

1. QUALITATIVE INFORMATION ON FINANCIAL RESULTS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2018

(1) Qualitative Information on the Consolidated Operating Results

a. Overview

	Six months ended September 30, 2017	Six months ended September 30, 2018	Increase (Decrease)	
	Billions of yen	Billions of yen	Billions of yen	%
Revenue	488.1	517.0	28.9	5.9
Gross profit	231.8	251.5	19.6	8.5
Operating profit	20.4	34.6	14.1	69.1
Profit before tax	19.0	33.1	14.0	74.0
Profit attributable to owners of the parent	13.5	23.3	9.8	72.6
	Yen	Yen	Yen	%
Basic earnings per share	27.29	47.18	19.89	72.9
	Billions of yen	Billions of yen	Billions of yen	%
Capital expenditures	16.1	19.5	3.4	21.5
Depreciation and amortization expenses	27.0	29.1	2.0	7.5
Research and development expenses	37.5	39.7	2.2	5.9
	Billions of yen	Billions of yen	Billions of yen	%
Free cash flows	19.9	10.9	(8.9)	-44.9
	Number	Number	Number	%
Number of employees in the Group	42,887	44,179	1,292	3.0
	Yen	Yen	Yen	%
Foreign exchange rates				
U.S. dollar	111.06	110.26	(0.80)	-0.7
Euro	126.29	129.85	3.56	2.8

In the six months ended September 30, 2018 (the “current period”), the Group recorded revenue of 517.0 billion yen, an increase of 5.9% year-on-year. By business segment, revenue in the Office Business rose driven by sales of color models, and the Professional Print Business also posted an increase in revenue, reflecting a higher number of sales of both color and monochrome models. In the Healthcare Business, revenue fell as a result of discontinuing the sales of certain purchased products. 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 offsetting a decline in revenue due to slowing demand for products in the measuring instruments business unit.

Operating profit was 34.6 billion yen, an increase of 69.1% 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 a significant 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 14.9 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.

Profit before tax came in at 33.1 billion yen, an increase of 74.0% year-on-year, while profit attributable to owners of the parent amounted to 23.3 billion yen, an increase of 72.6% year-on-year.

b. Overview by Segment

		Six months ended September 30, 2017	Six months ended September 30, 2018	Increase (Decrease)	
		Billions of yen	Billions of yen	Billions of yen	%
Office Business	Revenue	279.5	290.7	11.2	4.0
	Operating profit	20.1	22.6	2.5	12.6
Professional Print Business	Revenue	101.1	109.2	8.0	8.0
	Operating profit	2.4	5.4	2.9	121.3
Healthcare Business	Revenue	42.8	40.2	(2.6)	-6.1
	Operating profit	2.9	0.8	(2.0)	-71.3
Industrial Business	Revenue	59.9	59.5	(0.3)	-0.7
	Operating profit	12.0	11.4	(0.5)	-4.7
Subtotal	Revenue	483.5	499.8	16.2	3.4
	Operating profit	37.5	40.3	2.8	7.7
Others and adjustments (Note 2)	Revenue	4.5	17.2	12.6	277.7
	Operating profit	(17.0)	(5.7)	11.2	-
Amount reported in the Condensed Consolidated Statement of Profit or Loss	Revenue	488.1	517.0	28.9	5.9
	Operating profit	20.4	34.6	14.1	69.1

(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]." "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, the high-speed product launched in the previous fiscal year continued to be a key driver of the business unit's sales performance in developed countries, primarily in Europe, the United States, and Japan. 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 continued effects of newly consolidated subsidiaries in the United States and Europe, the success of strengthening sales and service delivery capabilities to provide managed IT services for the release of the Workplace Hub, an edge IoT platform, into the market generated higher sales and contributed to a year-on-year increase in revenue.

As a result, the Office Business segment recorded revenue of 290.7 billion yen, an increase of 4.0% year-on-year, and operating profit of 22.6 billion yen, an increase of 12.6% 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 in Europe increased mainly driven by sales of top-of-the-line color models, while in North America, the number of sales of monochrome models rose significantly. In growth countries including China, the ASEAN region, and India, the number

of sales of both monochrome and color models 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. The overall number of sales of products for the industrial printing business unit rose considerably.

