
Shimadzu Corporation and Consolidated Subsidiaries

*Consolidated Financial Statements for the
Year Ended March 31, 2022 and
Independent Auditor's Report*

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Shimadzu Corporation:

Opinion

We have audited the consolidated financial statements of Shimadzu Corporation and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2022, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 4 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Appropriateness of the application of the Revenue Recognition Standards

Appropriateness of the Revenue Recognized upon Completion of Product Installation

As described in Note 2, "Summary of Significant Accounting Policies," to the consolidated financial statements, the Group recognizes revenue in the amount of consideration it expects to receive in exchange for the promised goods or services when the control of those goods or services is transferred to the customers based on the five-step approach.

With regards to sales transactions for most Analytical and Measuring Instruments, most Medical Systems and Equipment, and certain Industrial Machinery, the Group determines the promised products and installation services are not distinct as the Group is responsible for providing products and installation services under contracts with customers. Customers consequently obtain the control of the products when the Group completes installation services for those products and thus, satisfying performance obligation. Therefore, revenues from those products and services are recognized upon completion of the installation.

With regard to the sales transaction in which the Group is responsible for providing products and installation services, the Group determines whether the Group needs to provide installation services in receiving orders based on the nature of the sales transaction or terms and conditions of the contracts and classifies and registers the sales transactions requiring installation services in its main information technology ("IT") system. Installation services are performed mainly by the service division or subsidiaries within the Group. The Group is required to obtain all necessary information evidencing the completion of installation services by such division or subsidiaries timely in order to recognize revenue. The Group has business processes and controls to recognize revenue not upon shipment of product in its IT system, but upon completion of product installation services in a timely manner.

It is considered to be critical that the Group registers the sales transaction into its IT system by understanding the contents of the contract with customers and determining the appropriate timing to recognize revenue, that the Group obtains information about the completion of product installation services is properly processed, and that the Group appropriately recognizes revenue based on that information. The Group has controls in place that are dependent on IT systems, such as data interface, and relies on integrated IT controls to recognize revenue in the appropriate period. Therefore, we determined this matter, including automated controls within IT systems, required our significant audit attention.

Given these factors that required significant auditor's attention, we determined appropriateness of the application of revenue recognition standards to be a key audit matter.

Our audit procedures related to the Group's appropriateness of the revenue recognized upon completion of product installation included the following, among others:

- We assessed whether the Group's accounting policy met the requirements of the five-step approach by evaluating each step for the main revenue streams.
- We obtained an understanding of and evaluated the design and operating effectiveness of controls over the revenue recognition processes, commencing with approval for acceptance of orders including the registration of the classification of sales transactions through inquiry of relevant company personnel and inspection of documents such as approval for orders received and reports on the completion of product installation services.
- With the assistance of our IT specialists, we obtained an understanding of data flows, processes and automated controls within the IT systems from initiation of transactions through recognition of revenue and evaluated the design and operating effectiveness of the controls.
- We performed an analysis of all sales transaction data recorded during the year to identify unusual transactions, for which we performed additional procedures as necessary such as inquiry and inspection of related documents. Further, we randomly selected a sample of sales transactions throughout the year and determined whether they were appropriately classified based on the performance obligation and recorded in the appropriate period by tracing each selection to supporting documents.
- For sales transactions whose revenue was recognized upon shipment of the products to customers, we performed an analysis of the sales divisions where revenue was recognized and the nature of the sales transaction. For sales transactions that we determined to perform further testing as a result of the analysis, we tested whether they are not required to render the installation services by tracing each transaction to the terms and conditions of the contracts of the transaction described in the relevant supporting documents.

Other Information

Other information comprises the information included in the Group's disclosure documents accompanying the audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon.

We determined that no such information existed and therefore, we did not perform any work thereon.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

July 19, 2022

Shimadzu Corporation and Consolidated Subsidiaries

Consolidated Balance Sheet March 31, 2022

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 4)	LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2022	2021	2022		2022	2021	2022
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents (Note 18)	¥ 155,319	¥ 106,855	\$ 1,273,107	Short-term borrowings (Notes 9 and 18)	¥ 1,427	¥ 1,428	\$ 11,697
Time deposits (Note 18)	2,647	5,905	21,697	Current portion of long-term debt (Notes 2.o and 9)	3,536	3,602	28,983
Trade receivables and contract assets:				Trade notes and accounts payable (Note 18)	66,539	61,425	545,402
Notes and accounts receivable				Other payables	13,761	12,960	112,795
– trade, and contract assets (Note 18)	121,931	117,857	999,434	Contract liabilities	40,348	35,696	330,721
Allowance for doubtful receivables	(2,168)	(2,119)	(17,770)	Income taxes payable	10,945	7,646	89,713
Net trade receivables and contract assets	119,763	115,738	981,664	Provision for bonuses	11,658	11,430	95,557
Inventories (Note 7)	106,649	97,651	874,172	Provision for loss on order received (Note 2.j)	10	126	82
Prepaid expenses and other current assets	9,985	9,297	81,844	Accrued expenses and other current liabilities	10,520	9,784	86,230
Total current assets	394,363	335,446	3,232,484	Total current liabilities	158,744	144,097	1,301,180
PROPERTY, PLANT AND EQUIPMENT (Notes 2.f and 3):				LONG-TERM LIABILITIES:			
Land	19,053	18,955	156,172	Long-term debt (Notes 2.o, 9 and 17)	6,629	5,227	54,337
Buildings and structures	52,903	53,016	433,631	Liability for retirement benefits (Notes 3 and 10)	12,994	11,342	106,508
Machinery, equipment and vehicles	7,261	6,367	59,516	Long-term deposit	80	80	656
Lease assets	1,910	2,276	15,656	Other long-term liabilities (Note 16)	917	1,208	7,516
Construction in progress	992	1,703	8,131	Total long-term liabilities	20,620	17,857	169,017
Others (Note 2.o)	22,311	20,076	182,877				
Total property, plant and equipment	104,430	102,393	855,983	COMMITMENTS AND CONTINGENT LIABILITIES (Notes 17 and 19)			
INVESTMENTS AND OTHER ASSETS:				EQUITY (Notes 11 and 22):			
Investment securities (Notes 6 and 18)	12,615	12,983	103,402	Common stock, authorized, 800,000,000 shares; issued, 296,070,227 shares	26,649	26,649	218,434
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 18)	881	680	7,221	Capital surplus	34,911	34,911	286,156
Software (Note 3)	6,009	7,114	49,254	Retained earnings	298,759	262,967	2,448,844
Asset for retirement benefits (Notes 3 and 10)	20,666	19,176	169,393	Treasury stock – at cost, 1,416,992 shares in 2022 and 1,425,134 shares in 2021	(1,245)	(1,259)	(10,205)
Deferred tax assets (Notes 3 and 16)	12,606	11,498	103,328	Accumulated other comprehensive income (loss):			
Other assets (Note 3)	8,958	8,169	73,427	Unrealized gain on available-for-sale securities	6,471	6,579	53,041
Total investments and other assets	61,735	59,620	506,025	Foreign currency translation adjustments	10,093	118	82,730
				Defined retirement benefit plans	5,526	5,540	45,295
				Total	381,164	335,505	3,124,295
TOTAL	¥ 560,528	¥ 497,459	\$ 4,594,492	TOTAL	¥ 560,528	¥ 497,459	\$ 4,594,492

See notes to consolidated financial statements.

Shimadzu Corporation and Consolidated Subsidiaries

Consolidated Statement of Income Year Ended March 31, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	<u>2022</u>	<u>2021</u>	<u>2022</u>
NET SALES (Notes 2.t, 12 and 23)	¥ 428,175	¥ 393,499	\$ 3,509,631
COST OF SALES	<u>249,559</u>	<u>237,306</u>	<u>2,045,565</u>
Gross profit	178,616	156,193	1,464,066
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 13)	<u>114,810</u>	<u>106,451</u>	<u>941,066</u>
Operating income (Notes 2.t and 23)	<u>63,806</u>	<u>49,742</u>	<u>523,000</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	516	552	4,230
Interest expense	(189)	(181)	(1,549)
Foreign exchange gain (loss), net	1,140	(212)	9,344
Donation (Note 14)	(1,064)	(2,438)	(8,721)
Gain on sales of non-current assets	171	72	1,402
Loss on disposal of non-current assets	(201)	(226)	(1,648)
Gain on transfer of investment securities (Note 14)	813	1,464	6,664
Gain on liquidation of investment securities	3		25
Gain on sales of investment securities (Note 6)	147	339	1,205
Subsidy income	1,058	854	8,672
Loss on fire (Note 15)	(550)		(4,508)
Loss on valuation of investment securities	(13)	(61)	(107)
Impairment loss (Note 8)		(148)	
Other, net	<u>310</u>	<u>61</u>	<u>2,540</u>
Other income (expenses), net	<u>2,141</u>	<u>76</u>	<u>17,549</u>
INCOME BEFORE INCOME TAXES (Note 2.t)	65,947	49,818	540,549
INCOME TAXES (Note 16):			
Current	19,438	13,417	159,328
Deferred	<u>(781)</u>	<u>303</u>	<u>(6,402)</u>
Total income taxes	<u>18,657</u>	<u>13,720</u>	<u>152,926</u>
NET INCOME	<u>47,290</u>	<u>36,098</u>	<u>387,623</u>
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	<u>¥ 47,290</u>	<u>¥ 36,098</u>	<u>\$ 387,623</u>
	<u>Yen</u>		<u>U.S. Dollars</u>
PER SHARE OF COMMON STOCK (Notes 2.x and 21):			
Basic net income	¥160.49	¥122.52	\$1.32
Cash dividends applicable to the year	48.00	34.00	0.39

See notes to consolidated financial statements.

