1. ANALYSIS of BUSINESS PERFORMANCE and FINANCIAL POSITION

(1) Business Performance Analysis

a. Overview of Performance

(Billions of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2015	Increase (Decrease)	
Revenue	1,031.7	1,002.7	28.9	2.9%
Gross profit	495.5	489.6	5.8	1.2%
Operating profit	60.0	65.7	(5.6)	-8.7%
Profit before tax	58.0	65.4	(7.4)	-11.4%
Profit attributable to owners of the company	31.9	40.9	(8.9)	-21.9%
Basic earnings per share [yen]	64.39	81.01	(16.62)	-20.5%
ROE	6.1%	7.9%	(1.8)	—
Capital expenditures	52.6	46.1	6.5	14.1%
Depreciation and amortization expenses	51.3	47.9	3.4	7.2%
Research and development expenses	76.2	74.2	1.9	2.7%
Free cash flow	(51.5)	47.9	(99.5)	—
Number of employees (consolidated) [persons]	43,332	41,605	1,727	4.2%
Foreign exchange rates [yen]				
US dollar	120.14	109.93	10.21	9.3%
euro	132.58	138.77	(6.19)	-4.5%

Note: ROE = Profit attributable to owners of the company divided by equity attributable to owners of the company (average at beginning and end of period)

Looking back over the economic situation during the consolidated fiscal year under review (“the fiscal year”), the US continued its trend of recovery on the back of such factors as improving employment. In Europe, on the other hand, where economic stimulus measures such as monetary easing had led to a gradual recovery, the end of the fiscal year saw a slight dip in the economic upswing. Meanwhile, previous excessive capital expenditures in China led to shrinking investment and emerging countries were affected by the decline in commodity prices, leading to a continuation of the move towards slower growth. In the Japanese economy, corporate results are on an improving trend but, due the impact of the deceleration in emerging economies, manufacturing activity was sluggish. In this way, for the global economy as a whole the impact of slowing economies in China and emerging countries was significant and it was a year in which business conditions remained at a standstill.

In this economic environment, consolidated revenue for the Konica Minolta Group (“the Group”) came to ¥1,031.7 billion (up 2.9% year on year). Viewed by business segment, in the Business Technologies Business sales of high-end color models for commercial printing rose, in addition to which corporate acquisitions and the weaker yen against the US dollar contributed to revenue growth. In the Industrial Business, the field of optical systems for industrial use benefited from the effects of acquisitions in measuring instruments and recorded higher revenue, but in the field of performance materials, the impact of the deterioration in display-related markets led to a decline in revenue. The Healthcare Business was helped by the contribution of a corporate acquisition in the US and revenue there rose.

Operating profit was ¥60.0 billion yen (down 8.7% year on year). The Business Technologies Business posted a decline in profit, albeit a small one. This can be attributed to higher costs related to the transformation in the focus of our business carried out in an increasingly competitive environment, the yen’s appreciation against the euro in the latter half of the fiscal year, which had a considerable impact on profits, and reserves set aside for business structure improvement expenses for the next fiscal year. In the Healthcare Business, we saw a clear trend towards profit growth with higher sales of digital products both in Japan and overseas, but the Industrial Business saw profits fall due to lower sales of mainstay products. These factors coincided with costs related to structural reforms implemented in the first half of the fiscal year, causing a fall in profit for the Group as a whole. Profit before tax was ¥58.0 billion yen (down 11.4% year on year) and profit attributable to owners of the company came to ¥31.9 billion yen (down 21.9% year on year) due to the reduction of corporate tax rate as a result of the tax reform beginning in the next consolidated fiscal year.

In fiscal 2014, the Group started implementation of its Medium Term Business Plan, “TRANSFORM 2016.” As well as moving forward with adding value to existing businesses, we are also accelerating customer-centric initiatives to create new businesses that resolve the problems faced by customers and society.

In Japan, we received our first orders for the Group's “Care Support Solution,” which aims to resolve the social problems caused by the progressive aging of societies in Japan and Asia that is leading to a rise in the number of people requiring nursing care, as well as shortages of caregiving staff.

