



ANNUAL REPORT 2006

Contents

Consolidated Financial Highlights	1
Stock Information	2
To Our Shareholders	3
Segment Information	8
Segment Information by Region	12
Board of Directors	13
Environmental Preservation Activities	14
Financial Section	15

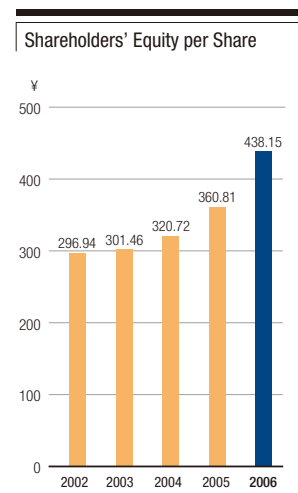
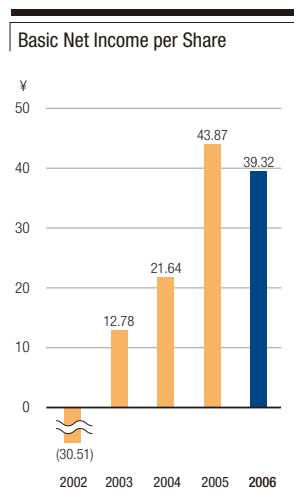
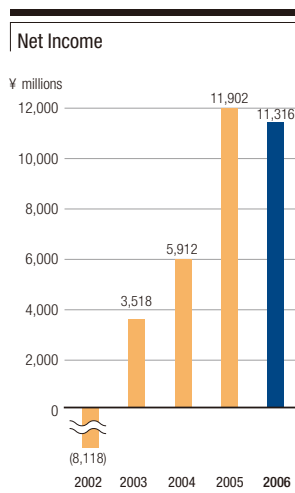
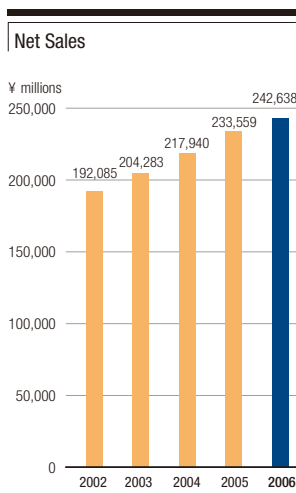
Estimates in this report concerning future earnings performance are based on materials available to the management of the Company at the time of publication and include latent risk and uncertainty. For this reason, actual results may differ substantially from the forecasts presented here.

Consolidated Financial Highlights

Years ended March 31

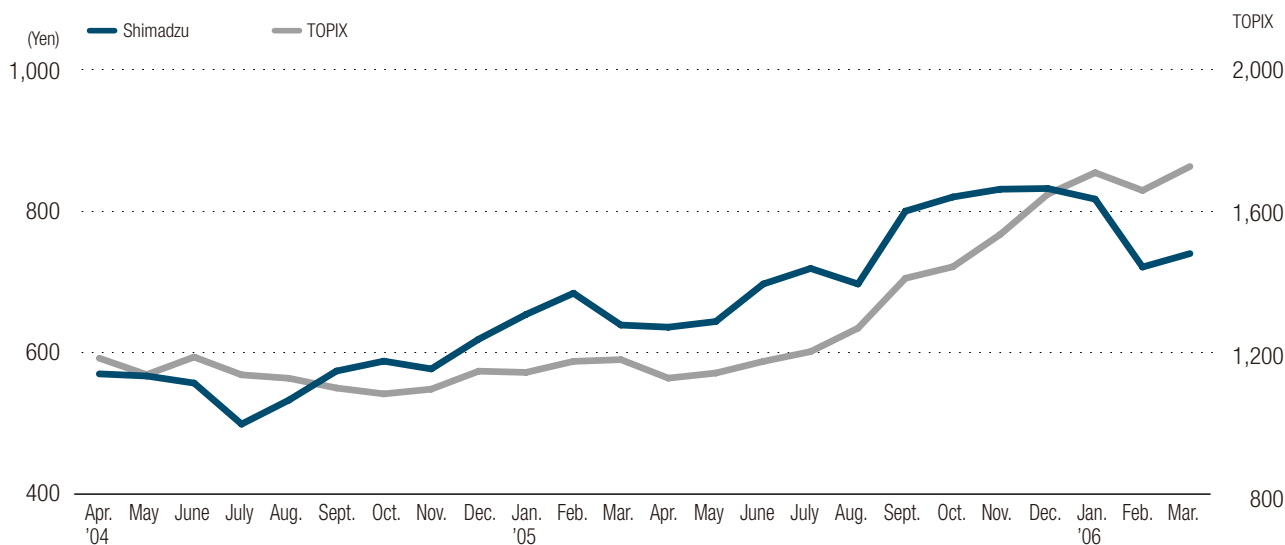
	Millions of Yen					Thousands of U.S. Dollars	
	2002	2003	2004	2005	2006	2006	
For the year:							
Net Sales	¥192,085	¥204,283	¥217,940	¥233,559	¥242,638	\$2,073,829	
Analytical and Measuring Instruments	103,876	112,198	122,918	131,643	138,453	1,183,359	
Medical Systems and Equipment	37,148	40,864	41,471	44,291	46,277	395,530	
Aircraft Equipment and Industrial Machinery	47,141	47,804	49,251	52,306	52,460	448,376	
Other	3,920	3,417	4,300	5,319	5,448	46,564	
Operating Income (Loss)	(1,835)	10,944	16,898	20,587	21,076	180,137	
Analytical and Measuring Instruments	6,595	14,408	19,634	22,705	21,891	187,103	
Medical Systems and Equipment	(3,296)	(93)	1,340	2,300	2,140	18,291	
Aircraft Equipment and Industrial Machinery	3,792	2,340	3,056	2,846	3,909	33,410	
Other	865	685	811	1,642	1,493	12,761	
Eliminations/Corporate	(9,791)	(6,396)	(7,943)	(8,906)	(8,357)	(71,428)	
Net Income (Loss)	(8,118)	3,518	5,912	11,902	11,316	96,718	
Capital Expenditures	5,536	3,947	11,525	6,350	7,059	60,333	
Depreciation	4,684	4,416	4,420	4,678	4,866	41,590	
At year-end:							
Total Assets	244,496	244,014	256,399	262,846	277,052	2,367,966	
Shareholders' Equity	79,333	80,528	85,676	96,387	129,659	1,108,197	

Note: The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥117=US\$1. See Note 3 to the consolidated financial statements.



Stock Information

Stock Prices (Tokyo Stock Exchange)



Stock Market Information

	Yen	
Years ended March 31	2005	2006
Stock Price Range		
High	697	870
Low	485	622
Year-end	640	741
Outstanding Number of Shares (in Millions)	267	295
Market Capitalization (Year-end, in Millions of Yen)	170,608	218,911
Per share:		
Earnings per Share	43.87	39.32
Earnings per Share (Fully Diluted)	39.89	37.53
Dividend	7.0	7.0

Note: As of the redemption date of September 30, 2005, ¥19,619 million worth of unsecured convertible bonds had been converted to common stock of the Company, which represented a conversion rate of 98.1% for the No. 13 unsecured convertible bond issue, worth ¥20 billion.

To Our Shareholders

Robust sales in Japan and continued expansion of overseas operations resulted in record sales for the fourth consecutive term, and record operating profit for the third consecutive term.

• Business Review

During fiscal 2005, the Japanese economy trended along a recovery path supported by improved corporate profits and the subsequent recovery in capital expenditures and a mild increase in personal consumption, despite rising crude oil and raw material prices. Overseas, the U.S. economy as a whole remained robust, with surging energy prices and rises in interest rates offset by expanding labor markets and growth in capital expenditures. European economies saw a mild recovery while Asia enjoyed continued growth in China and other economies.

Under these economic conditions and after having focused on Japan, North America and China in previous years, the Shimadzu Group pursued further globalization by strengthening its sales organization in Europe and India, and established new marketing subsidiaries in Britain, France, the Netherlands, and India. We also pushed forward with structural reform of business operations by strengthening and improving the efficiency of Group management, and focused its efforts on expanding sales of new products in response to increasingly sophisticated and diversified customer needs.



**Shigehiko
Hattori**
President and
Chief Executive Officer

Earnings Highlights

- Sales rose 3.9% year-on-year to ¥242,638 million, a record high for the fourth consecutive term.
- Domestic sales rose 2.0% year-on-year to ¥163,510 million, while overseas sales grew 7.9% to ¥79,128 million. The proportion of overseas sales to total sales increased 1.2 points to 32.6%.
- Operating income rose 2.4% year-on-year to ¥21,076 million, a record high for the third consecutive term. However, operating margin declined 0.1 points to 8.7%, due primarily to temporary problems with the product mix.
- Net income declined 4.9% year-on-year to ¥11,316 million, which is attributable to an increase in the actual effective tax rate.
- Of a total of ¥20,000 million in convertible bonds with maturity in September 2005, ¥19,619 million worth (98.1%) were converted to stock. Also, thanks to a ¥21,790 million decline in interest-bearing liabilities to ¥42,632 million from the previous term-end, the equity ratio rose 10.1 points to 46.8%, indicating a strengthening of our financial position.

• Segment Overview

Business Segment

Revenues grew in all segments, due mainly to strong performances by chromatographs, the mainstay product in Analytical and Measuring Instruments, and increased sales of digital X-ray systems equipped with flat panel detectors (FPDs).

Analytical and Measuring Instruments

Sales rose 5.2% year-on-year to ¥138,453 million. Operating income declined 3.6% year-on-year to ¥21,891 million.

Sales were supported by capital expenditures in Japan and grew substantially in Europe and China. An outstanding performance was recorded by chromatographs in both Japanese and overseas markets, with sales increasing 9.4% year-on-year. However, operating income declined during the same term due to a temporary increase in SG&A expenses.

Medical Systems and Equipment

Sales rose 4.5% year-on-year to ¥46,277 million. Operating income declined 6.9% year-on-year to ¥2,140 million.