Shimadzu Corporation and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income Year Ended March 31, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	<u>2022</u>	<u>2021</u>	<u>2022</u>
NET INCOME	¥ 47,290	¥ 36,098	\$ 387,623
OTHER COMPREHENSIVE INCOME (LOSS) (Note 20):			
Unrealized (loss) gain on available-for-sale securities	(108)	1,821	(885)
Foreign currency translation adjustments	9,975	5,977	81,762
Defined retirement benefit plans	(14)	7,087	(115)
Total other comprehensive income	<u>9,853</u>	<u>14,885</u>	<u>80,762</u>
COMPREHENSIVE INCOME	<u>¥ 57,143</u>	<u>¥ 50,983</u>	<u>\$ 468,385</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥57,143	¥50,983	\$468,385
Noncontrolling interests			

See notes to consolidated financial statements.

Shimadzu Corporation and Consolidated Subsidiaries

**Consolidated Statement of Changes in Equity
Year Ended March 31, 2022**

	Number of Shares of Common Stock Outstanding	Millions of Yen									
		Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)			Total	Noncontrolling Interests	Total Equity
						Unrealized Gain on Available-for- Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans			
BALANCE, APRIL 1, 2020	294,566,503	¥ 26,649	¥ 34,911	¥ 245,255	¥(1,419)	¥4,758	¥ (5,832)	¥(1,547)	¥ 302,775	¥	¥ 302,775
Cumulative effects of an accounting change Restated balance		26,649	34,911	(9,506) 235,749	(1,419)	4,758	7 (5,825)	(1,547)	(9,499) 293,276		(9,499) 293,276
Net income attributable to owners of the parent				36,098					36,098		36,098
Cash dividends				(8,845)					(8,845)		(8,845)
Purchase of treasury stock					(4)				(4)		(4)
Disposal of treasury stock					164				164		164
Decrease by merger				(35)					(35)		(35)
Net change in the year	78,590					1,821	5,943	7,087	14,851		14,851
BALANCE, MARCH 31, 2021	294,645,093	26,649	34,911	262,967	(1,259)	6,579	118	5,540	335,505		335,505
Net income attributable to owners of the parent				47,290					47,290		47,290
Cash dividends				(11,498)					(11,498)		(11,498)
Purchase of treasury stock					(4)				(4)		(4)
Disposal of treasury stock					18				18		18
Net change in the year	8,142					(108)	9,975	(14)	9,853		9,853
BALANCE, MARCH 31, 2022	<u>294,653,235</u>	<u>¥ 26,649</u>	<u>¥ 34,911</u>	<u>¥ 298,759</u>	<u>¥(1,245)</u>	<u>¥6,471</u>	<u>¥ 10,093</u>	<u>¥ 5,526</u>	<u>¥ 381,164</u>	<u>¥</u>	<u>¥ 381,164</u>

	Thousands of U.S. Dollars (Note 4)									
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)			Total	Noncontrolling Interests	Total Equity
					Unrealized Gain on Available-for- Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans			
BALANCE, MARCH 31, 2021	\$ 218,434	\$ 286,156	\$ 2,155,467	\$(10,320)	\$ 53,926	\$ 968	\$ 45,410	\$ 2,750,041	\$	\$ 2,750,041
Net income attributable to owners of the parent			387,623					387,623		387,623
Cash dividends			(94,246)					(94,246)		(94,246)
Purchase of treasury stock				(33)				(33)		(33)
Disposal of treasury stock				148				148		148
Net change in the year					(885)	81,762	(115)	80,762		80,762
BALANCE, MARCH 31, 2022	<u>\$ 218,434</u>	<u>\$ 286,156</u>	<u>\$ 2,448,844</u>	<u>\$(10,205)</u>	<u>\$ 53,041</u>	<u>\$ 82,730</u>	<u>\$ 45,295</u>	<u>\$ 3,124,295</u>	<u>\$</u>	<u>\$ 3,124,295</u>

See notes to consolidated financial statements.

Shimadzu Corporation and Consolidated Subsidiaries

Consolidated Statement of Cash Flows Year Ended March 31, 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2022	2021	2022
OPERATING ACTIVITIES:			
Income before income taxes	¥ 65,947	¥ 49,818	\$ 540,549
Adjustments for:			
Income taxes paid	(16,721)	(10,071)	(137,057)
Depreciation and amortization	16,205	15,536	132,828
Impairment loss (Note 8)		148	
Loss on fire	550		4,508
Payments associated with loss on fire	(232)		(1,902)
Foreign exchange gain, net	(1,062)	(18)	(8,705)
Donation	949	2,273	7,779
Gain on sales and valuation of investment securities	(134)	(277)	(1,098)
Gain on transfer of investment securities	(813)	(1,464)	(6,664)
Gain on liquidation of investment securities	(3)		(25)
Loss on sale and retirement of property, plant and equipment	30	154	246
Changes in assets and liabilities:			
Increase in trade receivables	(221)	(5,445)	(1,811)
(Decrease) increase in allowance for doubtful receivables	(136)	242	(1,115)
(Increase) decrease in inventories	(5,253)	3,126	(43,057)
Increase (decrease) in trade payables	2,255	(93)	18,484
Increase in contract liabilities	1,428	4,286	11,705
Increase in accrued bonuses	96	1,929	787
(Decrease) increase in net defined benefit asset and liability	(134)	314	(1,098)
Other, net	617	3,343	5,056
Total adjustments	(2,579)	13,983	(21,139)
Net cash provided by operating activities	63,368	63,801	519,410
INVESTING ACTIVITIES:			
Proceeds from sale of property, plant and equipment	556	346	4,557
Purchases of property, plant and equipment	(10,131)	(13,312)	(83,041)
Purchases of investment securities	(348)	(34)	(2,852)
Proceeds from sales of investment securities	303	549	2,484
Proceeds from liquidation of investment securities	22		180
Payments of long-term loans receivable	(50)	(15)	(410)
Collections of long-term loans receivable	41	39	336
Other, net	3,562	(1,433)	29,197
Net cash used in investing activities	(6,045)	(13,860)	(49,549)
FINANCING ACTIVITIES:			
Net decrease in short-term borrowings		(430)	
Proceeds from long-term borrowings		280	
Repayments of long-term debt	(4,182)	(4,203)	(34,279)
Proceeds from issuance of commercial papers		10,000	
Redemption of commercial papers		(10,000)	
Cash dividends paid	(11,490)	(8,841)	(94,180)
Decrease in treasury stock	14	160	115
Net cash used in financing activities	(15,658)	(13,034)	(128,344)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	6,799	3,069	55,729
NET INCREASE IN CASH AND CASH EQUIVALENTS	48,464	39,976	397,246
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	106,855	66,683	875,861
INCREASE IN CASH AND CASH EQUIVALENTS RESULTING FROM MERGER WITH UNCONSOLIDATED SUBSIDIARIES		196	
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 155,319	¥ 106,855	\$ 1,273,107

See notes to consolidated financial statements.

Shimadzu Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements Year Ended March 31, 2022

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Shimadzu Corporation (the "Company") and its significant subsidiaries (collectively, the "Group") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRS").

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2021 consolidated financial statements to conform to the classifications used in 2022.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation – The consolidated financial statements as of March 31, 2022, include the accounts of the Company and its 23 domestic subsidiaries and 53 foreign subsidiaries. There were no changes in the number of domestic and foreign subsidiaries between 2021 and 2022. Consolidation of the remaining subsidiaries would not have a material effect on the accompanying consolidated financial statements.

Under the control concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

Investments in 1 associated company (none in 2021) are recorded using the equity method. AdvanSentinel Inc. was established as a joint venture and has been included as an equity method affiliate since the current fiscal year.

Investments in 4 (4 in 2021) unconsolidated subsidiaries and 4 (4 in 2021) associated companies are stated at cost. The effect on the consolidated financial statements of not applying the equity method is immaterial.

All significant intercompany balances and transactions have been eliminated during consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

Shimadzu (China) Co., Limited and 9 other subsidiaries have a closing date falling on December 31; however, these companies carry out provisional settlements of accounts on March 31 and use these amounts in consolidated accounts.

b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements – Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

c. Cash Equivalents – Cash equivalents are short-term investments that are readily convertible into cash exposed to insignificant risk of changes in value.

Cash equivalents include time deposits that mature or become due within three months of the date of acquisition.

d. Marketable and Investment Securities – Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: available-for-sale securities, which are not classified as either trading securities or held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable available-for-sale securities are stated at cost, determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. Inventories – Inventories are principally stated at the lower of cost, using the periodic average method, or net selling value.

f. Property, Plant and Equipment – Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment, lease assets, and right-of-use assets is computed by the straight-line method based on the estimated useful lives of the assets. The range of useful lives is principally 3 to 75 years for buildings and structures, 4 to 17 years for machinery, equipment and vehicles, and 2 to 15 years for tools, furniture and fixtures included in "Others" under "Property, plant and equipment." The useful lives for lease assets and right-of-use assets are the terms of the respective leases.

