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)

	Three months ended June 30, 2016	Three months ended June 30, 2015	Increase (Decrease)	
Revenue	229.1	248.6	(19.5)	-7.8%
Gross profit	114.2	119.7	(5.4)	-4.5%
Operating profit	8.9	10.0	(1.1)	-11.1%
Profit before tax	8.5	10.3	(1.8)	-18.0%
Profit attributable to owners of the company	6.3	6.5	(0.2)	-3.1%
Basic earnings per share [yen]	12.89	13.19	(0.30)	-2.3%
Capital expenditures	7.8	7.8	0.0	0.5%
Depreciation and amortization expenses	12.7	12.5	0.2	1.8%
Research and development expenses	18.2	19.2	(1.0)	-5.2%
Free cash flow	(25.2)	(21.1)	(4.0)	—
Number of employees (consolidated) [persons]	44,046	42,321	1,725	4.1%
Foreign exchange rates [yen]				
US dollar	108.14	121.36	(13.22)	-10.9%
euro	122.02	134.16	(12.14)	-9.0%

In the first quarter of this fiscal year (hereafter, “period under review”), consolidated revenue for the Konica Minolta Group (“the Group”) amounted to ¥229.1 billion, down 7.8% year on year. In the Healthcare Business, overseas sales grew, leading to higher revenue, but the Business Technologies Business was hit hard by the effects of the stronger yen, and in the Industrial Business sales volumes were affected by falling demand for end products, leading to lower revenue for the business and for the Group as a whole.

Operating profit totaled ¥8.9 billion, down 11.1% year on year. In the Business Technologies Business, gross profit ratio improved due to higher sales of color products, high-end models in particular. This offset the rise in SG&A expenses caused by newly consolidated companies and the impact of the stronger yen against the euro, allowing profits to be maintained at previous-year levels. Rising overseas sales helped the Healthcare Business, which was flat compared to the same period in the previous fiscal year, but in the Industrial Business, falling sales, primarily in performance materials, caused gross profit to decline, leading to lower profit. Profit before tax totaled ¥8.5 billion, down 18.0% year on year and profit attributable to owners of the company was down 3.1% year on year to ¥6.3 billion.

During the period under review, the yen exchange rate rose sharply year on year, by ¥13.2 against the US dollar and by ¥12.1 against the euro, pushing down revenue by ¥23.8 billion and operating profit by ¥3.2 billion.

<Progress in the Business Transformation>

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 “Care Support Solutions,” the first order for which we won at the end of the previous fiscal year, we also gained a major contract during the period under review. We are pushing forward with measures to generate results from our investments at an early date, for example by preparing to leverage our customer base and global sales network to expand sales of solutions from MOBOTIX (headquarted in Germany), a manufacturer of IP video surveillance cameras in which we acquired a 65.5% stake in order to obtain technology for use in the creation of new businesses. In Japan, our initiatives to transform the focus of our business by leveraging ICT have been well received, and we have been 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.”

b. Overview by Segment

(Billions of yen)

		Three months ended June 30, 2016	Three months ended June 30, 2015	Increase (Decrease)	
Business Technologies Business	Revenue	186.3	201.7	(15.4)	-7.7%
	Operating profit	13.3	13.2	0.0	0.5%
Healthcare Business	Revenue	18.4	17.8	0.5	3.2%
	Operating profit	0.1	0.1	0.0	53.2%
Industrial Business	Revenue	21.7	28.1	(6.4)	-22.9%
	Operating profit	2.3	5.8	(3.5)	-60.4%

(Note) “Revenue” refers to revenue from external customers.

i. Business Technologies Business

<Office services>

A3 color MFPs (multi-functional peripherals) sustained their momentum during the period under review, with sales volume increasing in the developed markets of Japan, the US, and Europe relative to the previous fiscal year. In particular, there was an increase in the proportion of sales to the high-end models that lead to future expansion in print volumes, and also contributed to an improvement in the gross profit ratio.

