1. Operating Results

Overview

During the fiscal year under review, the Japanese economy continued on the path of recovery supported by strong capital expenditure and exports, despite signs that it might lose steam due to the impact of rising crude oil and raw material prices and the sharp rise in the value of the yen and corresponding depreciation of the dollar after entering 2008. Overseas, the U.S. economy on the whole remained bullish, supported by consumer spending and capital expenditures in the corporate sector despite a slowdown stemming from the sub-prime mortgage crisis. European economies recovered gradually, while growth continued in China and other Asian economies. In particular, China, India and Russia continued rapid market expansion.

Under these economic conditions, the Shimadzu Group pursued further global growth and drove forward structural reforms of its business operations with a focus on manufacturing, sales, and service—in accordance with the basic policies set out in the medium-term management plan for the period from April 2005 through March 2008—while focusing efforts on expanding sales of new products that meet customer needs.

As a result, Group consolidated net sales for the period under review increased 10.5% from the same period last year to ¥289,971 million. Operating income increased 9.2% over last year to ¥27,597 million, while ordinary income grew 2.8% to ¥23,864 million, and net income totaled ¥13,724 million, a rise of 2.6% from a year earlier.

Geographic Segment Information

Looking now at sales by region for the fiscal year, domestic sales were supported by strong demand, resulting from a recovery in private sector capital expenditure, and favorable export performance. As a result, sales rose 6.1% over the same period last year to ¥199,488 million, and operating income was up 0.1% to ¥27,417 million.

In North and South America, there was an improvement in the performance of analytical and measuring instruments and medical systems, and demand for aircraft and industrial machinery grew in North America. This resulted in sales of ¥27,218 million, an increase of 25.8% over the same period last year, and operating income of ¥2,318 million, a 96.2% rise.

In Europe, there was an improvement in the performance of analytical and measuring instruments and medical systems, where sales totaled ¥22,556 million, for 25.0% growth over the same period last year, and operating income came in at ¥2,220 million yen, an increase of 42.1%.

In Asia and Oceania, net sales increased 17.0% over the same period last year to ¥40,707 million, and operating income rose 17.3% to ¥4,191 million, reflecting strong performance in analytical and measuring instruments and industrial machinery, most prominently in China.

Industry Segment Information

I. Analytical and Measuring Instruments

In the domestic market, capital expenditure in the private sector followed an expansionary trend although demand from the public sector fell. There was strong demand primarily for environmental measuring instruments, industrial X-ray inspection systems, testing machines, and liquid chromatographs. In overseas markets, the segment performance also showed increased demand for environmental measuring instruments, mass spectrometers, spectrometers, and liquid gas chromatographs. Demand was robust mainly in Europe and Asia centering on China. Sales expanded in Russia and India which are experiencing conspicuous growth.

As a result, net sales for the segment rose 10.0% over the same period last year to ¥164,334 million, and operating income was up 0.3% to ¥26,197 million.

II. Medical Systems

In the domestic market, sales of products were strong particularly for products such as X-ray imaging diagnostic systems and types of X-ray systems. In overseas markets, medical systems displayed particularly robust performance in Europe, North America and Russia particularly for products such as X-ray imaging diagnostic systems.

As a result, net sales for the segment increased 8.6% over the same period last year to ¥54,423 million, and operating income increased 25.2% to ¥2,677 million.

III. Aircraft Equipment and Industrial Machinery

The domestic market remained strong in the aircraft equipment business, primarily reflecting demand for spare parts and maintenance services. Business in overseas markets was also robust as demand for commercial aircraft recovered.

In the industrial machinery business, while the domestic market remained flat, overseas growth in demand for turbo-molecular pumps, glass winders, and CVD equipment for solar panels resulted in strong growth in North America and Asia, particularly in China.

As a result, net sales for the segment increased 12.5% over last year to ¥64,161 million, and operating income advanced 52.0% to ¥6,400 million.

IV. Other

Net sales for other areas were up 20.0% from the same period last year to ¥7,052 million, while operating income fell 0.2% to ¥1,824 million.