Accumulated depreciation as of March 31, 2022 and 2021, was ¥120,339 million (\$986,385 thousand) and ¥109,854 million, respectively.

g. Long-Lived Assets – The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

- h. Goodwill** – Goodwill is amortized using the straight-line method over estimated effective lives of up to 20 years, while immaterial amounts of goodwill are charged to income as incurred. Goodwill is included in the other assets among the investments and other assets section of the consolidated balance sheet.
- i. Software** – Software costs for internal use are capitalized and amortized by the straight-line method over estimated useful lives of 5 years.
- j. Provision for Loss on Order Received** – In order to estimate for future losses on order contracts, the estimated losses on order contracts at the end of the current consolidated fiscal year are estimated on an individual basis.
- k. Retirement and Pension Plans** – The Company and certain domestic subsidiaries have three types of retirement and pension plans covering most of their employees, a cash balance type defined benefit pension plan, a lump-sum severance payment plan, and a defined contribution plan or an advance payment system. Under the defined contribution plan or advance payment system, employees can adopt whichever they consider more preferable. Other domestic subsidiaries have defined benefit pension plans and lump-sum severance payment plans. Certain foreign subsidiaries have non-contributory funded pension plans.

Certain consolidated subsidiaries have adopted a simplified method of calculation with liability for retirement benefits and retirement benefits expense. Under this simplified method, the retirement benefit obligation for employees is stated at the amount which would be required to be paid if all eligible employees voluntarily retired at the balance sheet date.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss over 15 years no longer than the expected average remaining service period of the employees.

The Company has an employee retirement benefit trust for payments of retirement benefits. The securities that were contributed to and held in this trust qualify as plan assets.

The domestic subsidiaries also have a retirement plan for directors and Audit & Supervisory Board members. The Group provides a liability for the amount that would be required if all directors and Audit & Supervisory Board members retired at the end of each financial period. The accrued provisions are not funded and any amounts payable upon retirement are included in other long-term liabilities as of March 31, 2022 and 2021.

- l. Asset Retirement Obligations** – An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset, and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

- m. Research and Development Costs** – Research and development costs are charged to cost of sales and selling, general and administrative expenses as incurred.
- n. Allowance for Doubtful Receivables** – The allowance for doubtful receivables is stated in the amount considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.
- o. Leases** – Finance lease transactions are capitalized to recognize lease assets and lease obligations in the balance sheet.
- p. Transactions Related to the Board Incentive Plan Trust** – Based on the resolution at the general meeting of shareholders held on June 28, 2017, the Company introduced the "Board Incentive Plan Trust" (the "Plan") as a performance-based stock remuneration plan for directors and titled corporate officers of the Company (excluding corporate officers who are non-residents of Japan). Accounting treatments related to the trust are in accordance with "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (PITF No. 30, March 26, 2015).

The Plan is a stock remuneration plan, wherein a trust established by the Company (Board Incentive Plan Trust) acquires the Company shares using the cash contributed by the Company and through this trust, the Company shares and money equivalent to the amount obtained by converting the Company shares into cash, corresponding to the points granted based on the degree of achievement of business performance each fiscal year and according to the individual position of the recipient, are delivered and paid to directors.

The shares of the Company remaining in the trust are recorded as treasury stock under equity based on the book value (excluding incidental costs) in the trust. As of March 31, 2022, the Company's treasury stock consisted of 164,230 shares with a total book value of ¥337 million (\$2,762 thousand), compared with 173,426 shares and a total book value of ¥356 million as of March 31, 2021.

In addition, the estimated amount of the aforementioned directors' remuneration allotted at the end of the current fiscal year was recorded as provision for stock payment in "Accrued expenses and other current liabilities" under "Current liabilities," and "Other long-term liabilities" under "Long-term liabilities."

- q. Bonuses to Directors and Titled Corporate Officers** – Bonuses to directors and titled corporate officers are accrued at the year-end to which such bonuses are attributable. The estimated amount of the aforementioned bonuses to directors and titled corporate officers was recorded as provision for bonuses to directors and titled corporate officers in "Accrued expenses and other current liabilities" under "Current liabilities."
- r. Income Taxes** – The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

The Group files a tax return under the consolidated corporate tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

The Company and domestic subsidiaries will switch from the consolidated corporate tax system to the group tax sharing system from the following fiscal year. However, the transition to the group tax sharing system, which has been established by the "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 8 of 2020), and the items under the nonconsolidated corporate tax system that has been reviewed in conjunction with the transition to the group tax sharing system, the provisions of Paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28 of February 16, 2018) are not applied, as permitted by Paragraph 3 of the "Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No. 39 of March 31, 2020). As a result, the amounts of deferred tax assets and deferred tax liabilities are based on the provisions of the tax laws before the amendment.

From the beginning of the following consolidated fiscal year, the Company plans to apply the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (Practical Solution No. 42, August 12, 2021), which specifies the accounting treatment and disclosures of corporation tax, local corporation tax and tax effect accounting under the group tax sharing system.

- s. **Appropriations of Retained Earnings** – Appropriations of retained earnings are reflected in the consolidated financial statements for the following year upon shareholders' approval.
- t. **Revenue Recognition** – Based on the following five-step approach, the Group recognizes revenue from contracts with customers, in the amount of consideration it expects to receive, in exchange for the promised goods or services when the control of those goods or services is transferred to the customers.

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

In recognizing revenue, the Group identifies performance obligations based on contracts with customers for the sales of products, services and other sales in its core business of measuring instruments, medical equipment, aeronautical equipment and industrial equipment, and generally recognizes revenue at the following times when the performance obligations are satisfied:

(1) Revenue from Sales of Products

With respect to the sales transaction where the Group is responsible for providing products and installation services, revenue is recognized upon completion of product installation services.

With respect to the sales transaction where the Group is not responsible for providing products and installation services, revenue is recognized upon delivery of products, when customers obtain control of the products and the Group satisfies performance obligations.

With respect to the sales transaction where the Company and its domestic subsidiaries are not responsible for providing products and installation services, revenue is recognized at the time of shipment if the period from the time of shipment to the time when control of the product is transferred to the customer is an ordinary period.

(2) Revenue from Services and Other Sales

Revenue from services and other sales mainly includes revenues from warranty, repair, maintenance and relocation activities related to products. Revenues is recognized either at the time the service is completed if the performance obligations are satisfied at a point in time, or based on either a straight-line basis or the progress over the service period if performance obligations are satisfied over time.

- u. Foreign Currency Transactions** – All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income in the period in which they occur.
- v. Foreign Currency Financial Statements** – The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date, except for equity, which is translated at the historical exchange rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" in accumulated other comprehensive income as a separate component of equity. Revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate.
- w. Derivatives** – The Group uses derivative financial instruments to manage their exposures to fluctuations in foreign currency exchange rates. Foreign exchange forward contracts are utilized by the Group to reduce foreign currency exchange rate risk. The Group does not enter derivatives for trading or speculative purposes.

Foreign currency forward contracts are measured at fair value and the unrealized gains/losses are recognized in income.

- x. Per-Share Information** – Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share is not presented as there are not any dilutive securities outstanding.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

y. Changes in Presentation

Application of Accounting Standard for Revenue Recognition – Since the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), etc. has been applied from the beginning of the current consolidated fiscal year, the notes to "Revenue Recognition" have been changed to include: information on the breakdown of revenue arising from contracts with customers, information that serves as the basis for understanding revenue arising from contracts with customers: the relationship between satisfaction of performance obligations under contracts with customers and cash flows arising from such contracts, and information on the amount and timing of revenue expected to be recognized in the following consolidated fiscal year or later from contracts with customer existing at the end of the current consolidated fiscal year.

In accordance with the transitional treatment set forth in "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), Paragraph 89, Paragraph 4, information on the breakdown of revenue generated from contracts with customers for the previous consolidated fiscal year, the relationship between the fulfillment of performance obligations under contracts with customers and the cash flow generated from such contracts, and the amount and timing of revenue expected to be recognized in the following consolidated fiscal year from contracts with customer existing at the end of the current consolidated fiscal year are not stated.

z. Changes in Accounting Policies

Application of "Accounting Standard for Calculation of Market Value" – The Group has adopted the "Accounting Standard for Calculation of Market Value" (ASBJ Statement No. 30, July 4, 2019. Hereinafter referred to as "Current Value Accounting Standard."), etc. from the beginning of the current consolidated fiscal year and has decided to apply the new accounting policy stipulated in the Accounting Standard for Calculation of Market Value, etc. into the future in accordance with the transitional treatment stipulated in Paragraph 19 of the Accounting Standard for Calculation of Market Value and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). The impact of this change on the consolidated financial statements for the current fiscal year is immaterial.

In addition, in Note 18, "Financial Instruments and Related Disclosures," matters concerning the breakdown of the market value of financial instruments by level, etc. are noted. However, in accordance with the transitional treatment set forth in "Guidance on Disclosure of Fair Value of Financial Instruments" (ASBJ Guidance No. 19, July 4, 2019), Paragraph 7, Paragraph 4, Note 18 does not include information pertaining to the previous consolidated fiscal year are not stated.

a-a. New Accounting Pronouncements

Application of Guidance on Accounting Standard for Calculation of Fair Value – On June 17, 2021, ASBJ issued ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement."

