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, 2016	Three months ended June 30, 2017	Increase (Decrease)	
Revenue	229.1	232.3	3.2	1.4%
Gross profit	114.2	111.9	(2.3)	-2.0%
Operating profit	8.9	8.7	(0.1)	-2.2%
Profit before tax	8.5	8.2	(0.3)	-3.8%
Profit attributable to owners of the company	6.3	5.3	(1.0)	-16.0%
Basic earnings per share [yen]	12.89	10.83	(2.06)	-16.0%
Capital expenditures	7.8	8.2	0.3	4.6%
Depreciation and amortization expenses	12.7	13.6	0.8	6.8%
Research and development expenses	18.2	18.5	0.2	1.6%
Free cash flow	(25.2)	(8.6)	16.5	—
Number of employees (consolidated) [persons]	44,046	43,449	(597)	-1.4%
Foreign exchange rates [yen]				
US dollar	108.14	111.09	2.95	2.7%
euro	122.02	122.19	0.17	0.1%

In the first quarter of this fiscal year (hereafter, “period under review”), consolidated revenue for the Konica Minolta Group (“the Group”) came to ¥232.3 billion, up 1.4% year on year. By business segment, sales in Europe for the Office Business segment were weak, leading to a decline in revenue, but the Professional Print Business segment saw the industrial printing business unit grow, resulting in higher revenue. In the Healthcare Business segment, sales of digital products were strong, and revenue increased. In the Industrial Business segment, the performance materials business unit recorded a small decline in revenue, but the measuring instruments business unit continued its solid performance from the second half of the previous fiscal year, posting a significant increase in revenue that pushed up the business segment as a whole.

Operating profit was ¥8.7 billion, down 2.2% year on year. The profit declines in the Office Business and the Healthcare Business segments were offset by higher profit in the Industrial Business segment and by company-wide measures to liquidate assets in a sale leaseback so that, for the Group as a whole, profit came in at roughly the same level as that of the same period of the previous fiscal year.

Profit before tax came in at ¥8.2 billion (down 3.8% year on year), while profit attributable to owners of the company amounted to ¥5.3 billion (down 16.0% year on year).

<Medium Term Business Plan SHINKA 2019>

Focusing on the objective of becoming a high profitability company within five years, we are accelerating our transformation into “a digital company with insight into implicit challenges.” In accordance with the new Medium Term Business Plan SHINKA 2019, which began from April 2017, we will actively seek to nurture businesses in the following three fields.

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

As part of these initiatives, in July 2017 the Group and Innovation Network Corporation of Japan jointly concluded an agreement to acquire cutting-edge genetic diagnostics company Ambry Genetics Corporation (headquartered in California). This acquisition agreement is a harbinger of strategic initiatives aimed at promoting precision medicine, an area that is expected to play an important future role in such fields as cancer treatment.

b. Overview by Segment

(Billions of yen)

		Three months ended June 30, 2016	Three months ended June 30, 2017	Increase (Decrease)	
Office Business	Revenue	136.2	133.0	(3.1)	-2.3%
	Operating profit	11.4	5.3	(6.0)	-53.1%
Professional Print Business	Revenue	47.4	49.0	1.5	3.2%
	Operating profit	1.6	1.5	(0.0)	-3.3%
Healthcare Business	Revenue	18.4	19.5	1.0	5.9%
	Operating profit	0.1	(0.4)	(0.6)	—
Industrial Business	Revenue	24.8	28.6	3.7	15.2%
	Operating profit	3.3	6.0	2.7	81.3%
Subtotal	Revenue	227.0	230.2	3.2	1.4%
	Operating profit	16.6	12.5	(4.0)	-24.5%
"Others" and "Adjustments" (Note 2)	Revenue	2.1	2.0	(0.0)	-1.7%
	Operating profit	(7.6)	(3.8)	3.8	—
Amount reported in Condensed Consolidated Statement of Profit or Loss	Revenue	229.1	232.3	3.2	1.4%
	Operating profit	8.9	8.7	(0.1)	-2.2%

(Note)

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, although sales volumes of A3 color MFPs (Multi-functional peripherals) grew sharply in North America and China, European sales stagnated. In Germany in particular, amid intensifying price competition, we experienced lower sales to major customers and to indirect sales channels.

