1. QUALITATIVE INFORMATION on the RESULTS of the PERIOD UNDER REVIEW
(1) Qualitative Information on the Consolidated Business Performance
a. Overview of Performance

(Billions of yen)

	Six months ended September 30, 2016	Six months ended September 30, 2015	Increase (Decrease)	
Revenue	461.9	507.2	(45.2)	-8.9%
Gross profit	227.0	244.2	(17.1)	-7.0%
Operating profit	18.5	28.2	(9.6)	-34.3%
Profit before tax	17.4	27.3	(9.8)	-36.1%
Profit attributable to owners of the company	13.2	17.3	(4.0)	-23.6%
Basic earnings per share [yen]	26.73	34.82	(8.09)	-23.2%
Capital expenditures	17.4	22.1	(4.6)	-21.1%
Depreciation and amortization expenses	25.4	24.9	0.4	1.9%
Research and development expenses	36.1	38.0	(1.9)	-5.0%
Free cash flow	(13.9)	(40.3)	26.4	—
Number of employees (consolidated) [persons]	43,755	42,853	902	2.1%
Foreign exchange rates [yen]				
US dollar	105.29	121.80	(16.51)	-13.6%
euro	118.15	135.07	(16.92)	-12.5%

In the six months ended September 30, 2016 (hereafter, period under review), consolidated revenue of the Konica Minolta Group (hereafter, the Group) amounted to ¥461.9 billion, a decrease of 8.9% year on year. The Business Technologies Business was significantly affected by the stronger yen year on year versus the US dollar and the euro, causing yen-denominated revenue to fall. However, our unique value-added hybrid-type sales strategy, in which equipment sales are combined with IT services provision, bore fruit and sales of mid-range and high-end color products for office use were strong, causing revenue to grow on a local-currency basis. Although the Healthcare Business was affected by the exchange rate, the effect of corporate acquisitions implemented during the previous fiscal year was also felt and we managed to secure higher revenue. Conversely, in the Industrial Business, a gradual recovery in sales for the field of performance materials began around the second half of the period under review, but sales did not return to the level of the previous year, in addition to which the field of optical systems for industrial use reflected the general weakness in related products and markets, leading to a decline in revenue.

Operating profit was ¥18.5 billion, falling by 34.3% over the same period in the previous fiscal year. In the Business Technologies Business the rise in sales of mid-range and high-end color products that accompanied the hybrid-type sales led to improvement in the gross profit ratio and to higher profit on a local-currency basis. Nevertheless, with the United Kingdom's decision to exit the European Union as the catalyst, the yen strengthened sharply against the euro from around the middle of the period under review and, on a yen-denominated basis, profit fell. The Healthcare Business was also unable to compensate fully for the impact of the stronger yen, while the Industrial Business was affected by lower sales of mainstay products and both businesses posted lower profit. Profit before tax came to ¥17.4 billion (down 36.1% year on year) and profit attributable to the owners of the company was ¥13.2 billion (down 23.6% year on year).

Moreover, during the period under review, fluctuations in foreign exchange rates such as the yen strengthening by around ¥17 year on year versus the US dollar and the euro depressed revenue by ¥59.3 billion year on year, and pushed down operating profit by ¥11.1 billion year on year. Excluding these effects, revenue rose by 2.8% year on year and operating profit increased by 5.4% year on year.

<Progress in the Business Transformation and External Evaluation of the Group>

In pursuit of sustainable growth, we are accelerating the transformation in the focus of our business towards that of “a problem solving digital company.” In order to obtain technology for use in the creation of new businesses, we made German IP video surveillance camera manufacturer MOBOTIX a consolidated subsidiary. We are preparing to expand sales of MOBOTIX’s solutions by leveraging Konica Minolta’s customer base and global sales network. We also made digital decoration printing equipment manufacturer MGI, headquartered in France, a consolidated subsidiary. We will combine our own products with MGI’s innovative digital printing equipment, based on their deep knowledge of and insight into major printing customers in the domain of industrial printing, and make a full-scale expansion of business into such sectors as label and package printing.

With regard to external evaluation of Konica Minolta, within Japan our initiatives to transform the focus of the business by leveraging ICT have been highly regarded and in June 2016 we were selected as one of the 26 companies designated jointly by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange as “2016 Competitive IT Strategy Company Stock Selection.”

