1. OVERVIEW of BUSINESS PERFORMANCE

(1) Overview of Business Performance

a. Overall earnings

(Billions of yen, unless otherwise stated)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Increase (Decrease)	
Revenue	962.5	1,031.2	68.7	7.1%
Gross profit	459.9	489.8	29.8	6.5%
Operating profit	50.1	53.8	3.7	7.4%
Profit before tax	49.3	49.1	(0.2)	-0.4%
Profit attributable to owners of the company	31.5	32.2	0.7	2.2%
Basic earnings per share [yen]	63.65	65.17	1.52	2.4%
ROE	6.1%	6.1%	0.0	–
Capital expenditures	38.9	38.7	(0.2)	-0.5%
Depreciation and amortization expenses	51.8	56.2	4.4	8.6%
Research and development expenses	73.2	77.0	3.7	5.1%
Free cash flow	(1.9)	(68.3)	(66.4)	–
Number of employees (consolidated) [persons]	43,979	43,299	(680)	-1.5%
Foreign exchange rates [yen]				
US dollar	108.38	110.85	2.47	2.3%
euro	118.79	129.70	10.91	9.2%

(Note) ROE = Profit attributable to owners of the company divided by equity attributable to owners of the company (average of beginning and ending balances)

Looking back at the economic situation during the fiscal year ended March 31, 2018 (hereafter, “the fiscal year under review”), economic growth continued steady against a background of solid personal consumption in the US, and in Europe as well economies posted solid growth, primarily on the back of exports, in addition to improved personal consumption. China maintained stable growth, supported by fiscal policy and personal consumption, and the economies of emerging countries such as those of ASEAN, and India, continued to expand. In Japan, the strength of the global economy supported improvements in corporate earnings, and the economy trended toward moderate recovery.

In the context of this economic environment, consolidated revenue in the fiscal year under review of the Konica Minolta Group (hereafter, “the Group”) reached ¥1,031.2 billion (up 7.1% year on year), with all business segments posting higher revenue. In the Office Business, in addition to strong sales of color MFPs (Multi-functional peripherals) in North America, sales in China grew significantly. In the Professional Print Business, sales of digital color printing systems strongly increased in China, and rose in Europe as well, while the industrial printing business unit also expanded, primarily in North America. In the Healthcare Business, digital product sales rose in North America, while in the Industrial Business the solid performance of the measuring instruments business unit continued throughout the fiscal year, leading to a substantial increase in revenue.

In order to accelerate the transformation of the business in line with the policies of the Medium Term Business Plan SHINKA 2019, structural reform expenses were posted of ¥5.3 billion in Japan and ¥4.6 billion overseas. Moreover, the Group optimized the use of its facilities (land, buildings) as part of its corporate real estate strategy, generating ¥20.3 billion in income from asset liquidation through sale and leaseback, which enabled it to offset structural reform expenses and investment in new businesses, including expenses associated with major acquisitions.

As a result of the above, operating profit was ¥53.8 billion (up 7.4% year on year). All business segments recorded growth in earnings, and the Group as a whole also posted higher profits.

Profit before tax came in at ¥49.1 billion (down 0.4% year on year), while profit attributable to owners of the company was ¥32.2 billion (up 2.2% year on year).

With the aim of becoming a high-profitability company, we are actively working to nurture businesses in the following three fields, as part of the Medium Term Business Plan SHINKA 2019.

1. High value-added services appropriate to an IoT era in which things are connected to other things
2. Full-scale promotion of digitalization in commercial and industrial printing
3. Full-scale entry into the area of precision medicine

During this fiscal year, which was the first year of the Medium Term Business Plan, we continued the development of Workplace Hub, Konica Minolta's edge IoT platform, with our corporate partners, moving forward with demonstrations of its value to customers, and progressing steadily towards commercialization. With regard to the promotion of the digitalization of commercial and industrial printing, in commercial printing we launched new products, including an optional unit providing proprietary Konica Minolta functionality, and in industrial printing the value-added products that we offered penetrated the market widely, leading to an acceleration in sales. In the field of precision medicine, we completed the acquisitions of Ambry Genetics Corporation and Invicro, LLC in October and November, respectively, inaugurating a business promotion structure that combines the strengths of those two companies with our proprietary High-Sensitivity Tissue Testing (HSTT) technology, in a move aimed at establishing of a bio-healthcare business unique to Konica Minolta.

