

1. QUALITATIVE INFORMATION ON FINANCIAL RESULTS FOR THE NINE MONTHS ENDED DECEMBER 31, 2018

(1) Qualitative Information on the Consolidated Operating Results

a. Overview

	Nine months ended December 31, 2017	Nine months ended December 31, 2018	Increase (Decrease)	
	Billions of yen	Billions of yen	Billions of yen	%
Revenue	750.2	777.5	27.3	3.6
Gross profit	357.5	377.6	20.1	5.6
Operating profit	29.0	50.5	21.4	73.6
Profit before tax	27.1	47.9	20.8	76.7
Profit attributable to owners of the parent	18.6	33.7	15.1	81.2
	Yen	Yen	Yen	%
Basic earnings per share	37.61	68.23	30.62	81.4
	Billions of yen	Billions of yen	Billions of yen	%
Capital expenditures	24.7	33.4	8.6	35.1
Depreciation and amortization expenses	41.3	44.0	2.7	6.6
Research and development expenses	56.9	59.3	2.4	4.2
	Billions of yen	Billions of yen	Billions of yen	%
Free cash flows	(94.0)	16.8	110.8	–
	Number	Number	Number	%
Number of employees in the Group	43,475	44,158	683	1.6
	Yen	Yen	Yen	%
Foreign exchange rates				
U.S. dollar	111.70	111.14	(0.56)	–0.5
Euro	128.53	129.49	0.96	0.7

In the nine months ended December 31, 2018 (the “current period”), the Group recorded revenue of 777.5 billion yen, an increase of 3.6% year-on-year. By business segment, revenue in the Office Business rose driven by sales of high-speed color models and IT services solutions, and the Professional Print Business also posted an increase in revenue, reflecting a higher number of sales of color and monochrome models, and industrial printers. In the Healthcare Business, the discontinuation of sales of certain purchased products led to a year-on-year decrease in revenue. Revenue in the Industrial Business remained at the level of the same period in the previous fiscal year, with higher sales in the performance materials business unit and the inkjet component business unit offsetting a decline in revenue due to slowing demand for products in the measuring instruments business unit.

Operating profit was 50.5 billion yen, an increase of 73.6% year-on-year. Various initiatives taken to boost the profitability of the Group’s core businesses under the Medium-Term Business Plan contributed to generate the intended performance, and as a result, there was an increase in operating profit in the Office Business and the Professional Print Business. As part of the initiative that started in the previous fiscal year, the Group continued to optimize the use of its facilities (land and buildings) under its corporate real estate strategy and recorded 20.2 billion yen in income from liquidation of the assets through sale and leaseback arrangements. Consequently, all of the above led to a significant year-on-year increase in profit on a consolidated basis. In new business areas where the Company has been investing in on an ongoing basis to develop them into future revenue drivers, sales of the Company’s edge IoT platform called Workplace Hub commenced in Europe and the United States. Meanwhile, in the bio-healthcare field, the Company established a new entity in Japan, and it has started its operations in October 2018.

Profit before tax came in at 47.9 billion yen, an increase of 76.7% year-on-year, while profit attributable to owners of the parent amounted to 33.7 billion yen, an increase of 81.2% year-on-year.

b. Overview by Segment

		Nine months ended December 31, 2017	Nine months ended December 31, 2018	Increase (Decrease)	
		Billions of yen	Billions of yen	Billions of yen	%
Office Business	Revenue	427.7	436.4	8.7	2.1
	Operating profit	29.9	34.3	4.4	14.7
Professional Print Business	Revenue	155.0	165.0	10.0	6.5
	Operating profit	5.0	8.7	3.6	72.4
Healthcare Business	Revenue	66.8	61.1	(5.7)	-8.6
	Operating profit	3.8	1.1	(2.6)	-69.6
Industrial Business	Revenue	90.1	88.4	(1.6)	-1.9
	Operating profit	17.6	17.0	(0.5)	-3.2
Subtotal	Revenue	739.7	751.0	11.3	1.5
	Operating profit	56.4	61.2	4.8	8.5
Others and adjustments (Note 2)	Revenue	10.5	26.4	15.9	151.6
	Operating profit	(27.3)	(10.7)	16.6	-
Amount reported in the Condensed Consolidated Statement of Profit or Loss	Revenue	750.2	777.5	27.3	3.6
	Operating profit	29.0	50.5	21.4	73.6