In Optimized Print Services for major accounts, in addition to securing new contracts in Europe, we have also won new large-scale contracts with a dominant financial institution and an energy-related company in China, in a clear demonstration of the results of our efforts to reinforce our global support network.

<Commercial and industrial printing>

In production print, the top-of-the-line “bizhub PRESS C1100” digital color printing system continued to post solid sales.

In addition we have generated many leads, such as by beginning to take orders for the new “AccurioJet KM-1” digital inkjet press at “drupa 2016,” the world’s largest printing and cross media solutions exhibition, which was held in Germany in May, as well as by exhibiting our full color digital label press “bizhub PRESS C71cf” and products from MGI (headquartered in France), in which we made an additional investment in April of this year.

As a result, revenue of the Business Technologies Business from external customers stood at ¥186.3 billion, down 7.7% year on year and operating profit was ¥13.3 billion, up 0.5% year on year. Sales of mainstay products rose, especially those of high-end models, compensating for the rise in SG&A expenses caused by newly consolidated companies and the impact of the stronger yen against the euro, and allowing the business to maintain profits at a year-on-year level. Furthermore, negative impacts of the stronger yen were ¥21.3 billion on revenue and ¥2.4 billion at the operating profit level.

ii. Healthcare Business

In the period under review, overseas sales grew steadily, primarily in the Americas, where we executed M&A and strengthened sales channels during the previous fiscal year. In mainstay products, sales of the “AeroDR” cassette-type digital X-ray diagnostics imaging system rose in Japan and overseas, while unit sales of the “SONIMAGE HS1” diagnostic ultrasound systems doubled, driven mostly by Japan.

As a result of these factors, revenue of the Healthcare Business from external customers amounted to ¥18.4 billion, an increase of 3.2% year on year. Operating profit was ¥193 million, an increase of 53.2% over the ¥126 million in the same period of the previous fiscal year.

iii. Industrial Business

In the field of performance materials, the slump in sales of display products that had become clear in the latter half of the previous fiscal year continued until the first half of the period under review and had an impact on TAC film, recording lower sales volumes. In the field of optical systems for industrial use, measuring instruments were solid as a result of M&A, but lenses for industrial and professional use were affected by waning demand and sales volumes fell year on year.

As a result, revenue from external customers in the Industrial Business came to ¥21.7 billion, down 22.9% year on year and operating profit stood at ¥2.3 billion, down 60.4% year on year.

(2) Qualitative Information on the Consolidated Financial Position

a. Analysis of Financial Position

		June 30, 2016	March 31, 2016	Increase (Decrease)
Total assets	[Billions of yen]	940.7	976.3	(35.6)
Total liabilities	[Billions of yen]	454.2	461.3	(7.1)
Total equity	[Billions of yen]	486.4	514.9	(28.5)
Equity attributable to owners of the company	[Billions of yen]	483.0	514.2	(31.2)
Equity ratio attributable to owners of the company	[%]	51.3	52.7	-1.4

Total assets at June 30, 2016 were ¥940.7 billion, a decrease of ¥35.6 billion (3.6%) from the previous fiscal year-end. This was mainly due to a decrease of ¥17.9 billion in cash and cash equivalents, and a decrease of ¥28.9 billion in trade and other receivables.

Total liabilities at June 30, 2016 were ¥454.2 billion, a decrease of ¥7.1 billion (1.5%) from the previous fiscal year-end. This was mainly due to an increase of ¥17.3 billion in bonds and borrowings, and a decrease of ¥18.0 billion in trade and other payables.

Total equity at June 30, 2016 amounted to ¥486.4 billion, a decrease of ¥28.5 billion (5.5%) from the previous fiscal year-end. This was mainly the result of profit for the period of ¥6.2 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 ¥30.2 billion.

