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

(Billions of yen, unless otherwise stated)

	Nine months ended December 31, 2016	Nine months ended December 31, 2017	Increase (Decrease)	
Revenue	699.6	750.2	50.6	7.2%
Gross profit	339.0	357.5	18.4	5.4%
Operating profit	34.4	29.0	(5.3)	-15.6%
Profit before tax	34.1	27.1	(6.9)	-20.4%
Profit attributable to owners of the company	24.9	18.6	(6.2)	-25.3%
Basic earnings per share [yen]	50.27	37.61	(12.66)	-25.2%
Capital expenditures	27.5	24.7	(2.7)	-9.9%
Depreciation and amortization expenses	39.0	41.3	2.2	5.8%
Research and development expenses	53.5	56.9	3.4	6.4%
Free cash flow	(9.6)	(94.0)	(84.3)	—%
Number of employees (consolidated) [persons]	43,913	43,475	(438)	-1.0%
Foreign exchange rates [yen]				
US dollar	106.63	111.70	5.07	4.8%
euro	118.02	128.53	10.51	8.9%

In the third quarter of this fiscal year (hereafter, "period under review"), consolidated revenue for the Konica Minolta Group ("the Group") came to ¥750.2 billion, up 7.2% year on year, with all business segments posting higher revenue. In the Office Business, in addition to strong sales in North America and China, sales to small- and medium-sized enterprises in Europe expanded. In the Professional Print Business segment, sales in China and other regions grew significantly in the production print business unit, and industrial printing business unit also posted strong growth, primarily in North America. In the Healthcare Business, digital radiography (DR) sales rose in North America, while in the Industrial Business the solid performance of the measuring instruments business unit continued, leading to a significant increase in revenue.

Operating profit was ¥29.0 billion, down 15.6% year on year. The Office Business and the Professional Print Business posted lower profit, while the Healthcare Business and the Industrial Business, the latter still being driven by the measuring instruments business unit, continued to record significant increases in profit. For the Group as a whole, however, profit declined.

Profit before tax came in at ¥27.1 billion (down 20.4% year on year), while profit attributable to owners of the company amounted to ¥18.6 billion (down 25.3% year on year).

<Full-scale entry into the area of precision medicine>

In accordance with the plan for a full-scale entry into the area of precision medicine, which was introduced in the Medium Term Business Plan SHINKA 2019, in October 2017 the Group, acting jointly with the Innovation Network Corporation of Japan, completed the acquisition of Ambry Genetics Corporation (headquartered in California) and in November 2017 this was followed by the completion of the acquisition of Invicro, LLC (headquartered in Massachusetts), with both companies thus becoming consolidated subsidiaries of the Group.

We will put in place a new structure that incorporates Konica Minolta's human resources and technology, moving forward with and accelerating our entry into the area of precision medicine, which we expect to provide added value, not only in the tailoring of medication and treatment to individual patients, but also in the form of improved efficiency to drug discovery and clinical trials by pharmaceutical companies.

b. Overview by Segment

(Billions of yen)

		Nine months ended December 31, 2016	Nine months ended December 31, 2017	Increase (Decrease)	
Office Business	Revenue	407.2	427.7	20.4	5.0%
	Operating profit	31.2	29.9	(1.3)	-4.3%
Professional Print Business	Revenue	148.2	155.0	6.8	4.6%
	Operating profit	6.7	5.0	(1.7)	-25.4%
Healthcare Business	Revenue	63.3	66.8	3.5	5.6%
	Operating profit	1.5	3.8	2.3	157.3%
Industrial Business	Revenue	74.0	90.1	16.0	21.7%
	Operating profit	16.7	17.6	0.8	5.0%
Subtotal	Revenue	692.8	739.7	46.8	6.8%
	Operating profit	56.3	56.4	0.1	0.2%
"Others" and "Adjustments" (Note 2)	Revenue	6.7	10.5	3.7	55.9%
	Operating profit	(21.8)	(27.3)	(5.4)	—%
Amount reported in Condensed Consolidated Statement of Profit or Loss	Revenue	699.6	750.2	50.6	7.2%
	Operating profit	34.4	29.0	(5.3)	-15.6%

