

3. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Condensed Consolidated Statement of Financial Position

(Millions of yen)

	March 31, 2016	June 30, 2016
Assets		
Current assets		
Cash and cash equivalents	99,937	81,969
Trade and other receivables	249,498	220,569
Inventories	121,361	120,954
Income tax receivables	3,210	3,030
Other financial assets	3,327	3,989
Other current assets	18,249	20,306
Subtotal	495,585	450,819
Assets held for sale	630	575
Total current assets	496,216	451,394
Non-current assets		
Property, plant and equipment	187,322	183,605
Goodwill and intangible assets	178,390	189,069
Investments accounted for using the equity method	3,614	13,900
Other financial assets	38,646	39,147
Deferred tax assets	59,052	56,311
Other non-current assets	13,128	7,318
Total non-current assets	480,154	489,354
Total assets	976,370	940,749

(Millions of yen)

	March 31, 2016	June 30, 2016
Liabilities		
Current liabilities		
Trade and other payables	162,907	144,842
Bonds and borrowings	42,624	52,468
Income tax payables	3,317	2,818
Provisions	6,821	5,453
Other financial liabilities	200	51
Other current liabilities	39,379	32,165
Total current liabilities	255,251	237,800
Non-current liabilities		
Bonds and borrowings	125,653	133,172
Retirement benefit liabilities	67,913	67,489
Provisions	1,227	1,234
Other financial liabilities	3,611	6,225
Deferred tax liabilities	3,443	4,335
Other non-current liabilities	4,286	4,022
Total non-current liabilities	206,137	216,480
Total liabilities	461,389	454,280
Equity		
Share capital	37,519	37,519
Share premium	203,397	203,397
Retained earnings	258,562	257,508
Treasury shares	(9,408)	(9,313)
Subscription rights to shares	1,009	954
Other components of equity	23,204	(7,054)
Equity attributable to owners of the company	514,285	483,013
Non-controlling interests	696	3,455
Total equity	514,981	486,468
Total liabilities and equity	976,370	940,749

(2) Condensed Consolidated Statement of Profit or Loss

(Millions of yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Revenue	248,643	229,131
Cost of sales	128,907	114,836
Gross profit	119,735	114,295
Other income	742	1,319
Selling, general and administrative expenses	107,132	105,221
Other expenses	3,322	1,481
Operating profit	10,022	8,911
Finance income	1,014	723
Finance costs	638	1,038
Share of profit (loss) of investments accounted for using the equity method	(2)	(68)
Profit before tax	10,395	8,528
Income tax expense	3,825	2,260
Profit for the period	6,570	6,267
Profit attributable to		
Owners of the company	6,592	6,386
Non-controlling interests	(22)	(119)
Earnings per share		
Basic	13.19 yen	12.89 yen
Diluted	13.15 yen	12.85 yen

(3) Condensed Consolidated Statement of Comprehensive Income

(Millions of yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Profit for the period	6,570	6,267
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit pension plans (net of tax)	(1)	—
Net gain (loss) on revaluation of financial assets measured at fair value (net of tax)	1,147	(796)
Share of other comprehensive income of investments accounted for using the equity method (net of tax)	(0)	(0)
Total items that will not be reclassified to profit or loss	1,145	(797)
Items that may be subsequently reclassified to profit or loss		
Net gain (loss) on derivatives designated as cash flow hedges (net of tax)	(153)	393
Exchange differences on translation of foreign operations (net of tax)	8,288	(30,095)
Share of other comprehensive income of investments accounted for using the equity method (net of tax)	—	(13)
Total items that may be subsequently reclassified to profit or loss	8,134	(29,715)
Total other comprehensive income	9,280	(30,513)
Total comprehensive income	15,850	(24,245)
Total comprehensive income attributable to		
Owners of the company	16,018	(23,868)
Non-controlling interests	(167)	(377)

(4) Condensed Consolidated Statement of Changes in Equity

(Millions of yen)

