

May 10, 2018

Operating Results and Financial Position

(For the Fiscal Year Ended March 31, 2018)

1. Operating Results

(1) Consolidated Overview

In the fiscal year ended March 31, 2018, the North American economy continued its recovery trend due to an improvement in employment and personal income conditions and strong consumer spending. The European economy demonstrated a moderate recovery despite Britain's exit from the European Union and other issues, due to strong consumer spending. The Chinese economy remained strong, due to various government measures and expanded exports resulting from strong consumer spending and the global economic recovery. Southeast Asia also showed signs of an uptick in economic activity and India's economy demonstrated a moderate recovery. The Japanese economy continued to demonstrate a moderate recovery due to improvements in employment and capital investment resulting from higher corporate earnings.

In the midst of such circumstances, the Shimadzu Group started a new 3-year medium-term management plan in April 2017. Based on this plan and the slogan "Become a Company That Solves Challenges in Society in Collaboration with Partners All Around the World," we are implementing aggressive growth measures, such as investing in advanced healthcare and other high-growth fields, improving profitability by applying AI and IoT technologies to expand the aftermarket business and strengthening competitiveness of key models, for example, and implementing organizational foundation reforms.

For this fiscal year, the Shimadzu Group posted consolidated net sales of 376,530 million yen (a year-on-year increase of 9.9 %), operating income of 42,822 million yen (a year-on-year increase of 15.5 %), ordinary income of 41,871 million yen (a year-on-year increase of 13.0 %), and profit attributable to owners of parent of 29,838 million yen (a year-on-year increase of 12.7 %). All of these figures represented record-high levels for the Group.

The results for reportable business segments were as follows.

I. Analytical & Measuring Instruments

Sales in North America were strong for liquid chromatographs, mass spectrometer systems, and other products in contract analysis, food safety, chemicals, and government fields. Sales in Europe were strong for mass spectrometer systems in the food safety field, for liquid chromatographs and gas chromatographs in the chemicals field, and for testing machines in the transport equipment, materials, and academic fields. Sales in China were strong for liquid chromatographs, mass spectrometer systems, gas chromatographs, and environmental measurement instruments, as a result of strong activity in food safety, contract analysis, and environmental regulation fields. Sales in Southeast Asia decreased due to lower government demand and other factors, but sales in India increased for liquid chromatographs in the pharmaceuticals field and for mass spectrometer systems in the contract analysis and food safety fields. In Japan, demand expanded for liquid chromatographs in pharmaceuticals and chemical fields, testing machines in the automotive field, and mass spectrometer systems in the revised-RoHS regulatory compliance field.

As a result, the Analytical & Measuring Instruments segment posted sales of 231,561 million yen (a year-on-year increase of 10.7 %) for this fiscal year.

II. Medical Systems

Sales in North America were strong for general radiography systems, including new mobile models, due to revisions in medical service fees that accelerated the transition to digital technology. Sales in Europe were strong for fluoroscopy systems and also for angiography systems in Eastern Europe. Sales in China were strong for fluoroscopy and general radiography systems, due to expanded demand and a strengthened product offering that better fits customer needs. Sales in Southeast Asia were strong for angiography systems, and general radiography systems that satisfy needs for switching to digital technology. Sales in Japan decreased due to purchase

reluctance before 2018 revisions to medical service fees.

As a result, the Medical Systems segment posted sales of 65,916 million yen (a year-on-year increase of 2.4 %) for this fiscal year.

III. Aircraft Equipment

In North America, sales struggled as a consequence of a decline in mid- and large-size commercial aircraft production by Boeing. In Japan, however, sales were strong due to an increase in aircraft component sales for the Japanese Ministry of Defense.

As a result, the Aircraft Equipment segment posted sales of 27,639 million yen (a year-on-year increase of 3.4 %) for this fiscal year.

