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)

	Nine months ended December 31, 2016	Nine months ended December 31, 2015	Increase (Decrease)	
Revenue	699.6	762.3	(62.6)	-8.2%
Gross profit	339.0	366.9	(27.8)	-7.6%
Operating profit	34.4	41.5	(7.1)	-17.2%
Profit before tax	34.1	40.5	(6.4)	-15.8%
Profit attributable to owners of the company	24.9	26.4	(1.5)	-6.0%
Basic earnings per share [yen]	50.27	53.32	(3.05)	-5.7%
Capital expenditures	27.5	35.1	(7.6)	-21.8%
Depreciation and amortization expenses	39.0	37.4	1.6	4.3%
Research and development expenses	53.5	56.8	(3.2)	-5.8%
Free cash flow	(9.6)	(46.3)	36.6	—
Number of employees (consolidated) [persons]	43,913	43,392	521	1.2%
Foreign exchange rates [yen]				
US dollar	106.63	121.70	(15.07)	-12.4%
euro	118.02	134.36	(16.34)	-12.2%

In the nine months ended December 31, 2016 (hereafter, period under review), consolidated revenue of the Konica Minolta Group (hereafter, the Group) amounted to ¥699.6 billion, a decrease of 8.2% year on year. Sales of mainstay products that we are working to establish as "Genre-top" products—such as high-end color products in the Business Technologies Business and digital products in the Healthcare Business—were strong, but this was not sufficient to completely offset the impact of the stronger yen and revenues fell. In the Industrial Business as well, revenue continued to decline on the back of a deteriorating end-product market.

Operating profit was ¥34.4 billion, falling by 17.2% over the same period in the previous fiscal year. In the Business Technologies Business, rising sales of high-end color products and other factors led to an improvement in the gross profit ratio, but the impact of the stronger yen against European currencies was significant and led to a decline in profit. The Healthcare Business recorded lower profit, but due to ¥7.7 billion in patent-related income posted in the Industrial Business as a result of the implementation of management measures aimed at maximizing the value of intellectual property, we were able to secure a year-on-year increase in profit for the period under review.

Profit before tax came to ¥34.1 billion (down 15.8% year on year) and profit attributable to owners of the company was ¥24.9 billion (down 6.0% year on year).

Moreover, during the period under review, fluctuations in foreign exchange rates depressed revenue by ¥84.2 billion year on year, and pushed down operating profit by ¥17.2 billion year on year. Excluding these effects, revenue rose by 2.8% year on year and operating profit increased by 24.4% year on year.

<Progress in the Medium Term Business Plan "TRANSFORM 2016">

In the field of commercial and industrial printing, which we are positioning as a growth business, we opened a strategic business base in France to facilitate the growth of the industrial printing business. Established as part of a global management strategy, this is the Group's first overseas business base in its core business area. Nevertheless, together with MGI we will collaborate with leading companies in industrial printing that are gathered in Europe, pushing ahead to create new markets and generate new customer value in the digital area of industrial printing.

In the areas of drug discovery and clinical trial that constitute the primary focus of the Healthcare Business, in the first half of the period under review we initiated a joint research project with the Institut Pasteur and BioAxial in France, aimed at the development of a pharmaceutical development support system. By tracing the effects on the cells of test subjects, such as mice, to which drugs have been administered by use of fluorescent nanoparticles developed by the Group, this project aims to encourage the development of next-generation treatment techniques that enable observation from outside the specimen's body as well as observation and evaluation under a microscope.

b. Overview by Segment

(Billions of yen)

		Nine months ended December 31, 2016	Nine months ended December 31, 2015	Increase (Decrease)	
Business Technologies Business	Revenue	562.2	616.1	(53.8)	-8.7%
	Operating profit	38.1	50.8	(12.7)	-25.1%
Healthcare Business	Revenue	63.3	62.2	1.1	1.8%
	Operating profit	1.5	2.2	(0.7)	-34.2%
Industrial Business	Revenue	65.5	81.7	(16.2)	-19.8%
	Operating profit	14.4	13.2	1.1	8.7%
Subtotal	Revenue	691.1	760.0	(68.9)	-9.1%
	Operating profit	54.0	66.4	(12.4)	-18.7%
"Others" and "Adjustments" (Note 2)	Revenue	8.5	2.2	6.2	273.4%
	Operating profit	(19.5)	(24.8)	5.2	—
Amount reported in Condensed Consolidated Statement of Profit or Loss	Revenue	699.6	762.3	(62.6)	-8.2%
	Operating profit	34.4	41.5	(7.1)	-17.2%

(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>

Sales of mainstay A3 color MFPs (Multi-functional peripherals) also remained strong during the period under review, and sales volumes exceeded previous-year levels in all regions. The highest rates of growth were shown by high-end models in terms of product segment and by Europe and China in terms of sales region.

