

November 8, 2013

## **Operating Results and Financial Position** **(for the Six Months ended September 30, 2013)**

### **1. Operating Results**

#### **(1) Consolidated Overview**

In the first half of this fiscal year, the Japanese economy recovered slowly due to yen depreciation, a rise in stock prices, and effects of government economic and financial policies. Overseas, the pace of economic growth in China remains slow. The European economy shows signs of having bottomed out despite of the negative influence from some countries' debt problems and fiscal austerity. In the U.S., a gradual economic recovery is continuing.

In the midst of such circumstances, the Shimadzu Group has been actively implementing growth measures in accordance with our medium-term management plan, such as introducing globally strategic products, strengthening the aftermarket business, and promoting local R&D and local production overseas. Moreover, we have been promoting the development of applications and strengthening customer support functions. We significantly expanded the customer support center for analytical and measuring instruments in Europe just like we did in China. In addition, we focused efforts on ensuring business results by expanding sales of new competitive products tailored to customer needs and other measures.

As a result, for the current first half, net sales were 138,256 million yen (a year-on-year increase of 11.0%), operating income was 7,885 million yen (a year-on-year increase of 69.3%), ordinary income was 8,720 million yen (a year-on-year increase of 108.0%), and net income was 7,172 million yen (a year-on-year increase of 176.2%).

#### **I. Analytical & Measuring Instruments**

In Japan, sales increased in the pharmaceutical, machinery, and transportation equipment fields as part of the Japanese economy's trend of recovery. In the governmental and academia markets, we successfully marketed our products to satisfy demands related to the government's supplementary budgets. Consequently, overall sales in Japan increased. Demand for liquid chromatographs, our strongest product line, recovered in the pharmaceutical and other fields. Sales of mass spectrometers, for which we have been trying to strengthen our product line and applications, also increased.

Overseas, overall sales significantly increased due to yen depreciation and other factors. In North America, sales of liquid chromatographs and mass spectrometers continuously increased to be used in the healthcare field and laboratory testing organizations. In Europe, market conditions have not

recovered yet. However, demand for liquid chromatographs recovered in the pharmaceutical field in some countries and sales of mass spectrometers increased in the environment and food product fields. In China, where the influence from deteriorating relations between China and Japan decreased, demand for liquid chromatographs recovered in the pharmaceutical and other fields. Public sector demand for mass spectrometers was steady in the field of food safety.

As a result, sales from the Analytical & Measuring Instruments business were 81,523 million yen (a year-on-year increase of 14.9%).

## **II. Medical Systems**

In Japan, sales of X-ray fluoroscopy systems were strong because of new products that can be used for examinations in gastrointestinal, urology, orthopedics, and other departments as well as systems equipped with portable FPD units for small and medium sized hospitals and clinics. However, overall sales increased only slightly.

Overseas, overall sales significantly increased due to yen depreciation and other factors. In North America, sales of digital mobile X-ray systems and general radiography systems were strong. In China, sales of new X-ray fluoroscopy systems were strong and sales of digital mobile X-ray systems significantly increased. In Europe and Southeast Asia, sales increased due to large-scale orders.

As a result, sales from the Medical Systems business were 28,310 million yen (a year-on-year increase of 10.6%).

## **III. Aircraft Equipment**

In Japan, sales decreased due to the negative influence of Shimadzu being suspended from participating in contracts with the Japanese Ministry of Defense.

Overseas, sales increased significantly due to strong sales of passenger aircraft equipment delivered to Boeing.

As a result, sales from the Aircraft Equipment business were 10,596 million yen (a year-on-year decrease of 9.6%).

## **IV. Industrial Machinery**

Sales of turbomolecular pumps increased due to strong sales for glass coaters in China and other factors. Sales of solar cell anti-reflective coating systems remained weak. Sales of glass winders increased because sales were strong in China. Hydraulic equipment sales increased due to strong sales in North America and China where sales have been promoted.

As a result, sales from the Industrial Machinery business were 14,705 million yen (a year-on-year increase of 21.6%).

## **V. Other**

Sales from other business segments were 3,119 million yen (a year-on-year decrease of 26.4%).