IV. Industrial Machinery

Sales of turbomolecular pumps continued to be strong, mainly in semiconductor and flat panel display manufacturing equipment fields and in building glass markets in Japan, North America, China, and Europe. Glass winder sales also increased significantly as demand for electronic circuit boards, automobiles, and wind power generation equipment remained strong in China. Hydraulic equipment sales were strong for construction machinery and industrial vehicles (forklift trucks) mainly in China.

As a result, the Industrial Machinery segment posted sales of 44,190 million yen (a year-on-year increase of 22.2 %) for this fiscal year.

V. Other

Sales in the Other businesses segment amounted to 7,223 million yen (a year-on-year increase of 20.8 %) for this fiscal year.

<Consolidated Outlook>

Looking forward, there is significant market uncertainty in some areas outside Japan, such as trends in government economic and financial policies and trade friction between China and the United States, but the overall global economy is expected to continue moderately expanding, due to factors such as the continued steady economic improvement expected in the United States, based on corporate investment in capital equipment, increased consumer spending, and other factors, a continuing gradual economic recovery expected in Europe, stable economic growth expected in China in response to various government measures, and overall economic strength in Southeast Asia. In Japan, the gradual economic improvement is expected to continue as employment and income conditions continue to improve.

Given these circumstances, the new medium-term management plan that started in 2017 took a new step forward toward realizing the new slogan "Become a Company That Solves Challenges in Society in Collaboration with Partners All Around the World." In 2018, the second year of the medium-term management plan, we will work toward establishing stronger growth strategies, increasing corporate value, and building a strong business base for achieving sustained growth in the future.

1) Strengthen the Business Base and Establish the Foundation for New Business Growth by Actively Investing in High-Growth Fields

(1) Strengthen new product development capabilities by increasing our sensitivity for identifying market and technology trends, actively investing in developing products that provide new value, and strategically utilizing external resources through business partnerships, mergers, acquisitions, or other means.

(2) Establish stronger collaborations and alliances with partners within and outside the Shimadzu Group in an effort to develop businesses in the four important growth fields of healthcare, infrastructure, materials, and environment/energy.

(3) Use AI, IoT, robotics, and other new technologies to establish stronger global business capabilities that result in developing new businesses.

2) Improve Our Ability to Achieve Sustained Growth by Strengthening Profitability

(1) Clearly identify issues for improving profitability and achieving business growth in businesses designated for profitability improvement, including using resources of the entire Shimadzu, and ensure profitability reforms are implemented thoroughly in each business and product category.

(2) Expand the aftermarket business by further expanding reagent and consumables businesses and launching new service businesses based on using AI, IoT, and other technologies.

(3) Increase productivity at manufacturing sites, such as by utilizing AI, IoT, RPA (robotic process automation), or other technologies, or by automating various inspection and data analysis

processes at those sites.

3) Establish a Strong Business Base by Reforming the Organizational Foundation

(1) We will use Shimadzu's technical capabilities to help solve challenges of society by contributing to those United Nations sustainable development goals (SDGs) that are deeply related to Shimadzu businesses. We will also strengthen our business base through management practices based on environmental, social, and governance (ESG) perspectives, such as environmental management and stronger governance functions.

(2) In terms of health management, we will use instruments and advanced technologies developed at Shimadzu to contribute to the health of employees, including their families. In the future, we will also strive to use our business operations to offer measures that promote the health of greater society. To achieve sustained growth in the face of changing business conditions, we will also actively implement working practice reforms aimed at improving organizational productivity by helping to improve individual abilities.

Taking into account the business circumstances described above, we have revised the forecast for consolidated results as follows.

Consolidated Earnings Forecast for Year Ended March 2019 (In million yen)

	FY2018 Forecast	Percent Increase/Decrease Year-on-Year
Net Sales	390,000	3.6 %
Operating Income	45,000	5.1 %
Ordinary Income	44,000	5.1 %
Profit Attributable to Owners of Parent	32,000	7.2 %

(2) Overview of Financial Status

<Assets as of March 31, 2018>

As of March 31, 2018, total assets were 419,764 million yen, an increase of 44,410 million yen compared to the end of the previous fiscal year, reflecting increases of 20,228 million yen in cash and time deposits and 6,239 million yen in trade notes and accounts receivable. Net assets increased by 26,431 million yen, compared to the end of the previous fiscal year, to 268,060 million yen, due to increases of 23,646 million yen in retained earnings, 2,219 million yen in cumulative adjustments to retirement benefits, and other factors.