The Group also concluded an agreement to acquire 65.5% of the shares of video surveillance camera manufacturer MOBOTIX AG (headquartered in Germany), whose strength is its proprietary video management system. We intend to combine this with our own proprietary optical systems for industrial use, such as 3D laser radar, to provide high-quality security systems and the like, opening the way to offering solutions for a wide range of industries and businesses.

Furthermore, in Japan, we have reorganized our domestic business and commenced operations of Konica Minolta Japan, Inc. from April 2016. This entity gathers together the combined power of the Group, leveraging our know-how in proprietary digital manufacturing and in digital marketing, cultivated through our own practices as a manufacturer, in order to support a reform of digital workflow and to enable us to offer solutions varied by industry and business type. In addition, we have concluded a capital and business alliance with Netyear Group Corporation (headquartered in Tokyo), which has a track record in devising digital marketing strategies and creating content rooted in customer experience, thus enhancing our ability to provide digital marketing.

External evaluation of the Group

By steadily executing the initiatives stated under the Medium Term Business Plan, “TRANSFORM 2016,” the Group aims to achieve sustainable growth by shifting the focus of our business. Moreover, we have positioned corporate social responsibility (CSR) activities as key to management and aims to be a global company that is vital to society by undertaking a broad array of initiatives in such areas as the environment, human rights, labor, and governance.

Through such activities, we have received accolades from varied external organizations. In fiscal 2015 we ranked in first place in the overall manufacturing sector at the 19th Environmental Management Survey conducted by Nikkei Inc., our second consecutive year of such an achievement. We were selected for the JPX-Nikkei Index 400 for the third consecutive year and also chosen for the second year running as one of the “Health & Productivity Stock Selection” jointly undertaken by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange. In terms of investment indices, we were named to the Dow Jones Sustainability World Index of the United States, a globally prestigious SRI index, for the fourth year in a row. We have been selected for the Silver Class by RobecoSAM, an investment specialist focused exclusively on sustainability investing.

Thus, in this fiscal year the Group was hit by the cutbacks in corporate investment caused by the sluggish global economy and the intensifying competition, leading to a difficult set of results for the fiscal year on a standalone basis. Nevertheless, in its interim year the measures in the Medium Term Business Plan, “TRANSFORM 2016” aimed at medium- to long-term growth achieved considerable success.

b. Overview by Segment

(Billions of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2015	Increase (Decrease)	
Business Technologies Business				
Revenue – external	832.1	808.2	23.9	3.0%
Operating profit	70.2	72.6	(2.4)	-3.4%
Healthcare Business				
Revenue – external	89.8	78.5	11.2	14.4%
Operating profit	3.9	2.1	1.7	85.0%
Industrial Business				
Revenue – external	105.9	112.7	(6.8)	-6.0%
Operating profit	17.0	19.7	(2.6)	-13.7%

i. Business Technologies Business

<Office services>

For mainstay A3 color MFPs (Multi-functional peripherals), amid intensifying competition in the US and Europe, the Group stuck to its sales policy of prioritizing profits and worked to expand sales, primarily of mid-range and higher segment models. Even sales volumes of monochrome models exceeded prior-year levels. Regarding big deals associated with global procurement / business services, our important customers such as BMW Group and Allianz (both headquartered in Germany) have highly evaluated our optimized printing solutions so that we were successful to extend global agreements with them in the future multiple years. In “hybrid-type sales,” which we are deploying to small- and medium-sized enterprises and that comprise a combination of IT services and input/output equipment, we have been proposing improvements to the customer’s workflow whereby paper documents are scanned using our MFPs and the necessary information is automatically extracted and coordinated with the core systems. We have also been providing “Managed IT” composite services wherein we take over the whole of the IT environment including maintenance and management and have been successfully concluding contracts.

<Commercial and industrial printing>

In production print, sales of the top-of-the-line “bizhub PRESS C1100” digital color printing system grew primarily in the US and Europe. We strived to expand from the previous customer base, consisting mostly of small- and medium-sized printing companies, to large-sized commercial printing companies where high output volumes can be expected.
In Marketing Production Management (MPM) services, which help optimize printing costs and improve business processes in a company’s marketing department, we pushed initiatives to expand the region of services provided to existing customers.