Equity attributable to owners of the company totaled ¥483.0 billion at June 30, 2016, a decrease of ¥31.2 billion (6.1%) from the previous fiscal year-end, and the equity ratio attributable to owners of the company decreased 1.4 percentage points to 51.3%.

b. Cash Flows

(Billions of yen)

	Three months ended June 30, 2016	Three months ended June 30, 2015	Increase (Decrease)
Cash flows from operating activities	13.6	(4.5)	18.2
Cash flows from investing activities	(38.9)	(16.5)	(22.3)
Total (Free cash flow)	(25.2)	(21.1)	(4.0)
Cash flows from financing activities	12.4	(18.1)	30.6

During the three months ended June 30, 2016, net cash provided by operating activities was ¥13.6 billion, while net cash used in investing activities, mainly associated with purchases of investments in subsidiaries, totaled ¥38.9 billion. As a result, free cash flow (the sum of operating and investing activities) was an outflow of ¥25.2 billion.

Net cash provided by financing activities was ¥12.4 billion.

In addition, cash and cash equivalents at the end of the three months ended June 30, 2016 decreased by ¥17.9 billion compared with the previous fiscal year-end to ¥81.9 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 three months ended June 30, 2016 was ¥13.6 billion, as a result of cash inflow due to profit before tax of ¥8.5 billion, depreciation and amortization expenses of ¥12.7 billion and a decrease in trade and other receivables of ¥5.1 billion; and cash outflow due to income taxes paid of ¥2.3 billion and an increase in inventories of ¥6.8 billion.

Cash flows from investing activities

Purchase of property, plant and equipment of ¥8.7 billion and purchase of investments in subsidiaries of ¥22.5 billion were recognized. As a result, net cash used in investing activities was ¥38.9 billion.

As a result, free cash flow (the sum of operating and investing activities) was an outflow of ¥25.2 billion (an outflow of ¥21.1 billion in the same period of the previous fiscal year).

Cash flows from financing activities

Net cash provided by financing activities was ¥12.4 billion, compared to net cash used of ¥18.1 billion in the same period of the previous fiscal year, due to a net increase in short-term loans payable of ¥10.1 billion, proceeds from long-term loans payable of ¥10.0 billion, and cash dividends paid of ¥7.2 billion.

(3) Qualitative Information on the Consolidated Results Forecast

Looking ahead at the global economy from 2Q of the consolidated fiscal year onward, we expect concerns about the impact on business activity of the UK's decision to leave the EU to continue the foreign exchange market tendency toward a strong yen. By region, we expect the US economy to be relatively strong against the backdrop of an improving environment for employment, but overall it seems likely that the trend of deceleration in the global economy will strengthen.

With this upcoming business environment in mind, we have revised our results forecasts for the current consolidated fiscal year as follows. In addition, we have altered the exchange rate assumption underlying these results forecasts for 2Q and beyond by 5 yen against the euro compared to our initial assumption of 120 yen [US$: ¥105, euro ¥115].

Revision of consolidated financial results forecast for the fiscal year ending March 31, 2017 (April 1, 2016 – March 31, 2017)

	Revenue	Operating profit	Profit attributable to owners of the company	Basic earnings per share
Forecast previously announced (A)	[Billions of yen] 1,060.0	[Billions of yen] 66.0	[Billions of yen] 44.0	[Yen] 88.80
Revised forecast (B)	1,030.0	55.0	36.0	72.65
Increase (decrease) (B - A)	(30.0)	(11.0)	(8.0)	—
Rate of change (%)	-2.8	-16.7	-18.2	—
(Ref.) Results for the fiscal year ended March 31, 2016	1,031.7	60.0	31.9	64.39

(Reference) Results forecasts for 3 main segments (April 1, 2016 – March 31, 2017)

[Billions of yen]

	Forecast previously announced (A)		Revised forecast (B)		Increase (decrease) (B - A)	
	Revenue	Operating profit	Revenue	Operating profit	Revenue	Operating profit
Business Technologies Business	830.0	68.0	810.0	62.0	(20.0)	(6.0)
Healthcare Business	100.0	5.0	100.0	5.0	—	—
Industrial Business	125.0	22.0	115.0	17.0	(10.0)	(5.0)

(Note) "Revenue" refers to revenue from external customers.

*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.