<Cash Flows>

Cash and cash equivalents at March 31, 2018 increased 22,327 million yen versus the end of the previous fiscal year, to 75,090 million yen.

The cash flow status for FY2017 is described below.

I. Cash Flows from Operating Activities

Cash flow from operating activities resulted in an inflow of 41,215 million yen, which is a 11,606 million yen increase from the previous year. The primary cash flows from operating activities include a 5,662 million yen inflow from income before income taxes and 4,862 million yen inflow from increased trade payables.

II. Cash Flows from Investing Activities

Cash flow from investing activities resulted in an outflow of 11,072 million yen, which is a 1,231 million yen decrease from the previous year. The primary cash flows from investing activities include a 11,972 million yen outflow from capital investment.

III. Cash Flows from Financing Activities

Cash flow from financing activities resulted in an outflow of 7,902 million yen, which is a 608 million yen increase from the previous year. The primary cash flows from financing activities include a 6,186 million yen outflow from payment of cash dividends and a 1,183 million yen

outflow from payment of finance lease obligations.

<Trend in Cash Flow Indices>

	Year Ended March 31, 2014	Year Ended March 31, 2015	Year Ended March 31, 2016	Year Ended March 31, 2017	Year Ended March 31, 2018
Equity Ratio (%)	53.4	61.7	62.8	64.3	63.8
Equity Ratio on a Market Value Basis (%)	79.4	116.4	148.8	138.9	210.0
Years of Debt Redemption (years)	—	0.6	0.6	0.6	0.5
Interest Coverage Ratio	—	142.9	177.0	214.2	295.5

Note: Equity Ratio = (Net assets – Non-controlling interests)/Total assets

Equity Ratio on a Market Value Basis (%) = Total market value of shares/Total assets

Years of Debt Redemption = Interest bearing debt/Cash flow from operating activities

Interest Coverage Ratio = Cash flow from operating activities/Interest payment

1. All indices were calculated on a consolidated basis.
2. The total market value of shares was calculated as the product of year-end share price and the number of year-end outstanding shares (after deduction of treasury stock).
3. The cash flow from operating activities indicated on the consolidated statements of cash flows was used as the cash flow from operating activities. Interest bearing debt includes short-term loans, long-term debt, commercial paper, and unsecured bonds, from liabilities indicated on the consolidated balance sheet. Interest payment indicates the interest paid, as reported in consolidated statements of cash flows.

(3) Dividend Policy and Dividends for the Fiscal Years Ended March 31, 2018 and 2019
Shimadzu views the return of profits to shareholders as a key management objective.

We intend to keep dividends stable, while also taking into account earnings performance and cash flows. We will also maintain sufficient internal reserves to fund capital investments, R&D, and strategic investments for increasing business growth and profitability in the medium and long term. We will continue making every effort to maintain stable financial conditions, while strengthening earnings and raising our return on equity.

A year-end dividend of 10 yen per share was paid for the fiscal year ended March 31, 2017, but we plan to pay a year-end dividend of 13 yen per share for the fiscal year ended March 31, 2018. Combined with the interim dividend of 11 yen per share, that will result in a total annual dividend of 24 yen per share, which is an increase of 4 yen compared to the previous year.

For the fiscal year ended March 31, 2019, we currently plan to pay an interim dividend of 13 yen and a year-end dividend of 13 yen per share, for a total annual dividend of 26 yen per share, an increase of 2 yen from the previous fiscal year.

2. Basic Stance on Selecting Accounting Standards

The Shimadzu Group currently presents its consolidated financial statements based on Japanese accounting standards to facilitate comparison with results from other years and comparison with the results of other companies.