(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]." "Operating profit" is the total of "Others" and "Adjustments" within the same table.

i. Office Business

In the office products business unit, the number of sales of monochrome A3 MFPs declined year-on-year, but the sales of color models grew considerably, resulting in an overall increase in the sales volume. Among color models, in developed countries, such as Europe, the United States, and Japan, the high-speed products launched in the previous fiscal year were key drivers of the higher unit sales. In growth countries, such as China, the ASEAN region, and India, there was a considerable increase in the number of sales of a wide range of models, from low speed to high speed, showing a growth in sales as targeted in strategic initiatives undertaken for the fiscal year ending March 31, 2019, under the Group's regional strategy.

In the IT services solutions business unit, in addition to the effects of newly consolidated subsidiaries arising from acquisitions in the United States and Europe, strengthening sales and service delivery capabilities of the managed IT services, as part of efforts to develop a sales structure for the Workplace Hub, an edge IoT platform, achieved the optimum results, driving a year-on-year increase in revenue.

As a result, the Office Business segment recorded revenue of 436.4 billion yen, an increase of 2.1% year-on-year, and operating profit of 34.3 billion yen, an increase of 14.7% year-on-year.

ii. Professional Print Business

In the production print business unit, the number of sales of both monochrome and color equipment increased year-on-year. Sales of color models increased in Europe, driven mainly

by sales of high-speed products, while in North America, sales of color products exhibited an upward trend in the third quarter of the current fiscal year compared with the previous fiscal year. In growth countries, including China, India, and the ASEAN region, the number of sales increased considerably.

In the industrial printing business unit, sales of “AccurioJet KM-1” digital inkjet presses, label printers, and digital decoration printing equipment made by MGI increased primarily in North America and Europe. In addition, the expansion of sales is driven forward gradually in China, the ASEAN region, and India, resulting in the considerable rise in the overall number of sales of products for the industrial printing business unit.

In the marketing services business unit, in addition to recovering demand from major corporate customers, by accelerating the transition to a business that provides high value-added solutions, the profitability improved.

As a result, the Professional Print Business segment recorded revenue of 165.0 billion yen, an increase of 6.5% year-on-year, and operating profit of 8.7 billion yen, an increase of 72.4% year-on-year.

iii. Healthcare Business

In the healthcare (modality) business unit, despite the digital radiography showing solid performance in Japan during the current period, sales to hospitals in the United States leveled out, leading to a lower number of sales than that of the same period in the previous fiscal year. Diagnostic ultrasound systems continued to hold the top-seller position in the field of orthopedics in Japan, and the number of sales grew steadily throughout the current period mainly in Japan and the United States. 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 pace of business activities in both Japan and the United States slightly slowed down during the third quarter of the current fiscal year, but in Japan, revenue from service contracts remained stable.

For the business segment as a whole, the discontinuation of sales of low-margin purchased products led to a year-on-year decrease in revenue, and the temporary income that was generated from the liquidation of assets through sale and leaseback arrangements recorded during the same period in the previous fiscal year resulted in lower operating profit compared with the previous fiscal year.

As a result, the Healthcare Business segment recorded revenue of 61.1 billion yen, a decrease of 8.6% year-on-year, and operating profit of 1.1 billion yen, a decrease of 69.6% year-on-year.

iv. Industrial Business

In the field of materials and components, the performance materials business unit grew at a steady pace primarily in China, where the market continues to expand, backed by sales of high value-added products, such as phase difference film. As a result, revenue rose significantly year on year. In the optical component business unit, a steady growth of sales of optical materials for projectors and of interchangeable lenses for camera continued to be seen; however, the number of sales of other optical parts fell, resulted in the same level of revenue as the previous year. In the inkjet component business unit, revenue increased year on year due to an increase in orders received from the existing customers in Asia.

