

2. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS and RELATED NOTES
(1) Condensed Consolidated Statement of Financial Position

(Millions of yen)

	March 31, 2017	June 30, 2017
Assets		
Current assets		
Cash and cash equivalents	92,628	72,387
Trade and other receivables	243,195	235,690
Inventories	136,020	142,390
Income tax receivables	1,878	1,321
Other financial assets	6,924	3,842
Other current assets	18,799	22,670
Total current assets	499,446	478,303
Non-current assets		
Property, plant and equipment	190,580	190,797
Goodwill and intangible assets	209,577	211,702
Investments accounted for using the equity method	3,489	3,903
Other financial assets	47,542	48,011
Deferred tax assets	48,129	49,598
Other non-current assets	6,668	8,127
Total non-current assets	505,988	512,140
Total assets	1,005,435	990,444

(Millions of yen)

	March 31, 2017	June 30, 2017
Liabilities		
Current liabilities		
Trade and other payables	156,090	141,870
Bonds and borrowings	41,294	34,443
Income tax payables	5,554	1,719
Provisions	5,659	5,504
Other financial liabilities	372	5,510
Other current liabilities	41,275	37,462
Total current liabilities	250,246	226,511
Non-current liabilities		
Bonds and borrowings	144,218	148,539
Retirement benefit liabilities	61,267	61,755
Provisions	1,136	2,287
Other financial liabilities	4,362	5,661
Deferred tax liabilities	5,222	5,284
Other non-current liabilities	4,833	4,936
Total non-current liabilities	221,040	228,466
Total liabilities	471,286	454,977
Equity		
Share capital	37,519	37,519
Share premium	202,631	201,038
Retained earnings	276,709	274,566
Treasury shares	(9,214)	(9,123)
Subscription rights to shares	998	988
Other components of equity	15,685	20,676
Equity attributable to owners of the company	524,331	525,666
Non-controlling interests	9,818	9,800
Total equity	534,149	535,466
Total liabilities and equity	1,005,435	990,444

(2) Condensed Consolidated Statement of Profit or Loss

(Millions of yen)

	Three months ended June 30, 2016	Three months ended June 30, 2017
Revenue	229,131	232,351
Cost of sales	114,836	120,367
Gross profit	114,295	111,984
Other Income	1,319	4,779
Selling, general and administrative expenses	105,221	106,062
Other expenses	1,481	1,986
Operating profit	8,911	8,714
Finance income	723	789
Finance costs	1,038	1,220
Share of loss of investments accounted for using the equity method	68	76
Profit before tax	8,528	8,207
Income tax expense	2,260	2,837
Profit for the period	6,267	5,370
Profit attributable to		
Owners of the company	6,386	5,367
Non-controlling interests	(119)	2
Earnings per share		
Basic	12.89 yen	10.83 yen
Diluted	12.85 yen	10.80 yen

(3) Condensed Consolidated Statement of Comprehensive Income

(Millions of yen)

	Three months ended June 30, 2016	Three months ended June 30, 2017
Profit for the period	6,267	5,370
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit pension plans (net of tax)	–	(32)
Net gain (loss) on revaluation of financial assets measured at fair value (net of tax)	(796)	96
Share of other comprehensive income of investments accounted for using the equity method (net of tax)	(0)	0
Total items that will not be reclassified to profit or loss	(797)	64
Items that may be subsequently reclassified to profit or loss		
Net gain (loss) on derivatives designated as cash flow hedges (net of tax)	393	(2,171)
Exchange differences on translation of foreign operations (net of tax)	(30,095)	7,107
Share of other comprehensive income of investments accounted for using the equity method (net of tax)	(13)	10
Total items that may be subsequently reclassified to profit or loss	(29,715)	4,946
Total other comprehensive income	(30,513)	5,010
Total comprehensive income	(24,245)	10,380
Total comprehensive income attributable to		
Owners of the company	(23,868)	10,329
Non-controlling interests	(377)	51

(4) Condensed Consolidated Statement of Changes in Equity

(Millions of yen)