The environment remains intensely competitive, especially in North America, but by expanding our content management services, including document digitization support services, we have managed to win large-scale orders from customers associated with governmental and public agencies. In addition to enlarging the contact surface with the customer, broadening the scope of the services that we offer also enhances our ability to submit proposals that resolve the customer's issues, and creates an environment favorable to the spread of the Group's unique hybrid-type sales.

<Commercial and industrial printing>

In production print, the top-of-the-line "bizhub PRESS C1100" digital color printing system continued to post solid sales, and growth was marked in North America, China, and Asia. Business discussions for the new "AccurioJet KM-1" digital inkjet press gathered momentum in all regions, and the rollout to the market began in earnest.

In industrial inkjet, components such as inkjet printheads saw a slowing of sales due to deteriorating market conditions, but in textile printers the "Nassenger SP-1," which achieves high productivity through the use of single-pass technology, won orders in France and Turkey and contributed to a rise in revenue.

As a result, revenue of the Business Technologies Business stood at ¥562.2 billion, down 8.7% year on year and operating profit was ¥38.1 billion, down 25.1% year on year. Excluding the impact of exchange rates in the period under review, revenue grew by 3.7% year on year and operating profit rose by 5.8% year on year.

ii. Healthcare Business

During the period under review, by region it was the US and Japan that contributed to higher revenue. In the US, in addition to significant growth in Digital Radiography (DR), sales of solution products for the primary care market also contributed to the expansion of the business. In Japan, sales of digital products were strong. In terms of products, sales of "AeroDR" cassette-type digital X-ray diagnostics imaging systems remained solid, and in December we began sales of our new "AeroDR HD'" product, which offers world-leading resolution. Sales expanded steadily for "SONIMAGE HS1" diagnostic ultrasound systems, which we launched in China in September. Solid sales continued in Japan, and in November we introduced a new version to the lineup with probes that use our proprietary high-resolution technology. On the other hand, Computed Radiography (CR) digital X-ray diagnostics imaging systems were hit by amendments to the payment system for medical services in the US, and sales volumes declined.

As a result of these factors, revenue of the Healthcare Business amounted to ¥63.3 billion, an increase of 1.8% year on year and operating profit was ¥1.5 billion, a decrease of 34.2% year on year. Excluding the impact of exchange rates in the period under review, revenue grew by 9.4% year on year and operating profit rose by 35.1% year on year.

iii. Industrial Business

In the field of performance materials, amid intensifying pressure on prices we focused on high value-added products such as phase difference film for televisions and ultra-thin TAC film, with the result that the value of sales remained at levels lower than those of the previous year.

In the field of optical systems for industrial use, a major deal for measuring instruments that had originally been anticipated for the first half of this fiscal year continues to be postponed, while lenses for industrial and professional use were hit by lower sales volumes in their end-product markets. Revenues fell in both areas.

As a result, revenue of the Industrial Business came to ¥65.5 billion, down 19.8% year on year and operating profit stood at ¥14.4 billion, up 8.7% year on year. Gross profit fell as a result of lower sales volumes, but with the addition of patent-related income, revenues fell but profit rose.

(Reference) Overview of 3Q consolidated accounting period

(Billions of yen)

	Three months ended December 31, 2016	Three months ended December 31, 2015	Increase (Decrease)	
Revenue	237.6	255.0	(17.4)	-6.8%
Gross profit	112.0	122.7	(10.6)	-8.7%
Operating profit	15.9	13.3	2.5	19.0%
Profit before tax	16.6	13.1	3.4	26.1%
Profit attributable to owners of the company	11.6	9.1	2.5	27.3%
Basic earnings per share [yen]	23.54	18.49	5.05	27.3%
Capital expenditures	10.0	13.0	(2.9)	-22.9%
Depreciation and amortization expenses	13.6	12.4	1.1	9.1%
Research and development expenses	17.3	18.7	(1.3)	-7.3%
Free cash flow	4.2	(5.9)	10.2	—
Foreign exchange rates [yen]				
US dollar	109.30	121.50	(12.20)	-10.0%
euro	117.78	132.95	(15.17)	-11.4%

Overview of main segments

(Billions of yen)

