

4. CONSOLIDATED FINANCIAL STATEMENTS and RELATED NOTES

(1) Consolidated Statement of Financial Position

(Millions of yen)

	March 31, 2016	March 31, 2017
Assets		
Current assets		
Cash and cash equivalents	99,937	92,628
Trade and other receivables	249,498	243,195
Inventories	121,361	136,020
Income tax receivables	3,210	1,878
Other financial assets	3,327	6,924
Other current assets	18,249	18,799
Subtotal	495,585	499,446
Assets held for sale	630	—
Total current assets	496,216	499,446
Non-current assets		
Property, plant and equipment	187,322	190,580
Goodwill and intangible assets	178,390	209,577
Investments accounted for using the equity method	3,614	3,489
Other financial assets	38,646	47,542
Deferred tax assets	59,052	48,129
Other non-current assets	13,128	6,668
Total non-current assets	480,154	505,988
Total assets	976,370	1,005,435

(Millions of yen)

	March 31, 2016	March 31, 2017
Liabilities		
Current liabilities		
Trade and other payables	162,907	156,090
Bonds and borrowings	42,624	41,294
Income tax payables	3,317	5,554
Provisions	6,821	5,659
Other financial liabilities	200	372
Other current liabilities	39,379	41,275
Total current liabilities	255,251	250,246
Non-current liabilities		
Bonds and borrowings	125,653	144,218
Retirement benefit liabilities	67,913	61,267
Provisions	1,227	1,136
Other financial liabilities	3,611	4,362
Deferred tax liabilities	3,443	5,222
Other non-current liabilities	4,286	4,833
Total non-current liabilities	206,137	221,040
Total liabilities	461,389	471,286
Equity		
Share capital	37,519	37,519
Share premium	203,397	202,631
Retained earnings	258,562	276,709
Treasury shares	(9,408)	(9,214)
Subscription rights to shares	1,009	998
Other components of equity	23,204	15,685
Equity attributable to owners of the company	514,285	524,331
Non-controlling interests	696	9,818
Total equity	514,981	534,149
Total liabilities and equity	976,370	1,005,435

(2) Consolidated Statement of Profit or Loss

(Millions of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Revenue	1,031,740	962,555
Cost of sales	536,226	502,616
Gross profit	495,514	459,938
Other income	7,786	14,147
Selling, general and administrative expenses	429,891	416,622
Other expenses	13,339	7,328
Operating profit	60,069	50,135
Finance income	2,155	2,724
Finance costs	4,179	3,451
Share of profit (loss) of investments accounted for using the equity method	(16)	(66)
Profit before tax	58,029	49,341
Income tax expense	26,029	17,856
Profit for the year	32,000	31,485
Profit attributable to:		
Owners of the company	31,973	31,542
Non-controlling interests	26	(56)
Earnings per share		
Basic	64.39 yen	63.65 yen
Diluted	64.21 yen	63.47 yen

(3) Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Profit for the year	32,000	31,485
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit pension plans (net of tax)	(6,974)	1,519
Net gain (loss) on revaluation of financial assets measured at fair value (net of tax)	(3,851)	3,958
Share of other comprehensive income of investments accounted for using the equity method (net of tax)	6	(0)
Total items that will not be reclassified to profit or loss	(10,819)	5,477
Items that may be subsequently reclassified to profit or loss		
Net gain (loss) on derivatives designated as cash flow hedges (net of tax)	(742)	697
Exchange differences on translation of foreign operations (net of tax)	(20,086)	(12,324)
Share of other comprehensive income of investments accounted for using the equity method (net of tax)	—	(18)
Total items that may be subsequently reclassified to profit or loss	(20,828)	(11,645)
Total other comprehensive income	(31,648)	(6,168)
Total comprehensive income	351	25,317
Total comprehensive income attributable to:		
Owners of the company	622	25,556
Non-controlling interests	(270)	(239)