Overseas, we have been selected for five consecutive years as one of the constituents of the Dow Jones Sustainability World Index (DJSI World), one of the world’s leading socially responsible investing indices. From a global pool of 2,500 large companies, DJSI World selected 316 constituents, including 26 Japanese companies. We have identified six issues that must be dealt with as part of the materiality aspect of our CSR activities, including “Environment” and “Social innovation,” and these have received high praise, as well as other initiatives such as “Climate change strategy,” “Environmental policy and management system,” and “Information disclosure.”

b. Overview by Segment

(Billions of yen)

		Six months ended September 30, 2016	Six months ended September 30, 2015	Increase (Decrease)	
Business Technologies Business	Revenue	370.6	409.2	(38.5)	-9.4%
	Operating profit	26.1	34.3	(8.2)	-23.9%
Healthcare Business	Revenue	41.3	40.2	1.1	2.9%
	Operating profit	1.2	1.4	(0.2)	-16.7%
Industrial Business	Revenue	44.1	56.2	(12.0)	-21.5%
	Operating profit	4.7	10.4	(5.7)	-54.8%
Subtotal	Revenue	456.1	505.7	(49.5)	-9.8%
	Operating profit	32.1	46.3	(14.1)	-30.6%
“Others” and “Adjustments” (Note 2)	Revenue	5.7	1.5	4.2	281.4%
	Operating profit	(13.5)	(18.0)	4.5	—
Amount posted to Condensed Consolidated Statement of Profit or Loss	Revenue	461.9	507.2	(45.2)	-8.9%
	Operating profit	18.5	28.2	(9.6)	-34.3%

(Note)

1. “Revenue” refers to revenue from external customers.
2. “Revenue” refers to revenue from external customers in “Others” in “3. Condensed Consolidated Financial Statements (6) Notes to the Condensed Consolidated Financial Statements [Segment Information]” and “operating profit” is the total of “Others” and “Adjustments” from the same statement.

i. Business Technologies Business

<Office services>

During the period under review, sales of mainstay A3 color MFPs (multi-functional peripherals) were strong. In China and emerging countries, as well as in OEM sales, signs of a recovery were visible, with sales volumes exceeding previous-year levels in all four regions of

Japan, the US, Europe, and Others. In particular, the mid-range and higher-segment class, which saw the launch of the "bizhub C658/C558/C458" with color output speeds of 45-65 pages per minute, posted high rates of growth in sales, which led to a rise in print volumes and growth in sales of consumables for the period under review.

There was no change in the intensely competitive nature of the environment, primarily in the US, but in these conditions we are taking a more customer-centric, high value-added sales policy of using our proposal capabilities to resolve operational issues at client companies. In the latter half of the period under review, we won large-scale orders from a leading US healthcare-related company. Also, in discussions regarding major deals linked to leading companies that operate globally, our track record and our ability to handle customer requests are being evaluated very favorably, and a promising number of new contracts have been concluded in Europe and the US.

<Commercial and industrial printing>

In production print, the top-of-the-line "bizhub PRESS C1100" digital color printing system continued to post solid sales. As well as moving forward with deliveries for this product in Europe, mostly in Germany, based on orders that were won at the "drupa 2016" international printing equipment exhibition held in May, in the US we signed major deals with large print services, installations for which began during the period under review. In addition, in industrial printing and inkjets, components such as inkjet printheads were strong, leading to growth in sales. At drupa 2016 we also began sales of the new "AccurioJet KM-1" digital inkjet press.

As a result, revenue of the Business Technologies Business stood at ¥370.6 billion, down 9.4% year on year and operating profit was ¥26.1 billion, down 23.9% year on year. Due to rising sales of mainstay products, and especially the shift towards mid-range and high-end products and the corresponding increase in print volumes, the gross profit ratio improved. However, with the strengthening of the yen against the US dollar by about 20 yen and by more than 20 yen versus the euro year on year, the impact of drastic fluctuations in exchange rates was substantial and led to lower revenue and lower profit. Excluding the impact of exchange rates in the period under review, revenue grew by 3.7% year on year and operating profit rose by 5.4% year on year. Moreover, in the same period of the previous year, a gain on the sale of property, plant and equipment in North America was posted, so the scale of the decline in profit was significant.

ii. Healthcare Business

During the period under review, Konica Minolta continued to receive positive evaluation in the market, such as being rated "No.1 in customer satisfaction for digital X-ray diagnostics imaging systems" by a market research company in the US, while sales of the "AeroDR" cassette-type digital X-ray diagnostics imaging systems grew strongly. Furthermore, by leveraging sales networks strengthened by corporate acquisitions made in the previous fiscal year, rising sales of solutions products in the primary care market also contributed to the expansion of the business. In Japan, in addition to growth in sales of "AeroDR" systems, sales of "SONIMAGE HS1" diagnostic ultrasound systems were also strong. Sales of the "SONIMAGE HS1" began in China from September of this year, generating the highest ever sales volume on a quarterly basis.