(Notes)

1. "Revenue" refers to revenue from external customers.
2. "Revenue" refers to revenue from external customers in "Others" in "2. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS and RELATED NOTES, (6) Notes to the Condensed Consolidated Financial Statements [Segment Information]" and "operating profit" is the total of "Others" and "Adjustments" from the same statement.
3. The classification for the reporting segments has been changed beginning in the first quarter of this consolidated fiscal year. Details are provided in "2. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS and RELATED NOTES, (6) Notes to the Condensed Consolidated Financial Statements [Segment Information]."

i. Office Business

In the office products business unit, sales volumes of both monochrome and color A3 MFPs (Multi-functional peripherals) rose year on year. In particular, for color models, high-speed models posted high rates of expansion following the launch of new products. By region, sales volume in Europe fell in comparison to the same period of the previous fiscal year, in which some major projects were established, but North America remained solid and China posted significant year-on-year growth in sales volume.

Regarding our sales to major companies that operate globally, in addition to those won from a major steel manufacturer and a consulting company in Europe, we also concluded major contracts with a next-generation global energy company.

In the IT services solution business unit, IT infrastructure management services for medical institutions and electronic document solutions for government-related entities increased in the US, and IT infrastructure management services for small- and medium-sized enterprises in Europe and Asia grew year on year.

Following on from the second quarter, the third quarter posted both higher revenue and profit compared to the same period in the previous fiscal year, maintaining the tone of recovery.

As a result, revenue of the Office Business segment stood at ¥427.7 billion, up 5.0% year on year and operating profit came to ¥29.9 billion, down 4.3% year on year.

ii. Professional Print Business

The production print business unit posted a year-on-year increase in sales volume for color products, driven by regions such as China, where sales volumes doubled year on year. The intelligent quality optimizer "IQ-501," which is equipped with proprietary Konica Minolta functionality that automatically controls output, in improving the efficiency of customer workflows has been widely accepted by customers, further enhancing our advantage over the competition.

In the industrial printing business unit, sales of the "AccurioJet KM-1" digital inkjet press, label printers, and digital decoration printing equipment made by MGI increased, primarily in North America.

In the marketing services business unit, there was a continued impact from constraints on marketing costs at our major customers' companies, leading to lower revenue. In the second half of the period under review, however, revenue switched to a growth trajectory, and multiple large contracts were won from major global customers.

Profit for the third quarter turned positive, but the impact of lower profit in the second quarter has reverberated and profits were down year on year.

As a result of these factors, revenue of the Professional Print Business segment amounted to ¥155.0 billion, an increase of 4.6% year on year and operating profit was ¥5.0 billion, a decrease of 25.4% year on year.

iii. Healthcare Business

In the healthcare (modality) business unit, sales volumes of digital radiography (DR) cassette-type digital X-ray diagnostic imaging systems expanded, primarily in the US, due to strengthening our cooperation with X-ray device manufacturers, and the winning of a major project. Conversely, in analog products, the shift to digital resulted in a small decline in sales volume. Sales of diagnostic ultrasound systems remained solid in Japan, where we have established "genre-top" products in the field of orthopedics, and sales volumes also increased in China.

In the medical IT business unit, higher revenue in the US contributed to higher profit. Service contracts are also expanding steadily.

As a result of the above, revenue for the Healthcare Business segment came in at ¥66.8 billion (up 5.6% year on year) and operating profit was ¥3.8 billion (up 157.3% year on year).

iv. Industrial Business

In the field of materials and components, in line with the increasing size of LCD TVs, the performance materials business unit accelerated the shift to such high value-added products as new water-resistant VA-TAC films and Zero-TAC film for IPS panels, and we managed to keep revenue at roughly the same level as that of the previous year despite price pressure. In the optical component business unit, revenue declined due to the impact of lower sales in end markets, but strong sales of IJ (inkjet) component business unit led to growth in revenue.

In the field of optical systems for industrial use, revenue grew significantly as a result of our innovations in the display panel area of the measuring instruments business unit, which resulted in the creation of new customer demand.