	Share capital	Share premium	Retained earnings	Treasury shares	Subscription rights to shares	Other components of equity	Equity attributable to owners of the company	Non-controlling interests	Total equity
Balance at April 1, 2015	37,519	203,395	257,227	(10,727)	1,016	47,545	535,976	1,071	537,048
Profit for the period	—	—	6,592	—	—	—	6,592	(22)	6,570
Other comprehensive income	—	—	—	—	—	9,425	9,425	(145)	9,280
Total comprehensive income	—	—	6,592	—	—	9,425	16,018	(167)	15,850
Dividends	—	—	(5,018)	—	—	—	(5,018)	—	(5,018)
Acquisition and disposal of treasury shares	—	—	(2)	(6,780)	—	—	(6,782)	—	(6,782)
Cancellation of the treasury shares	—	—	(11,086)	11,086	—	—	—	—	—
Share-based payments (Subscription rights to shares)	—	—	—	—	18	—	18	—	18
Changes in the ownership interest in subsidiaries	—	2	—	—	—	—	2	(104)	(102)
Transfer from other components of equity to retained earnings	—	—	(3)	—	—	3	—	—	—
Total transactions with owners	—	2	(16,111)	4,306	18	3	(11,780)	(104)	(11,884)
Balance at June 30, 2015	37,519	203,397	247,709	(6,421)	1,034	56,974	540,214	799	541,013

(Millions of yen)

	Share capital	Share premium	Retained earnings	Treasury shares	Subscription rights to shares	Other components of equity	Equity attributable to owners of the company	Non-controlling interests	Total equity
Balance at April 1, 2016	37,519	203,397	258,562	(9,408)	1,009	23,204	514,285	696	514,981
Profit for the period	—	—	6,386	—	—	—	6,386	(119)	6,267
Other comprehensive income	—	—	—	—	—	(30,255)	(30,255)	(258)	(30,513)
Total comprehensive income	—	—	6,386	—	—	(30,255)	(23,868)	(377)	(24,245)
Dividends	—	—	(7,432)	—	—	—	(7,432)	—	(7,432)
Acquisition and disposal of treasury shares	—	—	(11)	95	—	—	83	—	83
Share-based payments (Subscription rights to shares)	—	—	—	—	(54)	—	(54)	—	(54)
Changes in non-controlling interests due to increase in subsidiaries	—	—	—	—	—	—	—	3,136	3,136
Transfer from other components of equity to retained earnings	—	—	3	—	—	(3)	—	—	—
Total transactions with owners	—	—	(7,440)	95	(54)	(3)	(7,403)	3,136	(4,267)
Balance at June 30, 2016	37,519	203,397	257,508	(9,313)	954	(7,054)	483,013	3,455	486,468

(5) Condensed Consolidated Statement of Cash Flow

(Millions of yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Cash flows from operating activities		
Profit before tax	10,395	8,528
Depreciation and amortization expenses	12,520	12,747
Impairment losses	2	0
Share of (profit) loss of investments accounted for using the equity method	2	68
Interest and dividends income	(684)	(687)
Interest expenses	570	647
(Gain) loss on sales and disposals of property, plant and equipment and intangible assets	111	62
(Increase) decrease in trade and other receivables	12,640	5,122
(Increase) decrease in inventories	(4,879)	(6,834)
Increase (decrease) in trade and other payables	(20,257)	1,808
Decrease in transfer of lease assets	(1,466)	(1,395)
Increase (decrease) in retirement benefit liabilities	416	816
Others	(7,506)	(4,655)
Subtotal	1,866	16,229
Dividends received	290	274
Interest received	411	298
Interest paid	(668)	(757)
Income taxes paid	(6,440)	(2,350)
Net cash flows from operating activities	(4,540)	13,695

(Millions of yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,838)	(8,720)
Proceeds from sales of property, plant and equipment	425	204
Purchase of intangible assets	(1,625)	(1,544)
Purchase of investments in subsidiaries	(4,607)	(22,540)
Purchase of interests in investments accounted for using the equity method	—	(4,337)
Purchase of investment securities	(87)	(53)
Proceeds from sales of investment securities	287	12
Payments for loans receivable	(8)	(12)
Collection of loans receivable	72	17
Payments for transfer of business	(2,883)	(760)
Others	(1,331)	(1,179)
Net cash flows from investing activities	(16,597)	(38,915)
Cash flows from financing activities		
Increase (decrease) in short-term loans payable	(5,822)	10,158
Proceeds from bonds issuance and long-term loans payable	—	10,080
Redemption of bonds and repayments of long-term loans payable	(619)	(671)
Purchase of treasury shares	(6,816)	(0)
Cash dividends paid	(4,915)	(7,274)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(102)	—
Others	143	191
Net cash flows from financing activities	(18,132)	12,482
Effect of exchange rate changes on cash and cash equivalents	1,418	(5,232)
Net increase (decrease) in cash and cash equivalents	(37,852)	(17,968)
Cash and cash equivalents at the beginning of the period	177,496	99,937
Cash and cash equivalents at the end of the period	139,644	81,969

(6) Notes to the Condensed Consolidated Financial Statements**[Notes Regarding Going Concern Assumptions]**

None.

[Other Expenses]

Components of other expenses are as follows.

