

November 7, 2016

Operating Results and Financial Position

《For The Six Months ended September 30, 2016》

1. Operating Results

(1) Consolidated Overview

In the six months ended September 30, 2016, the North American economy continued its recovery trend due to an improvement in the labor environment and firm consumer spending. The European economy demonstrated a moderate recovery despite Britain's decision to exit the European Union and other issues. China's economic growth rate slowed moderately amid restraints on private-sector capital investment, while Southeast Asia showed signs of an uptick in economic activity and India's economy continued its recovery. The Japanese economy continued to demonstrate a moderate recovery due to improvements in labor and wage environments backed by higher corporate earnings.

In this economic environment, the Shimadzu Group actively promoted growth-oriented measures in accordance with its medium-term management plan. These measures included launching global "Number One/Only One" products, expanding collaborative R&D with North American universities and other leading-edge research institutes, universities, and companies, strengthening our business base in emerging markets through the opening of a new plant in Malaysia and other measures, bolstering the aftermarket business, and launching new businesses.

As a result, for the first six months of the fiscal year, the Shimadzu Group posted consolidated net sales of 154,756 million yen (a year-on-year decrease of 3.5 %), as the impact of yen appreciation outweighed higher sales in and outside Japan. Operating income totaled 15,246 million yen (a year-on-year increase of 5.5%), as higher sales of highly profitable high-end products and cost-reduction measures offset the impact of yen appreciation. Ordinary income totaled 14,586 million yen (a year-on-year decrease of 2.1%), and profit attributable to owners of parent totaled 10,328 million yen (a year-on-year increase of 0.3%).

The results for reportable business segments were as follows.

I. Analytical & Measuring Instruments

In Japan, sales increased on higher demand for liquid chromatographs, mass spectrometers, and surface analyzers in the pharmaceutical, chemical and other industries.

In Europe, sales of mass spectrometers for environmental and clinical applications increased. In China, sales of mass spectrometers grew, as private-sector demand remained robust among pharmaceutical and contract analysis companies, and public-sector demand rose in relation to food safety and other large-scale projects. In Southeast Asia, sales of liquid chromatographs increased, along with testing machines for a large-scale project with a transportation equipment client. In India, sales of mass spectrometers to pharmaceutical companies increased. In North America, although sales of mass spectrometers to healthcare clients declined, sales of liquid chromatographs and other equipment grew. Overseas sales declined overall due to yen appreciation.

As a result, the Analytical & Measuring Instruments segment posted sales of 93,709 million yen (a year-on-year decrease of 3.9%) for the first six months of the fiscal year.

II. Medical Systems

In Japan, sales of X-ray diagnosis systems increased, primarily angiography systems. The company succeeded in rapidly responding to changing standards, leading to higher sales of X-ray fluoroscopy systems and general radiography systems to clinics.

In North America and China, sales increased for high-end X-ray fluoroscopy systems capable of performing multiple types of diagnoses. In Europe, sales of X-ray fluoroscopy systems and general radiography systems increased in Eastern Europe and Russia. In Southeast Asia, public-sector demand leveled off. Overseas sales declined overall due to yen appreciation.

As a result, the Medical Systems segment posted sales of 29,541 million yen (a year-on-year decrease of 1.6%) for the first six months of the fiscal year.

III. Aircraft Equipment

In Japan, sales increased overall due to higher sales of aircraft components to the Ministry of Defense. Overseas, sales declined due to the impact of yen appreciation and a decrease in sales of commercial aircraft components.

Overall, the Aircraft Equipment segment posted sales of 11,804 million yen (a year-on-year decrease of 3.2%) for the first six months of the fiscal year.

IV. Industrial Machinery

Sales of turbo-molecular pumps grew in Japan and South Korea, mainly on stronger demand from semiconductor manufacturing equipment as well as liquid crystal and organic electroluminescence display manufacturing companies. Sales of glass winders declined in reaction to large orders in China in the previous year. Sales of hydraulic equipment slumped as demand for industrial vehicles slumped, mainly in North America, and yen appreciation impacted results.

Overall, the Industrial Machinery segment posted sales of 16,524 million yen (a year-on-year decrease of 4.8%) for the first six months of the fiscal year.

V. Other

Sales in the Other businesses segment amounted to 3,176 million yen (a year-on-year decrease of 3.3%) for the first six months of the fiscal year.

(2) Consolidated Outlook

Looking forward, despite causes for concern in some economies around the world, such as a moderate slowdown in China's economic growth and Britain's exit from the European Union, economic recovery in emerging markets and firm economic growth in the United States are expected to underpin a moderate recovery trend for the global economy as a whole.