As a result of these factors, revenue of the Healthcare Business amounted to ¥41.3 billion, an increase of 2.9% year on year. Operating profit was ¥1.2 billion, a decrease of 16.7% over the same period of the previous fiscal year. In accordance with our Medium Term Business Plan, we achieved progress in our growth strategy of expanding the US business and growing sales of digital products, but the impact of the stronger yen resulted in higher revenue and lower profit. Excluding the impact of exchange rates in the period under review, revenue grew by 11.2% year on year and operating profit rose by 57.1% year on year.

iii. Industrial Business

In the field of performance materials, TAC film sales volume recovered from the first half of the period under review along with the recovery of the display products market. For individual products, we began to see the fruits of the strengthening measures we had been working on for phase difference film for IPS panels and optical ultra-thin TAC film, etc., all of which led to a clear note of recovery. In year-on-year terms, revenue declined owing to the decline in product price, but the scale of the contraction in the second half of the period under review was smaller than in the first half, and revenue has recovered to the level of the second half of the previous fiscal year.

In the field of optical systems for industrial use, there was a significant impact from a major deal for measuring instruments, which had been anticipated for the period but had been postponed until later in this fiscal year. End-product markets for lenses for industrial and professional use also remained weak and sales were sluggish.

As a result, revenue of the Industrial Business came to ¥44.1 billion, down 21.5% year on year and operating profit stood at ¥4.7 billion, down 54.8% year on year.

(Reference) Overview of 2Q consolidated accounting period

(Billions of yen)

	Three months ended September 30, 2016	Three months ended September 30, 2015	Increase (Decrease)	
Revenue	232.8	258.6	(25.7)	−10.0%
Gross profit	112.7	124.4	(11.7)	−9.4%
Operating profit	9.6	18.1	(8.5)	−47.1%
Profit before tax	8.9	16.9	(7.9)	−47.2%
Profit attributable to owners of the company	6.8	10.7	(3.8)	−36.1%
Basic earnings per share [yen]	13.84	21.68	(7.84)	−36.2%
Capital expenditures	9.5	14.2	(4.7)	−32.9%
Depreciation and amortization expenses	12.6	12.4	0.2	2.0%
Research and development expenses	17.9	18.8	(0.9)	−4.8%
Free cash flow	11.2	(19.2)	30.5	–
Foreign exchange rates [yen]				
US dollar	102.43	122.23	(19.80)	−16.2%
euro	114.28	135.98	(21.70)	−16.0%

Overview of main segments

(Billions of yen)

		Three months ended September 30, 2016	Three months ended September 30, 2015	Increase (Decrease)	
Business Technologies Business	Revenue	184.3	207.4	(23.1)	−11.1%
	Operating profit	12.8	21.0	(8.2)	−39.2%
Healthcare Business	Revenue	22.9	22.3	0.5	2.6%
	Operating profit	1.0	1.3	(0.3)	−23.2%
Industrial Business	Revenue	22.4	28.0	(5.6)	−20.1%
	Operating profit	2.3	4.5	(2.1)	−47.7%
Subtotal	Revenue	229.6	257.8	(28.1)	−10.9%
	Operating profit	16.2	27.0	(10.7)	−39.9%
"Others" and "Adjustments" (Note 2)	Revenue	3.1	0.7	2.4	332.0%
	Operating profit	(6.6)	(8.8)	2.2	–
Amount posted to Condensed Consolidated Statement of Profit or Loss	Revenue	232.8	258.6	(25.7)	−10.0%
	Operating profit	9.6	18.1	(8.5)	−47.1%

(Note)

1. "Revenue" refers to revenue from external customers.
2. "Revenue" refers to revenue from external customers in "Others" in "3. Condensed Consolidated Financial Statements (6) Notes to the Condensed Consolidated Financial Statements [Segment Information]" and "Operating profit" is the total of the "Others" and "Adjustments" items from the same statement.