Sales of digital X-ray systems, which we began to export during this term, grew steadily, while sales of X-ray diagnostic systems in North America, Europe and the Middle East increased dramatically. However, a delay in launching our new PET/CT scanner caused a slip in operating income.

Aircraft Equipment and Industrial Machinery

Sales rose 0.3% year-on-year to ¥52,460 million. Operating income rose 37.4% year-on-year to ¥3,909 million.

In Aircraft Equipment, sales rose on increased supplies of replacement parts to the Japan Defense Agency and increased sales of components to the Boeing Company of the United States. In Industrial Machinery, both turbomolecular pumps for semiconductor manufacturing and hydraulic equipment performed strongly, however, overall revenue was down due to a correction after the previous term's jump in plant equipment sales. Operating income rose, chiefly on increased sales of Aircraft Equipment and a decline in SG&A expenses.

Sales by Business Segment

¥ billions

Years ended March 31	2005	2006	Increase/Decrease	% Change
Analytical and Measuring Instruments	131.7	138.4	+6.7	+5.2
Medical Systems and Equipment	44.3	46.3	+2.0	+4.5
Aircraft Equipment and Industrial Machinery	52.3	52.5	+0.2	+0.3
Other	5.3	5.4	+0.1	+2.4
Total	233.6	242.6	+9.0	+3.9

Operating Income by Business Segment

¥ billions

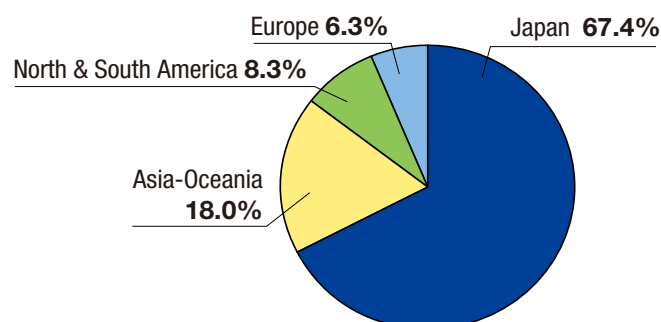
Years ended March 31	2005	2006	Increase/Decrease	% Change
Analytical and Measuring Instruments	22.7	21.9	(0.8)	(3.6)
Medical Systems and Equipment	2.3	2.1	(0.2)	(6.9)
Aircraft Equipment and Industrial Machinery	2.9	3.9	+1.0	+37.4
Other	1.6	1.5	(0.1)	(9.1)
Eliminations/Corporate	(8.9)	(8.3)	+0.6	—
Total	20.6	21.1	+0.5	+2.4

Sales by Region

Sales in Japan increased 2.0% year-on-year to ¥163,510 million and overseas sales increased 7.9% to ¥79,128 million. Our overseas sales ratio rose 1.2 points during the term to 32.6%. Sales in North & South America rose 12.2% to ¥20,171 million, whereas Europe increased 12.9% to ¥15,343 million and Asia-Oceania rose 4.5% to ¥43,614 million.

Sales of mainstay Analytical and Measuring Instruments grew primarily in overseas markets: by 6.8% to ¥9,469 million in North America, by 11.5% to ¥11,697 million in Europe and by 13.0% to ¥13,375 million in China. Our percentage of Analytical and Measuring Instruments sold in overseas markets rose 11.9% year-on-year to ¥51,477 million, and our overseas sales ratio in this segment rose 2.3 points to 37.2%.

Sales by Region (FY2005)



• Medium-Term Management Plan

This term was the first year in the three-year Medium-Term Management Plan, with its main themes of global growth and structural reform. We will strive to ensure that the smooth start we achieved in this term leads to both steady growth and fulfillment of planned targets, and we will make every effort to widen reforms and pursue continued growth.

	¥ billions		
Years ended March 31	2006	2007 (Plan)	2008 (Plan)
Net Sales	242.6	250.0	270.0
Operating Income	21.1	23.0	27.0
Operating Margin	8.7%	9.2%	10% or more
Overseas Sales	79.1	84.7	94.0
Overseas Sales Ratio	32.6%	33.9%	35% or more

Global Growth

To strengthen and improve our overseas sales performance, we established new marketing companies in Britain, France and the Netherlands where our market share is now expanding, as well as in the high-growth market of India. In fiscal 2006, we plan to further strengthen our analytical and measuring instruments business in China. There, we are actively accelerating the globalization of our operations with the expansion of our plant in Suzhou (Jiangsu) and the establishment of a new company in Guangzhou (Guandong) to perform contractual analytical services.

Structural Reform of Business Operations

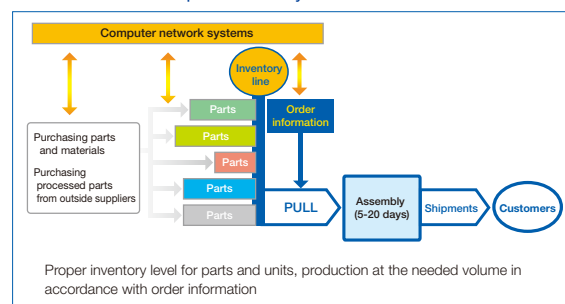
We are currently building a new analytical instruments plant in Kyoto with operation scheduled to begin in October 2006. We also have pilot lines up and running at existing facilities ahead of this launch, and plan to use the results we gain at these facilities to hasten start-up of the new plant. We are also shifting from our present external subcontractor-based make-to-stock production system to an in-house build-to-order production system. These



Construction of new analytical instruments plant (April 2006)

measures should allow us to shorten production lead times, reduce inventory, raise quality levels and cut overall costs.

New build-to-order production system



Development of Leading-Edge Technologies

In principle, Shimadzu consistently invests R&D funds in leading-edge technologies. In this term, we invested ¥8,028 million in R&D, with an emphasis on leading-edge technologies. We are facing the challenge of creating advanced technologies that respond fully to the increasingly sophisticated and diversified needs of our customers.

In life sciences, we are developing analysis technologies for single nucleotide polymorphisms (SNPs) that enable tailor-made treatments using optimized drugs for specific body types. We are also exploring the use of disease biomarkers for the early detection of a variety of diseases including cancer. Additionally, we are also participating in a wide range of joint research with advanced research institutions around the world, and are accelerating our development efforts aimed at the commercialization of diagnostic tools.

Our research is also focused on developing more sophisticated FPDs, which are becoming widely used in digital X-ray systems, and on ways of improving their manufacturing yield rate.



Shimadzu exhibit at International Congress of Biochemistry and Molecular Biology (June 2006)

• Corporate Governance

With the enactment of Company Law in May 2006, we plan to integrate our risk management and internal control systems, leading to increased propriety and efficiency in our business activities. We are adopting a matrix-based approach, by business division and by business function (marketing, R&D, and management), with each division's function being responsible for both control and monitoring, and with all internal auditors working directly under the President's office. These measures will ensure the improved effectiveness of internal controls. Additionally, all documentation control is performed in line with internal regulations regarding the safeguarding of confidentiality. We are also strengthening our communication activities to increase the transparency of management.

Furthermore, for the benefit of all our investors we are holding regular open meetings and face to face meetings, and disclosing company information both on our website and through other channels, ensuring closer communication with capital markets.



Open meeting for investors (May 2006)

• Dividend Policy

We have set the dividend for this term at ¥7 per share, under our policy of providing a stable dividend that reflects earnings conditions. Our overall goal is to return profits to shareholders, while balancing the need for capital expenditures in both new facilities and cutting edge R&D activities. Currently, the major issue we face is achieving the targets in our medium-term management plan. We will definitely continue to make every effort to strengthen our earnings power and financial position, thereby creating greater value for shareholders.

I would like to thank all our shareholders for their support and understanding.

July 2006

A handwritten signature in black ink, appearing to read "S. Hattori".

Shigehiko Hattori

President and Chief Executive Officer

Segment Information

By supplying a wide range of high-tech products and services for a multitude of industrial and academic applications, we are strongly committed to supporting our customers in their business and R&D activities. Currently, our main business areas are Analytical and Measuring Instruments such as chromatographs widely used for R&D in the pharmaceutical and chemical industries, Medical Systems and Equipment such as X-ray imaging, Aircraft Equipment such as flight control systems, and Industrial Machinery, such as turbomolecular pumps for use in semiconductor manufacturing.

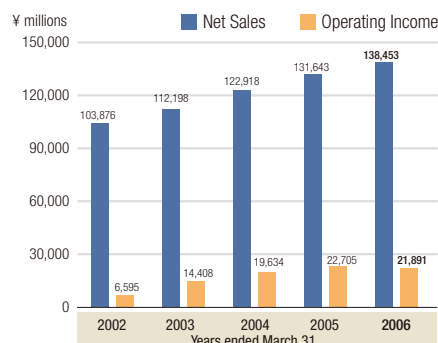


Analytical and Measuring Instruments

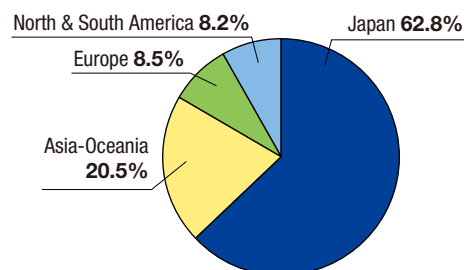
In this segment, Shimadzu produces many highly competitive products for both Japanese and overseas markets, including chromatographs, mass spectrometers, surface analysis instruments, material testing machines, nondestructive inspection machines and environment-related measuring instruments. These devices are used for R&D or quality control in many companies and universities in the fields of pharmaceuticals, chemicals, foods, iron and steel, and semiconductors. In recent years they have also been widely used in environmental monitoring. Building on our large domestic market share, we are now working to accelerate our global growth into not only the major US and European markets, but the fast-growing Chinese and Indian markets as well.