Regarding International Financial Reporting Standards (IFRS), we will take appropriate measures based on various circumstances in and outside Japan.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(In million yen)

	As of March 31, 2018	As of March 31, 2017
Assets		
Current assets:		
Cash and time deposits	¥76,926	¥56,698
Trade notes and accounts receivable	119,117	112,877
Marketable securities	20	—
Merchandise and products	40,067	40,588
Work in process	19,936	16,899
Raw materials and supplies	20,632	19,213
Deferred tax assets	9,662	9,603
Other	8,931	8,342
Allowance for doubtful receivables	(1,409)	(1,142)
Total current assets	¥293,885	¥263,080
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures, net	¥39,985	¥39,975
Machinery, equipment and vehicles, net	6,713	5,904
Land	18,821	18,879
Leased assets, net	2,734	2,510
Construction in progress	3,225	628
Other, net	12,655	10,853
Total property, plant and equipment	¥84,136	¥78,751
Intangible fixed assets	¥9,234	¥8,396
Investments and other assets:		
Investment securities	¥16,464	¥13,779
Long-term receivables	159	174
Assets related to retirement benefits	8,010	3,705
Deferred tax assets	3,089	4,160
Other	5,129	3,829
Allowance for doubtful receivables	(344)	(523)
Total investments and other assets	¥32,508	¥25,126
Total noncurrent assets	¥125,879	¥112,273
Total assets	¥419,764	¥375,354

(In million yen)

	As of March 31, 2018	As of March 31, 2017
Liabilities		
Current liabilities:		
Trade notes and accounts payable	¥66,589	¥57,263
Short-term loans	3,135	2,963
Lease obligations	1,060	1,007
Accounts payable	16,244	11,363
Income taxes payable	7,460	4,870
Allowance for employees' bonuses	8,735	8,188
Allowance for director's bonuses	259	275
Provision for loss on defense equipment	94	484
Other	18,388	17,730
Total current liabilities	¥121,967	¥104,147
Long-term liabilities:		
Unsecured bonds	¥15,000	¥15,000
Long-term debt	501	648
Lease obligations	1,986	1,758
Liability for directors' retirement benefits	169	184
Liability for retirement benefits	9,732	10,708
Liability for stock benefits	82	—
Other	2,264	1,277
Total long-term liabilities	¥29,737	¥29,577
Total liabilities	¥151,704	¥133,725
Net assets		
Shareholders' capital:		
Common stock	¥26,648	¥26,648
Additional paid-in capital	35,188	35,188
Retained earnings	198,038	174,391
Treasury stock	(1,410)	(885)
Total shareholders' capital	¥258,464	¥235,342
Accumulated other comprehensive income:		
Net unrealized gain on available-for-sale securities	¥7,440	¥5,850
Foreign currency translation adjustments	(1,998)	(1,429)
Cumulative adjustments to retirement benefits	3,787	1,568
Total accumulated other comprehensive income	¥9,229	¥5,988
Non-controlling interests	¥366	¥297
Total net assets	¥268,060	¥241,629
Total liabilities and net assets	¥419,764	¥375,354

(2) Consolidated Statements of Operations & of Comprehensive Income

Consolidated Statements of Operations

	(In million yen)	
	Year Ended March 31, 2018	Year Ended March 31, 2017
Net sales	¥376,530	¥342,479
Cost of sales	226,697	206,070
Gross profit	¥149,833	¥136,409
Selling, general and administrative expenses	¥107,011	¥99,319
Operating income	¥42,822	¥37,089
Other income:		
Interest income	¥241	¥224
Dividend income	346	211
Insurance payments received	329	228
Subsidy received	395	493
Other	596	654
Total other income	¥1,909	¥1,812
Other expenses:		
Interest expenses	¥139	¥138
Foreign exchange loss	1,271	72
Compensation expenses	311	100
Other	1,138	1,551
Total other expenses	¥2,860	¥1,862
Ordinary income	¥41,871	¥37,039
Extraordinary income:		
Gain on sale of property, plant and equipment	¥157	¥32
Total extraordinary income	¥157	¥32
Extraordinary losses:		
Loss on disposal of property, plant and equipment	¥187	¥176
Loss on write-down of investment securities	66	1
Impairment loss	—	780
Total extraordinary losses	¥253	¥958
Income before income taxes	¥41,775	¥36,113
Income taxes	11,512	8,763
Income taxes adjustments	342	819
Total income taxes and income taxes adjustments	¥11,855	¥9,582
Profit	¥29,920	¥26,530
Profit attributable to non-controlling interests	82	57
Profit attributable to owners of parent	¥29,838	¥26,473