(1) Overview

The June 17, 2021 revision of the "Guidance on the Application of Accounting Standards for the Calculation of Market Value" (ASBJ Guidance No. 31) is a revision of the guidance that was originally announced on of July 4, 2019, which was announced early in consideration that a certain period of time was required for discussions with relevant parties, etc. in regard to the "calculation of the market value of investment trusts," and for the footnotes on the market value of "equity investments in partnerships, etc., whose equity equivalents are recorded in the balance sheet at a net amount."

(2) Expected date of application

Effective at the beginning of the fiscal year ending March 2023.

(3) Effect of the application of the accounting standards, etc.

The impact of the adoption of the "Guidance on Accounting Standard for Calculation of Fair Value" (ASBJ Guidance No. 31) on the consolidated financial statements is immaterial.

a-b. Additional Information

(1) Application of Accounting Standard for Revenue Recognition

Since the Company and its domestic subsidiaries have adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018), etc. from the beginning of the previous fiscal year, the adoption of "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the current fiscal year has no impact on the consolidated balance sheets, consolidated statements of income, etc.

3. SIGNIFICANT ACCOUNTING ESTIMATES

(1) Impairment Loss of Assets of the Group

(a) Carrying amounts

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Property, plant and equipment	¥104,430	¥102,393	\$855,983
Intangible assets	11,151	11,615	91,402

(b) Information on the significant accounting estimate

In order to identify indications of impairment loss and to perform recoverability test, business assets are generally grouped by business segment for management accounting, and the Group makes a determination based on the estimated future cash flows of each business unit. Idle assets are grouped by individual property and the recoverable amount is measured by the net selling price. The Group believes that the estimation of future cash flows and recoverable amounts is reasonable. However, if future cash flows and recoverable amounts decrease due to deviations from future business plans, changes in market conditions and demand, etc., an impairment loss may occur, which may have a significant impact on profit or loss.

(2) Valuation of Retirement Benefit Obligations and Costs

(a) Carrying amounts

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Net defined benefit asset	¥20,666	¥19,176	\$169,393
Net defined benefit liability	12,994	11,342	106,508

(b) Information on the significant accounting estimate

The calculation of retirement benefit costs and retirement benefit obligations for employees is based on actuarial assumptions. Assumptions include the discount rate, expected rate of salary increase, retirement rate, mortality rate and expected long-term rate of return on plan assets. The actuarial assumptions used by the Group are considered reasonable. However, differences between the assumptions and actual results, and changes in the assumptions themselves may affect the future periodic benefit costs, benefit obligations and the required contributions to the plan, which may have a material impact on earnings and financial position.

(3) Recoverability of Deferred Tax Assets

(a) Carrying amounts

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Deferred tax assets	¥12,606	¥11,498	\$103,328

(b) Information on the significant accounting estimate

The Group has established a valuation allowance for deferred tax assets deemed to be unrecoverable. The recoverability of the deferred tax assets is evaluated by determining whether each entity has sufficient taxable income that is measured based on the historical taxable income and estimates of future taxable income. If deteriorations in the market environment or business performance occur, then the estimated future taxable income may not be accurate, which may cause the Group to record an additional valuation allowance for the deferred tax assets and cause a material impact on the Group's profit or loss.

4. U.S. DOLLAR AMOUNTS

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥122 to \$1, the approximate rate of exchange as of March 31, 2022. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

5. NOTES AND ACCOUNTS RECEIVABLE – TRADE, AND CONTRACT ASSETS

Notes and accounts receivable – trade, and contract assets as of March 31, 2022, consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
	<u>2022</u>	<u>2022</u>
Notes receivable - trade	¥ 28,665	\$ 234,959
Accounts receivable - trade	92,819	760,811
Contract assets	447	3,664

6. INVESTMENT SECURITIES

Investment securities as of March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Non-current:			
Marketable equity securities	¥ 11,913	¥ 12,372	\$ 97,648
Non-marketable equity securities	<u>702</u>	<u>611</u>	<u>5,754</u>
Total	<u>¥ 12,615</u>	<u>¥ 12,983</u>	<u>\$ 103,402</u>

The cost and aggregate fair values of investment securities as of March 31, 2022 and 2021, were as follows:

	Millions of Yen			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
<u>March 31, 2022</u>				
Securities classified as:				
Available-for-sale equity securities	¥ 2,662	¥ 9,253	¥ (2)	¥ 11,913
<u>March 31, 2021</u>				
Securities classified as:				
Available-for-sale equity securities	¥ 2,934	¥ 9,438	¥ (1)	¥ 12,371

	Thousands of U.S. Dollars			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
<u>March 31, 2022</u>				
Securities classified as:				
Available-for-sale equity securities	\$ 21,820	\$ 75,844	\$(16)	\$ 97,648

The proceeds, realized gains and realized losses of the available-for-sale securities which were sold during the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen	
	Proceeds	Realized Gains
<u>March 31, 2022</u>		
Available-for-sale:		
Equity securities	¥ 305	¥ 147

	Millions of Yen	
	Proceeds	Realized Gains
<u>March 31, 2021</u>		
Available-for-sale:		
Equity securities	¥ 549	¥ 339

	Thousands of U.S. Dollars	
	Proceeds	Realized Gains
<u>March 31, 2022</u>		
Available-for-sale:		
Equity securities	\$ 2,500	\$ 1,205

In addition to the sales of available-for-sale securities mentioned above, investment securities held by the Company were donated to the Shimadzu Gakuen for the year ended March 31, 2022 and Shimadzu Science Foundation for the year ended March 31, 2021. Details are described in Note 14.

7. INVENTORIES

Inventories as of March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2022	2021	2022
Merchandise and finished goods	¥ 61,387	¥ 59,117	\$ 503,172
Work in process	20,778	18,383	170,311
Raw materials and supplies	24,484	20,151	200,689
Total	<u>¥ 106,649</u>	<u>¥ 97,651</u>	<u>\$ 874,172</u>

8. LONG-LIVED ASSETS

No impairment loss was recognized for the year ended March 31, 2022.

The Group recognized impairment loss for the year ended March 31, 2021, as follows:

March 31, 2021

<u>Location</u>	<u>Usage</u>	<u>Description</u>	<u>Millions of Yen</u>
California, USA	Idle assets	Machinery, equipment and vehicles	¥ 148

Idle assets are generally grouped by individual property. The Group has recognized impairment losses on idle assets due to reduced availability and no prospect for future use. The carrying amounts of those assets were written down to their recoverable amounts. The recoverable amount of those assets was measured at its net selling price.

9. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings primarily consisted of bank overdrafts and financing agreements with banks, which are renewable on an annual basis and bear interest at annual rates ranging from 0.37% to 0.44% and from 0.37% to 0.43%, as of March 31, 2022 and 2021, respectively.

Long-term debt as of March 31, 2022 and 2021, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Borrowings, principally from banks, due serially to 2026 with interest rates ranging from 0.65% to 2.20% as of March 31, 2022 (from 0.00% to 2.20%, due serially to 2024 as of March 31, 2021)	¥ 283	¥ 316	\$ 2,320
Obligations under finance leases	9,882	8,513	81,000
Total	10,165	8,829	83,320
Less current portion	(3,536)	(3,602)	(28,983)
Long-term debt, less current portion	<u>¥ 6,629</u>	<u>¥ 5,227</u>	<u>\$ 54,337</u>

Annual maturities of long-term debt outstanding as of March 31, 2022 were as follows:

<u>Year Ending March 31</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
2023	¥ 3,536	\$ 28,983
2024	2,990	24,509
2025	1,478	12,115
2026	883	7,238
2027	576	4,721
2028 and thereafter	<u>702</u>	<u>5,754</u>
Total	<u>¥ 10,165</u>	<u>\$ 83,320</u>

10. RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have severance payment plans for employees. In addition, consolidated domestic subsidiaries have severance payment plans for directors and Audit & Supervisory Board members. Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the basic rate of pay at the time of termination, years of service, and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated domestic subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age or certain other conditions.

The liability for retirement benefits as of March 31, 2022 and 2021, for directors and Audit & Supervisory Board members is ¥144 million (\$1,184 thousand) and ¥132 million and includes in "Other long-term liabilities" under "Long-term liabilities," respectively. The retirement benefits for directors and Audit & Supervisory Board members are paid subject to the approval of the shareholders of each subsidiary.

- (1) The changes in defined benefit obligation for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Balance at beginning of year	¥ 56,951	¥ 54,742	\$ 466,811
Current service cost	2,430	2,352	19,918
Interest cost	702	680	5,754
Actuarial losses	634	1,052	5,197
Benefits paid	(2,683)	(2,815)	(21,992)
Others	<u>719</u>	<u>940</u>	<u>5,894</u>
Balance at end of year	<u>¥ 58,753</u>	<u>¥ 56,951</u>	<u>\$ 481,582</u>

- (2) The changes in plan assets for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Balance at beginning of year	¥ 68,484	¥ 55,882	\$ 561,344
Expected return on plan assets	1,147	1,215	9,402
Actuarial gains	624	11,437	5,115
Contributions from the employer	2,205	1,480	18,074
Benefits paid	(2,400)	(2,209)	(19,672)
Others	<u>346</u>	<u>679</u>	<u>2,835</u>
Balance at end of year	<u>¥ 70,406</u>	<u>¥ 68,484</u>	<u>\$ 577,098</u>

- (3) The changes in defined benefit liability and defined benefit assets for the plans to which the simplified method was applied for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Balance at beginning of year	¥3,701	¥3,427	\$ 30,336
Net periodic benefit costs	918	886	7,525
Benefits paid	(296)	(299)	(2,426)
Contributions from the employer	(341)	(315)	(2,796)
Others		2	
	<u> </u>	<u> </u>	<u> </u>
Balance at end of year	<u>¥3,982</u>	<u>¥3,701</u>	<u>\$ 32,639</u>

In the above, defined benefit liability and defined benefit assets have been offset.

