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)

	Six months ended September 30, 2016	Six months ended September 30, 2017	Increase (Decrease)	
Revenue	461.9	488.1	26.1	5.7%
Gross profit	227.0	231.8	4.8	2.1%
Operating profit	18.5	20.4	1.9	10.4%
Profit before tax	17.4	19.0	1.5	9.0%
Profit attributable to owners of the company	13.2	13.5	0.2	2.1%
Basic earnings per share [yen]	26.73	27.29	0.56	2.1%
Capital expenditures	17.4	16.1	(1.3)	-7.7%
Depreciation and amortization expenses	25.4	27.0	1.6	6.6%
Research and development expenses	36.1	37.5	1.3	3.7%
Free cash flow	(13.9)	19.9	33.8	—
Number of employees (consolidated) [persons]	43,755	42,887	(868)	-2.0%
Foreign exchange rates [yen]				
US dollar	105.29	111.06	5.77	5.5%
euro	118.15	126.29	8.14	6.9%

In the second quarter of this fiscal year (hereafter, “period under review”), consolidated revenue for the Konica Minolta Group (“the Group”) came to ¥488.1 billion, up 5.7% year on year. By business segment, the Office Business saw increased revenue due to a recovery in formerly sluggish sales in Europe from the second half of the period under review, as well as strong sales outside Europe. In addition, the Professional Print Business and Healthcare Business saw strong sales of their mainstay products, leading to higher revenues. In the Industrial Business segment, the performance materials business unit recorded a small decline in revenue, but the measuring instruments business unit recorded solid performance throughout the period under review, posting a significant increase in revenue that pushed up the business segment as a whole.

Operating profit was ¥20.4 billion, up 10.4% year on year. The Office Business and the Professional Print Business posted lower profit, but the Healthcare Business succeeded in strengthening its profitability after a challenging first half of the period under review, and recorded an increase in profit. Driven by the measuring instruments business unit, the Industrial Business achieved a significant increase in profit, allowing the Group as a whole to secure higher profit.

Profit before tax came in at ¥19.0 billion (up 9.0% year on year), while profit attributable to owners of the company amounted to ¥13.5 billion (up 2.1% year on year).

<Structural reform carried out in the period under review>

In line with Medium Term Business Plan SHINKA 2019, the Group has moved forward with its transformation into “a digital company with insight into implicit challenges.” As part of its push forward toward the transformation of its human resources in order to achieve our human resources vision of “business athletes who can win at the global level,” we have implemented a “special early retirement program,” resulting in the posting of special extra retirement payments of ¥5.0 billion during the period under review.

<Measures to liquidate assets through sale & leaseback in the period under review>

During the period of the previous Medium Term Business Plan “TRANSFORM 2016,” the Group compiled its global locations into a database and investigated optimizing the use of its facilities (land, buildings) as part of its corporate real estate strategy. During the first half of the period under review, the Group liquidated assets by means of sale & leaseback at domestic locations. In the second half it focused on similar liquidations at overseas locations in the Office Business, and at domestic locations in the Healthcare Business. Together, these moves generated an income of ¥10.9 billion.

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

One of the aims of new Medium Term Business Plan SHINKA 2019, which began in April 2017, is a full-scale entry into the area of precision medicine.

As part of these initiatives, in July 2017 the Group and the Innovation Network Corporation of Japan jointly concluded an agreement to acquire cutting-edge US genetic-diagnostics company Ambry Genetics Corporation (headquartered in California; hereafter, "Ambry"). Following on from this, in September 2017 the Group completed an agreement to acquire Invicro, LLC (hereafter, "Invicro"), a leading provider of imaging services and software for research and drug development headquartered in Massachusetts, in the US. Invicro is an imaging Contract Research Organization (CRO) for drug-discovery support, with particular strengths in state-of-the-art data analytics and biomarker[Note] discovery technology.

Together with the acquisition of Ambry mentioned above, the acquisition of Invicro constitutes a cornerstone in Konica Minolta's precision medicine strategy. By combining our proprietary High-Sensitivity Tissue Testing (HSTT) technology with Ambry's world-leading genetic diagnostics solutions and Invicro's data analytics, biomarker discovery technology, and image processing technologies, as well as their ability to generate proposals for pharmaceutical companies, we will contribute to a dramatic improvement in productivity for new drug development, and subsequent improvements in Quality of Life (QOL) for patients, while helping to suppress the soaring national medical expenses. We will nurture this over the next five years with the aim of developing a new, highly profitable business by FY2021.