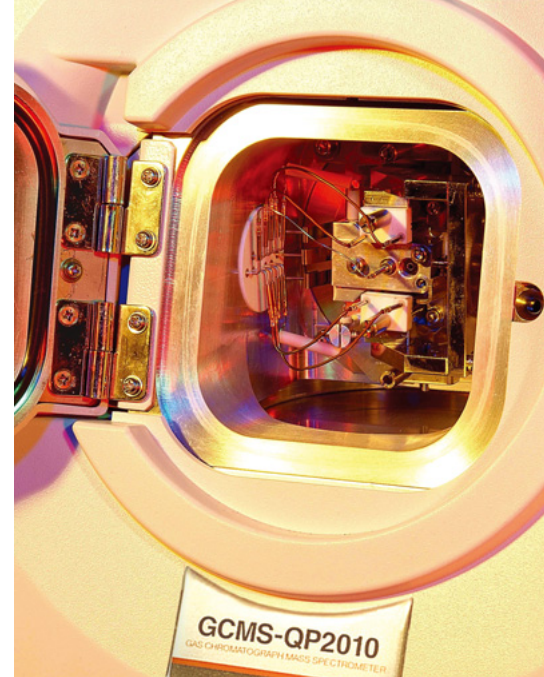
In the life sciences field, our focus is on the development of instruments for DNA and protein analysis, and of laboratory reagents. We are also involved in many joint R&D projects into next-generation diagnostic technologies, such as analysis of SNPs and disease biomarkers.

Sales and Operating Income



Sales by Region (FY2005)





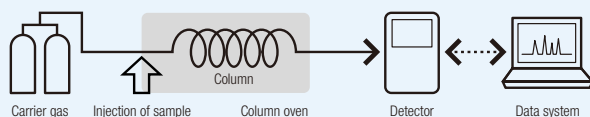
Results for the term ended March 31, 2006

In the domestic market, solid performances came primarily from chromatographs, mass spectrometers, optical emission spectrometers, material testing machines measuring the strength of materials, and X-ray fluorescence spectrometers. This reflected growing levels of private sector capital expenditures as well as continued strength in demand relating to WEEE and RoHS (European Union regulations on hazardous substances). Domestically, demand related to the revision of the Water Supply Law in Japan declined after having peaked in the previous fiscal year. Overseas performance was robust primarily in Asia and Europe. However, earnings declined somewhat due to temporary increases in sales administration costs, including increases in fixed costs from the establishment of overseas subsidiaries in line with our overseas expansion plans.

As a result, sales in this segment increased 5.2% year-on-year to ¥138,453 million while operating income totaled ¥21,891 million, a decline of 3.6%.

Chromatographs

Two types of chromatographs are widely used: gas and liquid. A gas chromatograph performs separation and analysis after vaporization of the sample at a high temperature. A liquid chromatograph performs the same work at normal temperatures. These devices separate the components of a chemical compound by means of a column, and then analyze those components and their quantities. Chromatographs are used for R&D and quality management in a wide range of fields, such as pharmaceuticals, petrochemicals, foods, and environmental analysis. Shimadzu has the leading market share in Japan for both types and is committed to continuously improving not only its domestic share, but also its share in North America, Europe, China, India and other regions. Chromatograph sales in this term rose 9.4% year-on-year to ¥53.7 billion. Sales rose 4.6% to ¥26.9 billion in Japan and 14.8% to ¥26.8 billion in overseas markets.



Basic mechanism of a chromatograph

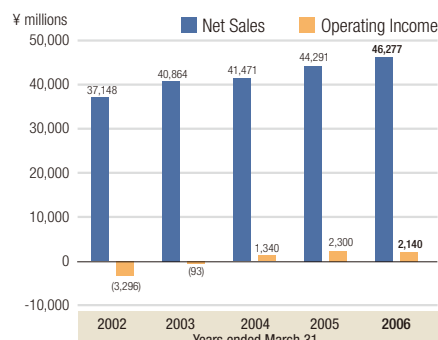


Medical Systems and Equipment

Products in this segment include diagnostic imaging systems, of which the majority are X-ray systems, PET and PET/CT scanners.

Shimadzu's focus in this segment is digital X-ray systems equipped with FPDs. These digital devices are quickly replacing existing conventional-style analog technology and our FPD units use a direct-conversion method to produce clear, highly detailed images. These systems have won acclaim from hospitals and clinics, and enjoy steadily increasing annual sales growth.

Sales and Operating Income

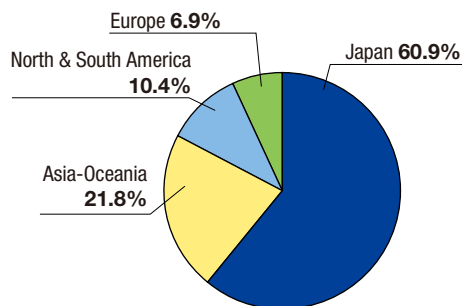


Results for the term ended March 31, 2006

In the Japanese market, X-ray equipment products including mainstay digital X-ray systems delivered strong performances, while PET sales declined due to delays in the launch of our new PET/CT scanners. In overseas markets, we substantially increased sales of conventional X-ray systems to North America, Europe and the Middle East. During this period we also began overseas export of digital X-ray systems.

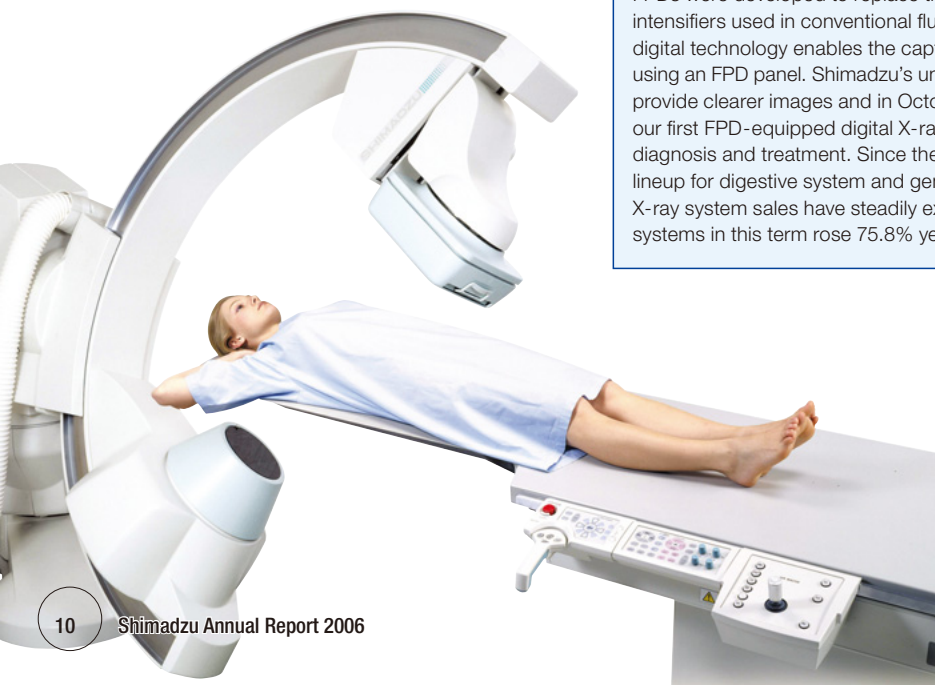
As a result, sales in this segment grew 4.5% year-on-year to ¥46,277 million, while operating income declined 6.9% to ¥2,140 million, due mainly to the decline in PET and PET/CT scanner sales.

Sales by Region (FY2005)



Flat Panel Detectors (FPDs)

FPDs were developed to replace the films and analog image intensifiers used in conventional fluoroscopy. This highly innovative digital technology enables the capture of still and moving images using an FPD panel. Shimadzu's unique direct conversion detectors provide clearer images and in October 2003 enabled us to launch our first FPD-equipped digital X-ray system for cardiovascular diagnosis and treatment. Since then, both our digital system lineup for digestive system and general radiography, and digital X-ray system sales have steadily expanded. Sales of digital X-ray systems in this term rose 75.8% year-on-year to ¥5.8 billion.



Aircraft Equipment and Industrial Machinery

Aircraft Equipment

In this segment, Shimadzu supplies aircraft components to aircraft manufacturers. While the majority of customer demand is parts and equipment for military planes ordered by the Japan Defense Agency, we also supply parts and equipment for Boeing corporation passenger aircraft.

Shimadzu has an extensive record of deliveries in components for aircraft control systems, air conditioning systems, and head-up displays. We are currently developing components for inclusion in the Japan Defense Agency's new prototype aircraft (transport (C-X) and patrol (P-X)) that are scheduled to make their maiden flights in the summer of 2007.

Results for the term ended March 31, 2006

In this segment, we strove to stimulate demand primarily for aircraft components, amid a difficult business environment resulting from Japanese government defense budget constraints. However, not only has demand related to development of the Japan Defense Agency's new C-X and P-X aircraft started to emerge, but there were also signs of a long-awaited recovery in demand for passenger aircraft.

As a result, sales in this segment increased 4.3% year-on-year to ¥25,786 million.

Industrial Machinery

Shimadzu's principal products in this segment are components for semiconductor and LCD manufacturing, and hydraulic machinery parts. Among our major products are turbomolecular pumps, used to create vacuums during the semiconductor-manufacturing process, and which are currently enjoying strong market growth. Other major products in this segment include LCD array inspection devices and solar panel film deposition systems. We are also expanding sales of our hydraulic equipment to the forklift and construction machinery sectors.

Results for the term ended March 31, 2006

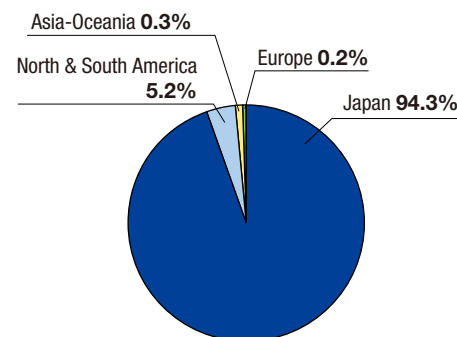
In this segment, domestic operations saw growing demand for hydraulic equipment, such as compact gear pumps for industrial vehicles and construction machinery, and for turbomolecular pumps used in semiconductor manufacturing equipment. However, sales decreased for LCD array inspection devices.