	Share capital	Share premium	Retained earnings	Treasury shares	Subscription rights to shares	Other components of equity	Equity attributable to owners of the company	Non-controlling interests	Total equity
Balance at April 1, 2016	37,519	203,397	258,562	(9,408)	1,009	23,204	514,285	696	514,981
Profit for the period	—	—	6,386	—	—	—	6,386	(119)	6,267
Other comprehensive income	—	—	—	—	—	(30,255)	(30,255)	(258)	(30,513)
Total comprehensive income	—	—	6,386	—	—	(30,255)	(23,868)	(377)	(24,245)
Dividends	—	—	(7,432)	—	—	—	(7,432)	—	(7,432)
Acquisition and disposal of treasury shares	—	—	(11)	95	—	—	83	—	83
Share-based payments	—	—	—	—	(54)	—	(54)	—	(54)
Changes in non-controlling interests due to changes in subsidiaries	—	—	—	—	—	—	—	3,136	3,136
Transfer from other components of equity to retained earnings	—	—	3	—	—	(3)	—	—	—
Total transactions with owners	—	—	(7,440)	95	(54)	(3)	(7,403)	3,136	(4,267)
Balance at June 30, 2016	37,519	203,397	257,508	(9,313)	954	(7,054)	483,013	3,455	486,468

(Millions of yen)

	Share capital	Share premium	Retained earnings	Treasury shares	Subscription rights to shares	Other components of equity	Equity attributable to owners of the company	Non-controlling interests	Total equity
Balance at April 1, 2017	37,519	202,631	276,709	(9,214)	998	15,685	524,331	9,818	534,149
Profit for the period	—	—	5,367	—	—	—	5,367	2	5,370
Other comprehensive income	—	—	—	—	—	4,961	4,961	48	5,010
Total comprehensive income	—	—	5,367	—	—	4,961	10,329	51	10,380
Dividends	—	—	(7,434)	—	—	—	(7,434)	—	(7,434)
Acquisition and disposal of treasury shares	—	—	(47)	91	—	—	43	—	43
Share-based payments	—	—	—	—	(9)	—	(9)	—	(9)
Changes in non-controlling interests due to changes in subsidiaries	—	—	—	—	—	—	—	5	5
Equity transactions, etc. with non-controlling shareholders	—	—	—	—	—	—	—	(73)	(73)
Put options written on non-controlling interests	—	(1,593)	—	—	—	—	(1,593)	—	(1,593)
Transfer from other components of equity to retained earnings	—	—	(29)	—	—	29	—	—	—
Total transactions with owners	—	(1,593)	(7,511)	91	(9)	29	(8,994)	(68)	(9,063)
Balance at June 30, 2017	37,519	201,038	274,566	(9,123)	988	20,676	525,666	9,800	535,466

(5) Condensed Consolidated Statement of Cash Flow

(Millions of yen)

	Three months ended June 30, 2016	Three months ended June 30, 2017
Cash flows from operating activities		
Profit before tax	8,528	8,207
Depreciation and amortization expenses	12,747	13,609
Impairment losses and reversal of impairment losses	0	6
Share of (profit) loss of investments accounted for using the equity method	68	76
Interest and dividends income	(687)	(777)
Interest expenses	647	707
(Gain) loss on sales and disposals of property, plant and equipment and intangible assets	62	(3,883)
(Increase) decrease in trade and other receivables	5,122	16,115
(Increase) decrease in inventories	(6,834)	(3,073)
Increase (decrease) in trade and other payables	1,808	(19,145)
Decrease in transfer of lease assets	(1,395)	(1,239)
Increase (decrease) in retirement benefit liabilities	816	4
Others	(4,655)	(6,619)
Subtotal	16,229	3,988
Dividends received	274	290
Interest received	298	379
Interest paid	(757)	(714)
Income taxes paid	(2,350)	(5,589)
Net cash flows from operating activities	13,695	(1,645)

(Millions of yen)

	Three months ended June 30, 2016	Three months ended June 30, 2017
Cash flows from investing activities		
Purchase of property, plant and equipment	(8,720)	(6,312)
Proceeds from sales of property, plant and equipment	204	4,188
Purchase of intangible assets	(1,544)	(2,518)
Purchase of investments in subsidiaries	(22,540)	(9)
Purchase of interests in investments accounted for using the equity method	(4,337)	(490)
Purchase of investment securities	(53)	(140)
Proceeds from sales of investment securities	12	32
Payments for loans receivable	(12)	(13)
Collection of loans receivable	17	18
Payments for transfer of business	(760)	—
Others	(1,179)	(1,744)
Net cash flows from investing activities	(38,915)	(6,989)
Cash flows from financing activities		
Increase (decrease) in short-term loans payable	10,158	(7,259)
Proceeds from bonds issuance and long-term loans payable	10,080	4,276
Redemption of bonds and repayments of long-term loans payable	(671)	(709)
Purchase of treasury shares	(0)	(1)
Cash dividends paid	(7,274)	(7,275)
Others	191	0
Net cash flows from financing activities	12,482	(10,969)
Effect of exchange rate changes on cash and cash equivalents	(5,232)	(634)
Net increase (decrease) in cash and cash equivalents	(17,968)	(20,240)
Cash and cash equivalents at the beginning of the period	99,937	92,628
Cash and cash equivalents at the end of the period	81,969	72,387

(6) Notes to the Condensed Consolidated Financial Statements
[Notes Regarding Going Concern Assumptions]

None.