Consolidated Statements of Comprehensive Income

	(In million yen)	
	Year Ended March 31, 2018	Year Ended March 31, 2017
Profit	¥29,920	¥26,530
Other comprehensive income:		
Unrealized gain/loss on available-for-sale securities	¥1,590	¥813
Foreign currency translation adjustments	(565)	(2,451)
Retirement benefit adjustments	2,219	2,938
Total other comprehensive income	¥3,243	¥1,301
Comprehensive income	¥33,163	¥27,832
(Break down)		
Comprehensive income attribute to owners of parent	¥33,078	¥27,787
Comprehensive income attribute to non-controlling interests	¥85	¥45

(3) Consolidated Statements of Changes in Equity

Fiscal year ended Mar. 31, 2018 (Apr. 1, 2017 to Mar. 31, 2018)

(In million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	26,648	35,188	174,391	(885)	235,342
Changes of items during period					
Dividends of surplus			(6,191)		(6,191)
Profit attributable to owners of parent			29,838		29,838
Changes in scope of consolidation			—		—
Purchase of treasury shares				(524)	(524)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	23,646	(524)	23,122
Balance at end of current period	26,648	35,188	198,038	(1,410)	258,464

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	5,850	(1,429)	1,568	5,988	297	241,629
Changes of items during period						
Dividends of surplus						(6,191)
Profit attributable to owners of parent						29,838
Changes in scope of consolidation						—
Purchase of treasury shares						(524)
Net changes of items other than shareholders' equity	1,590	(568)	2,219	3,240	68	3,309
Total changes of items during period	1,590	(568)	2,219	3,240	68	26,431
Balance at end of current period	7,440	(1,998)	3,787	9,229	366	268,060

Fiscal year ended Mar. 31, 2017 (Apr. 1, 2016 to Mar. 31, 2017)

(In million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	26,648	35,188	153,758	(861)	214,734
Changes of items during period					
Dividends of surplus			(5,601)		(5,601)
Profit attributable to owners of parent			26,473		26,473
Changes in scope of consolidation			(238)		(238)
Purchase of treasury shares				(24)	(24)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	20,632	(24)	20,607
Balance at end of current period	26,648	35,188	174,391	(885)	235,342

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	5,036	1,293	(1,370)	4,959	277	219,971
Changes of items during period						
Dividends of surplus						(5,601)
Profit attributable to owners of parent						26,473
Changes in scope of consolidation						(238)
Purchase of treasury shares						(24)
Net changes of items other than shareholders' equity	813	(2,723)	2,938	1,029	19	1,049
Total changes of items during period	813	(2,723)	2,938	1,029	19	21,657
Balance at end of current period	5,850	(1,429)	1,568	5,988	297	241,629

(4) Consolidated Statements of Cash Flows

(In million yen)