As a result, sales in this segment declined 3.3% year-on-year to ¥26,674 million.

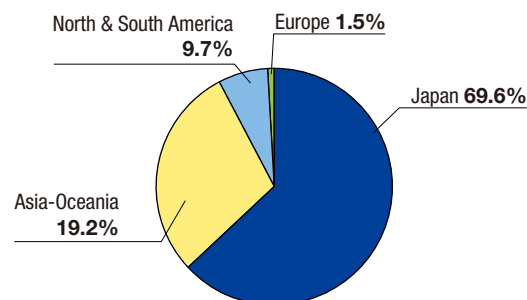
Sales and Operating Income



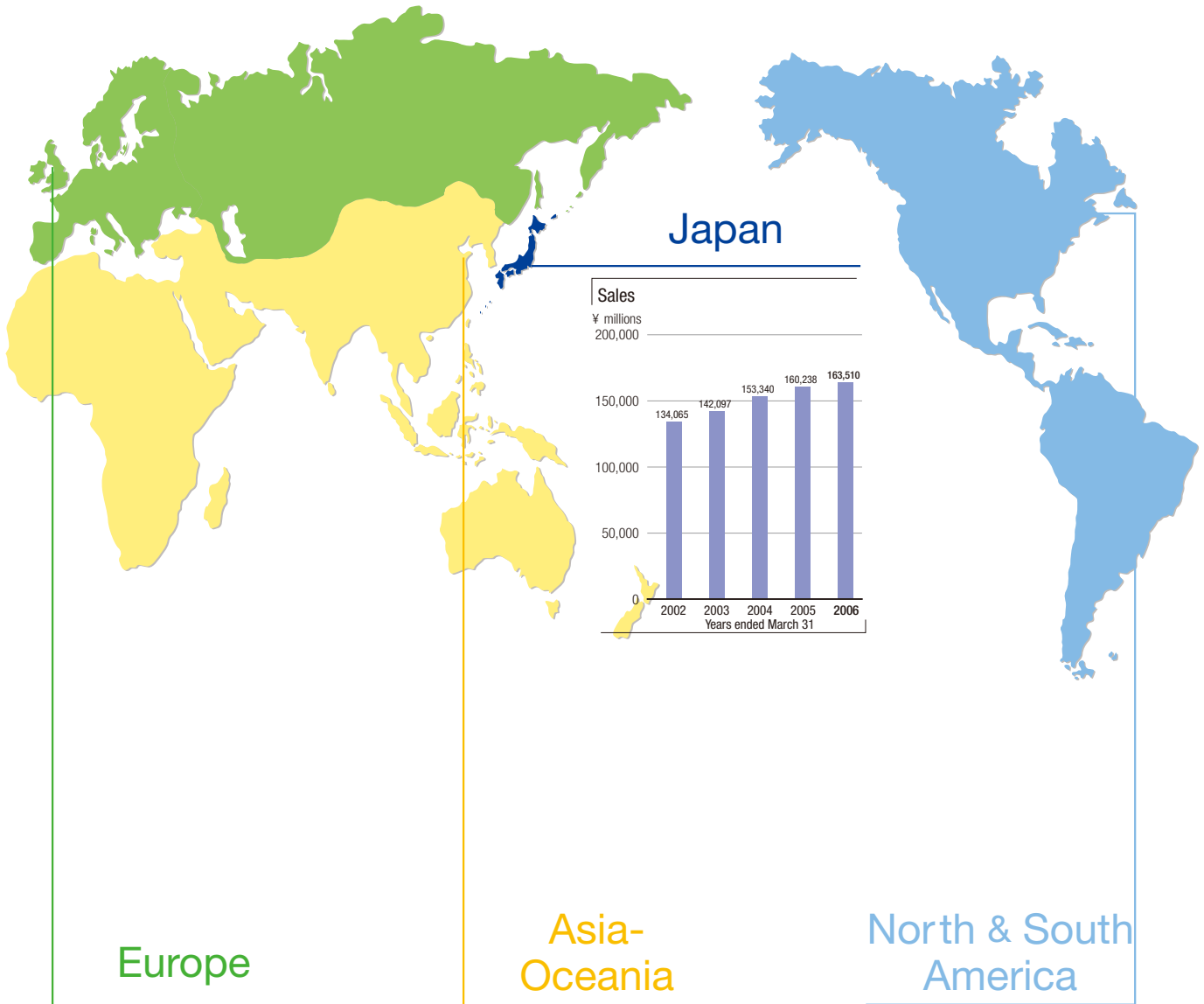
Sales of Aircraft Equipment by Region (FY2005)



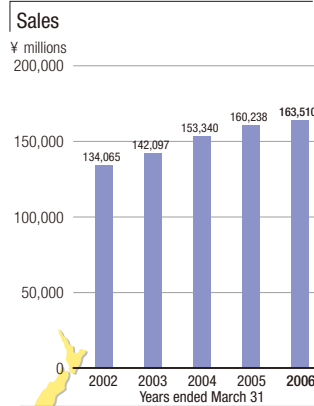
Sales of Industrial Machinery by Region (FY2005)



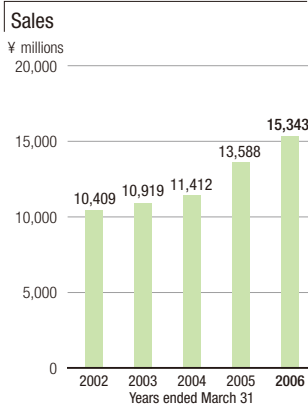
Segment Information by Region



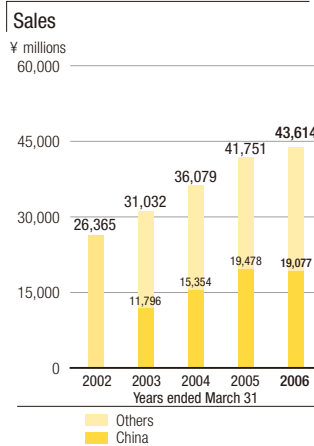
Japan



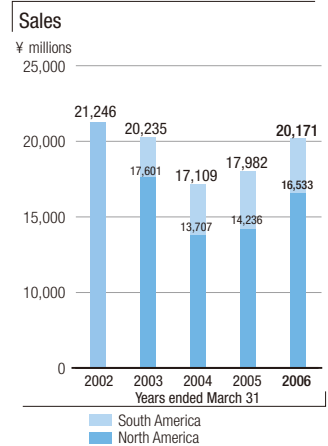
Europe



Asia-Oceania



North & South America



Board of Directors



Managing Director
Takayuki Kato

Managing Director
Tohru Fujiki

Senior
Managing Director
Tadayoshi Fukushima

Chairman
of the Board
Hidetoshi Yajima

President and
Chief Executive Officer
Shigehiko Hattori

Senior
Managing Director
Hiroshi Yamamoto, Dr.

Managing
Director
Akira Nakamoto

Managing
Director
Yasumitsu Takagi

Chairman of the Board
Hidetoshi Yajima

President and Chief Executive Officer
Shigehiko Hattori

Senior Managing Director
Tadayoshi Fukushima

Senior Managing Director
Hiroshi Yamamoto, Dr.

Managing Director
Tohru Fujiki

Managing Director
Akira Nakamoto

Managing Director
Takayuki Kato

Managing Director
Yasumitsu Takagi

Director
Soju Onose

Director
Kazuo Wakasa

Director
Tsunekazu Matsuyama

Director
Yukio Yoshida

Director
Tamio Yoshida

Director
Ichiro Kowaki

Environmental Preservation Activities

Shimadzu actively participates in environmental conservation projects, ranging from developing in-house business activities to providing scientific and environmental management support to external agencies. In keeping with our management principle of "Realizing Our Wishes for the Well-being of Mankind and the Earth," the entire Shimadzu Group will continue to tackle a range of important environmental issues.

Environmental Management Systems

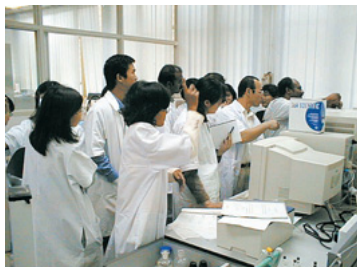
Many of Shimadzu's Japanese plants have obtained ISO-14001 certification and now implement a total environmental management system. Each Shimadzu department actively strives to reduce the environmental burden caused by its operating activities by reducing energy consumption and CO₂ emissions, reducing or reusing waste, eliminating substances that damage the ozone layer, and decreasing the amount of packaging used.



Shimadzu Environmental and Social Report 2006

Scientific Support

Since 1996 Shimadzu has continuously supported United Nations University environmental governance projects. Begun in 2005, eleven Asian nations are now participating in the fourth stage of this project to perform pollution monitoring and gather environmental data in the Asian region. Shimadzu will supply analytical instruments, conduct training into analytical techniques, hold symposia, and provide funding to ensure the success of this project.



Training in Analytical Techniques in Malaysia

Water Pollution Monitoring

An explosion at a chemical factory in Jilin Province, China in November 2005 resulted in a spill of toxic nitrobenzene into the Songhua River that flowed downstream to Russia's Amur River, causing major water pollution problems. In response to requests from China and Russia, Shimadzu soon began follow-up water quality analysis using chromatographs. In the face of major concerns about the effects of this pollution on people living along these rivers, the rapid response provided by this analysis was extremely successful in preventing a major panic. Shimadzu's efforts were highly appreciated by the authorities in China and Russia.