- (4) A reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Funded defined benefit obligation	¥ 63,417	¥ 61,467	\$ 519,811
Plan assets	<u>(73,206)</u>	<u>(71,263)</u>	<u>(600,049)</u>
	(9,789)	(9,796)	(80,238)
Unfunded defined benefit obligation	<u>2,117</u>	<u>1,962</u>	<u>17,353</u>
Net liability arising from defined benefit obligation	<u>¥ (7,672)</u>	<u>¥ (7,834)</u>	<u>\$ (62,885)</u>
Liability for retirement benefits	¥ 12,994	¥ 11,342	\$ 106,508
Asset for retirement benefits	<u>(20,666)</u>	<u>(19,176)</u>	<u>(169,393)</u>
Net liability arising from defined benefit obligation	<u>¥ (7,672)</u>	<u>¥ (7,834)</u>	<u>\$ (62,885)</u>

- (5) The components of net periodic benefit costs for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Service cost	¥ 2,430	¥ 2,352	\$ 19,918
Interest cost	702	680	5,754
Expected return on plan assets	(1,147)	(1,215)	(9,402)
Recognized actuarial losses	198	424	1,623
Amortization of prior service cost	(165)	(236)	(1,352)
Others	<u>918</u>	<u>886</u>	<u>7,525</u>
Net periodic benefit costs	<u>¥ 2,936</u>	<u>¥ 2,891</u>	<u>\$ 24,066</u>

- (6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2022 and 2021:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Prior service cost	¥(160)	¥ (225)	\$(1,311)
Actuarial losses	<u>71</u>	<u>10,601</u>	<u>581</u>
Total	<u>¥ (89)</u>	<u>¥ 10,376</u>	<u>\$ (730)</u>

- (7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2022 and 2021:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Unrecognized prior service cost	¥ (9)	¥ 151	\$ (74)
Unrecognized actuarial losses (gains)	<u>8,108</u>	<u>8,037</u>	<u>66,459</u>
Total	<u>¥ 8,099</u>	<u>¥ 8,188</u>	<u>\$ 66,385</u>

- (8) Plan assets

a. *Components of plan assets*

Plan assets as of March 31, 2022 and 2021, consisted of the following:

	<u>2022</u>	<u>2021</u>
Equity investments	48%	60%
Debt investments	33	23
General account asset	14	14
Others	<u>5</u>	<u>3</u>
Total	<u>100%</u>	<u>100%</u>

b. *Method of determining the expected rate of return on plan assets*

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

- (9) Assumptions used for the years ended March 31, 2022 and 2021, were set forth as follows:

	<u>2022</u>	<u>2021</u>
Discount rate	1.0%	1.0%
Expected rate of return on plan assets	1.5%	1.5%

The expected compensation increase rate for the years ended March 31, 2021 and 2020, is based on the age-specific compensation increase index as of March 31, 2020.

- (10) Defined contribution pension plans

The Company and certain domestic and overseas subsidiaries paid costs for defined contribution pension plans of ¥770 million (\$6,311 thousand) and ¥576 million, respectively, for the years ended March 31, 2022 and 2021.

11. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders.

b. Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

12. REVENUE RECOGNITION

(1) Disaggregation of Revenue

Revenues from contracts with customers on a disaggregated basis for the year ended March 31, 2022, were as follows:

	Millions of Yen						
	2022						
	Reportable Segment						
	Analytical and Measuring Instruments	Medical Systems and Equipment	Industrial Machinery	Aircraft Equipment	Total	Other	Total
Japan	¥ 113,632	¥ 37,970	¥ 26,624	¥ 18,214	¥ 196,440	¥ 4,725	¥ 201,165
U.S.A.	28,956	8,000	7,837	3,729	48,522		48,522
Europe	28,561	3,482	3,075	180	35,298		35,298
China	63,248	4,675	13,536	10	81,469		81,469
Other Asian Countries	31,283	6,230	5,532	63	43,108	2	43,110
Other	11,836	6,537	133	105	18,611		18,611
Total	¥ 277,516	¥ 66,894	¥ 56,737	¥ 22,301	¥ 423,448	¥ 4,727	¥ 428,175

	Thousands of U.S. Dollars						
	2022						
	Reportable Segment						
	Analytical and Measuring Instruments	Medical Systems and Equipment	Industrial Machinery	Aircraft Equipment	Total	Other	Total
Japan	\$ 931,410	\$ 311,229	\$ 218,229	\$ 149,295	\$ 1,610,163	\$ 38,730	\$ 1,648,893
U.S.A.	237,344	65,574	64,238	30,566	397,722		397,722
Europe	234,107	28,541	25,205	1,475	289,328		289,328
China	518,426	38,320	110,951	82	667,779		667,779
Other Asian Countries	256,418	51,066	45,344	516	353,344	17	353,361
Other	97,016	53,581	1,090	861	152,548		152,548
Total	\$ 2,274,721	\$ 548,311	\$ 465,057	\$ 182,795	\$ 3,470,884	\$ 38,747	\$ 3,509,631

(2) Basic Information to Understand Revenues from Contracts with Customers

The Group's business consists of the Analytical and Measuring Instruments Business, Medical Systems and Equipment Business, Industrial Machinery Business, Aircraft Equipment Business, and Other Business. All of the businesses engage in the sale of products and provision of services.

Information on contracts and performance obligations, as well as information on the point at which performance obligations are satisfied, are described in Note 2, "Summary of Significant Accounting Policies - t. Revenue Recognition."

Revenue from the sale of products and the provision of services is measured at the transaction price of the contract with the customer less variable compensation such as discounts. In the Medical Systems and Equipment Business, revenue is recognized on a net basis if the Group acts as an agent to provide goods or services to customers.

Consideration for the transaction is received mainly within one year after the fulfillment of the performance obligation and does not include significant financial factors.

(3) Contract Balances

Receivables from contract with customers, contract assets and contract liabilities at the beginning and end of the year are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	<u>2022</u>	<u>2022</u>
Receivables from contracts with customers:		
Balance at beginning of year	¥ 116,564	\$ 955,443
Balance at end of year	121,484	995,770
Contract assets:		
Balance at beginning of year	1,293	10,598
Balance at end of year	447	3,664
Contract liabilities:		
Balance at beginning of year	35,696	292,590
Balance at end of year	40,348	330,721

The contract assets primarily relate to the Group's rights to consideration for performance obligation transferred but not billed at the reporting date. The contract assets are transferred to receivables when the rights for the payments become unconditional.

The contract liabilities primarily relate to the consideration received from customers in advance of satisfaction of performance obligation. The contract liabilities are reclassified to revenue when the Group satisfies a performance obligation based on the contract.

Of the revenues recognized in the consolidated statement of income for the year ended March 31, 2022, ¥27,924 million (\$228,885 thousand) was included in the balance of contract liabilities on April 1, 2021.

(4) Transaction Prices Allocated to Remaining Performance Obligations

The following table shows the summary of the transaction prices allocated to remaining performance obligations that are unsatisfied as of March 31, 2022:

	Millions of Yen	Thousands of U.S. Dollars
	<u>2022</u>	<u>2022</u>
Within one year	¥ 129,986	\$ 1,065,459
After one year	<u>25,028</u>	<u>205,148</u>
Total	<u>¥ 155,014</u>	<u>\$ 1,270,607</u>

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to cost of sales and selling, general and administrative expenses were ¥10,279 million (\$84,254 thousand) and ¥10,156 million for the years ended March 31, 2022 and 2021, respectively.

14. DONATION AND GAIN ON TRANSFER OF INVESTMENT SECURITIES

The Group recognized donation and gain on transfer of investment securities for the year ended March 31, 2022, in relation to the donation of the investment securities to Shimadzu Gakuen. At the time of the transfer, the market value of the investment securities was ¥949 million (\$7,778 thousand), which was recorded as donation in other income (expenses). The difference between the book value and the market value of ¥813 million (\$6,664 thousand) was recorded as a gain on the transfer of investment securities also in other income (expenses).

The Group recognized donation and gain on transfer of investment securities for the year ended March 31, 2021 in relation to the donation of the investment securities to Shimadzu Science Foundation. At the time of the transfer, the market value of the investment securities was ¥2,273 million, which was recorded as donation in other income (expenses). The difference between the book value and the market value of ¥1,464 million was recorded as a gain on the transfer of investment securities also in other income (expenses).

15. LOSS ON FIRE

The loss due to the fire accident that occurred at Shimadzu USA Manufacturing Inc. in September 2021 is recorded. The proceeds from the insurance for the loss due to the fire accident is expected to be received. but is not recorded because the amount has not been determined.

16. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.5% for the years ended March 31, 2022 and 2021, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Deferred tax assets:			
Unrealized profit eliminated from inventories	¥ 4,472	¥ 4,073	\$ 36,656
Liability for retirement benefits	3,869	3,740	31,713
Accrued bonuses	3,184	3,070	26,098
Depreciation	2,269	2,422	18,598
Loss on devaluation of inventories	1,420	1,255	11,639
Enterprise taxes	661	518	5,418
Allowance for doubtful receivables	381	379	3,123
Tax loss carryforwards	293	266	2,402
Loss on impairment of long-lived assets	136	275	1,115
Other	3,729	3,474	30,566
Total	<u>20,414</u>	<u>19,472</u>	<u>167,328</u>
Less valuation allowance	<u>(736)</u>	<u>(812)</u>	<u>(6,033)</u>
Total deferred tax assets	<u>¥ 19,678</u>	<u>¥ 18,660</u>	<u>\$ 161,295</u>
Deferred tax liabilities:			
Gain on securities contributed to employee retirement benefit trust	¥ 3,745	¥ 3,745	\$ 30,697
Unrealized gain on available-for-sale securities	2,780	2,857	22,787
Other	689	718	5,647
Total deferred tax liabilities	<u>¥ 7,214</u>	<u>¥ 7,320</u>	<u>\$ 59,131</u>
Net deferred tax assets	<u>¥ 12,606</u>	<u>¥ 11,498</u>	<u>\$ 103,328</u>
Net deferred tax liabilities (included in other long-term liabilities)	<u>¥ 142</u>	<u>¥ 158</u>	<u>\$ 1,164</u>

The above net deferred tax assets and liabilities represent the aggregate amounts of each individual taxpayer's net deferred tax assets or liabilities.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2022, with the corresponding figures for the year ended March 31, 2021, is as follows:

	<u>2022</u>	<u>2021</u>
Normal effective statutory tax rate	30.5%	30.5%
Expenses not permanently deductible for income tax purposes	0.5	1.2
Per capita inhabitant tax	0.2	0.2
Valuation allowance	(0.1)	0.0
Difference in subsidiaries' tax rates	(0.8)	(1.1)
Tax credit for research and development costs	(2.5)	(3.5)
Other, net	<u>0.5</u>	<u>0.2</u>
Actual effective tax rate	<u>28.3%</u>	<u>27.5%</u>

17. LEASES

LESSEE

The Group leases certain office space, computer equipment and other assets.

Total rental expenses for the years ended March 31, 2022 and 2021, were ¥5,523 million (\$45,270 thousand) and ¥5,352 million, respectively. Future minimum payments under noncancelable operating leases as of March 31, 2022 and 2021, were as follows:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Due within one year	¥ 92	¥ 52	\$ 754
Due after one year	<u>159</u>	<u>102</u>	<u>1,303</u>
Total	<u>¥251</u>	<u>¥154</u>	<u>\$2,057</u>

(Note) Lease transactions recorded on consolidated balance sheet under IFRS 16 and Topic 842 issued by the Financial Accounting Standards Board are not included in above information.

LESSOR

Future lease income under noncancelable operating leases as of March 31, 2022 and 2021 was as follows:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Due within one year	¥20	¥42	\$ 163
Due after one year	<u>28</u>	<u>44</u>	<u>230</u>
Total	<u>¥48</u>	<u>¥86</u>	<u>\$ 393</u>

18. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group uses financial instruments such as loans from banks, bonds, and commercial paper. Cash surpluses, if any, are invested in low-risk financial assets such as deposits. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) Nature and Extent of Risks Arising from Financial Instruments and Risk Management for Financial Instruments

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Such customer credit risk is managed by administering the term and balance according to the Group's policies and by monitoring indications of deterioration of the financial condition of customers. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the position is hedged by using forward foreign currency contracts. Investment securities, mainly equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations. The risk is managed by monitoring market values and financial positions of issuers on a regular basis.

Payment terms of payables, such as trade notes and trade accounts, are generally less than one year. Although payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are netted against the balance of receivables denominated in the same foreign currencies as noted above.

Short-term loans and commercial paper are mainly used for operating activities, and long-term loans and bonds are mainly used for investment in property, plant and equipment. A part of such loans is exposed to market risks of interest rate fluctuation. Although payables and loans are exposed to liquidity risk, such risk is managed by making monthly cash flow plans.

Please see Note 19 about derivatives.

(3) Fair Values of Financial Instruments

Fair values of financial instruments are included in the following tables. Investments in equity instruments that do not have a quoted market price in an active market and investment in investment partnerships are not included in the following table. The fair values of cash and cash equivalents, time deposits, trade notes and accounts payable and short-term borrowings are not disclosed because their maturities are short and the carrying values approximate fair value.

(a) Fair value of financial instruments

	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gains (Losses)
<u>March 31, 2022</u>			
Notes and accounts receivable – trade, and contract assets	¥ 121,931	¥ 121,799	¥ (132)
Investment securities	<u>11,913</u>	<u>11,913</u>	<u>—</u>
Total	<u>¥ 133,844</u>	<u>¥ 133,712</u>	<u>¥ (132)</u>
Derivatives	¥ (543)	¥ (543)	

	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gains (Losses)
<u>March 31, 2021</u>			
Notes and accounts receivable – trade, and contract assets	¥ 117,857	¥ 117,733	¥ (124)
Investment securities	<u>12,372</u>	<u>12,372</u>	<u>—</u>
Total	<u>¥ 130,229</u>	<u>¥ 130,105</u>	<u>¥ (124)</u>
Derivatives	¥ (418)	¥ (418)	

	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gains (Losses)
<u>March 31, 2022</u>			
Notes and accounts receivable – trade, and contract assets	\$ 999,434	\$ 998,352	\$(1,082)
Investment securities	<u>97,648</u>	<u>97,648</u>	<u>—</u>
Total	<u>\$ 1,097,082</u>	<u>\$ 1,096,000</u>	<u>\$(1,082)</u>
Derivatives	\$(4,451)	\$(4,451)	

- (b) Carrying amount of investments in equity instruments that do not have a quoted market price in an active market

	Millions of Yen		Thousands of U.S. Dollars
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Investments in equity instruments that do not have a quoted market price in an active market	¥ 614	¥ 521	\$ 5,033
Stocks of unconsolidated subsidiaries and associated companies	<u>881</u>	<u>680</u>	<u>7,221</u>
Total	<u>¥1,495</u>	<u>¥1,201</u>	<u>\$ 12,254</u>

- (c) Carrying amount of investment in investment partnerships

	Millions of Yen		Thousands of U.S. Dollars
	<u>2022</u>	<u>2021</u>	<u>2022</u>
Investment in investment partnerships	¥88	¥90	\$ 721
Total	<u>¥88</u>	<u>¥90</u>	<u>\$ 721</u>

(4) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of Yen		Thousands of U.S. Dollars	
	Due in 1 Year or Less	Due after 1 Year	Due in 1 Year or Less	Due after 1 Year
<u>March 31, 2022</u>				
Cash and cash equivalents	¥ 155,319		\$ 1,273,107	
Time deposits	2,647		21,697	
Notes and accounts receivable – trade, and contract assets	<u>121,660</u>	<u>¥ 271</u>	<u>997,212</u>	<u>\$ 2,221</u>
Total	<u>¥ 279,626</u>	<u>¥ 271</u>	<u>\$ 2,292,016</u>	<u>\$ 2,221</u>

Please see Note 9 for annual maturities of long-term debt.

Financial Instruments Categorized by Fair Value Hierarchy

The fair value of financial instruments is categorized into the following three levels, depending on the observability and significance of the inputs used in making fair value measurements:

Level 1: Fair values measured by using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair values measured by using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3: Fair values measured by using unobservable inputs for the assets or liabilities.

If multiple inputs are used that have a significant impact on the measurement of fair value, fair value is categorized at the lowest level in the fair value measurement among the levels to which each of these inputs belongs.

(1) The financial assets and liabilities measured at the fair values in the consolidated balance sheet

<u>March 31, 2022</u>	Millions of Yen			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Investment securities:				
Available-for-sale securities:				
Stock	<u>¥ 11,913</u>	_____	_____	<u>¥ 11,913</u>
Total assets	<u>¥ 11,913</u>	=====	=====	<u>¥ 11,913</u>
Derivative transactions:				
Forward exchange contracts	_____	<u>¥ 543</u>	_____	<u>¥ 543</u>
Total liabilities	=====	<u>¥ 543</u>	=====	<u>¥ 543</u>

<u>March 31, 2022</u>	Thousands of U.S. Dollars			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment securities:				
Available-for-sale securities:				
Stock	<u>\$97,648</u>	<u> </u>	<u> </u>	<u>\$97,648</u>
Total assets	<u>\$97,648</u>	<u> </u>	<u> </u>	<u>\$97,648</u>
Derivative transactions:				
Forward exchange contracts	<u> </u>	<u>\$4,451</u>	<u> </u>	<u>\$ 4,451</u>
Total liabilities	<u> </u>	<u>\$4,451</u>	<u> </u>	<u>\$ 4,451</u>

- (2) The financial assets and liabilities not measured at the fair values in the consolidated balance sheet

<u>March 31, 2022</u>	Millions of Yen			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Notes and accounts receivable – trade, and contract assets	<u> </u>	<u>¥ 121,799</u>	<u> </u>	<u>¥ 121,799</u>
Total assets	<u> </u>	<u>¥ 121,799</u>	<u> </u>	<u>¥ 121,799</u>

<u>March 31, 2022</u>	Thousands of U.S. Dollars			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Notes and accounts receivable – trade, and contract assets	<u> </u>	<u>\$ 998,352</u>	<u> </u>	<u>\$ 998,352</u>
Total assets	<u> </u>	<u>\$ 998,352</u>	<u> </u>	<u>\$ 998,352</u>

The following is a description of valuation methodologies and inputs used for measurement of the fair value of assets and liabilities:

Investment Securities

The fair values of listed equity securities are measured at the quoted market prices. Since listed equity securities are traded in active markets, the fair values of listed equity securities are categorized as Level 1.