(2) Qualitative Information on the Consolidated Financial Position

a. Analysis of Financial Position

		September 30, 2016	March 31, 2016	Increase (Decrease)
Total assets	[Billions of yen]	968.1	976.3	(8.1)
Total liabilities	[Billions of yen]	474.2	461.3	12.8
Total equity	[Billions of yen]	493.9	514.9	(21.0)
Equity attributable to owners of the company	[Billions of yen]	484.7	514.2	(29.5)
Equity ratio attributable to owners of the company	[%]	50.1	52.7	-2.6

Total assets at September 30, 2016 were ¥968.1 billion, a decrease of ¥8.1 billion (0.8%) from the previous fiscal year-end. This was mainly due to a decrease of ¥27.6 billion in trade and other receivables, and an increase of ¥22.8 billion in goodwill and intangible assets.

Total liabilities at September 30, 2016 were ¥474.2 billion, an increase of ¥12.8 billion (2.8%) from the previous fiscal year-end. This was mainly due to an increase of ¥28.3 billion in bonds and borrowings, and a decrease of ¥14.9 billion in trade and other payables.

Total equity at September 30, 2016 amounted to ¥493.9 billion, a decrease of ¥21.0 billion (4.1%) from the previous fiscal year-end. This was mainly the result of profit for the period of ¥13.4 billion, a decrease in retained earnings due to cash dividends of ¥7.4 billion, and other components of equity (mainly, exchange differences on translation of foreign operations) falling by ¥35.3 billion.

Equity attributable to owners of the company totaled ¥484.7 billion at September 30, 2016, a decrease of ¥29.5 billion (5.7%) from the previous fiscal year-end, and the equity ratio attributable to owners of the company decreased 2.6 percentage points to 50.1%.

b. Cash Flows

(Billions of yen)

	Six months ended September 30, 2016	Six months ended September 30, 2015	Increase (Decrease)
Cash flows from operating activities	35.7	18.4	17.3
Cash flows from investing activities	(49.6)	(58.8)	9.1
Total (Free cash flow)	(13.9)	(40.3)	26.4
Cash flows from financing activities	22.4	(18.6)	41.0

During the six months ended September 30, 2016, net cash provided by operating activities was ¥35.7 billion, while net cash used in investing activities, mainly associated with the purchase of investments in subsidiaries, totaled ¥49.6 billion. As a result, free cash flow (the sum of operating and investing activities) was an outflow of ¥13.9 billion.

Net cash provided by financing activities was ¥22.4 billion.

In addition, cash and cash equivalents at the end of the six months ended September 30, 2016 increased ¥2.4 billion compared with the previous fiscal year-end to ¥102.3 billion, reflecting the effect of exchange rate changes on cash and cash equivalents.

Cash flows from operating activities

Net cash provided by operating activities for the period under review was ¥35.7 billion as a result of cash inflow due to profit before tax of ¥17.4 billion, depreciation and amortization expenses of ¥25.4 billion and an increase in trade and other payables of ¥6.7 billion; and cash outflow due to income taxes paid of ¥3.8 billion and an increase in inventories of ¥12.7 billion.

Cash flows from investing activities

Net cash used in investing activities was ¥49.6 billion due to purchases of property, plant and equipment of ¥15.7 billion and purchases of investments in subsidiaries of ¥25.1 billion.

As a result, free cash flow (the sum of operating and investing activities) was an outflow of ¥13.9 billion, compared to net cash used of ¥40.3 billion in the same period of the previous fiscal year.

Cash flows from financing activities

Net cash provided by financing activities was ¥22.4 billion, compared to net cash used of ¥18.6 billion in the same period of the previous fiscal year, due to an increase in short-term loans payable of ¥0.7 billion, proceeds from long-term loans payable of ¥30.5 billion, repayments of long-term loans payable of ¥1.7 billion and cash dividends paid of ¥7.4 billion.

(3) Qualitative Information on the Consolidated Results Forecast

Although the outlook for both the domestic and overseas environments in which the Group operates is likely to remain uncertain, we have not made any changes to the results forecasts announced on July 28, 2016.

Furthermore, the exchange rates these forecasts are predicated upon are unchanged from those announced on July 28, namely 105 yen against the US dollar and 115 yen against the euro.

*The above operating performance forecasts are based on future-related suppositions, outlooks, and plans at the time this report was released, and as such 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.

2. SUMMARY INFORMATION (NOTES)

None.