Water Quality Analysis in Khabarovsk, Russia

Financial Section

Consolidated Balance Sheets	16
Consolidated Statements of Income	18
Consolidated Statements of Shareholders' Equity	19
Consolidated Statements of Cash Flows	20
Notes to Consolidated Financial Statements	21
Independent Auditors' Report	34

Consolidated Balance Sheets

March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 31,927	¥ 29,860	\$ 272,880
Time deposits.....	680	762	5,812
Marketable securities (Note 4)	92	104	786
Trade receivables:			
Notes and accounts (Note 10)	79,409	76,653	678,709
Allowance for doubtful receivables.....	(1,246)	(1,434)	(10,649)
Net trade receivables	78,163	75,219	668,060
Inventories (Note 5)	60,081	56,465	513,513
Deferred tax assets (Note 12).....	7,179	6,969	61,359
Prepaid expenses and other current assets	2,924	3,165	24,992
Total current assets	181,046	172,544	1,547,402
Property, plant and equipment (Note 7):			
Land (Note 6).....	19,011	18,968	162,487
Buildings and structures	58,125	57,821	496,795
Machinery, equipment and vehicles.....	17,665	16,972	150,983
Tools, furniture and fixtures.....	23,852	22,577	203,863
Construction in progress	1,160	103	9,914
Total	119,813	116,441	1,024,042
Accumulated depreciation.....	(60,221)	(58,272)	(514,709)
Net property, plant and equipment.....	59,592	58,169	509,333
Investments and other assets:			
Investment securities (Note 4)	14,924	10,056	127,556
Investments in unconsolidated subsidiaries and associated companies.....	233	113	1,992
Long-term receivables	1,997	2,123	17,068
Deferred tax assets (Note 12).....	13,494	14,356	115,333
Other assets.....	5,766	5,485	49,282
Total investments and other assets.....	36,414	32,133	311,231
Total.....	¥277,052	¥262,846	\$2,367,966

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Liabilities and shareholders' equity			
Current liabilities:			
Short-term loans (Note 7).....	¥ 9,827	¥ 12,043	\$ 83,992
Current portion of long-term debt (Note 7).....	5,766	20,702	49,282
Trade notes and accounts payable.....	49,831	46,878	425,906
Other payables (Note 10).....	8,418	8,665	71,949
Advances from customers.....	4,220	3,139	36,068
Income taxes payable.....	3,951	6,913	33,769
Accrued expenses and other current liabilities (Notes 7 and 12).....	9,284	8,583	79,350
Total current liabilities.....	<u>91,297</u>	<u>106,923</u>	<u>780,316</u>
Long-term liabilities:			
Long-term debt (Note 7).....	27,039	31,678	231,103
Liability for retirement benefits (Note 8).....	21,234	19,785	181,487
Long-term deposit (Note 7).....	7,069	7,498	60,419
Other long-term liabilities (Note 12).....	247	269	2,111
Total long-term liabilities.....	<u>55,589</u>	<u>59,230</u>	<u>475,120</u>
Minority interests.....	507	306	4,333
Commitments and contingent liabilities (Notes 13, 14 and 15)			
Shareholders' equity (Notes 9 and 17):			
Common stock – authorized, 800,000,000 shares; issued, 296,070,227 shares in 2006 and 267,093,906 shares in 2005.....	26,649	16,826	227,769
Additional paid-in capital.....	35,188	25,394	300,752
Retained earnings.....	65,322	56,476	558,308
Net unrealized gain on available-for-sale securities.....	5,751	2,720	49,154
Foreign currency translation adjustments.....	(2,947)	(4,819)	(25,188)
Treasury stock, at cost – 643,251 shares in 2006 and 518,788 shares in 2005.....	(304)	(210)	(2,598)
Total shareholders' equity.....	<u>129,659</u>	<u>96,387</u>	<u>1,108,197</u>
Total.....	<u>¥277,052</u>	<u>¥262,846</u>	<u>\$2,367,966</u>

Consolidated Statements of Income

Years Ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Net sales (Notes 10 and 18).....	¥242,638	¥233,559	\$2,073,829
Operating costs and expenses:			
Cost of sales (Notes 10 and 13)	151,062	142,791	1,291,128
Selling, general and administrative expenses (Notes 11 and 13).....	70,500	70,181	602,564
Total operating costs and expenses.....	221,562	212,972	1,893,692
Operating income (Note 18)	21,076	20,587	180,137
Other income (expenses):			
Interest and dividend income	243	196	2,077
Interest expense	(700)	(1,018)	(5,983)
Foreign exchange gain (loss), net.....	271	(55)	2,316
Loss on disposals of inventories	(1,573)	(1,226)	(13,445)
Gain on sales of investment securities.....	5	9	43
Loss on sales of investment securities	(5)		(43)
Loss on write-down of investment securities	(189)	(76)	(1,615)
Gain on sales of property, plant and equipment.....	352	87	3,008
Loss on disposals of property, plant and equipment	(232)	(374)	(1,983)
Loss on impairment of long-lived assets (Note 6)		(467)	
Loss on adoption of FRS17 by British subsidiaries (Note 8)	(498)		(4,256)
Other, net	(997)	(1,504)	(8,521)
Other expenses, net.....	(3,323)	(4,428)	(28,402)
Income before income taxes and minority interests	17,753	16,159	151,735
Income taxes (Note 12):			
Current	7,840	8,276	67,009
Deferred.....	(1,449)	(4,054)	(12,385)
Total income taxes.....	6,391	4,222	54,624
Minority interests in net income	46	35	393
Net income	¥ 11,316	¥ 11,902	\$ 96,718
		Yen	U.S. dollars
Amounts per share (Notes 2.p and 16):			
Basic net income	¥ 39.32	¥ 43.87	\$ 0.34
Diluted net income	37.53	39.89	0.32
Cash dividends applicable to the year.....	7.00	7.00	0.06

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years Ended March 31, 2006 and 2005

	Millions of yen						
	Outstanding number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance at April 1, 2004	266,704,687	¥16,825	¥25,393	¥46,056	¥2,286	¥(4,751)	¥(133)
Net income				11,902			
Appropriations:							
Cash dividends paid, ¥5.0 per share ...				(1,333)			
Directors' and corporate auditors' bonuses				(149)			
Net increase in unrealized gain on available-for-sale securities					434		
Foreign currency translation adjustments ...						(68)	
Net increase in treasury stock	(132,523)						(77)
Conversion of convertible bonds	2,954	1	1				
Balance at March 31, 2005	266,575,118	16,826	25,394	56,476	2,720	(4,819)	(210)
Net income				11,316			
Appropriations:							
Cash dividends paid, ¥8.0 per share ...				(2,234)			
Directors' and corporate auditors' bonuses				(214)			
Net increase in unrealized gain on available-for-sale securities					3,031		
Foreign currency translation adjustments ...						1,872	
Adjustment of retained earnings for exclusion of consolidated subsidiaries ...				(22)			
Net increase in treasury stock	(124,463)						(94)
Conversion of convertible bonds	28,976,321	9,823	9,794				
Balance at March 31, 2006	295,426,976	¥26,649	¥35,188	¥65,322	¥5,751	¥(2,947)	¥(304)

	Thousands of U.S. dollars (Note 3)						
	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock	
Balance at March 31, 2005	\$143,812	\$217,043	\$482,701	\$23,248	\$(41,188)	\$(1,795)	
Net income			96,718				
Appropriations:							
Cash dividends paid, \$0.07 per share			(19,094)				
Directors' and corporate auditors' bonuses			(1,829)				
Net increase in unrealized gain on available-for-sale securities				25,906			
Foreign currency translation adjustments					16,000		
Adjustment of retained earnings for exclusion of consolidated subsidiaries			(188)				
Net increase in treasury stock						(803)	
Conversion of convertible bonds	83,957	83,709					
Balance at March 31, 2006	\$227,769	\$300,752	\$558,308	\$49,154	\$(25,188)	\$(2,598)	

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Operating activities:			
Income before income taxes and minority interests	¥17,753	¥16,159	\$151,735
Adjustments for:			
Income taxes paid	(10,950)	(3,649)	(93,590)
Depreciation and amortization	4,866	4,678	41,590
Loss on impairment of long-lived assets		467	
Increase in accrued bonuses	286	1,232	2,444
Provision for retirement benefits for employees	1,470	1,217	12,564
Net loss on sales and write-down of investment securities	189	67	1,615
Net (gain) loss on sales and disposals of property, plant and equipment	(119)	287	(1,017)
Foreign exchange gain, net	(23)	(13)	(197)
Allowance for doubtful receivables	(240)	(51)	(2,051)
Changes in assets and liabilities, net of effects on exclusion of subsidiaries from consolidation:			
(Increase) decrease in trade receivables	(1,698)	1,584	(14,513)
Increase in inventories	(2,180)	(4,630)	(18,632)
Increase in trade payables	1,776	141	15,180
Other, net	1,811	650	15,479
Total adjustments	(4,812)	1,980	(41,128)
Net cash provided by operating activities	12,941	18,139	110,607
Investing activities:			
Proceeds from sales of property, plant and equipment and other assets	626	831	5,350
Purchases of property, plant and equipment and other assets	(6,812)	(12,789)	(58,222)
Proceeds from sales of marketable securities	110	131	940
Proceeds from sales of investment securities	32	31	274
Purchases of investment securities	(495)	(362)	(4,231)
Increase in long-term receivables	(22)	(35)	(188)
Decrease in long-term receivables	167	156	1,427
Other, net	52	141	445
Net cash used in investing activities	(6,342)	(11,896)	(54,205)
Financing activities:			
Net decrease in short-term loans	(2,456)	(1,666)	(20,992)
Borrowing of long-term debt	1,240	625	10,598
Repayments of long-term debt	(899)	(1,811)	(7,684)
Issuance of commercial paper	23,000		196,581
Redemption of commercial paper	(23,000)		(196,581)
Issuance of unsecured bonds		9,940	
Redemption of unsecured bonds	(381)	(20,000)	(3,256)
Withdrawal of cash for redemption of unsecured bonds	(16,335)		(139,615)
Deposit of cash for redemption of unsecured bonds	16,335		139,615
Cash dividends paid	(2,242)	(1,354)	(19,162)
Receipt of construction cooperation fund		6,823	
Redemption of construction cooperation fund	(428)		(3,658)
Other, net	(164)	(77)	(1,402)
Net cash used in financing activities	(5,330)	(7,520)	(45,556)
Foreign currency translation adjustments on cash and cash equivalents	890	(43)	7,607
Net increase (decrease) in cash and cash equivalents	2,159	(1,320)	18,453
Decrease due to exclusion of subsidiaries from consolidation	(92)		(786)
Cash and cash equivalents, beginning of year	29,860	31,180	255,213
Cash and cash equivalents, end of year	¥31,927	¥29,860	\$272,880
Noncash investing and financing activities -			
Convertible bonds converted into common stock and additional paid-in capital	¥19,617	¥ 2	\$167,666

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended March 31, 2006 and 2005

1. Basis of presenting consolidated financial statements

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

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 2005 financial statements to conform to the classification used in 2006.