	Year Ended March 31, 2018	Year Ended March 31, 2017
Cash flows from operating activities		
Income before income taxes	¥41,775	¥36,113
Depreciation and amortization	10,591	9,546
Impairment loss	—	780
Increase (decrease) in allowance for doubtful receivables	133	144
Increase (decrease) in allowance for employees' bonuses	553	103
Increase (decrease) in allowance for director's bonuses	(21)	(5)
Increase (decrease) in liability for retirement benefits	1,895	1,189
Interest and dividends income	(587)	(435)
Interest expense	139	138
Foreign exchange (gain) loss, net	22	(2)
Net (gain) loss on sale and valuation of investment securities	66	—
Net (gain) loss on sale and disposal of property, plant and equipment	29	144
(Increase) decrease in trade receivables	(6,909)	(7,911)
(Increase) decrease in inventories	(5,513)	(3,816)
Increase (decrease) in trade payables	10,045	5,182
Other, net	(2,640)	(2,676)
Subtotal	¥49,581	¥38,495
Interest and dividends received	587	433
Interest paid	(139)	(138)
Income taxes paid	(8,814)	(9,183)
Net cash provided by operating activities	¥41,215	¥29,608
Cash flows from investing activities		
Purchase of property, plant and equipment	¥(11,972)	¥(11,013)
Proceeds from sale of property, plant and equipment	489	212
Purchase of investment securities	(482)	(5)
Increase in long term receivables	(157)	(41)
Decrease in long term receivables	45	36
Investments in subsidiaries	(1,557)	(886)
Other, net	2,560	(605)
Net cash provided by (used in) investing activities	¥(11,072)	¥(12,304)
Cash flows from financing activities		
Borrowing of short-term loans	¥616	495
Repayment of short-term loans	(669)	(550)
Borrowing of long-term debt	650	50
Repayment of long-term debt	(571)	(540)
Cash dividends paid	(6,186)	(5,597)
Dividends payments to non-controlling interests	(11)	(14)
Repayment of guarantee deposits received	(21)	(21)
Payment of finance lease obligations	(1,183)	(1,092)
(Increase) decrease in treasury stock	(524)	(24)
Net cash (used in) financing activities	¥(7,902)	¥(7,294)
Foreign currency translation adjustments on cash and cash equivalents	¥87	¥(1,222)
Net increase (decrease) in cash and cash equivalents	¥22,327	¥8,787
Cash and cash equivalents, beginning of period	¥52,762	¥43,508
Increase in cash and cash equivalents due to inclusion of subsidiaries in consolidation	—	466
Cash and cash equivalents, end of period	¥75,090	¥52,762

(5) Note on the Going-Concern Assumption

Not applicable.

(6) Segment Information

1) Income by Business Segment

From April 1st to March 31st of fiscal year ended March 31, 2018

(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	¥231,561	¥65,916	¥27,639	¥44,190	¥369,307	¥7,223	¥376,530	—	¥376,530
(2) Inter-segment sales	39	20	88	119	268	1,642	1,910	¥(1,910)	—
Total Sales	¥231,601	¥65,936	¥27,727	¥44,310	¥369,576	¥8,865	¥378,441	¥(1,910)	¥376,530
Operating income (loss)	¥37,046	¥2,701	¥479	¥4,084	¥44,310	¥891	¥45,202	¥(2,379)	¥42,822

From April 1st to March 31st 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	¥209,237	¥64,376	¥26,728	¥36,158	¥336,501	¥5,978	¥342,479	—	¥342,479
(2) Inter-segment sales	84	11	84	82	263	1,497	1,760	¥(1,760)	—
Total Sales	¥209,321	¥64,387	¥26,813	¥36,241	¥336,764	¥7,476	¥344,240	¥(1,760)	¥342,479
Operating income (loss)	¥33,052	¥1,922	¥775	¥2,670	¥38,421	¥882	¥39,304	¥(2,214)	¥37,089

2) Income by Geographic Segment

From April 1st to March 31st of fiscal year ended March 31, 2018

(In million yen)

Japan	The Americas	Europe	China	Other Asian countries	Other	Total
¥187,667	48,146	27,604	68,439	34,132	10,540	¥376,530

From April 1st to March 31st of fiscal year ended March 31, 2017

(In million yen)

Japan	The Americas	Europe	China	Other Asian countries	Other	Total
¥175,905	42,507	24,894	56,149	32,951	10,070	¥342,479

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