In addition, in order to accelerate our business transformation, we are promoting structural reform in accordance with the Medium Term Business Plan, such as through the ongoing shifts in human resources, the consolidation of locations, and the conversion of fixed costs to variable costs. Also, while working to improve earnings power by reducing manufacturing costs and service costs, we continue to invest aggressively in new businesses that will form future pillars of earnings.

As a result of these initiatives, our progress was in line with projections as we prepared to meet the management targets of FY2019, the final year of the SHINKA 2019 business plan.

b. Overview by Segment

(Billions of yen)

		Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Increase (Decrease)	
Office Business	Revenue	558.2	583.8	25.6	4.6%
	Operating profit	44.3	44.9	0.5	1.3%
Professional Print Business	Revenue	203.9	214.2	10.2	5.0%
	Operating profit	8.2	9.2	1.0	12.4%
Healthcare Business	Revenue	89.9	96.5	6.5	7.3%
	Operating profit	2.8	5.5	2.7	94.6%
Industrial Business	Revenue	101.5	118.2	16.6	16.4%
	Operating profit	22.0	23.4	1.4	6.4%
Subtotal	Revenue	953.6	1,012.9	59.2	6.2%
	Operating profit	77.4	83.2	5.7	7.4%
"Others" and "Adjustments" (Note 2)	Revenue	8.8	18.3	9.4	107.0%
	Operating profit	(27.3)	(29.3)	(2.0)	—
Amount reported in Consolidated Statement of Profit or Loss	Revenue	962.5	1,031.2	68.7	7.1%
	Operating profit	50.1	53.8	3.7	7.4%

(Notes)
1. "Revenue" refers to revenue from external customers.
2. "Revenue" refers to revenue from external customers in "Others" in "4. CONSOLIDATED FINANCIAL STATEMENTS and RELATED NOTES (6) Notes to the 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 this consolidated fiscal year. Details are provided in "4. CONSOLIDATED FINANCIAL STATEMENTS and RELATED NOTES, (6) Notes to the Consolidated Financial Statements [Segment Information]."

i. Office Business

In the office products business unit, sales volumes of both monochrome and color A3 MFPs grew year on year, and at a rate higher than that of the market. In particular, for color models, high-speed models posted high rates of expansion following the launch of new products. By region, sales volumes in Europe fell in comparison to the same period of the previous year, in which some major projects were established and major equipment installed, but sales grew in the second half of the fiscal year, primarily high-speed color models. In North America sales remained strong from the beginning of the fiscal year, and China also posted impressive year-on-year growth in sales volumes. Among sales to major companies that operate globally, sales to existing customers were robust, in addition to which there was an increase in major new projects, and the total value of contracts increased significantly.

In the IT services solution business unit, in addition to the impact of newly consolidated subsidiaries, sales of highly profitable security solutions contributed to increased revenue in the US. In Europe also, a company acquired in the second half of the fiscal year began to make a contribution to earnings, and revenue for the IT services solution business unit as a whole rose year on year, due to such factors as expanded sales of Managed Content Services, where margins rose due to improvement of service and support structure.

As a result of the above, revenue for the Office Business came in at ¥583.8 billion (up 4.6% year on year), while operating profit was ¥44.9 billion (up 1.3% year on year).

ii. Professional Print Business

For the production print business unit, markets were sluggish, primarily in developed countries, but although sales volumes in North America fell slightly year on year, sales in Europe expanded, centered on top-of-the-line models. In China, sales volumes greatly increased, leading to an overall year-on-year increase. The value of 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 French subsidiary MGI accelerated, primarily in North America and Europe, and sales volumes increased compellingly.

In the marketing services business unit there was growth in on-demand printing, which is being developed under the Kinko's brand, but in marketing print the impact of constraints on marketing costs at major customers in the first half of the fiscal year lingered, and revenue fell year on year.

As a result of the above, revenue for the Professional Print Business came in at ¥214.2 billion (up 5.0% year on year), while operating profit was ¥9.2 billion (up 12.4% year on year).

iii. Healthcare Business

In the healthcare (modality) business unit, sales volumes of digital radiography (DR) systems expanded, primarily in the US, due to strengthening our cooperation with X-ray device manufacturers, and the winning of a major project. Sales of diagnostic ultrasound systems remained solid in Japan, and sales volumes also expanded in China, Europe, and the US. There was an additional impact in the second half of the fiscal year from the contribution of newly launched products, leading to powerful growth in sales volumes.

In the medical IT business unit, higher revenue in the US contributed to higher profit and service contracts also expanded steadily.

