agreement, which came into force on October 1, 2015, to acquire 20/20 Healthcare LLC. Viztek LLC (headquartered in North Carolina, hereafter, "Viztek") is a subsidiary of 20/20 Healthcare and a powerful healthcare imaging solution provider. In order to expand its overseas operations the Group will use Viztek's robust sales network, which has deep roots in hospitals and clinics across the US, the world's largest market, to start work on expanding sales of its main products, beginning with primary care. In the primary care market where further growth is expected, the Group will leverage its synergies with these two companies to provide medical IT solution services that add diagnostic value, primarily in digital X-ray diagnostic imaging, low-invasive diagnostic ultrasound imaging and picture archiving and communication systems (PACS).

b. Overview by Segment

[Billions of yen]

	Six months ended September 30, 2015	Six months ended September 30, 2014	Increase (Decrease)	
Business Technologies Business				
Net revenue - external	409.2	377.0	32.1	8.5%
Operating profit	34.3	30.8	3.4	11.2%
Healthcare Business				
Net revenue - external	40.2	36.4	3.7	10.4%
Operating profit	1.4	1.2	0.2	22.4%
Industrial Business				
Net revenue - external	56.2	59.4	(3.2)	-5.5%
Operating profit	10.4	13.0	(2.6)	-20.1%

i. Business Technologies Business

<Office services>

As price competition for mainstay A3 color MFPs (multi-function peripherals) is progressing in developed countries, the Group followed a sales strategy of maintaining prices by making efforts to grow sales of high-value-added products, consisting primarily of higher-segment models, but especially in the latter half of the second quarter, sales stagnated due to the impact of price competition. Also, because sales in emerging countries declined due to the impact of slower economic growth, sales volume for the whole of the period under review posted no more than a small gain. On the other hand, sales of monochrome models were strong in Europe and China, and sales volumes exceeded prior-year levels.

In the Group's forte of "hybrid-type sales," which combine equipment sales with the provision of IT services, there was a solid increase in contracts concluded for Managed Content Services (MCS) that help improve business process efficiency for medium-sized customer companies, further strengthening our relationships with client enterprises.

<Commercial and industrial printing>

In production print, the top-of-the-line "bizhub PRESS C1100" digital color printing system launched in the summer of last year posted higher sales in Japan, the United States, Europe and all Other regions.

In Marketing Print Management (MPM) services, which help optimize printing costs and improve business processes in a company's marketing department, the Group drove a global expansion in the scope of its service offerings and won a large-scale contract with a leading European retailer. In the industrial inkjet business, sales of components such as inkjet printheads for use in large-format printers were strong.

As a result, revenue of the Business Technologies Business to external customers stood at ¥409.2 billion, up 8.5% year on year, and operating profit was ¥34.3 billion, up 11.2% year on year. Revenues rose due to the effect of acquisitions and the weaker yen against the US dollar. Excluding gains on sale of property, plant and equipment in North America, in addition to the yen continuing the previous year's trend of strengthening against the euro, which has a significant impact on profits, there were also costs related to our business transformation, including the bolstering of our service provision capability, and thus only a small increase in profit was achieved.

ii. Healthcare Business

In the period under review there was a recovery in sales in Japan, where a difficult environment had persisted in the previous year and conditions were also favorable in India and the United States, where sales networks are being strengthened, as well as in ASEAN economies. Sales of "AeroDR" mainstay cassette-type digital X-ray diagnostic imaging systems rose, primarily overseas, while the SONIMAGE HS1 diagnostic ultrasound system that went on sale in Japan last year has been very well received in the field of orthopedic surgery and sales are expanding.

As a result of these factors, revenue of the Healthcare Business to external customers amounted to ¥40.2 billion, an increase of 10.4% year on year. Operating profit was ¥1.4 billion, up 22.4% from the same period of the previous fiscal year. In addition to the increase in gross profit generated by rising sales of mainstay products, there was a rise in the number of service contracts, which depend on the installed base of such products and equipment, which in turn contributed to an improvement in profitability.

iii. Industrial Business

<Performance materials>

Although conditions in the TAC film market have become challenging due to the slowing of economic growth in China and other emerging countries, products such as VA-TAC film for increasing viewing angles on large LCD televisions maintained roughly the same level of sales volume as in the previous year. Conversely, there was a contraction in notebook PC-related demand, which had been strong in the first half of the previous year, and overall TAC film sales volumes declined from prior-year levels.

<Optical systems for industrial use>

Measuring instruments were solid on the whole and from August the revenue from newly acquired Radiant was added to consolidated results. Lenses for industrial and professional use made a strong showing. On the other hand, pickup lenses for optical disks were hit by falling IT- and AV-related demand and sales volumes declined.

As a result, revenues from this business to external customers came to ¥56.2 billion (down 5.5% year on year) and operating profit stood at ¥10.4 billion (down 20.1% year on year).