Outlook for Fiscal 2009

During the next fiscal year, although the Japanese economy is expected to continue on the path of recovery, the outlook is not clear as a result of concerns regarding rising crude oil and raw materials

prices, the sub-prime loan problem and the exchange rate as well as a possible slowdown of the U.S. economy.

In this business environment, the Group's objective is to continue with our goal of creating a "Shimadzu Brand Supported Around the World" as stated in the basic policies set out in the current three-year medium-term management plan. We intend to continue with functional and structural reform by strengthening marketing to ensure continuous growth and build a strong earnings base.

Although public sector demand in the domestic market for analytical and measuring instruments remains stagnant, R&D investment is expected to continue in areas centering on automobiles, electronic instruments and medical products and demand is expected to remain stable. In overseas markets, strong demand is expected to continue due to increased demand relating to the tightening of environmental, food product and safety regulations with respect to limitations and inspection in addition to the growing demand from China and other growing Asian markets. The Group is improving the quality of earnings by improving distribution and production as well as creating continuing growth by strengthening global marketing capacity, strengthening the life sciences business, expanding business in the after-sales market, and promoting localization in the Chinese market.

Prices continue to drop due to intensifying competition in the medical systems business, and harsh market conditions are expected to persist. Under these circumstances, the Shimadzu Group will work to introduce new products, enhance its sales systems, and expand sales particularly in overseas markets.

In the aircraft equipment and industrial machinery business, harsh domestic business conditions are expected to persist for the aircraft equipment business due to curtailment of the defense budget. However, going forward, high expectations are held of the production of systems to be installed on the next model fixed-wing maritime patrol aircraft (XP-1) and the next model large transportation plane (CX). The group is continuing to expand the commercial aircraft business. In the industrial machinery market, growth in demand is expected to continue for CVD equipment for solar panel together with global growth in solar panels and strong growth is expected particularly in overseas markets. Furthermore the Group is expanding the business application of our turbo-molecular pumps by moving into new areas such as liquid crystal and solar panel manufacture in addition to their use in the semiconductor manufacturing market.

2. Financial Position

Total Assets and Shareholders' Equity

Cash and cash reserves at the end of the period represented a ¥8,139 million increase on the previous period. Total assets at the end of the period under review stood at ¥303,830 million, an increase of ¥8,747 million from the end of the previous fiscal year. Net assets had increased by ¥8,508 million to ¥150,712 million, primarily due to a ¥11,177 million increase in retained earnings.

Cash Flow Position

Cash and cash equivalents at the end of the period had increased ¥8,170 million from the end of the previous fiscal year to ¥35,077 million.

A detailed analysis of cash flows for the period appears below.
I. Cash Flow from Operating Activities

Net cash provided by operating activities during the period under review was ¥5,211 million higher than for the same period last year at ¥19,202 million due mainly to an adjustment of ¥10,023 million in sales receivables.

II. Cash Flow from Investment Activities

Net cash used in investing activities increased ¥5,622 million to ¥15,419 million in comparison with the previous period. This primarily reflects purchases of property, plant, and equipment and other assets in the amount of ¥11,304 million.

III. Cash Flow from Financing Activities

Net cash obtained from financing activities increased ¥13,811 million to ¥4,083 million. This was primarily due to proceeds of ¥9,942 million from the issuance of corporate bonds.

Cash Flow Ratios

March 31,	2004	2005	2006	2007	2008
Equity ratio (%)	33.4	36.7	46.8	48.0	49.5
Market-value equity ratio (%)	53.4	64.9	79.0	102.2	89.5
Years to repay debt	5.2	3.6	3.3	2.5	2.2
Interest coverage ratio	10.4	16.9	18.5	19.9	27.1

Notes:
Equity ratio: (Net assets - minority interests) / total assets
Market-value equity ratio: Market capitalization / total assets
Years to repay debt: Interest-bearing debt / cash flow from operating activities
Interest coverage ratio: Cash flow from operating activities / interest payments

1. All indices are calculated using consolidated figures.
2. Market capitalization is calculated by multiplying the closing price of the company's stock by the number of shares issued and outstanding (excluding treasury stock) at the end of the fiscal year.
3. The figure for cash flow from operating activities is taken from the cash flow from operating activities item listed in the consolidated cash flow statements. Interest-bearing debt consists of all interest-bearing debt listed under liabilities on the consolidated balance sheet. The figure for interest payments is taken from interest payments recorded in the consolidated statements of cash flows.

