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)

	Three months ended June 30, 2017	Three months ended June 30, 2018	Increase (Decrease)	
Revenue	232.3	255.2	22.8	9.8%
Gross profit	111.9	123.6	11.6	10.4%
Operating profit	8.7	15.4	6.7	77.2%
Profit before tax	8.2	15.2	7.0	86.1%
Profit attributable to owners of the company	5.3	11.1	5.8	108.3%
Basic earnings per share [yen]	10.83	22.61	11.78	108.8%
Capital expenditures	8.2	8.6	0.4	5.1%
Depreciation and amortization expenses	13.6	14.6	1.0	7.4%
Research and development expenses	18.5	20.4	1.8	10.2%
Free cash flow	(8.6)	(0.3)	8.2	—
Number of employees (consolidated) [persons]	43,449	43,818	369	0.8%
Foreign exchange rates [yen]				
US dollar	111.09	109.07	(2.02)	-1.8%
euro	122.19	130.06	7.87	6.4%

In the first quarter of this fiscal year (hereafter, “period under review”), consolidated revenue for the Konica Minolta Group (“the Group”) came to ¥255.2 billion, up 9.8% year on year. By business segment, revenue in the Office Business segment rose in all regions, and the Professional Print Business segment also posted increases in revenue, driven by Europe and China. In the Healthcare Business, revenue fell due to the impact of discontinuing the selling of certain purchased products in the period under review. Industrial Business revenue increased, with higher sales of Performance Materials offsetting declines in revenue, caused by a slowing of demand, in the Measuring Instruments business unit.

In a continuation from the previous period, as part of its program of optimizing the use of facilities (land, buildings) under the Group’s corporate real estate strategy, ¥9.5 billion in income from asset liquidation through sale and lease back was posted during the period under review.

As a result of the above, operating profit was ¥15.4 billion (up 77.2% year on year). Due to the strengthening of profitability in core businesses, all business segments recorded growth in profits, in addition to which measures to liquidate assets through sale and lease back also generated income, leading to a significant year-on-year increase in profit for the Group as a whole.

Profit before tax came in at ¥15.2 billion (up 86.1% year on year), while profit attributable to owners of the company amounted to ¥11.1 billion (up 108.3% year on year).

b. Overview by Segment

(Billions of yen)

		Three months ended June 30, 2017	Three months ended June 30, 2018	Increase (Decrease)	
Office Business	Revenue	133.0	143.5	10.4	7.9%
	Operating profit	5.3	9.2	3.9	73.2%
Professional Print Business	Revenue	49.0	53.3	4.3	8.9%
	Operating profit	1.5	1.6	0.0	5.5%
Healthcare Business	Revenue	19.5	18.5	(0.9)	-4.9%
	Operating profit	(0.4)	(0.2)	0.2	—
Industrial Business	Revenue	28.6	31.5	2.9	10.2%
	Operating profit	6.0	6.7	0.6	11.1%
Subtotal	Revenue	230.2	247.0	16.8	7.3%
	Operating profit	12.5	17.4	4.9	39.6%
"Others" and "Adjustments" (Note 2)	Revenue	2.0	8.1	6.0	290.5%
	Operating profit	(3.8)	(2.0)	1.7	—
Amount reported in Condensed Consolidated Statement of Profit or Loss	Revenue	232.3	255.2	22.8	9.8%
	Operating profit	8.7	15.4	6.7	77.2%

(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.

i. Office Business

In the office products business unit, sales volumes of monochrome A3 MFPs declined year on year, but color models grew considerably, resulting in an overall increase. Among color models, the high-speed product launched in the previous fiscal year continued to perform at high rates of increase in developed countries, primarily Europe. In growth countries such as China, India, and those in ASEAN, there was considerable expansion, from low-speed machines to high-speed equipment, resulting in progress in line with the Company's regional strategy.

In the IT services solutions business unit, in addition to the continued impact of newly consolidated subsidiaries, sales of security solutions, etc. contributed to increased revenue in the US. In Europe also, there was a contribution to revenue from newly consolidated subsidiaries and from higher sales of Managed Content Services, where service provision capabilities had been expanded.