In our business with major companies that operate globally, relationships of trust with European customers are our starting point, and we won several projects in which the scope of the contract expanded to other regions, such as Asia. Also, in China we have been steadily winning large-scale contracts from the previous fiscal year onward.

In the IT services business unit, average monthly recurring fees charged to IT services in North America rose year on year, leading to an increase in revenue.

As a result, revenue of the Office Business segment stood at ¥133.0 billion, down 2.3% year on year. In addition to falling sales in Europe, the business was affected by a decline in gross profit caused by a production adjustment, and operating profit came to ¥5.3 billion, down 53.1% year on year.

ii. Professional Print Business

In the production print business unit, sales volumes of color digital printing systems in Japan declined, but in North America, Europe, and other regions, the "AccurioPress C2070" series launched in the second half of the previous fiscal year remained solid, contributing to growth in sales volumes. Notably, in China, sales volume for color digital printing systems doubled year on year.

In the industrial printing business unit, sales of "AccurioJet KM-1" digital inkjet press and digital decoration printing equipment made by French subsidiary MGI increased, boosting revenue.

The marketing services business unit was affected by constraints regarding marketing costs at our major customers' companies, and accordingly suffered a fall in revenue.

As a result of these factors, revenue of the Professional Print Business segment amounted to ¥49.0 billion, an increase of 3.2% year on year and operating profit was ¥1.5 billion, a decrease of 3.3% year on year.

iii. Healthcare Business

In the healthcare (modality) business unit, "AeroDR" cassette-type digital X-ray diagnostics imaging systems saw sales volume expand both in Japan and overseas. Sales volume of "SONIMAGE HS1" diagnostic ultrasound systems has been driven by demand from the field of orthopedics. Furthermore, we are beginning to see expansion into other diagnostic areas, such as anesthesiology, and sales volume in Japan nearly doubled. On the other hand, sales volume for analog products declined as a consequence of the accelerating shift toward digital products in diagnosis.

In the medical IT business unit, we strengthened sales and our client support structure for system implementation in US. In Japan, by adding Panasonic Medical Solutions Co., Ltd. to the Group we took steps to strengthen the solutions business, primarily in the area of Picture Archiving and Communication Systems (PACS). (The agreement came into effect on July 1, 2017.)

As a result of the above, revenue for the segment came in at ¥19.5 billion (up 5.9% year on year), while at the operating level a loss of ¥400 million was posted.

iv. Industrial Business

In the field of materials and components, the performance materials business unit focused on expanding sales of new high-performance products such as VA-TAC film, but while it succeeded in increasing sales volumes, intensifying pressure on prices resulted in lower revenue. In the optical component business unit, demand for end-products continued to contract, causing revenue to fall, but in the IJ (inkjet) component business unit sales were favorable in the US, Europe, and Japan, leading to higher revenues.

In the field of optical systems for industrial use, the measuring instruments business unit won a large project from a major manufacturer of mobile equipment. Together with the expansion in the business stemming from the emergence of mobile equipment manufacturers in China, this led to significantly higher revenue.

As a result, revenue of the Industrial Business segment came to ¥28.6 billion, up 15.2% year on year, and operating profit stood at ¥6.0 billion, up 81.3% year on year, due to the contribution of the increase in gross profit arising from higher revenues in the measuring instruments business unit.

(2) Explanation of Financial Position

a. Analysis of Financial Position

	March 31, 2017	June 30, 2017	Increase (Decrease)
Total assets [Billions of yen]	1,005.4	990.4	(14.9)
Total liabilities [Billions of yen]	471.2	454.9	(16.3)
Total equity [Billions of yen]	534.1	535.4	1.3
Equity attributable to owners of the company	524.3	525.6	1.3
Equity ratio attributable to owners of the company	52.1	53.1	1.0

Total assets at June 30, 2017 were ¥990.4 billion, a decrease of ¥14.9 billion (1.5%) from the previous fiscal year-end. This was primarily attributed to a decrease of ¥20.2 billion in cash and cash equivalents, a decrease of ¥7.5 billion in trade and other receivables, an increase of ¥6.3 billion in inventories, and an increase of ¥2.1 billion in goodwill and intangible assets.