In the field of optical systems for industrial use, while an expansion of business opportunities is still continuing through capturing the surge of demand from customers in the measuring instruments business unit, revenue fell year on year due to the effects of the display-related investments by customers seen in the same period in the previous fiscal year.

As a result, the Industrial Business segment recorded revenue of 88.4 billion yen, a decrease of 1.9% year-on-year, and operating profit of 17.0 billion yen, a decrease of 3.2% year-on-year.

(Reference) Overview of the quarterly consolidated accounting period

	Three months ended December 31, 2017	Three months ended December 31, 2018	Increase (Decrease)	
	Billions of yen	Billions of yen	Billions of yen	%
Revenue	262.1	260.4	(1.6)	-0.6
Gross profit	125.6	126.1	0.4	0.4
Operating profit	8.6	15.9	7.2	84.4
Profit before tax	8.0	14.8	6.7	83.0
Profit attributable to owners of the parent	5.1	10.4	5.3	104.0
	Yen	Yen	Yen	%
Basic earnings per share	10.32	21.05	10.73	104.0
	Billions of yen	Billions of yen	Billions of yen	%
Capital expenditures	8.6	13.8	5.2	60.3
Depreciation and amortization expenses	14.2	14.9	0.6	4.9
Research and development expenses	19.4	19.6	0.2	1.1
	Billions of yen	Billions of yen	Billions of yen	%
Free cash flows	(113.9)	5.8	119.7	-
	Yen	Yen	Yen	%
Foreign exchange rates				
U.S. dollar	112.98	112.90	(0.08)	-0.1
Euro	133.01	128.78	(4.23)	-3.2

Overview of major segments

		Three months ended December 31, 2017	Three months ended December 31, 2018	Increase (Decrease)	
		Billions of yen	Billions of yen	Billions of yen	%
Office Business	Revenue	148.1	145.7	(2.4)	-1.6
	Operating profit	9.7	11.6	1.8	19.1
Professional Print Business	Revenue	53.8	55.8	1.9	3.7
	Operating profit	2.6	3.3	0.7	26.8
Healthcare Business	Revenue	24.0	20.8	(3.1)	-13.2
	Operating profit	0.9	0.3	(0.6)	-64.8
Industrial Business	Revenue	30.1	28.8	(1.2)	-4.3
	Operating profit	5.5	5.5	(0.0)	-0.1
Subtotal	Revenue	256.1	251.2	(4.9)	-1.9
	Operating profit	18.9	20.9	1.9	10.2
Others and adjustments (Note 2)	Revenue	5.9	9.2	3.2	54.9
	Operating profit	(10.3)	(5.0)	5.3	-
Amount reported in the Condensed Consolidated Statement of Profit or Loss	Revenue	262.1	260.4	(1.6)	-0.6
	Operating profit	8.6	15.9	7.2	84.4

(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]." "Operating profit" is the total of "Others" and "Adjustments" within the same table.

(2) Qualitative Information on the Consolidated Financial Position

a. Analysis of Financial Position

	As of March 31, 2018	As of December 31, 2018	Increase (Decrease)
	Billions of yen	Billions of yen	Billions of yen
Total assets	1,203.9	1,210.7	6.8
Total liabilities	668.3	653.7	(14.5)
Total equity	535.5	557.0	21.4
Equity attributable to owners of the parent	524.5	546.4	21.9
	%	%	%
Equity ratio attributable to owners of the parent	43.6	45.1	1.5

Total assets as of December 31, 2018, were 1,210.7 billion yen, an increase of 6.8 billion yen (0.6%) from March 31, 2018. This is primarily attributed to an increase of 18.9 billion yen in inventories, an increase of 7.8 billion yen in property, plant and equipment; an increase of 4.9 billion yen in other current assets; an increase of 4.4 billion yen in goodwill and intangible assets; a decrease of 22.2 billion yen in cash and cash equivalents; and a decrease of 8.5 billion yen in trade and other receivables.

Total liabilities as of December 31, 2018, were 653.7 billion yen, a decrease of 14.5 billion yen (2.2%) from March 31, 2018. This is primarily attributed to a decrease of 21.2 billion yen in bonds and borrowings, a decrease of 6.3 billion yen in retirement benefit liabilities, a decrease of 5.6 billion yen in trade and other payables, an increase of 12.7 billion yen in provisions, and an increase of 7.7 billion yen in income taxes payables.