		Three months ended December 31, 2016	Three months ended December 31, 2015	Increase (Decrease)	
Business Technologies Business	Revenue	191.5	206.8	(15.2)	-7.4%
	Operating profit	11.9	16.5	(4.5)	-27.7%
Healthcare Business	Revenue	21.9	21.9	(0.0)	-0.1%
	Operating profit	0.2	0.7	(0.5)	-66.8%
Industrial Business	Revenue	21.3	25.4	(4.1)	-16.2%
	Operating profit	9.7	2.8	6.8	243.6%
Subtotal	Revenue	234.9	254.3	(19.3)	-7.6%
	Operating profit	21.9	20.1	1.7	8.8%
"Others" and "Adjustments" (Note 2)	Revenue	2.7	0.7	1.9	257.7%
	Operating profit	(6.0)	(6.7)	0.7	—
Amount reported in Condensed Consolidated Statement of Profit or Loss	Revenue	237.6	255.0	(17.4)	-6.8%
	Operating profit	15.9	13.3	2.5	19.0%

(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

		December 31, 2016	March 31, 2016	Increase (Decrease)
Total assets	[Billions of yen]	1030.0	976.3	53.6
Total liabilities	[Billions of yen]	499.1	461.3	37.7
Total equity	[Billions of yen]	530.8	514.9	15.9
Equity attributable to owners of the company	[Billions of yen]	521.3	514.2	7.0
Equity ratio attributable to owners of the company	[%]	50.6	52.7	-2.1

Total assets at December 31, 2016 were ¥1,030.0 billion, an increase of ¥53.6 billion (5.5%) from the previous fiscal year-end. This was primarily attributed to an increase of ¥34.2 billion in goodwill and intangible assets, an increase of ¥26.1 billion in inventories, and a decrease of ¥10.2 billion in trade and other receivables.

Total liabilities at December 31, 2016 were ¥499.1 billion, an increase of ¥37.7 billion (8.2%) from the previous fiscal year-end. This was mainly due to an increase of ¥27.7 billion in bonds and borrowings.

Total equity at December 31, 2016 amounted to ¥530.8 billion, an increase of ¥15.9 billion (3.1%) from the previous fiscal year-end.

Equity attributable to owners of the company totaled ¥521.3 billion at December 31, 2016, an increase of ¥7.0 billion (1.4%) from the previous fiscal year-end. This was mainly the result of profit for the period of ¥24.9 billion, a decrease in retained earnings due to cash dividends of ¥14.8 billion, and other components of equity (mainly, exchange differences on translation of foreign operations) falling by ¥2.9 billion. Equity ratio attributable to owners of the company decreased 2.1 percentage points to 50.6%.

b. Cash Flows

(Billions of yen)

	Nine months ended December 31, 2016	Nine months ended December 31, 2015	Increase (Decrease)
Cash flows from operating activities	48.7	31.1	17.5
Cash flows from investing activities	(58.4)	(77.4)	19.0
Total (Free cash flow)	(9.6)	(46.3)	36.6
Cash flows from financing activities	6.4	(19.0)	25.4

During the nine months ended December 31, 2016, net cash provided by operating activities was ¥48.7 billion, while net cash used in investing activities, mainly associated with the purchase of investments in subsidiaries, totaled ¥58.4 billion. As a result, free cash flow (the sum of operating and investing activities) was an outflow of ¥9.6 billion.

Net cash provided by financing activities was ¥6.4 billion.

In addition, cash and cash equivalents at the end of the nine months ended December 31, 2016 decreased ¥5.2 billion compared with the previous fiscal year-end to ¥94.7 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 ¥48.7 billion, a result largely of cash inflow due to profit before tax of ¥34.1 billion, depreciation and amortization expenses of ¥39.0 billion, and a decrease in trade and other receivables of ¥11.9 billion on the one hand, and cash outflow attributable mainly to an increase in inventories of ¥21.3 billion and payment of income taxes of ¥5.7 billion.

Cash flows from investing activities

Net cash used in investing activities was ¥58.4 billion due mainly to purchases of property, plant and equipment of ¥22.3 billion, purchases of intangible assets of ¥6.6 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 ¥9.6 billion, compared to net cash used of ¥46.3 billion in the same period of the previous fiscal year.

Cash flows from financing activities

Net cash provided by financing activities was ¥6.4 billion, compared to net cash used of ¥19.0 billion in the same period of the previous fiscal year, reflecting mainly an increase in short-term loans payable of ¥13.2 billion and proceeds from bonds issuance and long-term loans payable of ¥34.0 billion, while expenditures included redemption of bonds and repayments of long-term loans payable of ¥26.5 billion and cash dividends paid of ¥14.6 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.

With regard to the exchange rate assumptions that form the basis of the forecasts for the fourth quarter, a ¥5 depreciation has been applied to the previous US dollar rate assumption announced on July 28, 2016, taking it to ¥110. The euro exchange rate assumption is unchanged at ¥115.

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.

*Units of less than one hundred million yen in the qualitative information section have been omitted.

2. SUMMARY INFORMATION (NOTES)

None.