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 109.2 billion yen, an increase of 8.0% year-on-year, and operating profit of 5.4 billion yen, an increase of 121.3% year-on-year.

iii. Healthcare Business

In the healthcare (modality) business unit, despite the digital radiography showing solid performance in both Japan and the United States during the first half of the current period, the U.S. market slowed in the second half of the current period, and therefore, the number of its sales remained at the level 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 considerably throughout the current period in Japan, the United States, and 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, some major contracts were won in Japan during the first half of the current period, and thus, revenue from service contracts showed a steady growth throughout the current period.

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, but operating profit remained at the level of the same period in the previous fiscal year, disregarding 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.

As a result, the Healthcare Business segment recorded revenue of 40.2 billion yen, a decrease of 6.1% year-on-year, and operating profit of 0.8 billion yen, a decrease of 71.3% year-on-year.

iv. Industrial Business

In the field of materials and components, the performance materials business unit saw a rise in sales of high value-added products, such as phase difference film, throughout the current period, primarily in an expanding market in China, and revenue grew 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 was seen, and an increase in orders received from the existing customers in Asia in the inkjet component business unit drove sales, leading to higher revenue in both business units.

In the field of optical systems for industrial use, there continues to be an expansion of business opportunities through 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 were the driver for the growth in the previous fiscal year, and delays in order placement triggered by the market environment in which corporate customers are operating, revenue fell year-on-year.

As a result, the Industrial Business segment recorded revenue of 59.5 billion yen, a decrease of 0.7% year-on-year, and operating profit of 11.4 billion yen, a decrease of 4.7% year-on-year.

(Reference) Overview of the quarterly consolidated accounting period

	Three months ended September 30, 2017	Three months ended September 30, 2018	Increase (Decrease)	
	Billions of yen	Billions of yen	Billions of yen	%
Revenue	255.7	261.8	6.1	2.4
Gross profit	119.9	127.8	7.9	6.6
Operating profit	11.7	19.1	7.4	63.0
Profit before tax	10.8	17.8	7.0	64.8
Profit attributable to owners of the parent	8.1	12.1	4.0	49.2
	Yen	Yen	Yen	%
Basic earnings per share	16.47	24.57	8.10	49.2
	Billions of yen	Billions of yen	Billions of yen	%
Capital expenditures	7.8	10.9	3.0	38.6
Depreciation and amortization expenses	13.4	14.5	1.0	7.6
Research and development expenses	18.9	19.3	0.3	1.7
	Billions of yen	Billions of yen	Billions of yen	%
Free cash flows	28.5	11.3	(17.2)	-60.3
	Yen	Yen	Yen	%
Foreign exchange rates				
U.S. dollar	111.03	111.46	0.43	0.4
Euro	130.38	129.63	(0.75)	-0.6

Overview of major segments

		Three months ended September 30, 2017	Three months ended September 30, 2018	Increase (Decrease)	
		Billions of yen	Billions of yen	Billions of yen	%
Office Business	Revenue	146.5	147.2	0.7	0.5
	Operating profit	14.8	13.4	(1.3)	-9.3
Professional Print Business	Revenue	52.1	55.8	3.7	7.1
	Operating profit	0.8	3.7	2.8	334.6
Healthcare Business	Revenue	23.2	21.6	(1.6)	-7.1
	Operating profit	3.3	1.0	(2.3)	-69.3
Industrial Business	Revenue	31.3	28.0	(3.3)	-10.5
	Operating profit	5.9	4.6	(1.2)	-20.9
Subtotal	Revenue	253.2	252.7	(0.5)	-0.2
	Operating profit	24.9	22.8	(2.0)	-8.4
Others and adjustments (Note 2)	Revenue	2.4	9.1	6.6	266.9
	Operating profit	(13.2)	(3.7)	9.4	-
Amount reported in the Condensed Consolidated Statement of Profit or Loss	Revenue	255.7	261.8	6.1	2.4
	Operating profit	11.7	19.1	7.4	63.0

(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 September 30, 2018	Increase (Decrease)
	Billions of yen	Billions of yen	Billions of yen
Total assets	1,203.9	1,246.1	42.2
Total liabilities	668.3	680.6	12.3
Total equity	535.5	565.5	29.9
Equity attributable to owners of the parent	524.5	554.9	30.4
	%	%	%
Equity ratio attributable to owners of the parent	43.6	44.5	0.9

Total assets as of September 30, 2018, were 1,246.1 billion yen, an increase of 42.2 billion yen (3.5%) from March 31, 2018. This is primarily attributed to an increase of 12.5 billion yen in goodwill and intangible assets, an increase of 12.3 billion yen in inventories, an increase of 6.7 billion yen in other current assets, and an increase of 3.0 billion yen in trade and other receivables.