As a result of the above, revenue for the Healthcare Business came in at ¥96.5 billion (up 7.3% year on year), while operating profit was ¥5.5 billion (up 94.6% year on year).

iv. Industrial Business

In the field of materials and components, against the background of the increasing size of LCD TVs, the strategic shift to such high value-added products as new water-resistant VA-TAC films and ZeroTAC film for IPS panels bore fruit in the performance materials business unit, and revenues grew despite price pressure. The optical component business unit recorded higher revenue, and the IJ (inkjet) component business unit saw continued strong sales, leading to an increase in revenue.

In the field of optical systems for industrial use, as a result of the measuring instruments business unit providing solutions that respond to innovations in display products, we were able to capture waves of demand from several customers, and revenue grew significantly.

As a result of the above, revenue for the Industrial Business came in at ¥118.2 billion (up 16.4% year on year), while operating profit was ¥23.4 billion (up 6.4% year on year).

(Reference) Overview of 4Q consolidated accounting period

(Billions of yen, unless otherwise stated)

	Three months ended March 31, 2017	Three months ended March 31, 2018	Increase (Decrease)	
Revenue	262.9	281.0	18.0	6.9%
Gross profit	120.8	132.2	11.3	9.4%
Operating profit	15.6	24.7	9.0	57.9%
Profit before tax	15.2	21.9	6.7	44.2%
Profit attributable to owners of the company	6.6	13.6	6.9	105.5%
Basic earnings per share [yen]	13.38	27.57	14.19	106.1%
Capital expenditures	11.4	13.9	2.5	22.1%
Depreciation and amortization expenses	12.7	14.9	2.1	17.2%
Research and development expenses	19.7	20.0	0.2	1.5%
Free cash flow	7.7	25.6	17.8	230.2%
Foreign exchange rates [yen]				
US dollar	113.64	108.30	(5.34)	-4.7%
euro	121.08	133.22	12.14	10.0%

Overview of main segments

(Billions of yen, unless otherwise stated)

		Three months ended March 31, 2017	Three months ended March 31, 2018	Increase (Decrease)	
Office Business	Revenue	150.9	156.1	5.2	3.5%
	Operating profit	13.0	14.9	1.9	14.5%
Professional Print Business	Revenue	55.7	59.2	3.4	6.2%
	Operating profit	1.4	4.2	2.7	189.0%
Healthcare Business	Revenue	26.5	29.6	3.0	11.5%
	Operating profit	1.3	1.6	0.3	25.1%
Industrial Business	Revenue	27.5	28.1	0.6	2.3%
	Operating profit	5.2	5.8	0.5	11.0%
Subtotal	Revenue	260.8	273.1	12.3	4.7%
	Operating profit	21.1	26.7	5.5	26.4%
“Others” and “Adjustments”	Revenue	2.1	7.8	5.7	270.0%
	Operating profit	(5.4)	(1.9)	3.4	-
Amount reported in Consolidated Statement of Profit or Loss	Revenue	262.9	281.0	18.0	6.9%
	Operating profit	15.6	24.7	9.0	57.9%

c. Outlook for the Fiscal Year Ending March 31, 2019

With regard to the global economic situation in which the Group operates, the current economic expansion is expected to continue, but we also anticipate a continuation of geopolitical risks and of the poor visibility caused by the impact of US trade policy. Japan also is expected to be affected by the instability and lack of visibility in the global economy, and we believe the recovery trend is likely to be only moderate in scope.

On the subject of the demand outlook for the main markets in which the Group operates, in the Office Business the ratio of color MFP models is expected to rise in China and in emerging countries, while in developed countries demand is expected to increase for high-speed color models designed to enhance operational productivity. Along with a rising awareness of security issues among small and medium-sized enterprises, we assume that demand for IT services will continue to grow. In the Professional Print Business, we expect demand in commercial printing for solutions that support improved profitability for customers, as well as further diffusion of digitalization in industrial printing. In the Healthcare Business, the digitalization of medical diagnostic equipment is seen continuing, leading to increased cooperation among regional medical organizations, and rising demand for medical IT services. For the Industrial Business, continued demand for the Group's products is expected, driven by innovation and customer diversification in the display and automotive industries.