In the industrial inkjet business, sales of components such as inkjet printheads for use in large-format printers were strong. The “KM-1” Sheet-fed UV inkjet press co-developed with KOMORI Corporation (headquartered in Tokyo) has been prepared for launch and sales will begin in earnest in fiscal 2016. We also raised our ownership ratio in MGI Digital Technology (headquartered in France), with which we began a financial and strategic alliance in fiscal 2014, effective April 1, 2016. We will leverage MGI’s superior marketing and unique product development capabilities related to digital printing equipment in order to expand our business into the commercial printing market.

In manufacturing, we are promoting digital manufacturing both in Japan and overseas. In the Malaysian production site that has been in full operation since May 2015, initiatives leveraging cutting-edge ICT to automate and improve manufacturing process efficiency have been successful, and we are reinforcing systems to continuously reduce production costs for digital MFPs.

As a result, revenue of the Business Technologies Business from external customers stood at ¥832.1 billion, up 3.0% year on year, and operating profit was ¥70.2 billion, down 3.4% year on year. Revenue rose as a result of corporate acquisitions, to which was added the effect of the weaker yen against the US dollar. Despite 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 negative impact on profits, there were also increases in costs related to the transformation in the focus of our business, including the bolstering of our service provision capability, as well as reserves set aside for business structure improvement expenses, and thus a small decrease in profit was recorded.

ii. Healthcare Business

In Japan, the SONIMAGE HS1 diagnostic ultrasound system has become widely accepted in the field of orthopedic surgery and sales grew significantly. Meanwhile, sales in the US grew year on year with Viztek, LLC (headquartered in the US), which was acquired in October 2015, becoming consolidated for the latter half of the fiscal year.

In mainstay products, the medical IT service PACS (picture archiving and communication systems) remained solid, while sales of the “AeroDR” cassette-type digital X-ray diagnostics imaging systems grew primarily in overseas markets.

As a result, revenue of the Healthcare Business from external customers stood at ¥89.8 billion, up 14.4% year on year, and operating profit was ¥3.9 billion, up 85.0% year on year. In addition to the increase in gross profit generated by rising sales and rising overseas revenue of mainstay products, there was an increase in the number of service contracts, which depend on the installed base of such products and equipment, in turn contributing to an improvement in profitability.

iii. Industrial Business

<Performance materials>

In TAC film, falling demand in emerging markets in the latter half of the fiscal year led to a prolonging of the supply-chain inventory correction, and sales of TAC film for large LCD televisions declined. In products for small and medium-size panels, the thin-film products in which the Group specializes turned to recovery in the second half of the fiscal year, but this was insufficient to compensate for the fall in sales of television-related products and sales were down over the previous fiscal year.

<Optical systems for industrial use>

In measuring instruments, the mainstay light-source color measurement equipment grew in the second half of the fiscal year, in addition to which Radiant (headquartered in the US), which was acquired in August 2015, became consolidated and contributed to the growth in revenue. As for lenses for industrial and professional use, optical units for projectors used at events for projection mapping, etc. remained solid and revenue rose.

As a result, revenue of the Industrial Business from external customers came to ¥105.9 billion (down 6.0% year on year) and operating profit stood at ¥17.0 billion (down 13.7% year on year).

(Reference) Overview of 4Q consolidated accounting period

(Billions of yen)

	Three months ended March 31, 2016	Three months ended March 31, 2015	Increase (Decrease)	
Revenue	269.4	274.7	(5.3)	-1.9%
Gross profit	128.5	131.7	(3.2)	-2.5%
Operating profit	18.4	18.6	(0.2)	-1.1%
Profit before tax	17.5	16.7	0.7	4.2%
Profit attributable to owners of the company	5.4	11.0	(5.5)	-50.5%
Basic earnings per share [yen]	11.06	22.06	(11.00)	-49.9%
Capital expenditures	17.4	13.0	4.4	34.0%
Depreciation and amortization expenses	13.8	12.6	1.2	9.9%
Research and development expenses	19.4	19.1	0.3	1.6%
Free cash flow	(5.1)	20.7	(25.8)	—
Foreign exchange rates [yen]				
US dollar	115.48	119.09	(3.61)	-3.0%
euro	127.23	134.18	(6.95)	-5.2%