(Millions of yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Special extra retirement payment (Note)	2,021	—
Loss on sales and disposals of property, plant and equipment and intangible assets	281	115
Others	1,020	1,365
Total	3,322	1,481

(Note) Special extra retirement payment for the three months ended June 30, 2015 includes extra retirement payment paid to retired employees related to implementation of a special early retirement program.

[Share Capital and Treasury Shares]

(Shares)

	Number of authorized shares	Number of issued shares (Note 1) (Note 2)	Treasury shares
Balance at March 31, 2016	1,200,000,000	502,664,337	7,188,993
Increase	—	—	623
Decrease	—	—	73,082
Balance at June 30, 2016	1,200,000,000	502,664,337	7,116,534

(Note 1) Shares issued by the Company are non-par value ordinary shares.

(Note 2) Issued shares have been fully paid.

[Segment Information]**(a) Reportable segments**

Reportable segments of the Group are the constituent business units of the Group for which separate financial data is available and that are examined on a regular basis for the purpose of enabling the Group's management to decide on the allocation of resources and evaluate results of operations. The Group establishes business segments by product and service category and formulates comprehensive strategies and conducts business activities in Japan and overseas for the products and services of each business category. Consequently, the operations of the Group are divided into business segments based on products and services of each business category. This results in three reportable business segments: "Business Technologies Business," "Healthcare Business," and "Industrial Business." "Others" includes businesses involving IP video surveillance cameras, planetariums, etc. not included in these reportable segments.

The business content of each reportable segment is as follows:

	Business content	
Business Technologies Business	<Office Services> Development, manufacture, and sales of MFPs and IT services; the provision of related consumables, solutions, and services	<Commercial and Industrial Printing> Development, manufacture, and sales of digital printing systems, various printing services, and industrial inkjet printers; the provision of related consumables, solutions, and services
Healthcare Business	Development, manufacture, sales, and provision of services for diagnostic imaging systems (digital X-ray diagnostic imaging systems, diagnostic ultrasound systems, etc.)	
Industrial Business	<Optical Systems for Industrial Use> Development, manufacture, and sales of measuring instruments, lenses for industrial and professional use, etc.	<Performance Materials> Development, manufacture, and sales of TAC films used in liquid crystal displays, organic light-emitting diode (OLED) lighting, functional films, etc.

(b) Information on reportable segments

Information on each reportable segment of the Group is provided below. Segment profit refers to operating profit.

Three months ended June 30, 2015

(Millions of yen)

	Reportable segments				Others	Total
	Business Technologies Business	Healthcare Business	Industrial Business	Total		
Revenue						
External	201,797	17,876	28,184	247,858	784	248,643
Intersegment (Note)	525	77	938	1,542	4,767	6,309
Total	202,323	17,954	29,123	249,400	5,552	254,952
Segment profit	13,275	126	5,862	19,264	231	19,495

(Note) Intersegment revenue is based on market prices, etc.

Three months ended June 30, 2016

(Millions of yen)

	Reportable segments				Others	Total
	Business Technologies Business	Healthcare Business	Industrial Business	Total		
Revenue						
External	186,328	18,451	21,725	226,506	2,625	229,131
Intersegment (Note)	791	195	1,454	2,441	4,356	6,797
Total	187,120	18,646	23,179	228,947	6,981	235,929
Segment profit	13,345	193	2,323	15,862	(927)	14,934

(Note) Intersegment revenue is based on market prices, etc.

Differences between the amount of “Totals” for reportable segments and the amount of “condensed consolidated statement of profit or loss” and the principal content of these differences are provided below.

(Millions of yen)

Revenue	Three months ended June 30, 2015	Three months ended June 30, 2016
Total revenue of reportable segments	249,400	228,947
Revenue categorized in “Others”	5,552	6,981
Total of reportable segments and “Others”	254,952	235,929
Adjustments (Note)	(6,309)	(6,797)
Revenue reported in condensed consolidated statement of profit or loss	248,643	229,131

(Note) Adjustments are intersegment eliminations.

(Millions of yen)

Profit	Three months ended June 30, 2015	Three months ended June 30, 2016
Total operating profit of reportable segments	19,264	15,862
Operating profit categorized in “Others”	231	(927)
Total of reportable segments and “Others”	19,495	14,934
Adjustments (Note)	(9,473)	(6,023)
Operating profit reported in condensed consolidated statement of profit or loss	10,022	8,911

(Note) Adjustments include intersegment eliminations and corporate expenses, which are mainly general administration expenses and basic research expenses not attributed to any reportable segment.