As a result of the above, revenue for this business came in at ¥143.5 billion (up 7.9% year on year), while operating profit was ¥9.2 billion (up 73.2% year on year).

ii. Professional Print Business

In the production print business unit, there were year-on-year increases for both monochrome and color equipment. Sales volumes in North America fell slightly year on year, but sales in Europe expanded, centered on top-of-the-line color models. In China and the ASEAN region, sales volumes rose significantly for all models.

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 and Europe. Overall sales volumes, including those in other regions, rose considerably, and we continued to implement upfront investment in boosting sales resources and so on, in order to accelerate growth.

In the marketing services business unit, on-demand printing, which is being developed under the Kinko's brand, continued to post stable earnings. In marketing print, in addition to recovering demand at major customers, digital marketing services grew, and profitability also improved.

As a result of the above, revenue for this business came in at ¥53.3 billion (up 8.9% year on year), while operating profit was ¥1.6 billion (up 5.5% year on year).

iii. Healthcare Business

In the healthcare (modality) business unit, digital radiography (DR) was strong in both Japan and the US, and in the latter region, sales volumes of medical systems grew in addition to sales of stand-alone DR products. Sales volumes of diagnostic ultrasound systems grew considerably in the US and in China. There was also a contribution to sales from the obstetrics and gynecology business acquired in the previous fiscal year.

In the medical IT business unit, the winning of some major contracts related to hospitals in Japan, and steady growth in service contracts, resulted in higher revenue.

For the business as a whole, the discontinuation of sales of low-margin purchased products led to a year-on-year decrease in revenue.

The result of the above circumstances was revenue for the business of ¥18.5 billion (down 4.9% year on year). The operating loss of ¥200 million represented a year-on-year improvement of approximately ¥200 million.

iv. Industrial Business

In the field of materials and components, the strategy of shifting to high value-added products, such as new water-resistant VA-TAC films for large LCD TVs and ZeroTAC films for IPS panels, bore fruit in the performance materials business unit, and revenue grew year on year. In the optical component business unit, sales of optical materials for projectors and of interchangeable lenses for cameras grew. In the IJ (inkjet) component business unit, solid sales of inkjet printheads for solvent ink in China, and of printheads for UV inks in Europe and China, led to higher revenue in both cases.

In the field of optical systems for industrial use, we continued to expand business opportunities by capturing the surge of demand from customers in the measuring instruments business unit, but due to a temporary slowdown in display-related customer investments, which was the driver for the growth in sales last year, revenue fell year on year.

As a result of the above, revenue for the Industrial Business came in at ¥31.5 billion (up 10.2% year on year), while operating profit was ¥6.7 billion (up 11.1% year on year).

(2) Explanation of Financial Position

a. Analysis of Financial Position

	March 31, 2018	June 30, 2018	Increase (Decrease)
Total assets [Billions of yen]	1,203.9	1,203.4	(0.4)
Total liabilities [Billions of yen]	668.3	659.7	(8.5)
Total equity [Billions of yen]	535.5	543.7	8.1
Equity attributable to owners of the company [Billions of yen]	524.5	533.3	8.7
Equity ratio attributable to owners of the company [%]	43.6	44.3	0.7

Total assets at June 30, 2018 were ¥1,203.4 billion, a decrease of ¥0.4 billion from the previous fiscal year-end. This was primarily attributed to a decrease of ¥9.4 billion in trade and other receivables, a decrease of ¥8.1 billion in cash and cash equivalents, an increase of ¥6.0 billion in goodwill and intangible assets, an increase of ¥5.1 billion in other current assets, and an increase of ¥4.1 billion in inventories.

Total liabilities at June 30, 2018 were ¥659.7 billion, a decrease of ¥8.5 billion (1.3%) from the previous fiscal year-end. This was primarily attributed to a decrease of ¥10.3 billion in trade and other payables.