In Japan, a moderate economic recovery trend is expected to continue despite risks over a slowdown stemming from global economic trends and yen appreciation.

In this environment, the Shimadzu Group is making progress on its three-year medium-term management plan launched in April 2014 based on our long-term vision "Toward Becoming a True Global Business." The basic policy behind the plan is to "Become an Innovative Company Contributing to Growth of Global Customers," and our key objectives are to implement growth strategies to increase Shimadzu's corporate value, reform the profit structure, and strengthen our global organization and structure.

In FY2016, the last year of our current management plan, we are striving to achieve the following initiatives in order to attain the goals of the medium-term management plan.

1) Accomplishing and defining growth strategies for increasing corporate value

- (1) We have established Innovation Centers, sites for collaborative R&D with leading-edge research institutions, universities, and companies, in Europe and Singapore in addition to existing centers in the United States and China. These centers are pursuing open innovation by combining the Shimadzu Group's internal strengths with external capabilities. These centers are enhancing their ability to grasp issues and latent needs of societies, markets, and customers, including region-specific changes to market structures, to combine the Shimadzu Group's technological capabilities with external technologies and propose "Number One/Only One" products and new solutions.
- (2) In each business area, the Shimadzu Group is actively nurturing new businesses and new fields of business. The analytical and measuring instruments business and medical systems business are strengthening their collaborative product development to distinguish their new products and solutions from competitors across the entire treatment spectrum, covering prevention, ultra-early examination, diagnosis, treatment, and prognosis management of breast cancer and other diseases. The aircraft equipment business is striving to acquire new orders for aircraft components and strengthen cost-competitiveness in order to further expand its civil aviation business. The industrial machinery business is bolstering its product lineup to match market needs with such

products as small turbo-molecular pumps, while also striving to expand sales of general industrial equipment. In the hydraulic equipment field, the Group opened a new R&D wing to accelerate the launch of new products into Europe and the United States and expand overseas business.

- (3) In the aftermarket business, the Shimadzu Group is building a global network foundation utilizing IoT-related technologies. This foundation will strengthen the provision of remote inspection and maintenance, asset management, operation status management, along with multi-vendor services. Additionally, the global service structure is being strengthened with the launch of an aircraft components plant in North America and the acceleration of operations at turbo-molecular pump service sites in China, Europe, and other regions.

2) Reforming the profit structure and strengthening our global organization and structure

- (1) In reforming the profit structure, the Shimadzu Group is striving to ensure a flexible response to foreign exchange market fluctuations. To this end, we are expanding manufacturing outside Japan, raising the ratio of local production and increasing in-house manufacturing, while also promoting design-related cost reductions by standardizing and unifying parts among different products. Efforts are also being made to reduce inventory levels.
- (2) We are strengthening personnel development measures to ensure that our employees can thrive in a global environment, while actively making optimal personnel assignments. As part of our diversity initiatives, we will establish systems to ensure that women, senior citizens, and non-Japanese employees can take active roles in the company, while actively promoting CSR initiatives.

As we steadily execute these initiatives, we will also formulate a new medium-term management plan to begin from fiscal 2017 which can support the Shimadzu Group's sustainable growth and raise corporate value over the medium and long term.

Regarding the earnings forecast for the full year ending March 31, 2017, there is no change to the forecast announced May 11, 2016.

2. Other Information

(1) Changes in the consolidation status (scope of consolidation) of material subsidiaries during the period
Not applicable

(2) Use of simplified accounting procedures and/or accounting procedures specific to the preparation of quarterly consolidated financial statements
Not applicable

(3) Changes in Accounting Policy, Changes in Accounting Estimates, and Retrospective Restatements
Not applicable

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(In million yen)

	As of September 30, 2016	As of March 31, 2016
Assets		
Current assets:		
Cash and time deposits	¥48,496	¥46,907
Trade notes and accounts receivable	88,965	105,430
Merchandise and products	41,653	40,497
Work in process	18,397	15,457
Raw materials and supplies	18,105	17,715
Deferred tax assets	8,557	9,729
Other	6,943	7,086
Allowance for doubtful receivables	(1,139)	(1,157)
Total current assets	¥229,979	¥241,666
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures, net	¥38,866	¥39,035
Machinery, equipment and vehicles, net	5,428	5,912
Land	18,797	18,602
Leased assets, net	2,140	2,179
Construction in progress	1,567	728
Other, net	9,841	9,699
Total property, plant and equipment	¥76,642	¥76,158
Intangible fixed assets	¥7,800	¥7,558
Investments and other assets:		
Investment securities	11,784	14,654
Long-term receivables	157	175
Deferred tax assets	6,051	6,388
Other	4,420	3,565
Allowance for doubtful receivables	(331)	(368)
Total investments and other assets	¥22,083	¥24,415
Total noncurrent assets	¥106,526	¥108,131
Total assets	¥336,505	¥349,798