2. Summary of significant accounting policies

a. Consolidation

The consolidated financial statements as of March 31, 2006 include the accounts of the Company and its 30 (32 in 2005) domestic subsidiaries and 30 (31 in 2005) overseas subsidiaries. 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 nine (five in 2005) unconsolidated subsidiaries and three associated companies in both 2006 and 2005 are accounted for on the cost basis. The effect on the consolidated financial statements of not applying the equity method is immaterial.

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is amortized using the straight-line method over 20 years while immaterial amounts of goodwill are charged to income as incurred.

All significant intercompany transactions and accounts have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Companies is eliminated.

b. Cash Equivalents

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

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

c. Marketable and Investment Securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

- i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost.
- ii) available-for-sale securities, which represent securities 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 shareholders' 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.

d. Inventories

Finished products of the Company are stated at moving average cost. Those held by domestic subsidiaries are stated principally at the most recent purchase price which approximates cost using the first-in, first-out method, while those held by overseas subsidiaries are stated principally at the lower of cost or market using the first-in, first-out method. Work in process is stated principally at the specifically identified cost. Other inventories are stated principally at moving average cost.

e. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its domestic subsidiaries is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets, except that the straight-line method is applied to the buildings of the Company and its domestic subsidiaries. Overseas subsidiaries compute depreciation by the straight-line method at rates based on the estimated useful lives of the assets. The range of useful lives is principally from three to 75 years for buildings and structures, from four to 17 years for machinery, equipment and vehicles and from two to 15 years for tools, furniture and fixtures.

f. Long-Lived Assets

In August 2002, the Business Accounting Council (BAC) issued a Statement of Opinion, *Accounting for Impairment of Fixed Assets*, and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No. 6, *Guidance for*

Accounting Standard for Impairment of Fixed Assets. These new pronouncements were effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Companies adopted the new accounting standard for impairment of fixed assets as of April 1, 2004.

The Company and the domestic subsidiaries review their 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 would be 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.

g. Retirement Benefits and Pension Plans

Employees whose service with the Company is terminated are, under most circumstances, entitled to lump-sum indemnities determined by reference to the basic rate of pay at the time of termination, length of service and conditions under which the termination occurs. If the termination is involuntary, caused by retirement at the mandatory retirement age, or certain other conditions, the employee is entitled to greater payments than in the case of voluntary termination.

In addition, the Company, certain domestic subsidiaries and British subsidiaries have non-contributory funded pension plans covering most employees. The Company, certain domestic subsidiaries and British subsidiaries accounted for the liabilities for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.

Effective April 1, 2004, one consolidated subsidiary changed its method from the simplified method, which provides for the liability for retirement benefits based on the amount which would be required at the balance sheet date minus plan assets, to accounting for the liabilities based on projected benefit obligations and plan assets at the balance sheet date.

Effective January 1, 2005, the British subsidiaries adopted FRS17, a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date. The effect on this adoption of ¥498 (\$4,256 thousand) as of January 1, 2005 is presented as other expense in the consolidated statement of income.

The Company has an employees' retirement benefit trust

for payments of retirement benefits. The securities which were previously contributed to and are held in this trust are qualified as plan assets.

Directors and corporate auditors are not covered by these plans. However, the Company and eight domestic subsidiaries provide for the liability at the amount which would be required, if all directors and corporate auditors terminated their offices at the end of each financial period. The accrued provisions are not funded and any amounts payable to directors and corporate auditors upon retirement are subject to the approval of the shareholders.

b. Research and Development Costs

Research and development costs are charged to income as incurred.

i. Allowance for Doubtful Receivables

The allowance for doubtful receivables is stated in amounts considered to be appropriate based on the Companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

j. Leases

Leases are principally accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's consolidated financial statements.

k. Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements 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 tax laws to the temporary differences.

The Group files a tax return under the consolidated corporate-tax system from the fiscal year ended March 31, 2006, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

l. Appropriations of Retained Earnings

Appropriations of retained earnings are reflected in the consolidated financial statements for the following year upon shareholders' approval.

m. 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 balance sheet date.

Foreign exchange gains and losses are recognized in the fiscal periods in which they occur.

n. Foreign Currency Financial Statements

The balance sheet accounts of the consolidated overseas subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical exchange rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

Revenue and expense accounts of the consolidated overseas subsidiaries are translated into yen at the average exchange rate.

o. Derivative Financial Instruments

The Companies use derivative financial instruments to manage their exposures to fluctuations in foreign exchange and interest rates. Foreign currency exchange forward contracts and interest rate options (caps) are utilized by the Companies to reduce foreign currency exchange and interest rate risks. The Companies do not enter into derivatives for trading or speculative purposes.

The foreign currency forward contracts and interest rate options (caps) are measured at the fair value at the balance sheet date and the unrealized gains / losses are recognized in income.

p. Amounts per Share

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible bonds at the beginning of the year with an applicable adjustment for related interest expense, net of tax.

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

q. New Accounting Pronouncement

Business Combination and Business Separation

In October 2003, the BAC issued a Statement of Opinion, *Accounting for Business Combinations*, and on December 27, 2005 the ASBJ issued *Accounting Standard for Business Separations* and ASBJ Guidance No.10, *Guidance for Accounting Standard for Business Combinations and Business Separations*. These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

- (a) the consideration for the business combination consists solely of common shares with voting rights,
- (b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and
- (c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Stock options

On December 27, 2005, the ASBJ issued *Accounting Standard for Stock Options* and *related guidance*. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted

to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

Bonuses to directors and corporate auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No.13, *Accounting treatment for bonuses to directors and corporate auditors*, which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

3. 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 ¥117 to \$1, the approximate rate of exchange at March 31, 2006. 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.

4. Marketable and investment securities

Marketable and investment securities as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of
	2006	2005	U.S. dollars
Current –			2006
Government bonds and other.....	¥ 92	¥ 104	\$ 786
Non-current:			
Equity securities	¥14,754	¥ 9,826	\$126,103
Government bonds and other.....	170	230	1,453
Total	¥14,924	¥10,056	\$127,556

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2006 and 2005 were as follows:

March 31, 2006	Millions of yen			Fair value
	Cost	Unrealized gains	Unrealized losses	
Securities classified as:				
Available-for-sale –				
Equity securities.....	¥4,605	¥9,717	¥34	¥14,288
Held-to-maturity	262		6	256

March 31, 2005	Millions of yen			Fair value
	Cost	Unrealized gains	Unrealized losses	
Securities classified as:				
Available-for-sale –				
Equity securities.....	¥4,630	¥4,664	¥77	¥9,217
Held-to-maturity	334		3	331

March 31, 2006	Thousands of U.S. dollars			Fair value
	Cost	Unrealized gains	Unrealized losses	
Securities classified as:				
Available-for-sale –				
Equity securities.....	\$39,359	\$83,051	\$291	\$122,120
Held-to-maturity	2,239		51	2,188

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2006 and 2005 were as follows:

	Carrying amount		Thousands of
	Millions of yen	2005	U.S. dollars
Available-for-sale –			2006
Equity securities.....	¥466	¥609	\$3,983

Proceeds from sales of available-for-sale securities for the year ended March 31, 2006 and 2005 were ¥32 million (\$274 thousand) and ¥31 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis,

were ¥5 million (\$43 thousand) and ¥9 million for the years ended March 31, 2006 and 2005, respectively. Gross realized losses on these sales, computed on the moving average cost basis, were ¥5 million (\$43 thousand) for the year ended March 31, 2006 and immaterial for the year ended March 31, 2005.

The carrying values of debt securities by contractual maturities for securities classified as held-to-maturity at March 31, 2006 are as follows:

	Carrying amount	
	Millions of yen	Thousands of U.S. dollars
	2006	2006
Due within one year or less	¥ 92	\$ 786
Due after one year through five years.....	170	1,453
Total	¥262	\$2,239

5. Inventories

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Finished products	¥20,008	¥18,233	\$171,010
Semi-finished products.....	6,955	7,722	59,444
Work in process.....	21,717	20,172	185,615
Raw materials and supplies	11,401	10,338	97,444
Total	¥60,081	¥56,465	\$513,513

6. Long-lived assets

The Company and the domestic subsidiaries reviewed their long-lived assets for impairment as of the year ended March 31, 2005 and, as a result, recognized an impairment loss for land due to significant declines in market value of ¥467 million as other expense. The carrying amount of the relevant land was written down to the recoverable amount.

Location	Description	Classification	Millions of yen Impairment losses
Kobuchisawa-cho, Yamanashi	Idle land	Land	¥322
Kaga-shi, Ishikawa	Idle land	Land	¥145
Total			¥467

The recoverable amount of land was measured at its net selling price determined by quotation from a real-estate appraiser.

The Company and the domestic subsidiaries reviewed their long-lived assets for impairment as of the year ended March 31, 2006 and didn't recognize an impairment loss.

7. Short-term loans and long-term debt

Short-term loans 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 0.36% to 6.75% and from 0.37% to 6.25% at March 31, 2006 and 2005, respectively.