## (2) Consolidated Outlook

In terms of the outlook for the future, there are some uncertain factors such as influence of consumption tax increase in Japan. However, we expect the economy to move toward recovery, as export conditions are improving due to yen depreciation and as we benefit from increased public spending. Overseas, there is a concern that the stagnant economy in Europe may stretch into the long term. However, we expect a continuous gradual economic expansion in China and a gradual economic recovery to continue in the U.S.

In terms of our business environment, we expect that the influence of deteriorating relations between China and Japan will decrease and the number of orders from public agencies will increase in China. We also expect that the healthcare and laboratory testing-related markets will expand in North America and the Japanese government will continue to spend its supplementary budgets.

Given these circumstances, the Shimadzu Group will take advantage of this favorable turn of events in the business environment and develop its businesses through the efforts of the entire Group.

First, we will pursue global growth by increasing the sales of new competitive high-end products such as high-speed and high-sensitivity mass spectrometers, strengthening our product lines through the development of middle-range products accurately tailored to specific customer needs, such as needs for prices and functions in China, and offering optimal solutions that can solve customers' problems through the development of applications with added values that strongly appeal to customers. In order to secure stable profitability which enables us to handle ongoing changes in business conditions, we will improve the production and procurement system and reduce costs in all stages starting from product design, throughout the entire Shimadzu Group.

We will work diligently to implement these measures, make a new medium-term management plan that is scheduled to start in FY 2014, and also establish a strong management base so that the Shimadzu Group can make a great leap forward over the next three years.

<Consolidated outlook of this fiscal year>

(In million yen)

	Year outlook		Last announcement
		Increase or decrease, YoY	
Net Sales	298,000	12.9%	293,000
Operating income	22,000	81.6%	21,000
Ordinary income	22,000	63.3%	20,500
Net income	15,000	97.9%	14,500

On January 25, 2013, it was discovered that Shimadzu overcharged the Japanese Ministry of Defense by reporting more-than-actual labor hours. Consequently, Shimadzu has been suspended from participating in contracts with the Ministry of Defense. We deeply apologize for causing this situation and subjecting our shareholders and all related people to undue worry. We take this situation with the utmost seriousness and we are making company-wide efforts to strengthen internal controls and implement thorough compliance measures to prevent its reoccurrence.

## **2. Other Information**

### **(1) Significant changes in subsidiaries during this quarter:**

None

### **(2) Use of specialized accounting practices in creating financial statements for this quarter:**

None

### **(3) Changes in accounting policy, changes in accounting estimates, or restatement:**

Since Japan's "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan Statement No. 26) and "Guidance on Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan Guidance No. 25) can now be applied to consolidated financial results after April 1, 2013, these have been applied as accounting standards for this first quarter consolidated accounting period.

As a result, the accumulated other comprehensive income decreased by 3,312 million yen and retained earnings decreased by 3,283 million yen at the beginning of the second quarter consolidated accounting period. In addition, operating income, ordinary income, and quarterly net income before taxes all increased by 107 million yen.

### 3. Consolidated Financial Statements

#### (1) Consolidated Balance Sheets

	(In million yen)	
	As of	As of
	September 30, 2013	March 31, 2013
<b>Assets</b>		
Current assets		
Cash and time deposits	33,978	35,140
Trade notes and accounts receivable	85,100	88,781
Securities	20	
Merchandise and products	37,510	35,201
Work in process	20,159	18,527
Raw materials and supplies	18,417	15,879
Deferred tax assets	7,800	6,535
Other	5,831	4,997
Allowance for doubtful receivables	(787)	(986)
Total current assets	208,030	204,076
Noncurrent assets		
Property, plant and equipment:		
Buildings and structures	73,243	71,962
Accumulated depreciation	(39,400)	(37,859)
Buildings and structures, net	33,843	34,102
Machinery, equipment and vehicles	19,306	18,534
Accumulated depreciation	(14,852)	(14,228)
Machinery, equipment and vehicles, net	4,453	4,305
Land	18,584	18,532
Leased assets	3,803	3,589
Accumulated depreciation	(1,736)	(1,624)
Leased assets, net	2,067	1,964
Construction in progress	4,088	789
Other	29,140	28,505
Accumulated depreciation	(22,431)	(22,034)
Other, net	6,708	6,471
Net property, plant and equipment	69,746	66,166
Intangible fixed assets	6,465	6,629
Investments and other assets:		
Investment securities	13,478	11,948
Long-term receivables	225	378
Deferred tax assets	10,432	7,776
Other	3,522	3,650
Allowance for doubtful receivables	(300)	(366)
Total investments and other assets	27,357	23,387
Total noncurrent assets	103,569	96,183
Total assets	311,600	300,259