(4) 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 year	—	—	31,973	—	—	—	31,973	26	32,000
Other comprehensive income (loss)	—	—	—	—	—	(31,351)	(31,351)	(297)	(31,648)
Total comprehensive income	—	—	31,973	—	—	(31,351)	622	(270)	351
Dividends	—	—	(12,448)	—	—	—	(12,448)	—	(12,448)
Acquisition and disposal of treasury shares	—	—	(92)	(9,767)	—	—	(9,860)	—	(9,860)
Cancellation of the treasury shares	—	—	(11,086)	11,086	—	—	—	—	—
Share-based payments	—	—	—	—	(6)	—	(6)	—	(6)
Equity transactions, etc. with non-controlling interests	—	2	—	—	—	—	2	(104)	(102)
Transfer from other components of equity to retained earnings	—	—	(7,010)	—	—	7,010	—	—	—
Total transactions, etc. with owners	—	2	(30,638)	1,318	(6)	7,010	(22,313)	(104)	(22,418)
Balance at March 31, 2016	37,519	203,397	258,562	(9,408)	1,009	23,204	514,285	696	514,981
Profit for the year	—	—	31,542	—	—	—	31,542	(56)	31,485
Other comprehensive income (loss)	—	—	—	—	—	(5,985)	(5,985)	(182)	(6,168)
Total comprehensive income	—	—	31,542	—	—	(5,985)	25,556	(239)	25,317
Dividends	—	—	(14,865)	—	—	—	(14,865)	—	(14,865)
Acquisition and disposal of treasury shares	—	—	(62)	194	—	—	131	—	131
Share-based payments	—	—	—	—	(10)	—	(10)	—	(10)
Changes in non-controlling interests due to changes in subsidiaries	—	—	—	—	—	—	—	9,805	9,805
Equity transactions, etc. with non-controlling interests	—	177	—	—	—	—	177	340	517
Put options granted to non-controlling interests	—	(943)	—	—	—	—	(943)	(784)	(1,728)
Transfer from other components of equity to retained earnings	—	—	1,533	—	—	(1,533)	—	—	—
Total transactions, etc. with owners	—	(765)	(13,395)	194	(10)	(1,533)	(15,510)	9,361	(6,149)
Balance at March 31, 2017	37,519	202,631	276,709	(9,214)	998	15,685	524,331	9,818	534,149

(5) Consolidated Statement of Cash Flow

(Millions of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Cash flows from operating activities		
Profit before tax	58,029	49,341
Depreciation and amortization expenses	51,333	51,804
Impairment losses	51	379
Share of (profit) loss of investments accounted for using the equity method	16	66
Interest and dividends income	(1,919)	(2,688)
Interest expenses	2,243	2,848
(Gain) loss on sales and disposals of property, plant and equipment and intangible assets	(2,329)	1
(Increase) decrease in trade and other receivables	(6,212)	1,806
(Increase) decrease in inventories	(4,780)	(12,446)
Increase (decrease) in trade and other payables	(10,300)	1,171
Decrease in transfer of lease assets	(7,529)	(6,831)
Increase (decrease) in retirement benefit liabilities	(3,646)	(3,045)
Others	1,460	(5,145)
Subtotal	76,415	77,263
Dividends received	546	525
Interest received	1,416	2,007
Interest paid	(2,191)	(2,792)
Income taxes paid	(16,942)	(8,343)
Net cash flows from operating activities	59,244	68,659

(Millions of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Cash flows from investing activities		
Purchase of property, plant and equipment	(38,313)	(32,731)
Proceeds from sales of property, plant and equipment	9,541	1,736
Purchase of intangible assets	(11,952)	(8,733)
Purchase of investments in subsidiaries	(57,543)	(25,453)
Purchase of interests in investments accounted for using the equity method	(2,644)	—
Purchase of investment securities	(148)	(178)
Proceeds from sales of investment securities	287	111
Payments for loans receivable	(184)	(123)
Collection of loans receivable	131	139
Payments for transfer of business	(3,324)	(3,845)
Others	(6,639)	(1,514)
Net cash flows from investing activities	(110,788)	(70,594)
Cash flows from financing activities		
Increase (decrease) in short-term loans payable	(9,414)	3,140
Proceeds from bonds issuance and long-term loans payable	38,704	36,833
Redemption of bonds and repayments of long-term loans payable	(27,772)	(27,829)
Purchase of treasury shares	(10,014)	(3)
Cash dividends paid	(12,447)	(14,858)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(102)	—
Others	475	370
Net cash flows from financing activities	(20,571)	(2,347)
Effect of exchange rate changes on cash and cash equivalents	(5,442)	(3,029)
Net increase (decrease) in cash and cash equivalents	(77,559)	(7,309)
Cash and cash equivalents at the beginning of the year	177,496	99,937
Cash and cash equivalents at the end of the year	99,937	92,628

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

None.