(Note)

Biomarker - any indicator that reflects the condition of the body. Proteins and genes, etc. in tissues or biological fluid, such as urine or blood, are often used, because they correlate to changes in the patient's condition or response to treatment.

b. Overview by Segment

(Billions of yen)

		Six months ended September 30, 2016	Six months ended September 30, 2017	Increase (Decrease)	
Office Business	Revenue	268.7	279.5	10.7	4.0%
	Operating profit	21.6	20.1	(1.5)	-7.0%
Professional Print Business	Revenue	97.0	101.1	4.0	4.2%
	Operating profit	4.3	2.4	(1.8)	-43.3%
Healthcare Business	Revenue	41.3	42.8	1.4	3.5%
	Operating profit	1.2	2.9	1.6	134.0%
Industrial Business	Revenue	49.9	59.9	10.0	20.0%
	Operating profit	6.3	12.0	5.6	87.8%
Subtotal	Revenue	457.1	483.5	26.3	5.8%
	Operating profit	33.6	37.5	3.8	11.6%
"Others" and "Adjustments" (Note 2)	Revenue	4.7	4.5	(0.2)	-4.2%
	Operating profit	(15.0)	(17.0)	(1.9)	—
Amount reported in Condensed Consolidated Statement of Profit or Loss	Revenue	461.9	488.1	26.1	5.7%
	Operating profit	18.5	20.4	1.9	10.4%

(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]" 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, the mainstay A3 color MFPs (Multi-functional peripherals) had seen some weakness in the first half of the period under review in Europe, but sales began to recover from the second half of the period, and sales volume has shifted to a year-on-year increase. North America and China remained solid. Sales volume of A3 monochrome MFPs also surpassed the level of the previous year. In our sales to major companies that operate globally, in addition to signing a large contract with a leading financial institution in China, we are winning global projects on the initiative of our subsidiaries in the US and the Asia Pacific region.

In the IT service solution business unit, MFP-related solutions in the US and IT infrastructure management services for small- and medium-sized enterprises in the US and Europe grew year on year, leading to higher revenue.

Revenue in the first half of the period was hit by weakness in Europe and posted a small year-on-year decline, but in the second half of the period, revenue growth exceeded 10% year on year.

In terms of profit, the improvement in gross profit resulting from the recovery in sales in the second half of the period, as well as measures to liquidate fixed assets through sale & leaseback at overseas locations, both made a contribution.

As a result, revenue of the Office Business segment stood at ¥279.5 billion, up 4.0% year on year and operating profit came to ¥20.1 billion, down 7.0% year on year.

ii. Professional Print Business

In the production print business unit, the "AccurioPress C6100" series that was launched in July 2017, and which represents the top-of the-line model in color digital printing systems, has won over customers in the commercial printing market with its automated output control function (which uses Konica Minolta's proprietary technology) and is building up a track record of projects. Significant growth in the business in Europe and China contributed to the increase in revenue for the Professional Print Business as a whole.

In the industrial printing business unit, the "AccurioJet KM-1" digital inkjet press and the digital decoration printing equipment made by French subsidiary MGI, saw further global expansion, primarily in North America, and an increase in sales.

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

Profits declined due to investment in future models in line with the Medium Term Business Plan, and due to such factors as the deterioration in gross profit resulting from the decline in revenue in the marketing services business unit.

As a result of these factors, revenue of the Professional Print Business segment amounted to ¥101.1 billion, an increase of 4.2% year on year and operating profit was ¥2.4 billion, a decrease of 43.3% year on year.

iii. Healthcare Business

In the healthcare (modality) business unit, although sales volumes of computed radiography (CR) equipment continued to decline, sales volumes of digital radiography (DR) cassette-type digital X-ray diagnostic imaging systems expanded primarily in the US, due to strengthened cooperation with an X-ray device manufacturer and the winning of a major project. Sales of diagnostic ultrasound systems remained solid in Japan, where we have established the top position in the field of orthopedics, and sales volumes also increased in China. The analog products recovered in the second half of the period under review, securing sales volume in line with that of the previous year. In the medical IT business unit, the benefits of strengthening the client support structure for implementation in the US have begun to be realized. Service contracts are expanding steadily in both units.