(In million yen)

	As of September 30, 2016	As of March 31, 2016
Liabilities		
Current liabilities		
Trade notes and accounts payable	¥49,580	¥52,422
Short-term loans	2,517	3,056
Lease obligations	918	940
Accounts payable	10,239	11,523
Income taxes payable	1,849	4,997
Allowance for employees' bonuses	7,426	8,093
Allowance for director's bonuses	198	284
Provision for loss on defense equipment	374	374
Other	15,140	15,893
Total current liabilities	¥88,245	¥97,587
Long-term liabilities		
Unsecured bonds	¥15,000	¥15,000
Long-term debt	787	1,094
Lease obligations	1,431	1,451
Liability for directors' retirement benefits	167	182
Liability for retirement benefits	11,635	13,682
Other	818	828
Total long-term liabilities	¥29,839	¥32,239
Total liabilities	¥118,085	¥129,827
Net assets		
Shareholders' capital		
Common stock	¥26,648	¥26,648
Additional paid-in capital	35,188	35,188
Retained earnings	161,380	153,758
Treasury stock	(873)	(861)
Total shareholders' capital	¥222,345	¥214,734
Accumulated other comprehensive income		
Net unrealized gain on available-for-sale securities	¥4,469	¥5,036
Foreign currency translation adjustments	(7,792)	1,293
Cumulative adjustments to retirement benefits	(876)	(1,370)
Total accumulated other comprehensive income	¥(4,199)	¥4,959
Non-controlling interests	¥274	¥277
Total net assets	¥218,419	¥219,971
Total liabilities and net assets	¥336,505	¥349,798

(2) Consolidated Statements of Operations & of Comprehensive Income

Consolidated Statements of Operations

	(In million yen)	
	Six Months ended September 30, 2016	Six Months ended September 30, 2015
Net sales	¥154,756	¥160,412
Cost of sales	91,569	93,528
Gross profit	¥63,187	¥66,884
Selling, general and administrative expenses	47,940	52,426
Operating income	¥15,246	¥14,457
Other income:		
Interest income	¥130	¥108
Dividend income	140	129
Insurance payments received	68	72
Subsidy received	412	415
Other	236	487
Total other income	¥989	¥1,213
Other expenses:		
Interest expenses	¥57	¥89
Foreign exchange loss	886	356
Other	706	323
Total other expenses	¥1,649	¥768
Ordinary income	¥14,586	¥14,901
Extraordinary income:		
Gain on sale of property, plant and equipment	¥9	¥19
Total extraordinary income	¥9	¥19
Extraordinary losses:		
Impairment loss	¥201	—
Loss on disposal of property, plant and equipment	60	¥81
Loss on write-down of investment securities	—	7
Total extraordinary losses	¥261	¥88
Income before income taxes	¥14,333	¥14,832
Income taxes	2,559	3,640
Income taxes adjustments	1,420	850
Total income taxes and income taxes adjustments	¥3,980	¥4,491
Profit	¥10,353	¥10,340
Profit attributable to non-controlling interests	24	42
Profit attributable to owners of parent	¥10,328	¥10,297

Consolidated Statements of Comprehensive Income

	(In million yen)	
	Six Months ended September 30, 2016	Six Months ended September 30, 2015
Profit	¥10,353	¥10,340
Other Comprehensive income		
Unrealized gain/loss on available-for-sale securities	¥(566)	¥(813)
Foreign currency translation adjustments	(9,099)	(678)
Retirement benefit adjustments	494	128
Total other comprehensive income	¥(9,172)	¥(1,362)
Comprehensive income	¥1,181	¥8,977
<Break down>		
Comprehensive income attribute to owners of parent	¥1,170	¥8,945
Comprehensive income attribute to non-controlling interests	¥10	¥31

(3) Consolidated Statements of Cash Flows

(In million yen)