3. Dividend Policy and Current Dividends

Shimadzu believes that its policy on the distribution of profits to shareholders is one of the most vital aspects of its operations. The Company's policy is to make stable and continued dividend payments that reflect earnings performance. The Company is fully committed to improving business performance, enhancing profitability and financial standing, and working to boost return on equity. The Company's objective is to utilize retained earnings to make effective investments in new facilities and R&D to ensure future growth.

The company paid a final dividend of ¥4.5 per share for the previous period. For the period under review, however, the Company intends to increase the final dividend by ¥0.5 and pay ¥5.0 per share. Added to the interim dividend of ¥4.0, this give an annual dividend for the period of ¥9.0 per share, ¥1.0 greater than in the previous period.
For the next fiscal period, the company expects to pay an interim dividend of ¥4.5 and a final dividend of ¥4.5 for an annual dividend of ¥9.0.

Consolidated Balance Sheets

(In million yen)

	As of March 31, 2007 (A)		As of March 31, 2008 (B)		(B) – (A)
	Amount	%	Amount	%	Amount
Assets					
Current assets					
Cash and time deposits	27,626		35,766		8,139
Trade notes and accounts receivable	89,151		87,238		(1,912)
Marketable securities	109		142		32
Inventories	64,017		66,000		1,983
Deferred tax assets	7,020		6,122		(898)
Other	4,238		4,987		749
Allowance for doubtful receivables	(881)		(879)		1
Total current assets	191,282	64.8	199,378	65.6	8,095
Noncurrent assets					
Property, plant and equipment:					
Buildings and structures	31,965		33,708		1,743
Machinery, equipment and vehicles	5,569		6,418		848
Land	18,907		18,849		(58)
Construction in progress	115		81		(33)
Other	7,111		7,730		619
Net property, plant and equipment	63,669	21.6	66,788	22.0	3,119
Intangible fixed assets	4,009	1.4	6,211	2.0	2,201
Investments and other assets:					
Investment securities	15,535		12,352		(3,182)
Long-term receivables	539		969		430
Deferred tax assets	13,598		12,584		(1,013)
Other	6,709		5,718		(990)
Allowance for doubtful receivables	(260)		(171)		88
Total investments and other assets	36,121	12.2	31,453	10.4	(4,668)
Total noncurrent assets	103,801	35.2	104,452	34.4	651
Total assets	295,083	100.0	303,830	100.0	8,747

(Amounts are rounded down to the nearest million yen)

(In million yen)

	As of March 31, 2007 (A)		As of March 31, 2008 (B)		(B) – (A)
	Amount	%	Amount	%	Amount
Liabilities					
Current liabilities					
Trade notes and accounts payable	55,726		52,611		(3,115)
Short-term loans	7,460		5,246		(2,214)
Current portion of unsecured bonds	-		15,000		15,000
Accounts payable, other	10,617		11,725		1,107
Income taxes payable	5,183		2,670		(2,512)
Allowance for employees' bonuses	5,871		5,933		61
Allowance for director's bonuses	271		322		51
Other	11,349		10,401		(947)
Total current liabilities	96,480	32.7	103,911	34.2	7,431
Long-term liabilities					
Unsecured bonds	25,000		20,000		(5,000)
Long-term debt	3,092		2,556		(536)
Liability for employees' retirement benefits	20,711		19,432		(1,279)
Liability for directors' retirement benefits	687		237		(449)
Other	6,908		6,982		73
Total long-term liabilities	56,399	19.1	49,207	16.2	(7,192)
Total liabilities	152,880	51.8	153,118	50.4	238
Net assets					
Shareholders' capital					
Common stock	26,648	9.0	26,648	8.8	-
Additional paid-in capital	35,188	11.9	35,188	11.6	-
Retained earnings	76,396	25.9	87,574	28.8	11,177
Treasury stock	(419)	(0.1)	(536)	(0.2)	(116)
Total shareholders' capital	137,814	46.7	148,875	49.0	11,060
Valuation and translation adjustments					
Net unrealized gain on available-for-sale securities	5,464	1.9	3,211	1.1	(2,253)
Foreign currency translation adjustments	(1,649)	(0.6)	(1,779)	(0.6)	(129)
Total valuation and translation adjustments	3,815	1.3	1,432	0.5	(2,382)
Minority interests	573	0.2	404	0.1	(169)
Total net assets	142,203	48.2	150,712	49.6	8,508
Total liabilities and net assets	295,083	100.0	303,830	100.0	8,747