Derivatives

The fair value of forward exchange contracts is estimated based on quotes from financial institutions, and is categorized as Level 2.

Notes and Accounts Receivable – Trade, and Contract Assets

The fair values of trade receivables are measured at the amount to be received at maturity discounted at the Group-assumed corporate discount rate, and are categorized as Level 2.

20. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2022 and 2021, were as follows:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2022</u>	<u>2021</u>	<u>U.S. Dollars</u>
			<u>2022</u>
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥ 776	¥ 4,454	\$ 6,361
Reclassification adjustments to profit or loss	(960)	(1,802)	(7,869)
Amount before income tax effect	(184)	2,652	(1,508)
Income tax effect	76	(831)	623
Total	<u>¥ (108)</u>	<u>¥ 1,821</u>	<u>\$ (885)</u>
Foreign currency translation adjustments:			
Adjustments arising during the year	¥9,975	¥ 5,977	\$ 81,762
Total	<u>¥9,975</u>	<u>¥ 5,977</u>	<u>\$ 81,762</u>
Defined retirement benefit plans:			
Adjustments arising during the year	¥ (162)	¥ 10,194	\$ (1,328)
Reclassification adjustments to profit or loss	73	181	598
Amount before income tax effect	(89)	10,375	(730)
Income tax effect	75	(3,288)	615
Total	<u>¥ (14)</u>	<u>¥ 7,087</u>	<u>\$ (115)</u>
Total other comprehensive income	<u>¥9,853</u>	<u>¥ 14,885</u>	<u>\$ 80,762</u>

21. NET INCOME PER SHARE

Basic net income per share ("EPS") for the years ended March 31, 2022 and 2021, were as follows:

	<u>Millions of</u>	<u>Thousands</u>	<u>Yen</u>	<u>U.S.</u>
	<u>Yen</u>	<u>of Shares</u>		<u>Dollars</u>
	<u>Net</u>	<u>Weighted-</u>	<u>EPS</u>	
	<u>Income</u>	<u>Average</u>		
		<u>Shares</u>		
<u>Year Ended March 31, 2022</u>				
Basic EPS				
Net income available to common shareholders	¥ 47,290	294,651	¥ 160.49	\$ 1.32
<u>Year Ended March 31, 2021</u>				
Basic EPS				
Net income available to common shareholders	¥ 36,098	294,624	¥ 122.52	

Diluted EPS for the years ended March 31, 2022 and 2021, is not disclosed because no potentially dilutive securities are outstanding.

22. SUBSEQUENT EVENTS

Appropriation of Retained Earnings

The following appropriation of retained earnings as of March 31, 2022, was approved at the Company's shareholders' meeting held on June 28, 2022:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Year-end cash dividends, ¥28 (\$0.23) per share	¥8,255	\$67,664

Commencement of Tender Offer for Acquiring Nissui Pharmaceutical Co., Ltd. as a Wholly Owned Subsidiary

At the meeting of the Board of Directors held on May 31, 2022, the Company resolved to make a tender offer (hereinafter referred to as the "Tender Offer") to acquire the shares of Nissui Pharmaceutical Co., Ltd. (listed on the Tokyo Stock Exchange Prime Market Index under securities code: 4550; hereinafter referred to as the "Target Company") held by shareholders other than Nippon Suisan Co., Ltd. (hereinafter referred to as "Nippon Suisan"), which is the parent company and the largest shareholder of the Target Company, as part of a transaction to make the Target Company a wholly owned subsidiary of the Company (hereinafter referred to as the "Transaction"). The Transaction consists of (1) the Tender Offer made by the Company for acquiring Target Company shares held by shareholders other than Nippon Suisan, (2) the tender offer for the Target Company shares held by Nippon Suisan as well as Target Company shares held by shareholders who wish to tender their shares in the tender offer (hereinafter referred to as the "Tender Offer for Own Shares" while the "Tender Offer" and the "Tender Offer for Own Shares" shall be collectively referred to as "Both Tender Offers"), and (3) a series of squeeze-out procedures to make the Target Company a wholly owned subsidiary of the Company, which are to be conducted in the event that the Tender Offer is successful, but the Company fails to acquire all of the Target Company shares other than the Target Company shares held by the Target Company after the settlement of the Tender Offer for Own Shares (hereinafter referred to as the "Squeeze-Out Procedure"). The Company has entered into a basic agreement (hereinafter referred to as the "Basic Agreement") with Nippon Suisan and the Target Company at the time of making the Tender Offer, under which Nippon Suisan has agreed not to tender all of the 12,106,202 Target Company Shares it owns in the Tender Offer (ownership: 54.06%; hereinafter referred to as "Unsubscribed Shares") and to tender all Unsubscribed Shares in the Tender Offer for Own Shares. One of the preconditions for the commencement of the Tender Offer was that Nippon Suisan cancel its right of pledge because a security interest (hereinafter referred to as the "Right of Pledge") had been established on 10,649,800 of Nippon Suisan's Unsubscribed Shares (ownership ratio: 47.56%). As it was confirmed on June 16, 2022 that the preconditions for the commencement of the Tender Offer, including the cancellation of the Right of Pledge, had been met, the Tender Offer commenced on June 17, 2022. The Company plans to implement the Squeeze-Out Procedure through a reverse stock split or a request for the sale of shares.

(1) Purpose of Both Tender Offers

On May 20, 2020, the Company formulated its FY 2020-2022 Medium-Term Management Plan, which calls for the promotion of projects to combat infectious diseases as one of its most urgent priorities. The Company launched new COVID-19 testing reagent kits and fully automated PCR testing systems and is currently working to further expand its business in the clinical testing market by developing new testing methods for clinical use, building a network management system for test data, monitoring viruses in wastewater, and other measures to create a framework to combat infectious diseases. By making the Target Company a wholly owned subsidiary through this Transaction, including Both Tender Offers, synergies can be expected such as the development and launch of new products jointly developed by both companies, the establishment of new testing reagent manufacturing methods utilizing the Target Company's antibody manufacturing capabilities, and the development of new solutions utilizing the Target Company's cell culture-related technologies, and the Transaction is expected to contribute to the enhancement of the corporate value of both companies.

(2) Overview of the Target Company

1) Name	Nissui Pharmaceutical Co., Ltd.
2) Address	3-24-6 Ueno, Taito, Tokyo
3) Name and title of representative	Tokuya Ono, President & CEO
4) Business description	Manufacture, trade, export and import of pharmaceuticals, quasi-drugs, cosmetics, reagents and chemicals
5) Capital stock	¥4,449 million (\$36,467 thousand) (as of May 31, 2022)
6) Total assets	¥36,924 million (\$302,656 thousand) (as of March 31, 2022)
7) Net sales	¥16,657 million (\$136,533 thousand) (from April 1, 2021 to March 31, 2022)
8) Net income attributable to parent company shareholder	¥1,146 million (\$9,393 thousand) (from April 1, 2021 to March 31, 2022)
9) Date of establishment	April 6, 1935

(3) Outline of the Tender Offer

The Company confirmed on June 16, 2022 that preconditions for the commencement of the Tender Offer were satisfied and commenced the Tender Offer on June 17, 2022. Because the Company intends to make the Target Company its wholly owned subsidiary through this Transaction, including through this Tender Offer, no upper limit has been set on the number of shares to be purchased in the Tender Offer and if more than the minimum number of shares to be purchased (2,823,300 shares, 12.61% ownership) are tendered in the Tender Offer, the Company will purchase all of the tendered shares.

1) Number of share certificates to be purchased

Number of shares to be purchased: 10,288,054 shares
(Minimum number of shares to be purchased: 2,823,300 shares;
maximum number of shares to be purchased: - shares)

(Note) The minimum number of shares set for the Tender Offer (2,823,300 shares) is derived through the following calculation: (i) multiplying the number of voting rights (223,942 voting rights) pertaining to the number of shares obtained (22,394,256 shares) through deducting the number of owned shares (152,884 shares) held by the Target Company as of March 31, 2022 from the total number of issued shares as of March 31, 2022 (22,547,140 shares) as reported in the Target Company's "(Consolidated) Financial Report (Japanese GAAP)" for the fiscal year ended March 31, 2022 that was released on May 10, 2022, by two-thirds of the voting rights, which corresponds to the ratio of voting rights required for the special resolution at a General Meeting of Shareholders to approve the reverse stock split to obtain the number of voting rights; (ii) deducting the number of voting rights (121,062 voting rights) pertaining to the Unsubscribed Shares (12,106,202 shares) from the voting rights calculated above (149,295 shares; rounded up to the nearest decimal point); and (iii) finally multiplying this derived figure (28,233 voting rights) by one unit (100 shares) of the Target Company shares.