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
0.95% unsecured convertible debentures, due September 2005.....		¥19,998	
1.36% unsecured bonds, due April 2008.....	¥15,000	15,000	\$128,206
0.88% unsecured bonds, due April 2009.....	10,000	10,000	85,470
Loans, principally from banks, due serially to 2011 with interest rates ranging from 0.60% to 6.04% (0.82% to 6.00%, due serially to 2009 at March 31, 2005)	7,805	7,370	66,709
Other		12	
Total	32,805	52,380	280,385
Less portion due within one year.....	(5,766)	(20,702)	(49,282)
Long-term debt, less current portion.....	¥27,039	¥31,678	\$231,103

The aggregate annual maturities of long-term debt outstanding at March 31, 2006 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 5,766	\$ 49,282
2008	563	4,812
2009	15,969	136,487
2010	10,430	89,146
2011	77	658
Total.....	¥32,805	\$280,385

At March 31, 2006, the following assets were pledged as collateral for short-term bank loans and long-term debt:

	Millions of yen		Thousands of U.S. dollars
	yen	U.S. dollars	
Property, plant and equipment, net of accumulated depreciation	¥6,542		\$55,915
Related liabilities:			
Short-term loans.....	¥ 70		\$ 598
Other current liabilities.....	99		846
Long-term debt.....	582		4,974
Long-term deposit.....	7,069		60,419
Total	¥7,820		\$66,837

8. Retirement and pension plans

The Company and certain consolidated subsidiaries have severance payment plans for employees, directors and corporate auditors.

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, length 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 domestic consolidated 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 for directors and corporate auditors were ¥547 million (\$4,675 thousand) and ¥568 million at March 31, 2006 and 2005, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of
	2006	2005	U.S. dollars
			2006
Projected benefit obligation	¥55,280	¥49,724	\$472,479
Fair value of plan assets	(36,974)	(25,045)	(316,017)
Unrecognized prior service cost...	845	823	7,222
Unrecognized actuarial gain (loss) ...	1,536	(6,285)	13,128
Net liability	<u>¥20,687</u>	<u>¥19,217</u>	<u>\$176,812</u>

The components of net periodic benefit costs for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of
	2006	2005	U.S. dollars
			2006
Service cost	¥2,307	¥2,315	\$19,718
Interest cost	1,074	1,082	9,179
Expected return on plan assets	(295)	(254)	(2,521)
Amortization of prior service cost...	(83)	(76)	(709)
Recognized actuarial loss	598	630	5,111
Loss on adoption of FRS17 by British subsidiaries	498		4,256
Loss on change in method of calculation		365	
Net periodic benefit costs	<u>¥4,099</u>	<u>¥4,062</u>	<u>\$35,034</u>

Assumptions used for the years ended March 31, 2006 and 2005 were set forth as follows:

	2006	2005
Discount rate	2.0%	2.5%
Expected rate of return on plan assets	2.1%	1.7%
Amortization period of prior service cost	15 years	15 years
Recognition period of actuarial gain/loss	15 years,	15 years,
	Charged/credited to income from the next period	Charged/credited to income from the next period

9. Shareholders' equity

Through May 1, 2006, Japanese companies are subject to the Japanese Commercial Code (the "Code").

The Code requires that all shares of common stock be issued with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital

surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥38,115 million (\$325,769 thousand) as of March 31, 2006, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below;

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law 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. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also 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, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases / decreases and transfer of common stock, reserve and surplus

The Corporate Law 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 total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law 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 specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law 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 shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

10. Related party transactions

Net sales and purchases representing transactions of the Companies with unconsolidated subsidiaries and associated companies for the years ended March, 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of
	2006	2005	U.S. dollars
Net sales.....	¥ 460	¥ 423	\$ 3,932
Purchases	1,206	1,077	10,308

The balances due to or from these unconsolidated subsidiaries and associated companies at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of
	2006	2005	U.S. dollars
Trade accounts receivable	¥ 31	¥ 38	\$ 265
Other payables	205	106	1,752

11. Research and development costs

Research and development costs charged to income were ¥8,028 million (\$68,615 thousand) and ¥7,912 million for the years ended March 31, 2006 and 2005, respectively.

12. 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 41% for the years ended March 31, 2006 and 2005, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of
	2006	2005	U.S. dollars

Current:

Deferred tax assets:

Accrued bonuses.....	¥2,262	¥2,138	\$19,333
Unrealized profit included in inventories.....	1,847	1,728	15,786
Tax loss carryforwards.....	757	776	6,470
Enterprise taxes.....	336	629	2,872
Allowance for doubtful receivables.....	361	406	3,086
Other.....	1,618	1,431	13,829
Total.....	7,181	7,108	61,376
Less valuation allowance.....		(40)	
Total deferred tax assets.....	¥7,181	¥7,068	\$61,376

Deferred tax liabilities:

Allowance for doubtful receivables.....		¥ 74	
Other.....	¥ 2	41	\$ 17
Total deferred tax liabilities...	¥ 2	¥ 115	\$ 17
Net deferred tax assets.....	¥7,179	¥6,969	\$61,359

Net deferred tax liabilities
(included in accrued expenses
and other current liabilities)...

¥ 16

Noncurrent:

Deferred tax assets:

Liability for retirement benefits ...	¥13,750	¥12,966	\$117,521
Loss on investment in subsidiaries.....	2,799	2,799	23,923
Depreciation.....	2,494	1,905	21,316
Allowance for doubtful receivables.....	493	505	4,214
Loss on impairment of long-lived assets.....	190	190	1,624
Other.....	1,918	2,054	16,394
Total.....	21,644	20,419	184,992
Less valuation allowance.....	(190)	(190)	(1,624)
Total deferred tax assets.....	¥21,454	¥20,229	\$183,368

Deferred tax liabilities:

Gain on securities contributed to employees' retirement benefit trust	¥ 3,689	¥ 3,688	\$ 31,530
Special reserves (included in retained earnings).....	311	311	2,658
Unrealized gain on available-for-sale securities.....	3,932	1,859	33,607
Other.....	207	183	1,769
Total deferred tax liabilities.....	¥ 8,139	¥ 6,041	\$ 69,564
Net deferred tax assets.....	¥13,494	¥14,356	\$115,333

Net deferred tax liabilities

(included in other
long-term liabilities)..... ¥ 179 ¥ 168 \$ 1,529

The above net deferred tax assets and liabilities represented the aggregate amounts of each separate 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 statements of income for the years ended March 31, 2006 and 2005 were as follows:

	2006	2005
Normal effective statutory tax rate	40.6%	40.6%
Expenses not permanently deductible for income tax.....	2.8	2.0
Valuation allowance.....	(0.2)	(9.0)
Per capita inhabitant tax	0.5	0.6
Tax credit for research and development expenses...	(5.4)	(4.5)
Difference in subsidiaries' tax rates.....	(2.6)	(2.9)
Other, net.....	0.3	(0.7)
Actual effective tax rate.....	36.0%	26.1%

13. Leases

LESSEE

The Companies lease certain offices space, computer equipment and other assets.

Total rental expenses for the years ended March 31, 2006 and 2005 were ¥5,348 million (\$45,709 thousand) and ¥5,275 million, respectively, including ¥487 million (\$4,162 thousand) and ¥529 million of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases and depreciation expense for finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2006 and 2005 was as follows:

	Millions of yen		
	2006		
	Machinery and vehicles	Furniture and fixtures	Total
Acquisition cost	¥1,441	¥1,703	¥3,144
Accumulated depreciation	583	811	1,394
Net leased property.....	¥ 858	¥ 892	¥1,750

	Millions of yen		
	2005		
	Machinery and vehicles	Furniture and fixtures	Total
Acquisition cost	¥1,249	¥1,805	¥3,054
Accumulated depreciation	426	1,170	1,596
Net leased property.....	¥ 823	¥ 635	¥1,458

	Thousands of U.S. dollars		
	2006		
	Machinery and vehicles	Furniture and fixtures	Total
Acquisition cost	\$12,316	\$14,556	\$26,872
Accumulated depreciation	4,983	6,932	11,915
Net leased property.....	\$ 7,333	\$ 7,624	\$14,957

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year	¥ 481	¥ 455	\$ 4,111
Due after one year.....	1,269	1,003	10,846
Total	¥1,750	¥1,458	\$14,957

The amount of obligations under finance leases includes the imputed interest expense portion.

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, computed by the straight-line method was ¥487 million (\$4,162 thousand) and ¥529 million for the years ended March 31, 2006 and 2005, respectively.

The minimum rental commitments under noncancellable operating leases at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year.....	¥388	¥278	\$3,316
Due after one year.....	516	462	4,410
Total.....	¥904	¥740	\$7,726

LESSOR

Future lease income under non-cancelable operating leases at March 31, 2005 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year	¥ 950	¥ 950	\$ 8,120
Due after one year.....	6,492	7,442	55,487
Total	¥7,442	¥8,392	\$63,607

14. Contingent liabilities

Contingent liabilities at March 31, 2006 for trade notes discounted with banks, for trade notes endorsed and for loans guaranteed amounted to ¥600 million (\$5,128 thousand), ¥22 million (\$188 thousand) and ¥702 million (\$6,000 thousand), respectively.

15. Derivatives

The Companies enter into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Companies also enter into interest rate options (caps) to manage its interest rate exposures on certain liabilities. All derivative transactions are entered into to hedge foreign currency and interest exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Companies do not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Companies have been made in accordance with internal policies under the supervision of the director in charge of the Finance Department.

The contract or notional amounts of derivatives which are shown in the following table do not represent the amounts exchanged by the parties and do not measure the Company's exposure to credit or market risk.

The Company had the following derivative contracts outstanding at March 31, 2006 and 2005.