As a result, revenue of the Industrial Business segment was ¥90.1 billion (up 21.7% year on year) and operating profit stood at ¥17.6 billion (up 5.0% year on year).

(Reference) Overview of 3Q consolidated accounting period

(Billions of yen)

	Three months ended December 31, 2016	Three months ended December 31, 2017	Increase (Decrease)	
Revenue	237.6	262.1	24.4	10.3%
Gross profit	112.0	125.6	13.6	12.2%
Operating profit	15.9	8.6	(7.2)	-45.8%
Profit before tax	16.6	8.0	(8.5)	-51.4%
Profit attributable to owners of the company	11.6	5.1	(6.5)	-56.3%
Basic earnings per share [yen]	23.54	10.32	(13.22)	-56.2%
Capital expenditures	10.0	8.6	(1.3)	-13.8%
Depreciation and amortization expenses	13.6	14.2	0.5	4.4%
Research and development expenses	17.3	19.4	2.1	12.1%
Free cash flow	4.2	(113.9)	(118.1)	—%
Foreign exchange rates [yen]				
US dollar	109.30	112.98	3.68	3.4%
euro	117.78	133.01	15.23	12.9%

Overview of main segments

(Billions of yen)

		Three months ended December 31, 2016	Three months ended December 31, 2017	Increase (Decrease)	
Office Business	Revenue	138.5	148.1	9.6	6.9%
	Operating profit	9.6	9.7	0.1	1.9%
Professional Print Business	Revenue	51.1	53.8	2.7	5.4%
	Operating profit	2.4	2.6	0.1	5.6%
Healthcare Business	Revenue	21.9	24.0	2.0	9.5%
	Operating profit	0.2	0.9	0.7	266.5%
Industrial Business	Revenue	24.0	30.1	6.0	25.2%
	Operating profit	10.3	5.5	(4.7)	-46.1%
Subtotal	Revenue	235.6	256.1	20.5	8.7%
	Operating profit	22.7	18.9	(3.7)	-16.5%
"Others" and "Adjustments" (Note 2)	Revenue	1.9	5.9	3.9	200.9%
	Operating profit	(6.8)	(10.3)	(3.5)	—
Amount reported in Condensed Consolidated Statement of Profit or Loss	Revenue	237.6	262.1	24.4	10.3%
	Operating profit	15.9	8.6	(7.2)	-45.8%

(Notes)

1. "Revenue" refers to revenue from external customers.
2. "Revenue" refers to revenue from external customers in "Others" in "2. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS and RELATED NOTES, (6) Notes to the Condensed Consolidated Financial Statements [Segment Information]" and "operating profit" is the total of "Others" and "Adjustments" from the same statement.
3. The classification for the reporting segments has been changed beginning in the first quarter of this consolidated fiscal year. Details are provided in "2. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS and RELATED NOTES, (6) Notes to the Condensed Consolidated Financial Statements [Segment Information]."

(2) Explanation of Financial Position

a. Analysis of Financial Position

	March 31, 2017	December 31, 2017	Increase (Decrease)
Total assets [Billions of yen]	1,005.4	1,224.5	219.0
Total liabilities [Billions of yen]	471.2	687.2	215.9
Total equity [Billions of yen]	534.1	537.2	3.0
Equity attributable to owners of the company [Billions of yen]	524.3	526.6	2.3
Equity ratio attributable to owners of the company	52.1%	43.0%	-9.1%

Total assets at December 31, 2017 were ¥1,224.5 billion, an increase of ¥219.0 billion (21.8%) from the previous fiscal year-end. This was primarily attributed to an increase of ¥135.0 billion in goodwill and intangible assets, an increase of ¥48.2 billion in cash and cash equivalents, an increase of ¥15.2 billion in inventories, and an increase of ¥12.6 billion in trade and other receivables.

Total liabilities at December 31, 2017 amounted to ¥687.2 billion, an increase of ¥215.9 billion (45.8%) from the previous fiscal year-end. This was primarily attributed to an increase of ¥124.9 billion in bonds and borrowings, an increase of ¥63.1 billion in other financial liabilities, an increase of ¥13.0 billion in trade and other payables, and an increase of ¥8.5 billion in deferred tax liabilities.