[Other Income]

Components of other income are as follows.

(Millions of yen)

	Three months ended June 30, 2016	Three months ended June 30, 2017
Gain on sales of property, plant and equipment and intangible assets	53	4,011
Others	1,266	768
Total	1,319	4,779

[Segment Information]

(a) Reportable segments

Reportable segments of the Group are the constituent business units of the Group for which separate financial data is available and that are examined on a regular basis for the purpose of enabling the Group's management to decide on the allocation of resources and evaluate results of operations. The Group establishes business segments by product and service category and formulates comprehensive strategies and conducts business activities in Japan and overseas for the products and services of each business segment.

Previously, reportable segments were classified into three segments, namely "Business Technologies Business," "Healthcare Business," and "Industrial Business." A change to this business segmentation has been made and starting from the first quarter of this fiscal year, segment information is presented for the four segments of "Office Business," "Professional Print Business," "Healthcare Business," and "Industrial Business."

This change reflects organizational realignment carried out to promote strategies as set out in "SHINKA 2019," our Medium Term Business Plan that is implemented from this fiscal year. In "SHINKA 2019," businesses are grouped into "core business," "growth business," and "new business," this last group comprising areas for which a management base will be built in the medium term. "Core business" and "growth business" are classified into the four reporting segments, while "new business" is included in "others." In conjunction with this realignment, the previous segment of "Business Technologies Business" is split into "Office Business" and "Professional Print Business," and the industrial inkjet component business unit, which was previously included in the "Business Technologies Business" segment, is now reported under "Industrial Business."

The segment information for the first quarter of fiscal 2016 in this report is presented while reflecting the new business segmentation.

The business content of each reportable segment is as follows:

	Business content	
Office Business	Development, manufacture, and sales of MFPs and related consumables; provision of related solutions and services	
Professional Print Business	Development, manufacture, and sales of digital printing systems, related consumables; provision of various printing services, solutions, and services	
Healthcare Business	Development, manufacture, and sales of, and provision of services for, diagnostic imaging systems (digital X-ray diagnostic imaging, diagnostic ultrasound systems, etc.); provision of digitalization, networking, solutions, and services in the medical field	
Industrial Business	<Materials and Components> Development, manufacture, and sales of such products as TAC film for LCD displays, OLED lighting, Industrial inkjet printheads, and lenses for industrial and professional use, etc.	<Optical Systems for Industrial Use> Development, manufacture, and sales of measuring instruments, etc.

(b) Information on reportable segments

Information on each reportable segment of the Group is provided below. Segment profit refers to operating profit.

Three months ended June 30, 2016

(Millions of yen)

	Reportable segments					Others	Total
	Office Business	Professional Print Business	Healthcare Business	Industrial Business	Total		
Revenue							
External	136,208	47,470	18,451	24,877	227,008	2,123	229,131
Intersegment (Note)	462	324	195	1,458	2,440	4,356	6,796
Total	136,671	47,795	18,646	26,335	229,449	6,479	235,928
Segment profit (loss)	11,413	1,639	193	3,359	16,605	(2,738)	13,867

(Note) Intersegment revenue is based on market prices, etc.

Three months ended June 30, 2017

(Millions of yen)

	Reportable segments					Others	Total
	Office Business	Professional Print Business	Healthcare Business	Industrial Business	Total		
Revenue							
External	133,040	49,009	19,545	28,668	230,264	2,086	232,351
Intersegment (Note)	390	63	213	1,107	1,775	5,162	6,937
Total	133,430	49,073	19,758	29,775	232,039	7,249	239,289
Segment profit (loss)	5,349	1,584	(491)	6,092	12,535	(2,456)	10,079

(Note) Intersegment revenue is based on market prices, etc.

Differences between the amount of “Totals” for reportable segments and the amount of “Condensed consolidated statement of profit or loss” and the principal content of these differences are provided below.

(Millions of yen)

Revenue	Three months ended June 30, 2016	Three months ended June 30, 2017
Total revenue of reportable segments	229,449	232,039
Revenue categorized in “Others”	6,479	7,249
Total of reportable segments and “Others”	235,928	239,289
Adjustments (Note)	(6,796)	(6,937)
Revenue reported in condensed consolidated statement of profit or loss	229,131	232,351

(Note) Adjustments are intersegment eliminations.