Taking into account these conditions, the exchange rate assumptions that form the basis of results forecasts for the next fiscal year have been set to [¥105 to the US dollar and ¥125 to the euro, respectively], with forecasts as follows:

(Billions of yen)

	Fiscal year ended March 31, 2018	Forecast for the fiscal year ending March 31, 2019
Revenue	1,031.2	1,080.0
Operating profit	53.8	60.0
Profit attributable to owners of the company	32.2	37.0
ROE*1	6.1%	6.9%
ROE*2	6.3%	7.2%

(Notes)

1. Profit attributable to owners of the company divided by equity attributable to owners of the company (average of beginning and ending balances)
2. Profit attributable to owners of the company divided by (Share capital + Share premium + Retained earnings + Treasury shares) (average of beginning and ending balances)

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

(2) Overview of Financial Position

a. Analysis of Financial Position

		March 31, 2017	March 31, 2018	Increase (Decrease)
Total assets	[Billions of yen]	1,005.4	1,203.9	198.4
Total liabilities	[Billions of yen]	471.2	668.3	197.0
Total equity	[Billions of yen]	534.1	535.5	1.4
Equity attributable to owners of the company	[Billions of yen]	524.3	524.5	0.1
Equity per share attributable to owners of the company	[yen]	1,057.92	1,060.72	2.80
Equity ratio attributable to owners of the company	[%]	52.1	43.6	-8.5

Total assets at March 31, 2018 were ¥1,203.9 billion, an increase of ¥198.4 billion (19.7%) from the previous fiscal year-end. This was primarily attributed to an increase of ¥123.1 billion in goodwill and intangible assets, an increase of ¥57.2 billion in cash and cash equivalents, and an increase of ¥20.2 billion in trade and other receivables.

Total liabilities at March 31, 2018 were ¥668.3 billion, an increase of ¥197.0 billion (41.8%) from the previous fiscal year-end. This was primarily attributed to an increase of ¥108.1 billion in bonds and borrowings, an increase of ¥56.9 billion in other financial liabilities, an increase of ¥17.9 billion in trade and other payables, and an increase of ¥10.9 billion in other liabilities.

Total equity at March 31, 2018 amounted to ¥535.5 billion, an increase of ¥1.4 billion (0.3%) from the previous fiscal year-end.

Equity attributable to owners of the company totaled ¥524.5 billion, a slight increase from the previous fiscal year-end. This was primarily attributed to ¥32.2 billion in profit for the period attributable to owners of the company, a decrease of ¥17.7 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 per share attributable to owners of the company came to ¥1,060.72, and the equity ratio attributable to owners of the company decreased 8.5 percentage points to 43.6%.

b. Analysis of Cash Flows

(Billions of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Increase (Decrease)
Cash flows from operating activities	68.6	65.3	(3.2)
Cash flows from investing activities	(70.5)	(133.7)	(63.1)
Total (Free cash flow)	(1.9)	(68.3)	(66.4)
Cash flows from financing activities	(2.3)	126.6	128.9

During the fiscal year ended March 31, 2018, net cash provided by operating activities was ¥65.3 billion, while net cash used in investing activities, mainly associated with the purchase of investments in subsidiaries, totaled ¥133.7 billion. As a result, free cash flow (the sum of cash flows from operating and investing activities) was an outflow of ¥68.3 billion.

Net cash provided by financing activities was ¥126.6 billion.

In addition, cash and cash equivalents at March 31, 2018 increased ¥57.2 billion from the previous fiscal year-end to ¥149.9 billion, reflecting the effect of exchange rate changes on cash and cash equivalents.

Cash flows from operating activities

Net cash provided by operating activities was ¥65.3 billion, a result largely of cash inflow due to profit before tax of ¥49.1 billion, depreciation and amortization expenses of ¥56.2 billion, and an increase in trade and other payables of ¥11.5 billion on the one hand, and cash outflow attributable largely to an adjustment for gain/loss from sales and disposals of property, plant and equipment and intangible assets of ¥19.8 billion, an increase in trade and other receivables of ¥7.6 billion, and payment of income taxes of ¥14.0 billion.

Cash flows from investing activities

Net cash used in investing activities was ¥133.7 billion, due mainly to purchases of property, plant and equipment of ¥26.9 billion, purchases of intangible assets of ¥11.0 billion, purchases of investments in subsidiaries of ¥116.9 billion, and ¥23.4 billion in proceeds from sales of property, plant and equipment and intangible assets.

As a result, free cash flow (the sum of cash flows from operating and investing activities) was an outflow of ¥68.3 billion, compared to an outflow of ¥1.9 billion in the previous fiscal year.

Cash flows from financing activities

Net cash provided by financing activities was ¥126.6 billion, compared to net cash used of ¥2.3 billion in 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, while cash outflow included net decrease in short-term loans payable of ¥15.1 billion, redemption of bonds and repayments of long-term loans payable of ¥23.3 billion, and cash dividends paid of ¥14.8 billion.

*Amounts less than one hundred million yen in the “1. OVERVIEW of BUSINESS PERFORMANCE” section have been omitted.