

Nov. 7, 2017

Operating Results and Financial Position

(For the Six Months Ended September 30, 2017)

1. Operating Results

(1) Consolidated Overview

In the six months ended September 30, 2017, the North American economy continued its recovery, due to an improvement in the labor environment and firm consumer spending. The European economy demonstrated a moderate recovery despite Britain's decision to exit the European Union and other issues. The Chinese economy remained strong, due to various government measures related to the 13th 5-year plan and other factors. The Southeast Asian economy showed signs of economic improvement, but the Indian economy temporarily slowed, due to effects from the unified Goods and Services Tax. The Japanese economy continued to demonstrate a moderate recovery due to improvements in labor and wage environments backed by higher corporate earnings.

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

As a result, for the first six months of this fiscal year, the Shimadzu Group posted consolidated net sales of 172,066 million yen (a year-on-year increase of 11.2 %), operating income of 15,748 million yen (a year-on-year increase of 3.3 %), ordinary income of 15,617 million yen (a year-on-year increase of 7.1 %), and profit attributable to owners of parent of 11,321 million yen (a year-on-year increase of 9.6 %).

The results for reportable business segments were as follows.

I. Analytical & Measuring Instruments

In North America, sales of mass spectrometers and other products were strong in chemical and government markets, but a temporary sales decline from delays in specific projects resulted in a slight decrease overall. In Europe, sales of mass spectrometers and liquid chromatographs in pharmaceutical and food fields were strong. Sales in China were strong for mass spectrometers, liquid chromatographs, gas chromatographs, and environmental measurement instruments, as a result of strong activity in food safety, contract analysis, and environmental regulation fields. In Southeast Asia, though government demand slowed, sales of mass spectrometers were strong to pharmaceutical manufacturers and others. In India, sales of liquid chromatographs were strong. In Japan, demand for liquid chromatographs expanded in pharmaceutical and chemical fields and testing machines in the automotive field. Government demand was also strong, mainly for gas chromatographs.

As a result, the Analytical & Measuring Instruments segment posted sales of 104,028 million yen (a year-on-year increase of 11.0 %) for the first six months of this fiscal year.

II. Medical Systems

In North America, sales of general radiography systems expanded, as a result of a revision in fees for medical services that accelerated the transition to digital technology. In Europe, though sales of angiography systems were strong in Eastern Europe, overall sales struggled due to a market slowdown in Western Europe. In China, sales of radiography systems were strong, as a consequence of a recovery in demand and a strengthened product offering that better fits customer needs. Sales in Southeast Asia were strong for general radiography systems that satisfy needs for switching to digital technology and for improved models of angiography systems. In Japan, sales of general radiography systems were strong due to expanded sales to clinics and other smaller

facilities.

As a result, the Medical Systems segment posted sales of 30,639 million yen (a year-on-year increase of 3.7 %) for the first six months of this fiscal year.

III. Aircraft Equipment

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

As a result, the Aircraft Equipment segment posted sales of 13,187 million yen (a year-on-year increase of 11.7 %) for the first six months of this fiscal year.

IV. Industrial Machinery

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

As a result, the Industrial Machinery segment posted sales of 20,456 million yen (a year-on-year increase of 23.8 %) for the first six months of this fiscal year.

V. Other

Sales in the Other businesses segment amounted to 3,754 million yen (a year-on-year increase of 18.2 %) for the first six months of this fiscal year.

(2) Consolidated Outlook

Looking forward, there is significant market uncertainty in some areas outside Japan, but an overall expansion trend is expected to continue, due to the continued steady economic improvement expected in the United States, stable economic growth expected in China due to various government measures, overall economic strength in Southeast Asia, and other factors. In Japan, the gradual economic improvement is expected to continue as employment and income conditions continue to improve.

Taking into account the progress in the results and the business circumstances described above for the first six months of this fiscal year, we have revised the forecast for consolidated results announced on May 11, 2017, as follows.

Consolidated Earnings Forecast for Year Ending March 2018 (In million yen)

	FY2017 Forecast		
		Percent Increase/Decrease Year-on-Year	(Reference) Previous Forecast
Net Sales	365,000	6.6 %	355,000
Operating Income	40,000	7.8 %	38,000
Ordinary Income	39,500	6.6 %	38,000
Profit Attributable to Owners of Parent	28,500	7.7 %	27,000

Note: The forecasted results above were calculated based on information available on the date this report was released. Actual results may vary from forecast values, due to various factors in the future. Some of the more significant factors include the economic circumstances in major markets (Japan, Europe, the United States, and Asia), fluctuations in product demand, and fluctuations in the foreign exchange rates.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(In million yen)