Overview of main segments

(Billions of yen)

	Three months ended March 31, 2016	Three months ended March 31, 2015	Increase (Decrease)	
Business Technologies Business				
Revenue – external	216.0	224.4	(8.3)	-3.7%
Operating profit	19.3	22.6	(3.2)	-14.6%
Healthcare Business				
Revenue – external	27.6	23.3	4.2	18.4%
Operating profit	1.6	0.6	0.9	144.5%
Industrial Business				
Revenue – external	24.2	25.8	(1.5)	-6.1%
Operating profit	3.7	2.6	1.1	43.5%

c. Outlook for the Fiscal Year Ending March 31, 2017

Looking at the global economic conditions surrounding the Group, the employment environment is improving in the US and a moderate recovery is anticipated in Europe, driven by domestic demand following monetary easing. In the Japanese economy as well, rising real wages and increases in capital investments are expected to support business conditions. On the other hand, the deceleration in economic growth caused by the ongoing correction of overcapacity in China continues, while emerging countries have been unable to escape lower growth rates, with the result that another year of slow growth is forecast for the global economy.

With regard to the demand outlook for the main markets in which we operate, in the Business Technologies Business, we assume that the ratio of color MFPs for office use will continue to trend upwards in overseas markets. In the commercial and industrial printing field, we expect demand for digital printers to rise as a result of more individualized and fractionalized marketing. For the Healthcare Business, against the backdrop of the advancing digitalization of medical diagnosis, we expect growth in cassette-type digital X-ray diagnostics imaging systems and diagnostic ultrasound systems to be maintained in each region. In the Industrial Business, growth in smartphones will slow due to sluggish growth in emerging economies and the television market is also expected to be weak, but we believe that new demand will be created by the diversification in display-related products and the variety of their applications.

In consideration of the situation described above, we have predicated our forecasts for the fiscal year ending March 31, 2017 on exchange rates of 105 yen against the US dollar and 120 yen against the euro, as shown below. (Compared to the fiscal year under review, this is equivalent to the yen strengthening by 15.1 yen against the US dollar and 12.6 yen against the euro.)

In the Business Technologies Business, as well as making a full-scale drive for expanded sales of new A3 color MFP products in the office services field, in the commercial and industrial printing field we will strengthen our approaches to medium-and large-sized commercial printing companies. In the Healthcare Business, as well as expanding sales of diagnostic imaging equipment, we will concentrate on expanding sales of medical IT services such as PACS and solutions linked to the local region. As for the Industrial Business, in the performance materials field we will strive to increase sales of new products, while in the optical systems for industrial use field we will work to maximize the synergies with the two companies, one American and one German, acquired thus far in the measuring instruments category. In addition, we will focus on new segments such as in-vehicle components.

(Billions of yen)

	Forecast for the fiscal year ending March 31, 2017	Fiscal year ended March 31, 2016
Revenue	1,060.0	1,031.7
Operating profit	66.0	60.0
Profit attributable to owners of the company	44.0	31.9
ROE*1	—	6.1%
ROE*2	8.7%	6.5%

Note 1: Profit attributable to owners of the company divided by equity attributable to owners of the company (average at beginning and end of period)

Note 2: Profit attributable to owners of the company divided by (Share capital + Share premium + Retained earnings + Treasury shares) (average at beginning and end of period)

(Billions of yen)

	Revenue - external		Operating profit	
	Forecast for the fiscal year ending March 31, 2017	Fiscal year ended March 31, 2016	Forecast for the fiscal year ending March 31, 2017	Fiscal year ended March 31, 2016
Business Technologies Business	830.0	832.1	68.0	70.2
Healthcare Business	100.0	89.8	5.0	3.9
Industrial Business	125.0	105.9	22.0	17.0

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.