(Amounts are rounded down to the nearest million yen)

Consolidated Statements of Operations

(In million yen)

	Year ended March 31, 2007		Year ended March 31, 2008		Change	
	Amount (A)	%	Amount (B)	%	Amount (B) – (A)	%
Net sales	262,431	100.0	289,971	100.0	27,539	10.5
Cost of sales	159,107	60.6	177,378	61.2	18,270	11.5
Gross profit	103,323	39.4	112,593	38.8	9,269	9.0
Selling, general and administrative expenses	78,042	29.8	84,995	29.3	6,952	8.9
Operating income	25,280	9.6	27,597	9.5	2,316	9.2
Other income:						
Interest income	284		315		30	
Dividend income	120		172		52	
Other	1,337		1,190		(147)	
Total other income	1,742	0.7	1,678	0.6	(64)	(3.7)
Other expenses						
Interest expense	717		706		(11)	
Loss on disposals of inventories	1,353		1,274		(78)	
Foreign exchange loss, net	316		1,494		1,178	
Other	1,430		1,935		505	
Total other expenses	3,817	1.5	5,411	1.9	1,593	41.7
Ordinary income	23,205	8.8	23,864	8.2	658	2.8
Extraordinary income:						
Gain on liquidation of subsidiaries	-		246		246	
Gain on sale of property, plant and equipment	30		19		(10)	
Gain on reversal of allowance for doubtful receivables	206		-		(206)	
Gain on sale of investment securities	68		-		(68)	
Total extraordinary income	305	0.1	266	0.1	(38)	(12.7)
Extraordinary losses:						
Loss on disposal of property, plant and equipment	439		484		45	
Loss on sale of investment securities	-		9		9	
Loss on write-down of investment securities	120		7		(113)	
Patent fee for past year	534		-		(534)	
Total extraordinary losses	1,094	0.4	501	0.2	(593)	(54.2)
Income before income taxes and minority interests	22,416	8.5	23,629	8.1	1,213	5.4
Income taxes	8,684		5,753		(2,931)	
Income taxes adjustments	297		4,125		3,828	
Minority interests in net income	55	0.0	25	0.0	(29)	(53.5)
Net income	13,379	5.1	13,724	4.7	345	2.6

(Amounts are rounded down to the nearest million yen)

Statement of Changes in Shareholders' Capital

Year ended March 31, 2008 (April 1, 2007 – March 31, 2008)

(In million yen)

	Shareholders' capital					Valuation and translation adjustments			Minority interests	Total net assets
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' capital	Net unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Total valuation & translation adjustments		
Balance as of March 31, 2007	26,648	35,188	76,396	(419)	137,814	5,464	(1,649)	3,815	573	142,203
Changes during the period										
Distribution of retained earnings			(2,509)		(2,509)					(2,509)
Decrease in retained earnings due to an increase in the number of consolidated subsidiaries			(37)		(37)					(37)
Net income			13,724		13,724					13,724
Purchase of treasury stock				(116)	(116)					(116)
Net change in items other than shareholders' capital during the period					-	(2,253)	(129)	(2,382)	(169)	(2,552)
Total changes during the period	-	-	11,177	(116)	11,060	(2,253)	(129)	(2,382)	(169)	8,508
Balance as of March 31, 2008	26,648	35,188	87,574	(536)	148,875	3,211	(1,779)	1,432	404	150,712