Total equity as of December 31, 2018, was 557.0 billion yen, an increase of 21.4 billion yen (4.0%) from March 31, 2018.

Equity attributable to owners of the parent was 546.4 billion yen as of December 31, 2018, an increase of 21.9 billion yen (4.2%) from March 31, 2018. This is primarily attributed to recording of 33.7 billion yen in profit attributable to owners of the parent for the nine months ended December 31, 2018, an increase of 3.5 billion yen in other components of equity (mainly exchange differences on translation of foreign operations), and a decrease in retained earnings due to cash dividends of 14.8 billion yen.

As a result of the above, the equity ratio attributable to owners of the parent increased 1.5 percentage points to 45.1%.

b. Analysis of Cash Flows

	Nine months ended December 31, 2017	Nine months ended December 31, 2018	Increase (Decrease)
	Billions of yen	Billions of yen	Billions of yen
Cash flows from operating activities	39.4	36.8	(2.6)
Cash flows from investing activities	(133.4)	(19.9)	113.4
Total (Free cash flows)	(94.0)	16.8	110.8
Cash flows from financing activities	141.5	(39.1)	(180.7)

During the nine months ended December 31, 2018, net cash provided by operating activities was 36.8 billion yen, while net cash used in investing activities totaled 19.9 billion yen. As a result, free cash flows (the sum of cash flows from operating activities and investing activities) were an inflow of 16.8 billion yen for the period.

Net cash used in financing activities was 39.1 billion yen.

In addition, cash and cash equivalents as of December 31, 2018, were 127.6 billion yen, a decrease of 22.2 billion yen from March 31, 2018, reflecting the effects of exchange rate fluctuations on cash and cash equivalents.

Cash flows from operating activities

Net cash provided by operating activities was 36.8 billion yen. This is attributable to net effects of cash inflows due mainly to profit before tax of 47.9 billion yen, depreciation and amortization expenses of 44.0 billion yen, and a decrease in trade and other receivables of 6.7 billion yen, and cash outflows attributable due mainly to gain or loss on sales and disposals of property, plant and equipment, and intangible assets of 18.5 billion yen; an increase in inventories of 19.3 billion yen; and payment of income taxes of 7.7 billion yen.

Cash flows from investing activities

Net cash used in investing activities was 19.9 billion yen for the nine months ended December 31, 2018, due mainly to purchases of property, plant and equipment of 23.8 billion yen; purchases of intangible assets of 10.6 billion yen; and proceeds from sales of property, plant and equipment, and intangible assets of 21.3 billion yen.

As a result, free cash flows (the sum of cash flows from operating and investing activities) were an inflow of 16.8 billion yen for the nine months ended December 31, 2018 (an outflow of 94.0 billion yen for the same period of the previous fiscal year).

Cash flows from financing activities

Net cash used in financing activities was 39.1 billion yen for the nine months ended December 31, 2018 (net cash inflow of 141.5 billion yen for the same period of the previous fiscal year), reflecting redemption of bonds and repayments of long-term loans payable of 26.0 billion yen, and cash dividends paid of 14.6 billion yen.

(3) Explanation Regarding the Forecasts for the Consolidated Financial Results

Taking into account of the progress made during the current period, the Company has decided to keep the full-year consolidated forecasts the same as released on October 30, 2018.

With regard to the exchange rates that form the basis of the forecasts for the fiscal year ending March 31, 2019, they are left as the U.S. dollar exchange rate assumption at 105 yen and the euro rate at 125 yen, unchanged from those announced at the beginning of the fiscal year ending March 31, 2019.

The above forecasts for results of operations are based on suppositions, outlooks, and plans as of the release date of this report, and as such they involve risks and uncertainties. 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.

Amounts less than one hundred million yen are rounded down to the nearest million yen in the "1. QUALITATIVE INFORMATION ON FINANCIAL RESULTS FOR THE NINE MONTHS ENDED DECEMBER 31, 2018" section.