(2) Qualitative Information on the Consolidated Financial Position

a. Analysis of Financial Position

		March 31, 2016	March 31, 2015	Increase (Decrease)
Total assets	[Billions of yen]	976.3	1,001.8	(25.4)
Total equity	[Billions of yen]	514.9	537.0	(22.0)
Equity attributable to owners of the company	[Billions of yen]	514.2	535.9	(21.6)
Equity ratio attributable to owners of the company	[%]	52.7	53.5	(0.8)

Total assets at March 31, 2016 were ¥976.3 billion, a decrease of ¥25.4 billion (2.5%) from the previous fiscal year-end. Total current assets decreased ¥74.4 billion (13.0%) to ¥496.2 billion (50.8% to total assets) and total non-current assets increased ¥48.9 billion (11.4%) to ¥480.1 billion (49.2% to total assets). With respect to current assets, cash and cash equivalents decreased ¥77.5 billion to ¥99.9 billion, and trade and other receivables decreased ¥3.4 billion to ¥249.4 billion, while income tax receivables increased ¥2.6 billion to ¥3.2 billion and inventories increased ¥0.5 billion to ¥121.3 billion. With respect to non-current assets, property, plant and equipment increased ¥5.6 billion to ¥187.3 billion, due primarily to capital expenditures in the Business Technologies Business. Goodwill and intangible assets increased ¥52.2 billion to ¥178.3 billion, mainly due to acquisition.

Total liabilities at March 31, 2016 were ¥461.3 billion, a decrease of ¥3.3 billion (0.7%) from the previous fiscal year-end. Trade and other payables decreased ¥14.6 billion to ¥162.9 billion, while income tax payables decreased ¥4.2 billion to ¥3.3 billion. Conversely, bonds and borrowings (the sum of amounts posted as current liabilities and non-current liabilities) amounted to ¥168.2 billion, an increase of ¥2.6 billion in total despite redemption of bonds of ¥20.0 billion. Retirement benefit liabilities increased ¥5.8 billion to ¥67.9 billion.

Total equity at March 31, 2016 amounted to ¥514.9 billion, a decrease of ¥22.0 billion from the previous fiscal year-end. Retained earnings increased ¥1.3 billion to ¥258.5 billion. This was mainly the result of an increase due to profit attributable to owners of the company of ¥31.9 billion, and decreases due to cash dividends of ¥12.4 billion, cancellation of treasury shares of ¥11.0 billion, and recognition of actuarial losses on defined benefit pension plans of ¥6.9 billion.

Treasury shares decreased ¥1.3 billion to ¥9.4 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 March 31, 2016 totaled ¥23.2 billion, a decrease of ¥24.3 billion, due to a loss on exchange differences on translation of foreign operations of ¥19.7 billion and a net loss on revaluation of financial assets measured at fair value of ¥3.8 billion.

Equity attributable to owners of the company totaled ¥514.2 billion at March 31, 2016, a decrease of ¥21.6 billion from the previous fiscal year-end, and the equity ratio attributable to owners of the company decreased 0.8 percentage points to 52.7%.

b. Cash Flows

(Billions of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2015	Increase (Decrease)
Cash flows from operating activities	59.2	101.9	(42.7)
Cash flows from investing activities	(110.7)	(54.0)	(56.7)
Total (Free cash flow)	(51.5)	47.9	(99.5)
Cash flows from financing activities	(20.5)	(62.1)	41.5

During the fiscal year ended March 31, 2016, net cash provided by operating activities was ¥59.2 billion, while net cash used in investing activities, mainly associated with capital expenditures and M&As, totaled ¥110.7 billion. As a result, free cash flow (the sum of operating and investing activities) was an outflow of ¥51.5 billion.

Net cash used in financing activities was ¥20.5 billion.

In addition, cash and cash equivalents at March 31, 2016 decreased ¥77.5 billion from the previous fiscal year-end to ¥99.9 billion, reflecting the unfavorable effect of exchange rate changes on cash and cash equivalents of ¥5.4 billion.