In addition to the impact of the increase in gross profit resulting from rising sales of mainstay products, measures taken to liquidate assets through sale & leaseback also made a contribution to profit.

As a result of the above, revenue for the Healthcare Business segment came in at ¥42.8 billion (up 3.5% year on year) and operating profit was ¥2.9 billion (up 134.0% 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 saw rising sales of new water-resistant VA-TAC films, Zero-TAC film for IPS panels, and other high value-added products, but revenue fell slightly due to price pressure. Revenue in the optical component business unit also declined, due to falling demand for end products, but the IJ (inkjet) component business unit posted higher revenue due to strong sales.

In the field of optical systems for industrial use, the measuring instruments business unit continued to experience solid sales throughout the period from a certain major manufacturer of mobile equipment, while an expansion in display-related demand in the Asian market also contributed, leading to a significant increase in revenue.

As a result, revenue of the Industrial Business segment was ¥59.9 billion (up 20.0% year on year) and operating profit stood at ¥12.0 billion (up 87.8% year on year).

(Reference) Overview of 2Q consolidated accounting period

(Billions of yen)

	Three months ended September 30, 2016	Three months ended September 30, 2017	Increase (Decrease)	
Revenue	232.8	255.7	22.9	9.8%
Gross profit	112.7	119.9	7.1	6.3%
Operating profit	9.6	11.7	2.1	22.1%
Profit before tax	8.9	10.8	1.9	21.2%
Profit attributable to owners of the company	6.8	8.1	1.2	18.8%
Basic earnings per share [yen]	13.84	16.47	2.63	19.0%
Capital expenditures	9.5	7.8	(1.7)	-17.7%
Depreciation and amortization expenses	12.6	13.4	0.8	6.3%
Research and development expenses	17.9	18.9	1.0	5.9%
Free cash flow	11.2	28.5	17.2	152.6%
Foreign exchange rates [yen]				
US dollar	102.43	111.03	8.60	8.4%
euro	114.28	130.38	16.10	14.1%

Overview of main segments

(Billions of yen)

		Three months ended September 30, 2016	Three months ended September 30, 2017	Increase (Decrease)	
Office Business	Revenue	132.5	146.5	13.9	10.5%
	Operating profit	10.2	14.8	4.5	44.2%
Professional Print Business	Revenue	49.6	52.1	2.5	5.1%
	Operating profit	2.6	0.8	(1.8)	-67.8%
Healthcare Business	Revenue	22.9	23.2	0.3	1.5%
	Operating profit	1.0	3.3	2.3	224.1%
Industrial Business	Revenue	25.0	31.3	6.2	24.8%
	Operating profit	3.0	5.9	2.8	95.1%
Subtotal	Revenue	230.1	253.2	23.0	10.0%
	Operating profit	17.0	24.9	7.9	46.8%
“Others” and “Adjustments” (Note 2)	Revenue	2.6	2.4	(0.1)	-6.3%
	Operating profit	(7.3)	(13.2)	(5.8)	—
Amount posted to Condensed Consolidated Statement of Profit or Loss	Revenue	232.8	255.7	22.9	9.8%
	Operating profit	9.6	11.7	2.1	22.1%

(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	September 30, 2017	Increase (Decrease)
Total assets [Billions of yen]	1,005.4	1,030.6	25.2
Total liabilities [Billions of yen]	471.2	478.5	7.2
Total equity [Billions of yen]	534.1	552.1	18.0
Equity attributable to owners of the company [Billions of yen]	524.3	541.8	17.5
Equity ratio attributable to owners of the company	52.1%	52.6%	0.5%

Total assets at September 30, 2017 were ¥1,030.6 billion, an increase of ¥25.2 billion (2.5%) from the previous fiscal year-end. This is primarily attributed to an increase of ¥6.7 billion in trade and other receivables, an increase of ¥6.0 billion in cash and cash equivalents, an increase of ¥5.9 billion in goodwill and intangible assets, and an increase of ¥5.2 billion in inventories.