	(In million yen)	
	As of September 30, 2013	As of March 31, 2013
<b>Liabilities</b>		
Current liabilities		
Trade notes and accounts payable	42,515	48,651
Short-term loans	29,173	18,876
Lease obligations	742	712
Accounts payable	9,776	9,025
Income taxes payable, other	1,881	1,524
Allowance for employees' bonuses	5,826	5,531
Allowance for director's bonuses	183	188
Other	12,044	9,614
Total current liabilities	102,144	94,124
Long-term liabilities		
Long-term debt	1,334	11,632
Lease obligations	1,459	1,392
Liability for employees' retirement benefits		13,916
Liability for directors' retirement benefits	161	277
Liabilities for retirement benefits	23,560	
Other	5,068	5,487
Total long-term liabilities	31,584	32,706
Total liabilities	133,728	126,830
<b>Net assets</b>		
Shareholders' capital		
Common stock	26,648	26,648
Additional paid-in capital	35,188	35,188
Retained earnings	118,142	117,053
Treasury stock	(728)	(715)
Total shareholders' capital	179,251	178,174
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	4,565	3,544
Foreign currency translation adjustments	(2,954)	(8,420)
Cumulative adjustments to retirement benefits	(3,148)	
Total valuation and translation adjustments	(1,537)	(4,876)
Minority interests	157	131
Total net assets	177,871	173,429
Total liabilities and net assets	311,600	300,259

## (2) Consolidated Statements of Operations

	(In million yen)	
	Year ended September 30, 2013	Year ended September 30, 2012
Net sales	138,256	124,589
Cost of sales	84,768	78,931
Gross profit	53,487	45,657
Selling, general and administrative expenses	45,602	41,000
Operating income	7,885	4,657
Other income:		
Interest income	75	77
Dividend income	110	91
Insurance payments received	72	117
Rent received	48	47
Foreign exchange profit	186	
Subsidy income	400	
Other	567	316
Total other income	1,462	650
Other expenses:		
Interest expense	165	195
Foreign exchange loss, net		496
Other	462	423
Total other expenses	627	1,115
Ordinary income	8,720	4,192
Extraordinary income:		
Gain on sale of property, plant and equipment	7	9
Total extraordinary income	7	9
Extraordinary losses:		
Retirement benefit cost	343	
Impairment loss	263	243
Loss on disposal of property, plant and equipment	110	65
Loss on write-down of investment securities	34	68
Other	208	
Total extraordinary losses	960	377
Income before income taxes and minority interests	7,767	3,824
Income taxes	2,576	1,062
Refund of income taxes for past fiscal years	(1,317)	
Income taxes adjustments	(681)	158
Total income taxes and income taxes adjustments	576	1,220
Net income before minority interests	7,190	2,603
Minority interests in net income	18	6
Net income	7,172	2,597

	(In million yen)	
	Year ended September 30, 2013	Year ended September 30, 2012
Net income before minority interest	7,190	2,603
Other Comprehensive income:		
Unrealized gain or loss on available-for-sale securities	1,021	(763)
Foreign currency translation adjustments	2,372	77
Adjustments to retirement benefits	164	
Total other comprehensive income	<u>3,558</u>	<u>(686)</u>
Comprehensive income	<u>10,749</u>	<u>1,917</u>
Total comprehensive income attribute to:		
Owners of the parent	10,726	1,907
Minority interests	22	9