The purpose of the Transaction is for the Company to make the Target Company a wholly owned subsidiary of the Company; however, a special resolution at a General Meeting of Shareholders is required to carry out the procedures for a reverse stock split. Therefore, the Company has set the minimum number of shares to be purchased so that after the Tender Offer, the Company and Nippon Suisan will jointly own two-thirds or more of the voting rights of all shareholders of the Target Company. Under the Basic Agreement, Nippon Suisan has agreed to tender all of its Unsubscribed Shares in the Tender Offer for Own Shares. Furthermore, the Company has reached an agreement with the Target Company that a date between the completion of the settlement of the Tender Offer and the commencement of the settlement of the Tender Offer for Own Shares will be the record date for the Extraordinary General Meeting of Shareholders. In accordance with the Company's instructions, Nippon Suisan has agreed to vote in favor of the Tender Offer at the Extraordinary General Meeting of Shareholders or to grant a blanket power of attorney to the Company or a designee of the Company.

2) Period of Purchase (Plan)

29 business days from June 17, 2022 (Friday) to July 28, 2022 (Thursday)

3) Price of Purchase

¥1,714 (\$14) per common share

4) Purchase Price: ¥17,633,724,556 (\$144,538,726)

(Note) The purchase price is derived by multiplying the number of shares to be purchased (10,288,054 shares) by the Tender Offer share price of ¥1,714 per share (\$14.00 per share).

5) Settlement Start Date (Plan)

Thursday, August 4, 2022

6) Method of Funding Payments

Appropriation of own funds

23. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and for which such information is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. As such, the Group's reportable segments consist of Analytical and Measuring Instruments, Medical Systems and Equipment, Aircraft Equipment, and Industrial Machinery.

(2) Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets, and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

In addition, in order to more properly manage performance of each reporting segment in more detail, the Company has changed the method of allocating administrative department expenses. In this regard, the segment information for both the current year and previous consolidated fiscal year are disclosed herein according to the new segment classification and calculation method.

(3) Information about Sales, Profit (Loss), Assets, and Other Items

		Millions of Yen								
		2022								
		Reportable Segment								
		Analytical and Measuring Instruments	Medical Systems and Equipment	Industrial Machinery	Aircraft Equipment	Total	Other	Total	Reconciliations	Consolidated
Sales:										
Sales to external customers		¥ 277,516	¥ 66,894	¥ 56,737	¥ 22,301	¥ 423,448	¥ 4,727	¥ 428,175		¥ 428,175
Intersegment sales or transfers		9	71	150	20	250	2,205	2,455	¥ (2,455)	
Total		<u>¥ 277,525</u>	<u>¥ 66,965</u>	<u>¥ 56,887</u>	<u>¥ 22,321</u>	<u>¥ 423,698</u>	<u>¥ 6,932</u>	<u>¥ 430,630</u>	<u>¥ (2,455)</u>	<u>¥ 428,175</u>
Segment profit		¥ 52,956	¥ 6,083	¥ 5,979	¥ 119	¥ 65,137	¥ 1,256	¥ 66,393	¥ (2,587)	¥ 63,806
Segment assets		254,536	62,130	56,172	41,969	414,807	6,908	421,715	138,813	560,528
Other:										
Depreciation		10,787	2,466	1,849	689	15,791	414	16,205		16,205
Increase in property, plant and equipment and intangible assets		9,905	2,216	3,254	689	16,064	293	16,357		16,357
		Millions of Yen								
		2021								
		Reportable Segment								
		Analytical and Measuring Instruments	Medical Systems and Equipment	Industrial Machinery	Aircraft Equipment	Total	Other	Total	Reconciliations	Consolidated
Sales:										
Sales to external customers		¥ 248,550	¥ 66,904	¥ 45,083	¥ 28,560	¥ 389,097	¥ 4,402	¥ 393,499		¥ 393,499
Intersegment sales or transfers		6	25	77		108	1,706	1,814	¥ (1,814)	
Total		<u>¥ 248,556</u>	<u>¥ 66,929</u>	<u>¥ 45,160</u>	<u>¥ 28,560</u>	<u>¥ 389,205</u>	<u>¥ 6,108</u>	<u>¥ 395,313</u>	<u>¥ (1,814)</u>	<u>¥ 393,499</u>
Segment profit		¥ 41,813	¥ 4,995	¥ 3,355	¥ 883	¥ 51,046	¥ 989	¥ 52,035	¥ (2,293)	¥ 49,742
Segment assets		241,018	62,530	49,234	43,130	395,912	7,944	403,856	93,603	497,459
Other:										
Depreciation		9,983	2,631	1,703	803	15,120	416	15,536		15,536
Increase in property, plant and equipment and intangible assets		8,458	2,386	2,275	1,104	14,223	248	14,471		14,471
		Thousands of U.S. Dollars								
		2022								
		Reportable Segment								
		Analytical and Measuring Instruments	Medical Systems and Equipment	Industrial Machinery	Aircraft Equipment	Total	Other	Total	Reconciliations	Consolidated
Sales:										
Sales to external customers		\$ 2,274,721	\$ 548,311	\$ 465,057	\$ 182,795	\$ 3,470,884	\$ 38,747	\$ 3,509,631		\$ 3,509,631
Intersegment sales or transfers		74	582	1,230	164	2,050	18,073	20,123	\$ (20,123)	
Total		<u>\$ 2,274,795</u>	<u>\$ 548,893</u>	<u>\$ 466,287</u>	<u>\$ 182,959</u>	<u>\$ 3,472,934</u>	<u>\$ 56,820</u>	<u>\$ 3,529,754</u>	<u>\$ (20,123)</u>	<u>\$ 3,509,631</u>
Segment profit		\$ 434,066	\$ 49,861	\$ 49,008	\$ 975	\$ 533,910	\$ 10,295	\$ 544,205	\$ (21,205)	\$ 523,000
Segment assets		2,086,361	509,262	460,426	344,008	3,400,057	56,624	3,456,681	1,137,811	4,594,492
Other:										
Depreciation		88,418	20,213	15,156	5,648	129,435	3,393	132,828		132,828
Increase in property, plant and equipment and intangible assets		81,189	18,164	26,672	5,648	131,673	2,401	134,074		134,074

Note: "Reconciliations" of segment profit include eliminations of intersegment transactions of ¥2,587 million (\$21,205 thousand) and ¥2,293 million as of March 31, 2022 and 2021, respectively. "Reconciliations" of segment assets include eliminations of intersegment receivables of ¥1,604 million (\$13,148 thousand) and ¥1,322 million, and unallocated corporate assets of ¥140,417 million (\$1,150,959 thousand) and ¥94,925 million as of March 31, 2022 and 2021, respectively, consisting principally of working funds and investing funds held by the Company and assets attributed to the Company's administration headquarters.

Segment profit has been adjusted to operating income in the consolidated statement of income.

(4) The Geographical Segments of the Group

a. Sales

		Millions of Yen						
		Japan	United States of America	Europe	China	Other Asia	Other	Total
2022		¥201,165	¥48,522	¥35,298	¥81,469	¥43,110	¥18,611	¥428,175
		Millions of Yen						
		Japan	United States of America	Europe	China	Other Asia	Other	Total
2021		¥193,420	¥42,387	¥32,704	¥72,872	¥37,094	¥15,022	¥393,499
		Thousands of U.S. Dollars						
		Japan	United States of America	Europe	China	Other Asia	Other	Total
2022		\$1,648,893	\$397,722	\$289,328	\$667,779	\$353,361	\$152,548	\$3,509,631

b. Property, plant and equipment

Millions of Yen					
2022			2021		
Japan	Foreign Countries	Total	Japan	Foreign Countries	Total
¥80,453	¥23,977	¥104,430	¥81,579	¥20,814	¥102,393
Thousands of U.S. Dollars					
2022					
Japan	Foreign Countries	Total			
\$659,450	\$196,533	\$855,983			

(5) Amortization and the Balance of Goodwill of the Group

	Millions of Yen						
	Analytical and Measuring Instruments	Medical Systems and Equipment	Industrial Machinery	Aircraft Equipment	Other	Elimination/Corporate	Total
Amortization of goodwill	¥ 119	¥ 48	¥ 49				¥ 216
Goodwill as of March 31, 2022	1,279	606	398				2,283

	Millions of Yen						
	Analytical and Measuring Instruments	Medical Systems and Equipment	Industrial Machinery	Aircraft Equipment	Other	Elimination/Corporate	Total
Amortization of goodwill	¥ 113	¥ 45	¥ 46				¥ 204
Goodwill as of March 31, 2021	1,333	595	429				2,357

	Thousands of U.S. Dollars						
	Analytical and Measuring Instruments	Medical Systems and Equipment	Industrial Machinery	Aircraft Equipment	Other	Elimination/Corporate	Total
Amortization of goodwill	\$ 975	\$ 393	\$ 402				\$ 1,770
Goodwill as of March 31, 2022	10,484	4,967	3,262				18,713

(6) Impairment Loss on Assets of the Group

No impairment loss was recognized for the year ended March 31, 2022.

	Millions of Yen						
	2021						
	Analytical and Measuring Instruments	Medical Systems and Equipment	Industrial Machinery	Aircraft Equipment	Other	Elimination/Corporate	Total
Impairment loss on assets				¥148			¥148

* * * * *