Total equity at December 31, 2017 amounted to ¥537.2 billion, an increase of ¥3.0 billion (0.6%) from the previous fiscal year-end.

Equity attributable to owners of the company totaled ¥526.6 billion at December 31, 2017, an increase of ¥2.3 billion (0.4%) from the previous fiscal year-end. This was primarily attributed to an increase of ¥21.8 billion in other components of equity (mainly exchange differences on translation of foreign operations), ¥18.6 billion in profit for the period attributable to owners of the company, a decrease of ¥21.7 billion in share premium, and a decrease of ¥14.8 billion in retained earnings due to cash dividends.

As a result of the above, equity ratio attributable to owners of the company decreased 9.1 percentage points to 43.0%.

b. Analysis of Cash Flows

(Billions of yen)

	Nine months ended December 31, 2016	Nine months ended December 31, 2017	Increase (Decrease)
Cash flows from operating activities	48.7	39.4	(9.2)
Cash flows from investing activities	(58.4)	(133.4)	(75.0)
Total (Free cash flow)	(9.6)	(94.0)	(84.3)
Cash flows from financing activities	6.4	141.5	135.1

During the nine months ended December 31, 2017, net cash provided by operating activities was ¥39.4 billion, while net cash used in investing activities, mainly associated with the purchase of investments in subsidiaries, totaled ¥133.4 billion. As a result, free cash flow (the sum of cash flows from operating and investing activities) was an outflow of ¥94.0 billion.

Net cash provided by financing activities was ¥141.5 billion.

In addition, cash and cash equivalents at the end of the nine months ended December 31, 2017 increased ¥48.2 billion compared with the previous fiscal year-end to ¥140.8 billion, reflecting the effect of exchange rate changes on cash and cash equivalents.

Cash flows from operating activities

Net cash provided by operating activities was ¥39.4 billion as a result of cash inflow due largely to profit before tax of ¥27.1 billion, depreciation and amortization expenses of ¥41.3 billion, and a decrease in trade and other receivables of ¥11.7 billion on the one hand, and cash outflow attributable largely to ¥10.6 billion in adjustment of gain and loss on sales and disposals of property, plant and equipment, and intangible assets, an increase in inventories of ¥6.9 billion, and income taxes paid of ¥10.4 billion.

Cash flows from investing activities

Net cash used in investing activities was ¥133.4 billion, as a result of cash outflow due mainly to purchases of property, plant and equipment of ¥18.6 billion, purchases of intangible assets of ¥7.3 billion, and purchases of investments in subsidiaries of ¥116.9 billion on the one hand, and cash inflow attributable mainly to proceeds from sales of property, plant and equipment, and intangible assets of ¥12.0 billion.

As a result, free cash flow (the sum of cash flows from operating and investing activities) was an outflow of ¥94.0 billion, compared to an outflow of ¥9.6 billion in the same period of the previous fiscal year.

Cash flows from financing activities

Net cash provided by financing activities was ¥141.5 billion, compared to net cash provided of ¥6.4 billion in the same period of the previous fiscal year, as a result of cash inflow attributable mainly to proceeds from bonds issuance and long-term loans payable of ¥145.7 billion, and proceeds from share issuance to non-controlling shareholders of ¥35.4 billion on the one hand, and cash outflow due to net decrease in short-term loans payable of ¥9.8 billion, redemption of bonds and repayments of long-term loans payable of ¥13.9 billion, and cash dividends paid of ¥14.6 billion.

(3) Explanation of forward-looking statements with regard to consolidated results forecasts

With regard to full-year forecasts, in view of the progress made up to the end of the third quarter, we have left the results forecasts announced on October 30, 2017 unchanged.

As for the exchange rates for the fourth quarter that form the basis of the results forecasts, these have been revised from the figures announced on October 30, 2017, and set to ¥105 to the US$ and ¥130 to the euro, respectively.

*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 “1. QUALITATIVE INFORMATION on the RESULTS of the PERIOD UNDER REVIEW” section have been omitted.