	As of September 30, 2017	As of March 31, 2017
Assets		
Current assets:		
Cash and time deposits	¥70,045	¥56,698
Trade notes and accounts receivable	100,639	112,877
Marketable securities	20	—
Merchandise and products	42,622	40,588
Work in process	20,657	16,899
Raw materials and supplies	19,738	19,213
Deferred tax assets	10,084	9,603
Other	7,867	8,342
Allowance for doubtful receivables	(1,219)	(1,142)
Total current assets	¥270,455	¥263,080
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures, net	¥40,214	¥39,975
Machinery, equipment and vehicles, net	5,919	5,904
Land	18,902	18,879
Leased assets, net	2,847	2,510
Construction in progress	1,016	628
Other, net	11,814	10,853
Total property, plant and equipment	¥80,713	¥78,751
Intangible fixed assets	¥8,455	¥8,396
Investments and other assets:		
Investment securities	¥16,274	¥13,779
Long-term receivables	185	174
Deferred tax assets	3,222	4,160
Other	11,255	7,535
Allowance for doubtful receivables	(534)	(523)
Total investments and other assets	¥30,403	¥25,126
Total noncurrent assets	¥119,572	¥112,273
Total assets	¥390,028	¥375,354

(In million yen)

	As of September 30, 2017	As of March 31, 2017
Liabilities		
Current liabilities		
Trade notes and accounts payable	¥58,857	¥57,263
Short-term loans	3,999	2,963
Lease obligations	1,085	1,007
Accounts payable	11,255	11,363
Income taxes payable	4,016	4,870
Allowance for employees' bonuses	7,640	8,188
Allowance for director's bonuses	197	275
Provision for loss on defense equipment	484	484
Other	19,274	17,730
Total current liabilities	¥106,810	¥104,147
Long-term liabilities		
Unsecured bonds	¥15,000	¥15,000
Long-term debt	555	648
Lease obligations	2,045	1,758
Liability for directors' retirement benefits	164	184
Liability for retirement benefits	10,841	10,708
Liability for stock benefits	35	—
Other	1,177	1,277
Total long-term liabilities	¥29,820	¥29,577
Total liabilities	¥136,630	¥133,725
Net assets		
Shareholders' capital		
Common stock	¥26,648	¥26,648
Additional paid-in capital	35,188	35,188
Retained earnings	182,764	174,391
Treasury stock	(1,407)	(885)
Total shareholders' capital	¥243,193	¥235,342
Accumulated other comprehensive income		
Net unrealized gain on available-for-sale securities	¥7,394	¥5,850
Foreign currency translation adjustments	1,068	(1,429)
Cumulative adjustments to retirement benefits	1,416	1,568
Total accumulated other comprehensive income	¥9,879	¥5,988
Non-controlling interests	¥324	¥297
Total net assets	¥253,398	¥241,629
Total liabilities and net assets	¥390,028	¥375,354

(2) Consolidated Statements of Operations & of Comprehensive Income

Consolidated Statements of Operations

(In million yen)

	Six Months Ended September 30, 2017	Six Months Ended September 30, 2016
Net sales	¥172,066	¥154,756
Cost of sales	104,961	91,569
Gross profit	¥67,104	¥63,187
Selling, general and administrative expenses	¥51,356	¥47,940
Operating income	¥15,748	¥15,246
Other income:		
Interest income	¥115	¥130
Dividend income	248	140
Insurance payments received	86	68
Foreign exchange profit	9	—
Subsidy received	—	412
Other	333	236
Total other income	¥792	¥989
Other expenses:		
Interest expenses	¥58	¥57
Foreign exchange loss	—	886
Compensation expenses	285	80
Other	579	625
Total other expenses	¥923	¥1,649
Ordinary income	¥15,617	¥14,586
Extraordinary income:		
Gain on sale of property, plant and equipment	¥49	¥9
Total extraordinary income	¥49	¥9
Extraordinary losses:		
Loss on write-down of investment securities	¥66	—
Loss on disposal of property, plant and equipment	57	60
Impairment loss	—	201
Total extraordinary losses	¥124	¥261
Income before income taxes	¥15,543	¥14,333
Income taxes	4,194	2,559
Income taxes adjustments	(5)	1,420
Total income taxes and income taxes adjustments	¥4,188	¥3,980
Profit	¥11,354	¥10,353
Profit attributable to non-controlling interests	33	24
Profit attributable to owners of parent	¥11,321	¥10,328

Consolidated Statements of Comprehensive Income

(In million yen)