	Six Months ended September 30, 2016	Six Months ended September 30, 2015
Cash flows from operating activities		
Income before income taxes	¥14,333	¥14,832
Depreciation and amortization	4,614	4,651
Impairment loss	201	—
Increase (decrease) in allowance for doubtful receivables	37	(38)
Increase (decrease) in allowance for employees' bonuses	(626)	(338)
Increase (decrease) in allowance for director's bonuses	(81)	(113)
Increase (decrease) in liability for retirement benefits	(1,001)	(938)
Interest and dividends income	(271)	(238)
Interest expense	57	89
Foreign exchange (gain) loss, net	48	2
Net (gain) loss on sale and valuation of investment securities	—	7
Net (gain) loss on sale and disposal of property, plant and equipment	50	62
(Increase) decrease in trade receivables	12,867	12,378
(Increase) decrease in inventories	(8,412)	(4,662)
Increase (decrease) in trade payables	(365)	(2,406)
Other, net	(403)	(471)
Subtotal	¥21,048	¥22,815
Interest and dividends received	269	240
Interest paid	(56)	(87)
Income taxes paid	(5,692)	(5,827)
Net cash provided by operating activities	¥15,569	¥17,141
Cash flows from investing activities		
Purchase of property, plant and equipment	¥(5,311)	(6,495)
Proceeds from sale of property, plant and equipment	106	83
Purchase of investment securities	(3)	(714)
Increase in long term receivables	(14)	(29)
Decrease in long term receivables	16	61
Investments in subsidiaries	(886)	—
Other, net	(175)	933
Net cash provided by (used in) investing activities	¥(6,268)	¥(6,159)
Cash flows from financing activities		
Borrowing of short-term loans	—	¥497
Repayment of short-term loans	¥(550)	(4,193)
Borrowing of long-term debt	—	600
Repayment of long-term debt	(260)	(310)
Cash dividends paid	(2,637)	(2,356)
Dividends payments to non-controlling interests	(14)	(15)
Repayment of guarantee deposits received	(10)	(10)
Payment of finance lease obligations	(519)	(532)
Other, net	(11)	(30)
Net cash (used in) financing activities	¥(4,003)	¥(6,352)
Foreign currency translation adjustments on cash and cash equivalents	¥(3,968)	¥(624)
Net increase (decrease) in cash and cash equivalents	¥1,328	¥4,004
Cash and cash equivalents, beginning of period	¥43,508	¥38,422
Increase in cash and cash equivalents due to inclusion of subsidiaries in consolidation	462	—
Cash and cash equivalents, end of period	¥45,300	¥42,427

(4) Note on the going-concern assumption

Not applicable.

(5) Segment Information

1) Income by Business Segment

From April 1st to September 30th of Fiscal year ended March 31, 2017

(In million yen)

	Reportable segment					Other	Total	Adjustments	Amounts reported on the quarterly statements of income
	Analytical & Measuring Instruments	Medical Systems	Aircraft Equipment	Industrial Machinery	Total				
Net Sales									
(1) Sales to customers	¥93,709	¥29,541	¥11,804	¥16,524	¥151,579	¥3,176	¥154,756	—	¥154,756
(2) Inter-segment sales	32	5	46	45	129	713	843	¥(843)	—
Total Sales	¥93,742	¥29,546	¥11,850	¥16,570	¥151,709	¥3,890	¥155,599	¥(843)	¥154,756
Operating income (loss)	¥14,172	¥522	¥(31)	¥1,119	¥15,783	¥345	¥16,128	¥(881)	¥15,246

From April 1st to September 30th of Fiscal year ended March 31, 2016

(In million yen)

	Reportable segment					Other	Total	Adjustments	Amounts reported on the quarterly statements of income
	Analytical & Measuring Instruments	Medical Systems	Aircraft Equipment	Industrial Machinery	Total				
Net Sales									
(1) Sales to customers	¥97,554	¥30,014	¥12,199	¥17,358	¥157,126	¥3,286	¥160,412	—	¥160,412
(2) Inter-segment sales	35	5	42	33	117	622	740	¥(740)	—
Total Sales	¥97,589	¥30,019	¥12,241	¥17,392	¥157,244	¥3,908	¥161,153	¥(740)	¥160,412
Operating income (loss)	¥14,211	¥(136)	¥(566)	¥1,199	¥14,708	¥601	¥15,310	¥(852)	¥14,457

2) Income by Geographic Segment

From April 1st to September 30th of Fiscal year ended March 31, 2017

(In million yen)

Japan	The Americas	Europe	China	Other Asian countries	Other	Total
¥77,150	20,665	11,363	25,566	15,289	4,720	¥154,756

From April 1st to September 30th of Fiscal year ended March 31, 2016

(In million yen)

Japan	The Americas	Europe	China	Other Asian countries	Other	Total
¥73,500	24,334	12,720	28,681	15,250	5,923	¥160,412

Note. Major countries or regions belonging to segments other than Japan are as follows:

Americas	United States of America
Europe	Great Britain, Germany
China	China
Other Asian countries	India, Southeast Asia, Republic of Korea, Taiwan
Other	Australia, Middle East, Africa