### (3) Consolidated Statements of Cash Flows

	(In million yen)	
	Year ended	Year ended
	September 30, 2013	September 30, 2012
I. Cash flows from operating activities		
Income before income taxes and minority interests	7,767	3,824
Depreciation and amortization	4,016	3,834
Impairment loss	263	243
Increase (decrease) in allowance for doubtful receivables	(230)	(58)
Increase (decrease) in allowance for employees' bonuses	215	(969)
Increase (decrease) in allowance for director's bonuses	(5)	(39)
Provision for (reversal of) accrued retirement benefits for employees		(484)
Increase (decrease) in liability for retirement benefits	(153)	
Interest and dividends income	(186)	(169)
Interest expense	165	195
Foreign exchange (gain) loss, net	(15)	19
Net (gain) loss on sale and valuation of investment securities	110	65
Net (gain) loss on sale and disposal of property, plant and equipment	26	59
(Increase) decrease in trade receivables	3,073	8,370
(Increase) decrease in inventories	(1,840)	(1,459)
Increase (decrease) in trade payables	(7,072)	(6,201)
Other, net	359	366
Subtotal	6,494	7,595
Interest and dividends received	182	171
Interest paid	(161)	(190)
Income taxes paid	(709)	(3,148)
Net cash provided by (used in) operating activities	5,805	4,427
II. Cash flows from investing activities		
Purchase of property, plant and equipment	(4,979)	(3,686)
Proceeds from sale of property, plant and equipment	73	35
Purchase of investment securities	(2)	(501)
Increase in long term receivables	(8)	(19)
Decrease in long term receivables	118	171
Other, net	285	315
Net cash provided by (used in) investing activities	(4,512)	(3,685)

(In million yen)

	Year ended September 30, 2013	Year ended September 30, 2012
III. Cash flows from financing activities		
Borrowing of short-term loans	1,394	737
Repayment of short-term loans	(995)	(2,929)
Borrowing of long-term debt	71	600
Repayment of long-term debt	(280)	(322)
Issuance of commercial paper	4,000	4,000
Repayment of commercial paper	(4,000)	(4,000)
Cash dividends paid	(1,326)	(1,180)
Dividends payments to minority shareholders		(1)
Repayment of financial lease	(343)	(343)
Payment of finance lease obligations	(406)	(376)
Other, net	(12)	6
Net cash provided by (used in) financing activities	(1,899)	(3,810)
IV. Foreign currency translation adjustments on cash and cash equivalents	649	27
V. Net increase (decrease) in cash and cash equivalents	43	(3,041)
VI. Cash and cash equivalents, beginning of period	33,842	29,756
Increase in cash and cash equivalents due to the new consolidation		47
Increase (decrease) in cash and cash equivalents due to the fiscal year-end change	(1,300)	169
VII. Cash and cash equivalents, end of period	32,585	26,931

**(4) Segment Information**

## 1) Sales and income (loss) by reportable segment

1st half ended September 30, 2013 (April 1, 2013 – September 30, 2013)

(In million yen)

	Reportable segment					Other	Total	Adjustments	Amounts reported on the quarterly statements of operations
	Analytical & Measuring Instruments	Medical Systems	Aircraft Equipment	Industrial Machinery	Total				
I. Sales									
(1) Sales to customers	81,523	28,310	10,596	14,705	135,136	3,119	138,256		138,256
(2) Inter-segment sales	26	3	36	23	89	658	748	(748)	
Total	81,549	28,314	10,633	14,729	135,226	3,777	139,004	(748)	138,256
Segment income (loss)	8,209	917	(1,434)	1,002	8,695	826	9,522	(1,637)	7,885

1st half ended September 30, 2012 (April 1, 2012 – September 30, 2012)

(In million yen)

	Reportable segment					Other	Total	Adjustments	Amounts reported on the quarterly statements of operations
	Analytical & Measuring Instruments	Medical Systems	Aircraft Equipment	Industrial Machinery	Total				
I. Sales									
(1) Sales to customers	70,939	25,596	11,717	12,096	120,350	4,238	124,589		124,589
(2) Inter-segment sales	24	1	31	12	69	525	595	(595)	
Total	70,964	25,598	11,749	12,109	120,420	4,763	125,184	(595)	124,589
Segment income (loss)	4,377	653	(196)	208	5,043	835	5,879	(1,221)	4,657

2) For reference

Sales by geographic segment

1st half ended September 30, 2013 (April 1, 2013 – September 30, 2013)

(In million yen)

Japan	The Americas	Europe	China	Other Asian	Other	Total
68,399	17,661	11,612	24,347	11,147	5,088	138,256

1st half ended September 30, 2012 (April 1, 2012 – September 30, 2012)

(In million yen)

Japan	The Americas	Europe	China	Other Asian	Other	Total
70,942	12,995	8,304	19,551	9,211	3,583	124,589

**(5) Notes on Significant Changes in Shareholders' Capital**

Not applicable