[Other Income]

Components of other income are as follows.

(Millions of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Patent-related income	—	7,751
Gain on sales of property, plant and equipment and intangible assets	4,151	1,003
Others	3,635	5,392
Total annual	7,786	14,147

[Other Expenses]

Components of other expenses are as follows.

(Millions of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Loss on disposal of mass-produced trial products	1,551	2,165
Business structure improvement expenses	3,817	1,486
Loss on sales and disposals of property, plant and equipment and intangible assets	1,822	1,004
Special extra retirement payment	2,912	155
Others	3,235	2,515
Total annual	13,339	7,328

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

(b) Information on reportable segments

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

Fiscal year ended March 31, 2016

(Millions of yen)

	Reportable segments				Others	Total
	Business Technologies Business	Healthcare Business	Industrial Business	Total		
Revenue						
External	832,187	89,855	105,975	1,028,018	3,721	1,031,740
Intersegment (Note)	2,260	725	4,552	7,537	23,033	30,571
Total	834,447	90,581	110,527	1,035,556	26,755	1,062,311
Segment profit	70,210	3,907	17,050	91,167	1,648	92,815
Segment assets	636,716	80,806	190,204	907,726	31,988	939,715
Segment liabilities	309,507	59,714	116,926	486,148	11,133	497,281
Other items						
Depreciation and amortization expenses	32,847	3,920	7,127	43,896	412	44,308
Impairment losses on non-financial assets	50	—	—	50	—	50
Investments accounted for using the equity method	2,321	517	774	3,614	—	3,614
Capital expenditures	36,754	1,325	8,924	47,004	597	47,601

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

Fiscal year ended March 31, 2017

(Millions of yen)

	Reportable segments				Others	Total
	Business Technologies Business	Healthcare Business	Industrial Business	Total		
Revenue						
External	771,735	89,940	89,425	951,101	11,454	962,555
Intersegment (Note)	4,323	873	4,337	9,534	22,971	32,505
Total	776,059	90,814	93,762	960,635	34,425	995,061
Segment profit	52,962	2,863	18,597	74,423	(798)	73,625
Segment assets	639,055	82,225	173,389	894,670	54,621	949,291
Segment liabilities	304,819	60,108	99,190	464,118	34,620	498,738
Other items						
Depreciation and amortization expenses	33,247	4,000	8,036	45,285	386	45,671
Impairment losses on non-financial assets	167	0	124	292	—	292
Investments accounted for using the equity method	2,204	523	761	3,489	—	3,489
Capital expenditures	24,343	1,684	7,789	33,817	423	34,241

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

Differences between the amount of "Totals" for reportable segments and the amount of the consolidated financial statements and the principal content of these differences are provided below.

(Millions of yen)

Revenue	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Total revenue of reportable segments	1,035,556	960,635
Revenue categorized in "Others"	26,755	34,425
Total of reportable segments and "Others"	1,062,311	995,061
Adjustments (Note)	(30,571)	(32,505)
Revenue reported in consolidated financial statements	1,031,740	962,555

(Note) Adjustments are intersegment eliminations.

(Millions of yen)

Profit	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Total operating profit of reportable segments	91,167	74,423
Operating profit categorized in "Others"	1,648	(798)
Total of reportable segments and "Others"	92,815	73,625
Adjustments (Note)	(32,745)	(23,490)
Operating profit reported in consolidated financial statements	60,069	50,135

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

(Millions of yen)

Assets	March 31, 2016	March 31, 2017
Total assets of reportable segments	907,726	894,670
Assets categorized in "Others"	31,988	54,621
Total of reportable segments and "Others"	939,715	949,291
Adjustments (Note)	36,655	56,144
Total assets reported in consolidated financial statements	976,370	1,005,435

(Note) Adjustments consist of intersegment eliminations and corporate assets that are not attributed to any reportable segment. These corporate assets mainly comprise short-term investments (cash, deposits, securities); long-term investments (investment securities); property, plant and equipment; and intangible assets.