(Amounts are rounded down to the nearest million yen)

Consolidated Statements of Cash Flows

(In million yen)

	Year ended March 31, 2007	Year ended March 31, 2008	(B) – (A)
	Amount	Amount	Amount
I. Cash flows from operating activities:			
Income before income taxes and minority interests	22,416	23,629	1,213
Depreciation and amortization	5,156	6,279	1,122
Increase (decrease) in allowance for doubtful receivables	(346)	(96)	250
Increase (decrease) in allowance for employees' bonuses	344	61	(282)
Increase (decrease) in allowance for director's bonuses	271	51	(219)
Provision for (reversal of) accrued retirement benefits for employees	16	(1,279)	(1,296)
Interest and dividends income	(404)	(488)	(83)
Interest expense	717	706	(11)
Bonds issuance expense	-	57	57
Foreign exchange (gain) loss, net	(11)	73	85
Net (gain) loss on sale and valuation of investment securities	52	10	(41)
Net (gain) loss on sale and disposal of property, plant and equipment	408	464	55
(Increase) decrease in trade receivables	(8,057)	1,966	10,023
(Increase) decrease in inventories	(2,839)	(1,246)	1,592
Increase (decrease) in trade payables	3,984	(3,032)	(7,016)
Other, net	152	1,486	1,334
Subtotal	21,860	28,645	6,785
Interest and dividends received	409	486	76
Interest paid	(704)	(707)	(2)
Income taxes paid	(7,574)	(9,221)	(1,647)
Net cash provided by (used in) operating activities	13,990	19,202	5,211
II. Cash flows from investing activities:			
Purchase of marketable securities	-	(255)	(255)
Proceeds from sale of marketable securities	91	277	186
Purchase of property, plant and equipment	(9,342)	(11,304)	(1,962)
Proceeds from sale of property, plant and equipment	319	390	70
Purchase of investment securities	(1,290)	(788)	502
Proceeds from sale of investment securities	133	1	(132)
Purchase of minority shares	-	(186)	(186)
Increase in long term receivables	(29)	(526)	(497)
Decrease in long term receivables	145	87	(58)
Payment for acquisition of business rights	-	(3,023)	(3,023)
Proceeds from acquisition of business rights	508	-	(508)
Other, net	(332)	(89)	243
Net cash provided by (used in) investing activities	(9,797)	(15,419)	(5,622)
III. Cash flows from financing activities:			
Borrowing of short-term loans	1,301	100	(1,201)
Repayment of short-term loans	(4,737)	(3,022)	1,714
Borrowing of long-term debt	1901	1,070	(831)
Repayment of long-term debt	(5,894)	(933)	4,960
Issuance of commercial paper	7,000	10,500	3,500
Redemption of commercial paper	(7,000)	(10,500)	(3,500)
Proceeds from issuance of bonds	-	9,942	9,942
Cash dividends paid	(2,069)	(2,508)	(439)
Dividends payments to minority shareholders	(16)	(15)	1
Redemption of construction cooperation fund	(98)	(431)	(333)
Other, net	(114)	(116)	(2)
Net cash provided by (used in) financing activities	(9,728)	4,083	13,811
IV. Foreign currency translation adjustments on cash and cash equivalents	403	198	(205)
V. Net increase (decrease) in cash and cash equivalents	(5,130)	8,064	13,195
VI. Cash and cash equivalents, beginning of year	31,926	26,906	(5,020)
VII. Increase in cash and cash equivalents due to inclusion of subsidiaries in consolidation	110	106	(4)
VIII. Cash and cash equivalents, end of year	26,906	35,077	8,170

(Amounts are rounded down to the nearest million yen)

Segment Information

Industry Segment Information

Year ended March 31, 2007 (April 1, 2006 – March 31, 2007)