[Business Combinations]

Three months ended June 30, 2015

Business combinations that occurred during the three months ended June 30, 2015 were not material.

Three months ended June 30, 2016

(Finalization of acquisition cost allocation for Dactyl Buro du Centre and OMR Impressions)

With regard to the business combination below that occurred in the previous consolidated fiscal year, because during the previous consolidated fiscal year the allocation of acquisition costs had not been completed, the provisional calculations were made for fair value of the consideration for acquisition and recognized value of assets acquired and liabilities assumed as of the acquisition date, but in the first quarter of the current consolidated fiscal year the allocation of acquisition costs was completed. The changes from the provisional figures consist of a decrease of ¥1,757 million in intangible assets and a decline of ¥605 million in deferred tax liabilities, while the associated change in goodwill is an increase of ¥1,152 million.

The breakdown after this finalization is as follows.

Fair value of the consideration for acquisition and recognized value of assets acquired and liabilities assumed, as of the acquisition date

	(Millions of yen)
Fair value of the consideration for acquisition	10,856
Recognized value of assets acquired and liabilities assumed	
Cash and cash equivalents	966
Trade and other receivables	2,112
Inventories	452
Property, plant and equipment	2,117
Intangible assets	2,187
Other assets	680
Bonds and borrowings	(3,061)
Deferred tax liabilities	(16)
Other liabilities	(2,566)
Goodwill (Note 2)	7,984
Total	10,856

(Note 1) There was no contingent consideration.

(Note 2) Goodwill largely represents excess earnings power of the acquired companies and will not be deductible for tax purposes.

The major business combination that occurred during the three months ended June 30, 2016 was as follows.

(Acquisition of shares of MOBOTIX AG)

(a) Description of the business combination

As of May 10, 2016, the Group acquired 65.5% of shares (65.5% of voting rights) of MOBOTIX AG (hereafter, "MOBOTIX"), a German manufacturer of IP video surveillance cameras and video management software, in an all-cash transaction.

Through the acquisition of MOBOTIX, the Group intends to acquire MOBOTIX's technologies including decentralized processing (edge computing) IP cameras, image data compression, and image data analytics technologies.

(b) Fair value of the consideration for acquisition and recognized value of assets acquired and liabilities assumed, as of the acquisition date

(Millions of yen)	
Fair value of the consideration for acquisition	21,568
Non-controlling interests (Note 3)	3,136
Recognized value of assets acquired and liabilities assumed	
Cash and cash equivalents	219
Trade and other receivables	2,123
Inventories	1,847
Property, plant and equipment	2,451
Intangible assets	7,122
Other assets	526
Trade and other payables	(1,150)
Bonds and borrowings	(1,449)
Deferred tax liabilities	(2,104)
Other liabilities	(495)
Goodwill (Note 4)	15,614
Total	24,705

(Note 1) There was no contingent consideration.

(Note 2) The amounts were computed provisionally as an allocation of acquisition costs has not yet been completed.

(Note 3) Non-controlling interests are measured using the ratio of equity attributable to non-controlling interest shareholders to the fair value of the identifiable net assets of the acquired company.

(Note 4) Goodwill largely represents excess earnings power of the acquired company and will not be deductible for tax purposes.

Acquisition-related costs of ¥521 million for the business combination (of which ¥79 million was incurred in the previous fiscal year) were recognized in "Selling, general and administrative expenses."

(c) Performance after the acquisition date

Information is not disclosed because the business combination of the said company has no material effect on the condensed consolidated statement of profit or loss and the condensed consolidated statement of comprehensive income for the three months ended June 30, 2016.

(d) Pro-forma information

Because pro forma information based on the assumption that the business combination of the said company took place at the beginning of the period under review, on April 1, 2016, has no material effect on the condensed consolidated statement of profit or loss and the condensed consolidated statement of comprehensive income for the three months ended June 30, 2016, it is not disclosed here.

[Events after the Reporting Period]

The Company, with the intention of procuring funds for part of the acquisition of MOBOTIX, used the “Overseas Business Deployment Funding Assistance Facility” credit line provided by the Japan Bank for International Cooperation to borrow funds as follows.

(1) Lenders	Loan syndicate with Sumitomo Mitsui Banking Corporation as lead manager
(2) Amount borrowed	Foreign currency borrowings: US\$114,750 thousand Yen borrowings: ¥8,628 million
(3) Interest rate on borrowings	Foreign currency borrowings: Base rate + spread Yen borrowings: Fixed interest rate
(4) Date borrowings executed	July 28, 2016
(5) Repayment date	July 28, 2021
(6) Collateral provided	None