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 for the fiscal year under review was ¥59.2 billion, compared to net cash provided of ¥101.9 billion in the previous fiscal year, as a result of cash inflow due to profit before tax of ¥58.0 billion and depreciation and amortization expenses of ¥51.3 billion, and cash outflow due to income taxes paid of ¥16.9 billion, a decrease in trade and other payables of ¥10.3 billion, an increase in trade and other receivables of ¥6.2 billion, and an increase in inventories of ¥4.7 billion.

Cash flows from investing activities

Purchases of property, plant and equipment and intangible assets amounted to ¥38.3 billion and ¥11.9 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 ¥9.5 billion, mainly due to sales of assets in North America. As a result of the acquisition of Dactyl Buro du Centre and OMR Impressions in the Business Technologies Business, of Radiant in the Industrial Business, and of Viztek in the Healthcare Business, purchase of investments in subsidiaries of ¥57.5 billion, payments for transfer of business of ¥3.3 billion, and purchase of interests in investments accounted for using the equity method of ¥2.6 billion were recorded. Accordingly, net cash used in investing activities came to ¥110.7 billion for the fiscal year under review compared to net cash used in the previous fiscal year of ¥54.0 billion.

As a result, free cash flow (the sum of operating and investing activities) was an outflow of ¥51.5 billion (an inflow of ¥47.9 billion in the previous fiscal year).

Cash flows from financing activities

Net cash used in financing activities amounted to ¥20.5 billion for the fiscal year under review, compared to net cash used in the previous fiscal year of ¥62.1 billion, as a result of cash inflow due to proceeds from bonds issuance and long-term loans payable of ¥38.7 billion, and cash outflow due to redemption of bonds and repayments of long-term loans payable of ¥27.7 billion, cash dividends paid of ¥12.4 billion, purchase of treasury shares of ¥10.0 billion, and net decrease in short-term loans payable of ¥9.4 billion.

(3) Basic Policy Regarding Profit Distribution, Dividends for the Fiscal Year and Projected Dividends for the Next Fiscal Year, and Acquisition of the Company's Own Shares and Cancellation of Treasury Shares

a. Basic policy regarding profit distribution

The policy regarding the payment of dividends from retained earnings, etc. calls for the basic approach of making a comprehensive evaluation of consolidated performance and funding requirements to promote strategic investments in growth fields while seeking to implement proactive shareholder returns. The Company strives to enhance shareholder returns through higher dividends as well as a flexible acquisition of the Company's own shares.

b. Dividends for the fiscal year and the next fiscal year

With respect to dividends from retained earnings for the fiscal year, the Company will distribute a year-end dividend of 15 yen per share, an increase of 5 yen from the previous year-end dividend. Combined with the dividend of 15 yen per share already paid at the end of the second quarter, the total annual dividend will be 30 yen per share.

Regarding ordinary dividends for the fiscal year ending March 31, 2017, the Company plans to distribute a total annual dividend of 30 yen per share, assuming we achieve the results forecasts outlined above.

c. Acquisition of the Company's own shares and cancellation of treasury shares

At the Board of Directors meeting held on May 13, 2015, the Company resolved the following items related to an acquisition of its own shares under Article 156 of the Companies Act, as applied pursuant to the provision under Article 165 paragraph 3 of said act. The Company also dissolved and exercised cancellation of its treasury shares under the provision of Article 178 of the Companies Act.

Acquisition of the Company's own shares

(1) Type of shares to be acquired: Common shares

(2) Number of shares to be acquired: Limited to 10 million

(3) Total value of shares to be acquired: Limited to ¥10.0 billion

(4) Acquisition period: May 14, 2015 to August 31, 2015

The total number of treasury shares acquired based on the above resolutions at the Board of Directors meeting was 6,571,500 shares, and the aggregate amount paid to acquire the shares totaled ¥9,999,960,300.

Cancellation of Treasury Shares

(1) Type of shares to be canceled: Common shares

(2) Number of shares to be canceled: 9 million

(3) Number of issued shares after cancellation: 502,664,337

(4) Date of cancellation: June 30, 2015

** Units of less than 100 million yen in "1. ANALYSIS of BUSINESS PERFORMANCE and FINANCIAL POSITION" have been omitted.*