Total equity at June 30, 2018 amounted to ¥543.7 billion, an increase of ¥8.1 billion (1.5%) from the previous fiscal year-end.

Equity attributable to owners of the company totaled ¥533.3 billion at June 30, 2018, an increase of ¥8.7 billion (1.7%) from the previous fiscal year-end. This was mainly the result of ¥11.1 billion in profit for the period attributable to owners of the company, a decrease in retained earnings due to cash dividends of ¥7.4 billion, and an increase of ¥6.6 billion in other components of equity (mainly exchange differences on translation of foreign operations).

As a result of the above, equity ratio attributable to owners of the company increased 0.7 percentage points to 44.3%.

b. Analysis of Cash Flows

(Billions of yen)

	Three months ended June 30, 2017	Three months ended June 30, 2018	Increase (Decrease)
Cash flows from operating activities	(1.6)	3.7	5.3
Cash flows from investing activities	(6.9)	(4.1)	2.8
Total (Free cash flow)	(8.6)	(0.3)	8.2
Cash flows from financing activities	(10.9)	(8.1)	2.7

During the three months ended June 30, 2018, net cash provided by operating activities was ¥3.7 billion, while net cash used in investing activities totaled ¥4.1 billion. As a result, free cash flow (the sum of cash flows from operating and investing activities) was an outflow of ¥0.3 billion.

Net cash used in financing activities was ¥8.1 billion.

In addition, cash and cash equivalents at June 30, 2018 decreased by ¥8.1 billion from the previous fiscal year-end to ¥141.7 billion, reflecting the effect of exchange rate fluctuations on cash and cash equivalents.

Cash flows from operating activities

Net cash provided by operating activities was ¥3.7 billion, a result largely of cash inflow due to profit before tax of ¥15.2 billion, depreciation and amortization expenses of ¥14.6 billion, and a decrease in trade and other receivables of ¥7.4 billion, cash outflow attributable largely to an adjustment for gain/loss from sales and disposals of property, plant and equipment, and intangible assets of ¥8.3 billion, a decrease in trade and other payables of ¥4.9 billion, an increase in inventories of ¥3.4 billion, and payment of income taxes of ¥5.3 billion.

Cash flows from investing activities

Net cash used in investing activities was ¥4.1 billion, due mainly to purchases of property, plant and equipment of ¥7.9 billion, purchases of intangible assets of ¥3.0 billion, and proceeds from sales of property, plant and equipment, and intangible assets of ¥10.2 billion, etc.

As a result, free cash flow (the sum of cash flows from operating and investing activities) was an outflow of ¥0.3 billion, compared to an outflow of ¥8.6 billion in the same period of the previous fiscal year.

Cash flows from financing activities

Net cash used in financing activities was ¥8.1 billion, compared to net cash used of ¥10.9 billion in the same period of the previous fiscal year, reflecting mainly cash dividend paid of ¥7.2 billion.

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

With regard to full-year earnings forecasts, having taken into account the positive impact from asset liquidations through sale and lease-back exceeding projections from the beginning of the fiscal year, the increasing probability of results meeting forecasts as a result of strengthened profitability in core businesses and, on the other hand, the economic uncertainty caused by trade friction, etc., we have revised forecasts as follows.

As for the exchange rates that form the basis of the forecasts for the second quarter and beyond, we have left the US dollar exchange rate assumption at ¥105 and the euro rate at ¥125, unchanged from those announced at the beginning of the fiscal year.

Revision of consolidated financial results forecast for fiscal year ending March 31, 2019 (April 1, 2018 – March 31, 2019)

(Billions of yen)

	Revenue	Operating profit	Profit attributable to owners of the company	Basic earnings per share
Forecast previously announced (A)	1,080.0	60.0	37.0	74.82 yen
Revised forecast (B)	1,080.0	62.0	38.5	77.85 yen
Change (B-A)	—	2.0	1.5	—
Change (%)	—	3.3	4.1	—
(Reference) Results for the previous fiscal year (ended March 31, 2018)	1,031.2	53.8	32.2	65.17 yen

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.