	Six Months Ended September 30, 2017	Six Months Ended September 30, 2016
Profit	¥11,354	¥10,353
Other comprehensive income:		
Unrealized gain/loss on available-for-sale securities	¥1,543	¥(566)
Foreign currency translation adjustments	2,503	(9,099)
Retirement benefit adjustments	(151)	494
Total other comprehensive income	¥3,896	¥(9,172)
Comprehensive income	¥15,251	¥1,181
(Break down)		
Comprehensive income attribute to owners of parent	¥15,212	¥1,170
Comprehensive income attribute to non-controlling interests	¥38	¥10

(3) Consolidated Statements of Cash Flows

(In million yen)

	Six Months Ended September 30, 2017	Six Months Ended September 30, 2016
Cash flows from operating activities		
Income before income taxes	¥15,543	¥14,333
Depreciation and amortization	5,176	4,614
Impairment loss	—	201
Increase (decrease) in allowance for doubtful receivables	73	37
Increase (decrease) in allowance for employees' bonuses	(558)	(626)
Increase (decrease) in allowance for director's bonuses	(82)	(81)
Increase (decrease) in liability for retirement benefits	(317)	(1,001)
Interest and dividends income	(364)	(271)
Interest expense	58	57
Foreign exchange (gain) loss, net	1	48
Net (gain) loss on sale and valuation of investment securities	66	—
Net (gain) loss on sale and disposal of property, plant and equipment	8	50
(Increase) decrease in trade receivables	13,273	12,867
(Increase) decrease in inventories	(5,761)	(8,412)
Increase (decrease) in trade payables	1,060	(365)
Other, net	(815)	(403)
Subtotal	¥27,361	¥21,048
Interest and dividends received	364	269
Interest paid	(59)	(56)
Income taxes paid	(4,980)	(5,692)
Net cash provided by operating activities	¥22,686	¥15,569
Cash flows from investing activities		
Purchase of property, plant and equipment	¥(5,679)	¥(5,311)
Proceeds from sale of property, plant and equipment	177	106
Purchase of investment securities	(360)	(3)
Increase in long term receivables	(28)	(14)
Decrease in long term receivables	17	16
Investments in subsidiaries	(1,515)	(886)
Other, net	2,317	(175)
Net cash provided by (used in) investing activities	¥(5,071)	¥(6,268)
Cash flows from financing activities		
Borrowing of short-term loans	¥1,159	—
Repayment of short-term loans	—	(550)
Borrowing of long-term debt	50	—
Repayment of long-term debt	(284)	(260)
Cash dividends paid	(2,934)	(2,637)
Dividends payments to non-controlling interests	(11)	(14)
Repayment of guarantee deposits received	(10)	(10)
Payment of finance lease obligations	(583)	(519)
(Increase) decrease in treasury stock	(521)	(11)
Net cash (used in) financing activities	¥(3,137)	¥(4,003)
Foreign currency translation adjustments on cash and cash equivalents	¥1,207	¥(3,968)
Net increase (decrease) in cash and cash equivalents	¥15,684	¥1,328
Cash and cash equivalents, beginning of period	¥52,762	¥43,508
Increase in cash and cash equivalents due to inclusion of subsidiaries in consolidation	—	462
Cash and cash equivalents, end of period	¥68,447	¥45,300

(4) Note on the Going-Concern Assumption

Not applicable.

(5) Segment Information

1) Income by Business Segment

From April 1st to September 30th of fiscal year ended March 31, 2018

(In million yen)

	Reportable segment					Other	Total	Adjustments	Amounts reported on the quarterly statements of income
	Analytical & Measuring Instruments	Medical Systems	Aircraft Equipment	Industrial Machinery	Total				
Net Sales									
(1) Sales to customers	¥104,028	¥30,639	¥13,187	¥20,456	¥168,311	¥3,754	¥172,066	—	¥172,066
(2) Inter-segment sales	17	7	43	33	101	784	885	¥(885)	—
Total Sales	¥104,045	¥30,646	¥13,230	¥20,490	¥168,412	¥4,538	¥172,951	¥(885)	¥172,066
Operating income (loss)	¥14,356	¥664	¥(230)	¥1,863	¥16,653	¥125	¥16,779	¥(1,031)	¥15,748

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

(In million yen)

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

2) Income by Geographic Segment

From April 1st to September 30th of fiscal year ended March 31, 2018

(In million yen)

Japan	The Americas	Europe	China	Other Asian countries	Other	Total
¥82,725	22,502	12,491	32,853	16,400	5,093	¥172,066

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

(In million yen)

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

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

Americas: United States of America

Europe: Great Britain, Germany

China: China

Other Asian countries: India, Southeast Asia, Republic of Korea, Taiwan

Other: Australia, Middle East, Africa