(Millions of yen)

Profit	Three months ended June 30, 2016	Three months ended June 30, 2017
Total revenue of reportable segments	16,605	12,535
Operating profit categorized in “Others” (loss)	(2,738)	(2,456)
Total of reportable segments and “Others”	13,867	10,079
Adjustments (Note)	(4,955)	(1,364)
Operating profit reported in condensed consolidated statement of profit or loss	8,911	8,714

(Note) Adjustments include intersegment eliminations and corporate expenses, which are mainly general administration expenses and basic research expenses not attributed to any reportable segment.

[Events after the Reporting Period]

(Merger agreement between the Company's subsidiary and Ambry Genetics Corporation)

On July 6, 2017, the Company decided to make Ambry Genetics Corporation (hereafter, "AG") a subsidiary by acquiring the shares in AG through Konica Minolta Healthcare Americas, Inc. (hereafter, "KMHA"), a wholly owned US subsidiary of the Company, in partnership with Innovation Network Corporation of Japan (hereafter, "INCJ") (hereafter, "the transaction"), and concluded a merger agreement with AG.

In the transaction, Konica Minolta Geno., Inc., a subsidiary set up for the purpose of the merger by Konica Minolta PM., Inc. (hereafter, "KMP"), which is in turn a company newly established by KMHA, is scheduled to carry out a merger with AG that will leave AG as the surviving company and a subsidiary of KMHA. Before the transaction is executed, INCJ will take an equity stake in KMP, such that KMHA's stake in KMP is 60% of the company, with INCJ holding 40%. In accordance with an agreement between the Company and INCJ, a put option will be established on INCJ's 40% stake in KMP. In addition, the transaction will be executed only after completion of procedures related to competition laws in the US and in other countries where it is deemed necessary.

(1) Objective of the transaction

AG, which possesses cutting-edge genetic diagnostics technology, sophisticated product development capabilities, a variety of test items, advanced test processing competencies, and overwhelming strength in the genetic counselor channel, has become a leader in the US market for genetic testing, which has recorded remarkable growth, primarily in the rapidly expanding field of oncology. The company, which started the world's first-ever exome analysis testing for diagnostic purposes, provides genetic tests in a variety of clinical fields, such as hereditary and non-hereditary tumors, heart disease, respiratory disease, and neurological disorders. The company's extensive and cutting-edge laboratory in California has already amassed a track record of more than 1 million genetic tests, and has identified over 45,000 mutations in 500 genes.

The transaction is a harbinger of strategic initiatives aimed at promoting precision medicine (treatments tailored to individual patients), an area that is expected to play an important future role in such fields as cancer treatment. By means of the transaction Konica Minolta will acquire state-of-the-art genetic diagnostics technology, advanced IT analysis technology that makes full use of bioinformatics, a large, cutting-edge laboratory for specimen testing, as well as a lucrative service business. Furthermore, by combining Konica Minolta's proprietary High-Sensitivity Tissue Testing (HSTT) technology with AG's genetic diagnostics technology, the Company will own two core technologies crucial to the grouping of patients and new drug development. Leveraging the technologies of both parties, the Company will work to expand outside the US, where AG is the leader in precision medicine, and to become a global leading company by developing markets such as Japan, Asia, and Europe.

(2) Overview of acquisition target subsidiary

Name	Ambry Genetics Corporation
Business content	Genetic diagnostics for breast cancer, colorectal cancer, etc.
Share capital	USD 102

(3) Timing of transaction execution

October 2017 (expected)

(4) Number of shares acquired and acquisition price

Number of shares acquired	1,020,792 shares (Note 1)	
Acquisition price	Common stock of AG	USD 800 million (Note 2) (Note 3)
	Advisory fees, etc. (rough estimate)	¥2.2 billion
	Total (rough estimate)	¥90.2 billion (converted at ¥110 to the US dollar)

(Note 1) This is the total number of AG shares acquired by the Company and by INCJ through KMP.

(Note 2) The acquisition price is expected to be the amount resulting from price adjustments (including those made to take into account net interest-bearing liabilities) made at the time of the execution of the acquisition of shares, as provided for in the merger agreement.

(Note 3) The transaction adopts a performance-based earn out approach, such that a sum of money of up to \$200 million, in addition to the above, may be paid conditional on AG achieving certain financial results over the next two fiscal years.