Total liabilities at September 30, 2017 amounted to ¥478.5 billion, an increase of ¥7.2 billion (1.5%) from the previous fiscal year-end. This is primarily attributed to an increase of ¥6.9 billion in other financial liabilities, an increase of ¥3.0 billion in trade and other payables, and a decrease of ¥2.9 billion in bonds and borrowings.

Total equity at September 30, 2017 amounted to ¥552.1 billion, an increase of ¥18.0 billion (3.4%) from the previous fiscal year-end.

Equity attributable to owners of the company totaled ¥541.8 billion at September 30, 2017, an increase of ¥17.5 billion (3.3%) from the previous fiscal year-end. This is primarily attributed to an increase of ¥14.3 billion in other components of equity (mainly exchange rate differences on translation of foreign operations), ¥13.5 billion in profit for the period attributable to owners of the company, a decrease of ¥7.4 billion in retained earnings due to cash dividends, a decrease of ¥1.7 billion in share premiums, and a decrease of ¥1.0 billion due to acquisition and disposal of treasury shares.

As a result of the above, equity ratio attributable to owners of the company increased 0.5 percentage points to 52.6%.

b. Analysis of Cash Flows

(Billions of yen)

	Six months ended September 30, 2016	Six months ended September 30, 2017	Increase (Decrease)
Cash flows from operating activities	35.7	28.3	(7.4)
Cash flows from Investing activities	(49.6)	(8.4)	41.2
Total (Free cash flow)	(13.9)	19.9	33.8
Cash flows from Financing activities	22.4	(13.8)	(36.2)

During the six months ended September 30, 2017, net cash provided by operating activities was ¥28.3 billion, while net cash used in investing activities, mainly associated with the purchases of property, plant and equipment, totaled ¥8.4 billion. As a result, free cash flow (the sum of cash flows from operating and investing activities) was an inflow of ¥19.9 billion.

Net cash used in financing activities was ¥13.8 billion.

In addition, cash and cash equivalents at the end of the six months ended September 30, 2017 increased ¥6.0 billion compared with the previous fiscal year-end to ¥98.6 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 ¥28.3 billion as a result of cash inflow due largely to profit before tax of ¥19.0 billion, depreciation and amortization expenses of ¥27.0 billion, and a decrease in trade and other receivables of ¥9.2 billion on the one hand, and cash outflow attributable largely to a decrease of trade and other payables of ¥5.7 billion, payment of income taxes of ¥6.9 billion, and ¥10.7 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 ¥8.4 billion as a result of cash outflow due mainly to purchases of property, plant and equipment of ¥12.2 billion and purchases of intangible assets of ¥4.8 billion, and cash inflow attributable mainly to proceeds from sales of property, plant and equipment and intangible assets of ¥11.8 billion.

As a result, free cash flow (the sum of cash flows from operating and investing activities) was an inflow of ¥19.9 billion, compared to an outflow of ¥13.9 billion in the same period of the previous fiscal year.

Cash flows from Financing activities

Net cash used in financing activities was ¥13.8 billion, compared to net cash provided of ¥22.4 billion in the same period of the previous fiscal year, reflecting mainly a decrease in short-term loans payable of ¥9.3 billion, proceeds from long-term loans payable of ¥5.7 billion, repayments of long-term loans payable of ¥1.6 billion, purchases of treasury stock of ¥1.1 billion, and cash dividends paid of ¥7.4 billion.

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

Taking into account the steady progress made in the six months ended September 30, 2017 and our revised view of the euro exchange rate, which has a significant impact on the Group's profit and loss, we have revised earnings forecasts for the consolidated fiscal year under review as follows. With regard to the exchange rates that form the basis of the revised forecasts for the third quarter and beyond, we have set the US$ exchange rate assumption at ¥105 and the euro rate at ¥120.

Revision of consolidated financial results forecast for 2017 fiscal year (April 1, 2017 – March 31, 2018)

(Billions of yen)

	Revenue	Operating profit	Profit attributable to owners of the company	Basic earnings per share
Forecast previously announced (A)	980.0	46.0	30.0	60.53 (yen)
Revised forecast (B)	1,000.0	48.0	31.0	62.64 (yen)
Increase/decrease (B−A)	20.0	20.0	1.0	–
Change (%)	2.0	4.3	3.3	–
(Reference) Results for the fiscal year ended March 31, 2017	962.5	50.1	31.5	63.65 (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.