Total liabilities as of September 30, 2018, were 680.6 billion yen, an increase of 12.3 billion yen (1.8%) from March 31, 2018. This is primarily attributed to an increase of 8.7 billion yen in provisions, an increase of 4.3 billion yen in income taxes payables, an increase of 2.6 billion yen in bonds and borrowings, and a decrease of 7.0 billion yen in trade and other payables.

Total equity as of September 30, 2018, was 565.5 billion yen, an increase of 29.9 billion yen (5.6%) from March 31, 2018.

Equity attributable to owners of the parent was 554.9 billion yen as of September 30, 2018, an increase of 30.4 billion yen (5.8%) from March 31, 2018. This is primarily attributed to recording of 23.3 billion yen in profit attributable to owners of the parent for the six months ended September 30, 2018, an increase of 16.6 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 7.4 billion yen.

As a result of the above, the equity ratio attributable to owners of the parent increased 0.9 percentage points to 44.5%.

b. Analysis of Cash Flows

	Six months ended September 30, 2017	Six months ended September 30, 2018	Increase (Decrease)
	Billions of yen	Billions of yen	Billions of yen
Cash flows from operating activities	28.3	21.4	(6.8)
Cash flows from investing activities	(8.4)	(10.4)	(2.0)
Total (Free cash flows)	19.9	10.9	(8.9)
Cash flows from financing activities	(13.8)	(9.1)	4.6

During the six months ended September 30, 2018, net cash provided by operating activities was 21.4 billion yen, while net cash used in investing activities totaled 10.4 billion yen. As a result, free cash flows (the sum of cash flows from operating activities and investing activities) were 10.9 billion yen for the period.

Net cash used in financing activities was 9.1 billion yen.

In addition, cash and cash equivalents as of September 30, 2018, was 152.8 billion yen, an increase of 2.9 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 21.4 billion yen. This is attributable to net effects of cash inflows due mainly to profit before tax of 33.1 billion yen, depreciation and amortization expenses of 29.1 billion yen, and a decrease in trade and other receivables of 5.0 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 13.5 billion yen, a decrease in trade and other payables of 9.0 billion yen, an increase in inventories of 9.0 billion yen, and payment of income taxes of 7.1 billion yen.

Cash flows from investing activities

Net cash used in investing activities was 10.4 billion yen for the six months ended September 30, 2018, due mainly to purchases of property, plant and equipment of 14.8 billion yen, purchases of intangible assets of 6.6 billion yen, and proceeds from sales of property, plant and equipment, and intangible assets of 15.8 billion yen.

As a result, free cash flows (the sum of cash flows from operating and investing activities) were 10.9 billion yen for the six months ended September 30, 2018 (19.9 billion yen for the same period of the previous fiscal year).

Cash flows from financing activities

Net cash used in financing activities was 9.1 billion yen for the six months ended September 30, 2018, net cash outflow of 13.8 billion yen for the same period of the previous fiscal year, reflecting mainly cash dividends of 7.4 billion yen.

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

Taking into account that the effects of initiatives undertaken to strengthen profitability in the Group's core businesses are evident in the financial results for the current period and the Group is consistently delivering results against the plan, we have revised full-year consolidated forecasts as follows.

With regard to the exchange rates that form the basis of the forecasts for the rest of 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, taking into account the ongoing uncertainty in the global economy arising from trade conflicts and other triggers.

Revision of consolidated forecasts for the fiscal year ending March 31, 2019
(From April 1, 2018 to March 31, 2019)

	Revenue	Operating profit	Profit attributable to owners of the parent	Basic earnings per share
	Billions of yen	Billions of yen	Billions of yen	Yen
Forecasts previously announced (A)	1,080.0	62.0	38.5	77.85
Revised forecasts (B)	1,080.0	64.0	40.0	80.88
Increase/decrease (B-A)	—	2.0	1.5	—
Change (%)	—	3.2%	3.9%	—
(Reference) Results for the fiscal year ended March 31, 2018	1,031.2	53.8	32.2	65.17

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 SIX MONTHS ENDED SEPTEMBER 30, 2018" section.