Total liabilities at June 30, 2017 were ¥454.9 billion, a decrease of ¥16.3 billion (3.5%) from the previous fiscal year-end. This was primarily attributed to a decrease of ¥14.2 billion in trade and other payables, and a decrease of ¥3.8 billion in income tax payables.

Total equity at June 30, 2017 amounted to ¥535.4 billion, an increase of ¥1.3 billion (0.2%) from the previous fiscal year-end.

Equity attributable to owners of the company totaled ¥525.6 billion at June 30, 2017, an increase of ¥1.3 billion (0.3%) from the previous fiscal year-end. This was mainly the result of ¥5.3 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 other components of equity (mainly, exchange differences on translation of foreign operations) increasing by ¥4.9 billion.

As a result of the above, equity ratio attributable to owners of the company increased 1.0 percentage points to 53.1%.

b. Analysis of Cash Flows

(Billions of yen)

	Three months ended June 30, 2016	Three months ended June 30, 2017	Increase (Decrease)
Cash flows from operating activities	13.6	(1.6)	(15.3)
Cash flows from Investing activities	(38.9)	(6.9)	31.9
Total (Free cash flow)	(25.2)	(8.6)	16.5
Cash flows from Financing activities	12.4	(10.9)	(23.4)

During the three months ended June 30, 2017, net cash used in operating activities was ¥1.6 billion, while net cash used in investing activities, mainly associated with the purchases of property, plant and equipment, totaled ¥6.9 billion. As a result, free cash flow (the sum of operating and investing activities) was an outflow of ¥8.6 billion.

Net cash used in financing activities was ¥10.9 billion.

In addition, cash and cash equivalents at the end of the three months ended June 30, 2017, decreased ¥20.2 billion compared with the previous fiscal year-end to ¥72.3 billion, reflecting the effect of exchange rate changes on cash and cash equivalents.

Cash flows from Operating activities

Net cash used in operating activities was ¥1.6 billion, a result largely of cash inflow due to profit before tax of ¥8.2 billion, depreciation and amortization expenses of ¥13.6 billion, and a decrease in trade and other receivables of ¥16.1 billion, cash outflow attributable to a decrease in trade and other payables of ¥19.1 billion, payment of income taxes of ¥5.5 billion, and an increase in inventories of ¥3 billion, and ¥3.8 billion in adjustment of gain and loss on sales and disposals of property, plant and equipment and intangible assets.

Cash flows from Investing activities

Net cash used in investing activities was ¥6.9 billion, due mainly to purchases of property, plant and equipment of ¥6.3 billion, purchases of intangible assets of ¥2.5 billion, and proceeds from sales of property, plant and equipment amounting to ¥4.1 billion.

As a result, free cash flow (the sum of operating and investing activities) was an outflow of ¥8.6 billion, compared to net cash used of ¥25.2 billion in the same period of the previous fiscal year.

Cash flows from financing activities

Net cash used in financing activities was ¥10.9 billion, compared to ¥12.4 billion of net cash provided in the same period of the previous fiscal year, reflecting mainly a decrease of ¥7.2 billion in short-term loans payable, cash dividends paid of ¥7.2 billion, and proceeds from long-term loans payable of ¥4.2 billion.

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

With regard to the results forecasts for the full fiscal year, while there are areas of both strength and weakness in the mainstay businesses, results for the company as a whole are moving in line with forecasts and accordingly we have left unchanged the outlook for the full fiscal year that was announced on May 11, 2017. Regarding the exchange rates on which these forecasts were predicated upon, they will remain unchanged from those announced at the beginning of the fiscal year [105 yen against the US dollar and 115 yen against the euro].

*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.