(In million yen)

	Analytical and measuring instruments	Medical systems	Aircraft equipment and industrial machinery	Other	Total	Eliminations/ corporate	Consolidated total
I. Net sales and operating income/loss							
Net sales							
(1) Sales to customers	149,401	50,112	57,041	5,875	262,431	-	262,431
(2) Inter-segment sales	319	25	77	1,016	1,438	(1,438)	-
Total	149,721	50,137	57,119	6,892	263,870	(1,438)	262,431
Operating expenses	123,601	47,999	52,909	5,064	229,574	7,575	237,150
Operating income	26,119	2,138	4,210	1,827	34,295	(9,014)	25,280
II. Assets, depreciation and capital expenditure							
Assets	127,967	41,182	68,055	13,076	250,282	44,801	295,083
Depreciation	2,316	637	1,233	389	4,576	580	5,156
Capital expenditures	4,732	1,497	2,391	33	8,654	2,395	11,049

(Amounts are rounded down to the nearest million yen)

Year ended March 31, 2008 (April 1, 2007 – March 31, 2008)

(In million yen)

	Analytical and measuring instruments	Medical systems	Aircraft equipment and industrial machinery	Other	Total	Eliminations/ corporate	Consolidated total
I. Net sales and operating income/loss							
Net sales							
(1) Sales to customers	164,334	54,423	64,161	7,052	289,971	-	289,971
(2) Inter-segment sales	168	107	70	956	1,301	(1,301)	-
Total	164,502	54,531	64,231	8,008	291,273	(1,301)	289,971
Operating expenses	138,304	51,853	57,830	6,183	254,172	8,201	262,373
Operating income	26,197	2,677	6,400	1,824	37,100	(9,502)	27,597
II. Assets, depreciation and capital expenditure							
Assets	128,626	40,682	71,602	12,530	253,441	50,389	303,830
Depreciation	2,689	759	1,646	385	5,480	798	6,279
Capital expenditures	3,823	1,371	4,713	20	9,929	2,456	12,385

(Amounts are rounded down to the nearest million yen)

Notes:

1. Classification of business segment and names of major products under each segment.
   The Group's operations are classified into four principal segments: Analytical and measuring instruments, Medical systems, Aircraft equipment and industrial machinery, and Other, based on the purpose of use of each product in the market.
2. "Eliminations/corporate" includes unallocated operating expenses of ¥9,025 million and ¥9,518 million for the years ended March 31, 2007 and 2008 respectively, consisting principally of general corporate expenses incurred by the fundamental research and development expenses, advertisement expenses and administration of the Company.
3. "Eliminations/corporate" include corporate assets of ¥47,033 million and ¥52,414 million for the years ended March 31, 2007 and 2008 respectively, consisting principally of working funds and investing funds held by the Company and assets attributed to Company's administration headquarters.

Overseas Sales

Year ended March 31, 2007 (April 1, 2006 – March 31, 2007)

(In million yen)

	The America	Europe	Asia and Oceania	Total
I. Overseas sales	25,738	17,934	50,776	94,449
II. Consolidated sales				262,431
III. Ratio of overseas to total consolidated sales	9.8%	6.8%	19.4%	36.0%

(Amounts are rounded down to the nearest million yen)

Year ended March 31, 2008 (April 1, 2007 – March 31, 2008)

(In million yen)

	The America	Europe	Asia and Oceania	Total
I. Overseas sales	30,645	22,710	64,503	117,859
II. Consolidated sales				289,971
III. Ratio of overseas to total consolidated sales	10.6%	7.8%	22.2%	40.6%

(Amounts are rounded down to the nearest million yen)

Notes:
1. Classification method of geographic segment: by geographic proximity.
2. Major countries or regions in each segment:
   (1) The America ····· U.S.
   (2) Europe ····· U.K. and Germany
   (3) Asia and Oceania ····· China, Southeast Asian nations and Australia
3. "Overseas sales" includes sales by the company and its consolidated subsidiaries to the countries and regions other than Japan.