(Reference) Overview of 2Q consolidated accounting period

[Billions of yen]

	Three months ended September 30, 2015	Three months ended September 30, 2014	Increase (Decrease)	
Revenue	258.6	247.8	10.7	4.4%
Gross profit	124.4	120.3	4.1	3.5%
Operating profit	18.1	16.4	1.7	10.6%
Profit before tax	16.9	17.3	(0.3)	-2.1%
Profit attributable to owners of the company	10.7	10.0	0.6	6.8%
Basic earnings per share attributable to owners of the company [yen]	21.68	19.83	1.85	9.3%
Capital expenditures	14.2	11.4	2.8	24.6%
Depreciation and amortization expenses	12.4	11.5	0.9	7.9%
Research and development expenses	18.8	18.2	0.6	3.3%
Free cash flow	(19.2)	22.4	(41.6)	－%
Foreign exchange rates [yen]				
US dollar	122.23	103.92	18.31	17.6%
euro	135.98	137.76	(1.78)	-1.3%

Overview of main segments

[Billions of yen]

	Three months ended September 30, 2015	Three months ended September 30, 2014	Increase (Decrease)	
Business Technologies Business				
Net revenue - external	207.4	197.3	10.1	5.1%
Operating profit	21.0	17.9	3.1	17.4%
Healthcare Business				
Net revenue - external	22.3	20.3	1.9	9.7%
Operating profit	1.3	1.1	0.2	20.1%
Industrial Business				
Net revenue - external	28.0	29.4	(1.3)	-4.6%
Operating profit	4.5	5.2	(0.6)	-11.8%

(2) Qualitative Information on the Consolidated Financial Position

a. Analysis of Financial Position

		September 30, 2015	March 31, 2015	Increase (Decrease)
Total assets	[Billions of yen]	980.9	994.2	(13.2)
Total equity	[Billions of yen]	529.7	529.5	0.2
Equity attributable to owners of the company	[Billions of yen]	528.8	528.4	0.4
Equity ratio attributable to owners of the company	[%]	53.9	53.1	0.8

Total assets at September 30, 2015 were down ¥13.2 billion (1.3%) from the previous fiscal year-end, to ¥980.9 billion. Total current assets decreased ¥46.9 billion (8.2%) to ¥523.6 billion (53.4% to total assets) and total non-current assets increased ¥33.7 billion (8.0%) to ¥457.3 billion (46.6% to total assets). With respect to current assets, cash and cash equivalents decreased ¥59.5 billion to ¥117.9 billion, and trade and other receivables decreased ¥3.7 billion to ¥249.2 billion, while inventories increased ¥12.8 billion to ¥133.6 billion. With respect to non-current assets, property, plant and equipment decreased ¥0.7 billion to ¥180.9 billion as a result of overall ongoing depreciation despite an increase due primarily to capital expenditures in the Business Technologies Business. Goodwill and intangible assets increased ¥38.9 billion to ¥165.0 billion, mainly due to acquisition.

Total liabilities at September 30, 2015 were ¥451.2 billion, a decrease of ¥13.4 billion (2.9%) from the previous fiscal year-end. Total current liabilities decreased ¥14.5 billion (5.2%) to ¥267.3 billion, and total non-current liabilities increased ¥1.0 billion (0.6%) to ¥183.9 billion. With respect to current liabilities, trade and other payables decreased ¥6.2 billion to ¥171.2 billion, bonds and borrowings decreased ¥2.9 billion to ¥50.4 billion, and income tax payables decreased ¥2.5 billion to ¥4.9 billion at September 30, 2015. With respect to non-current liabilities, bonds and borrowings decreased ¥0.5 billion to ¥111.6 billion, whereas retirement benefit liabilities increased ¥1.2 billion to ¥63.3 billion.

Total equity at September 30, 2015 amounted to ¥529.7 billion, an increase of ¥0.2 billion from the previous fiscal year-end. Retained earnings increased ¥1.2 billion to ¥252.5 billion. This was mainly the result of an increase due to profit attributable to owners of the company of ¥17.3 billion and a decrease due to cash dividends of ¥5.0 billion and cancellation of the treasury shares of ¥11.0 billion. Treasury shares decreased ¥1.1 billion to negative ¥9.5 billion as a result of acquisition of the Company's own shares of ¥9.9 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 September 30, 2015 totaled ¥43.9 billion, a decrease of ¥1.9 billion, due to a loss on exchange differences on translation of foreign operations of ¥0.4 billion and a net loss on revaluation of financial assets measured at fair value of ¥1.7 billion.