(Millions of yen)

Liabilities	March 31, 2016	March 31, 2017
Total liabilities of reportable segments	486,148	464,118
Liabilities categorized in "Others"	11,133	34,620
Total of reportable segments and "Others"	497,281	498,738
Adjustments (Note)	(35,892)	(27,452)
Total liabilities reported in consolidated financial statements	461,389	471,286

(Note) Adjustments include intersegment eliminations and corporate liabilities, which are mainly interest-bearing debts (bonds and borrowings, etc.) and others not attributed to any reportable segment.

(Millions of yen)

Other items	Total of reportable segments		Others		Adjustments (Note)		Total amounts reported on the consolidated financial statements	
	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Depreciation and amortization expenses	43,896	45,285	412	386	7,024	6,133	51,333	51,804
Impairment losses on non-financial assets	50	292	—	—	1	89	51	382
Investments accounted for using the equity method	3,614	3,489	—	—	—	—	3,614	3,489
Capital expenditures	47,004	33,817	597	423	5,003	4,703	52,605	38,944

(Note) Adjustments for depreciation and amortization expenses and impairment losses are mainly for facilities that are not attributed to any reportable segment.

In relation to other items, adjustments to capital expenditures are mainly for capital expenditures for buildings that are not attributed to any reportable segment.

(c) Information by Geographical Area

External revenue by geographical area is as follows:

(Millions of yen)

Revenue	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Japan	200,172	192,297
U.S.A.	267,503	249,669
Europe	319,731	299,902
China	76,363	73,211
Asia	81,288	72,114
Others	86,680	75,359
Total annual	1,031,740	962,555

(Note) Revenue classifications are based on customers' geographical locations. There are no key countries presented separately other than the ones in the above table.

A geographic breakdown of the carrying amounts of non-current assets (excluding financial assets, deferred tax assets, and post-retirement benefit assets) is as follows:

(Millions of yen)

Non-current assets	March 31, 2016	March 31, 2017
Japan	210,244	205,495
U.S.A.	73,048	73,310
Europe	61,548	95,391
China	19,312	17,109
Asia	13,064	14,059
Others	5,042	4,768
Total annual	382,261	410,135

(d) Information on Principal Customers

Transactions with no single external customer account for 10% or more of revenue.

[Earnings per Share]

A calculation of basic and diluted earnings per share is as follows:

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Basis of calculating basic earnings per share		
Profit for the year attributable to owners of the company [millions of yen]	31,973	31,542
Profit for the year not attributable to owners of the company [millions of yen]	-	-
Profit for the year to calculate basic earnings per share [millions of yen]	31,973	31,542
Weighted average number of ordinary shares outstanding during the period [thousands of shares]	496,536	495,554
Basic earnings per share [yen]	64.39	63.65
Basis of calculating diluted earnings per share		
Profit for the year to calculate basic earnings per share [millions of yen]	31,973	31,542
Adjustments of profit for the year [millions of yen]	-	-
Profit for the year to calculate diluted earnings per share [millions of yen]	31,973	31,542
Weighted average number of ordinary shares outstanding during the period [thousands of shares]	496,536	495,554
Increased number of ordinary shares under subscription rights to shares [thousands of shares]	1,438	1,409
Weighted average number of diluted ordinary shares outstanding during the period [thousands of shares]	497,975	496,963
Diluted earnings per share [yen]	64.21	63.47

[Business Combinations]

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

With regard to the business combination 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. Regarding this amount, allocation of acquisition cost was completed during the fiscal year ended March 31, 2017. The changes from the provisional figures thereby consist of a decrease of ¥2,717 million in intangible assets and a decrease of ¥605 million in deferred tax liabilities, while the associated change in goodwill is an increase of ¥2,112 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	1,227
Other assets	680
Bonds and borrowings	(3,061)
Deferred tax liabilities	(16)
Other liabilities	(2,566)
Goodwill (Note 2)	8,944
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.

(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 2)	3,198
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	7,381
Other assets	526
Trade and other payables	(1,150)
Bonds and borrowings	(1,449)
Deferred tax liabilities	(2,182)
Other liabilities	(495)
Goodwill (Note 3)	15,495
Total	24,767

(Note 1) There was no contingent consideration.

(Note 2) 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 3) 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."

[Events after the Reporting Period]

None