Equity attributable to owners of the company totaled ¥528.8 billion at September 30, 2015, an increase of ¥0.4 billion from the previous fiscal year-end, and the equity ratio attributable to owners of the company increased 0.8 percentage points to 53.9%.

b. Cash Flows

[Billions of yen]

	Six months ended September 30, 2015	Six months ended September 30, 2014	Increase (Decrease)
Cash flows from operating activities	18.4	44.6	(26.2)
Cash flows from investing activities	(58.8)	(28.7)	(30.0)
Total (Free cash flow)	(40.3)	15.8	(56.2)
Cash flows from financing activities	(18.6)	(33.7)	15.1

During the six months ended September 30, 2015 (hereafter, “period under review”), net cash provided by operating activities was ¥18.4 billion, while net cash used in investing activities, mainly associated with capital expenditures and M&As, totaled ¥58.8 billion. As a result, free cash flow (the sum of operating and investing activities) was an outflow of ¥40.3 billion.

Net cash used in financing activities was ¥18.6 billion.

In addition, cash and cash equivalents at September 30, 2015 decreased ¥59.5 billion from the previous fiscal year-end to ¥117.9 billion, reflecting the unfavorable effect of exchange rate changes on cash and cash equivalents of ¥0.5 billion.

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

Cash flows from operating activities

Net cash provided by operating activities for the period under review was ¥18.4 billion, compared to net cash provided of ¥44.6 billion in the same period of the previous fiscal year, as a result of cash inflow due to profit before tax of ¥27.3 billion, depreciation and amortization expenses of ¥24.9 billion and a decrease in trade and other receivables of ¥6.2 billion; and cash outflow due to an increase in inventories of ¥12.3 billion, income taxes paid of ¥8.8 billion and a decrease in trade and other payables of ¥7.6 billion.

Cash flows from investing activities

Purchases of property, plant and equipment and intangible assets amounted to ¥15.5 billion and ¥7.2 billion, respectively, mainly attributable to capital expenditures in the Business Technologies Business. On the other hand, proceeds from sales of property, plant and equipment amounted to ¥5.5 billion, mainly due to sales of assets in North America. Purchases of investments in subsidiaries of ¥36.4 billion and payments for transfer of business of ¥3.1 billion were recognized related to aggressive M&As in the Business Technologies Business and the Healthcare Business in addition to the acquisition of Radiant in the Industrial Business. As a result, net cash used in investing activities was ¥58.8 billion, compared to net cash used of ¥28.7 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 ¥40.3 billion (an inflow of ¥15.8 billion in the same period of the previous fiscal year).

Cash flows from financing activities

Net cash used in financing activities was ¥18.6 billion, compared to net cash used of ¥33.7 billion in the same period of the previous fiscal year, due to purchase of treasury shares of ¥10.0 billion, a decrease in short-term loans payable of ¥2.5 billion and cash dividends paid of ¥5.0 billion.

(3) Qualitative Information on the Consolidated Results Forecast

The outlook for the global economy in the third quarter and beyond has become increasingly unclear, reflecting the impact of the slowdown in growth in the Chinese economy. With regard to prospects in the Group's main markets, A3 color MFPs are being affected by the sluggishness in emerging markets, and in developed countries the price competition that has arisen against the background of the weaker yen is expected to intensify further. The Group anticipates that products used in display-related markets such as smartphones and large LCD televisions will enter a period of inventory correction due to the deceleration in the Chinese economy.

Taking into account the impact of this operating environment going forward in addition to progress made towards consolidated results in the first half of the year, we have revised earnings forecasts for the consolidated fiscal year under review as follows. With regard to the exchange rate assumptions that form the basis of the revised forecasts for the third quarter and beyond, a ¥5 depreciation has been applied to the previous euro rate assumption of ¥130 set at the time of the results announcement on May 13, 2015, taking it to ¥135. The US$ exchange rate assumption is unchanged at ¥120.

Revision of consolidated financial results forecast for 2016 fiscal year (April 1, 2015 – March 31, 2016)

	Revenue	Operating profit	Profit attributable to owners of the company	Basic earnings per share attributable to owners of the company
	[Billions of yen]	[Billions of yen]	[Billions of yen]	[Yen]
Forecast previously announced (A)	1,100.0	77.0	50.0	100.71
Revised forecast (B)	1,080.0	73.0	47.0	94.66
Increase (decrease) (B - A)	(20.0)	(4.0)	(3.0)	—
Rate of change (%)	-1.8	-5.2	-6.0	—
(Ref.) Results for the fiscal year ended March 31, 2015	1,002.7	65.7	40.9	81.01

Note: The forecast previously announced for basic earnings per share attributable to owners of the company is the revised figure provided at the announcement of the first quarter results on August 6, 2015.

(Reference) Results forecasts for 3 main segments (April 1, 2015 – March 31, 2016)

[Billions of yen]

	Forecast previously announced (A)		Revised forecast (B)		Increase (decrease) (B - A)	
	Net revenue - external	Operating profit	Net revenue - external	Operating profit	Net revenue - external	Operating profit
Business Technologies Business	890.0	84.0	875.0	81.0	(15.0)	(3.0)
Healthcare Business	85.0	4.0	85.0	4.0	—	—
Industrial Business	125.0	21.0	120.0	20.0	(5.0)	(1.0)

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.

Figures in qualitative information sections given as billions of yen have been rounded off to the nearest hundred million yen.