	In thousands	Millions of yen	
	Contract or notional amount	Fair value	Unrealized gains (losses)
2006			
Forward exchange contracts:			
Selling U.S. \$	\$22,170	¥2,579	¥(22)
Selling Euro	Euro 5,500	781	(7)
Buying U.S. \$	\$ 673	79	
Buying Euro	Euro 10	1	
Interest rate contracts –			
Purchased interest caps	¥ 354	1	(15)
2005			
Forward exchange contracts:			
Selling U.S. \$	\$32,181	¥3,433	¥(91)
Selling Euro	Euro 8,500	1,175	(9)
Buying U.S. \$	\$ 113	12	
Buying Swiss Franc	CHF 46	4	
Buying Japanese Yen	JPY 1,326	1	
Interest rate contracts –			
Purchased interest caps	¥ 313	13	(1)
2006			
Forward exchange contracts:			
Selling U.S. \$	\$22,170	\$22,043	\$(188)
Selling Euro	Euro 5,500	6,675	(60)
Buying U.S. \$	\$ 673	675	
Buying Euro	Euro 10	9	
Interest rate contracts –			
Purchased interest caps	¥ 354	9	(128)

The fair value was estimated based on quotes from financial institutions.

16. Net income per share

Reconciliation of the differences between basic and diluted net income per share (“EPS”) for the years ended March 31, 2006 and 2005 is as follows:

	Millions of yen Net income	Thousands of shares Weighted average shares	Yen EPS	Dollars
For the year ended March 31, 2006:				
Basic EPS				
Net income available to common shareholders	¥11,097	282,229	¥39.32	\$0.34
Effect of Dilutive Securities Convertible bonds	3	13,522		
Diluted EPS				
Net income for computation ...	¥11,100	295,751	¥37.53	\$0.32
For the year ended March 31, 2005:				
Basic EPS				
Net income available to common shareholders	¥11,699	266,646	¥43.87	
Effect of Dilutive Securities Convertible bonds	116	29,542		
Diluted EPS				
Net income for computation	¥11,815	296,188	¥39.89	
17. Subsequent events				
The following appropriations of retained earnings of the Company for the year ended March 31, 2006 were approved at the general meeting of shareholders held on June 29, 2006:				
	Millions of yen	Thousands of U.S. dollars		
Year-end cash dividends, ¥3.5 (\$0.03) per share	¥1,034	\$8,838		
Directors’ and corporate auditors’ bonuses	167	1,427		

18. Segment information

Information about industry segments, geographical segments and sales to foreign customers of the Companies for the years ended March 31, 2006 and 2005 was as follows:

(1) Industry segments

a. Sales and operating income

	Millions of yen					Consolidated
	2006					
	Analytical and Measuring Instruments	Medical Systems and Equipment	Aircraft Equipment and Industrial Machinery	Other	Eliminations/Corporate	
Sales to customers.....	¥138,453	¥46,277	¥52,460	¥5,448		¥242,638
Intersegment sales.....	215	5	84	1,043	¥(1,347)	
Total sales	138,668	46,282	52,544	6,491	(1,347)	242,638
Operating expenses	116,777	44,142	48,635	4,998	7,010	221,562
Operating income	¥ 21,891	¥ 2,140	¥ 3,909	¥1,493	¥(8,357)	¥ 21,076
	Millions of yen					
	2005					
	Analytical and Measuring Instruments	Medical Systems and Equipment	Aircraft Equipment and Industrial Machinery	Other	Eliminations/Corporate	Consolidated
Sales to customers.....	¥131,643	¥44,291	¥52,306	¥5,319		¥233,559
Intersegment sales.....	233	3	171	953	¥(1,360)	
Total sales	131,876	44,294	52,477	6,272	(1,360)	233,559
Operating expenses	109,171	41,994	49,631	4,630	7,546	212,972
Operating income	¥ 22,705	¥ 2,300	¥ 2,846	¥1,642	¥(8,906)	¥ 20,587
	Thousands of U.S. dollars					
	2006					
	Analytical and Measuring Instruments	Medical Systems and Equipment	Aircraft Equipment and Industrial Machinery	Other	Eliminations/Corporate	Consolidated
Sales to customers.....	\$1,183,359	\$395,530	\$448,376	\$46,564		\$2,073,829
Intersegment sales.....	1,838	43	718	8,915	\$(11,514)	
Total sales	1,185,197	395,573	449,094	55,479	(11,514)	2,073,829
Operating expenses	998,094	377,282	415,684	42,718	59,914	1,893,692
Operating income	\$ 187,103	\$ 18,291	\$ 33,410	\$12,761	\$(71,428)	\$ 180,137

b. Assets, depreciation, loss on impairment of long-lived assets and capital expenditures

	Millions of yen					
	2006					
	Analytical and Measuring Instruments	Medical Systems and Equipment	Aircraft Equipment and Industrial Machinery	Other	Eliminations/Corporate	Consolidated
Assets	¥121,994	¥37,326	¥60,336	¥12,569	¥44,827	¥277,052
Depreciation	2,089	609	1,183	400	585	4,866
Capital expenditures	3,109	918	1,540	11	1,481	7,059

	Millions of yen					
	2005					
	Analytical and Measuring Instruments	Medical Systems and Equipment	Aircraft Equipment and Industrial Machinery	Other	Eliminations/Corporate	Consolidated
Assets	¥115,667	¥35,318	¥57,873	¥12,928	¥41,060	¥262,846
Depreciation	2,262	617	1,030	419	350	4,678
Loss on impairment of long-lived assets					467	467
Capital expenditures	2,574	621	2,725	42	388	6,350

	Thousands of U.S. dollars					
	2006					
	Analytical and Measuring Instruments	Medical Systems and Equipment	Aircraft Equipment and Industrial Machinery	Other	Eliminations/Corporate	Consolidated
Assets	\$1,042,684	\$319,026	\$515,692	\$107,427	\$383,137	\$2,367,966
Depreciation	17,855	5,205	10,111	3,419	5,000	41,590
Capital expenditures	26,573	7,846	13,162	94	12,658	60,333

Note:

“Eliminations/Corporate” include unallocated operating expenses of ¥8,419 million (\$71,957 thousand) and ¥8,908 million for the years ended March 31, 2006 and 2005, respectively, consisting principally of general corporate expenses incurred by the administration of the Company, fundamental research and development expenses and advertisement expenses.

“Eliminations/Corporate” include corporate assets of ¥47,169 million (\$403,154 thousand) and ¥41,581 million as of March 31, 2006 and 2005, respectively, consisting principally of working funds and investing funds held by the Company and assets attributed to Company’s administration headquarters.

No loss on impairment of long-lived assets was recognized for the year ended March 31, 2006.

(2) Geographical segments

	Millions of yen					
	2006					
	Japan	North and South America	Europe	Asia Oceania and Africa	Eliminations/Corporate	Consolidated
Sales to customers	¥186,087	¥14,496	¥14,962	¥27,093		¥242,638
Intersegment sales	26,228	8,051	1,989	3,043	¥(39,311)	
Total sales	212,315	22,547	16,951	30,136	(39,311)	242,638
Operating expenses	186,709	21,808	15,863	27,722	(30,540)	221,562
Operating income	¥ 25,606	¥ 739	¥ 1,088	¥ 2,414	¥ (8,771)	¥ 21,076
Assets	¥191,052	¥16,311	¥16,412	¥18,632	¥ 34,645	¥277,052

	Millions of yen					
	2005					
	Japan	North and South America	Europe	Asia Oceania and Africa	Eliminations/Corporate	Consolidated
Sales to customers.....	¥182,249	¥12,448	¥13,825	¥25,037		¥233,559
Intersegment sales.....	23,875	6,864	2,571	3,161	¥(36,471)	
Total sales.....	206,124	19,312	16,396	28,198	(36,471)	233,559
Operating expenses	180,769	19,044	15,319	25,967	(28,127)	212,972
Operating income	¥ 25,355	¥ 268	¥ 1,077	¥ 2,231	¥ (8,344)	¥ 20,587
Assets	¥192,377	¥14,214	¥14,942	¥14,293	¥ 27,020	¥262,846
	Thousands of U.S. dollars					
	2006					
	Japan	North and South America	Europe	Asia Oceania and Africa	Eliminations/Corporate	Consolidated
Sales to customers.....	\$1,590,487	\$123,897	\$127,880	\$231,565		\$2,073,829
Intersegment sales.....	224,171	68,812	17,000	26,008	\$(335,991)	
Total sales.....	1,814,658	192,709	144,880	257,573	(335,991)	2,073,829
Operating expenses	1,595,803	186,393	135,581	236,941	(261,026)	1,893,692
Operating income	\$ 218,855	\$ 6,316	\$ 9,299	\$ 20,632	\$ (74,965)	\$ 180,137
Assets	\$1,632,923	\$139,410	\$140,274	\$159,248	\$ 296,111	\$2,367,966

Note:

Eliminations/Corporate include unallocated operating expenses of ¥8,419 million (\$71,957 thousand) and ¥8,908 million for the years ended March 31, 2006 and 2005, respectively, consisting principally of general corporate expenses incurred by the administration of the Company, fundamental research and development expenses and advertisement expenses.

Eliminations/Corporate include corporate assets of ¥47,169 million (\$403,154 thousand) and ¥41,581 million for the years ended March 31, 2006 and 2005, respectively, consisting principally of working funds and investing funds held by the Company and assets attributed to Company's administration headquarters.

(3) Sales to foreign customers

	Millions of yen			
	North and South America	Europe	Asia Oceania and Africa	Total
	2006.....	¥20,171	¥15,343	¥43,614
2005.....	17,982	13,588	41,751	73,321
	Thousands of U.S. dollars			
	North and South America	Europe	Asia Oceania and Africa	Total
	2006.....	\$172,402	\$131,137	\$372,769

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Shimadzu Corporation:

We have audited the accompanying consolidated balance sheets of Shimadzu Corporation and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shimadzu Corporation and consolidated subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 3. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2006

SHIMADZU CORPORATION

Established	March, 1875
Limited Corporation Formed	September, 1917
Head Office	1, Nishinokyo-Kuwabara-cho, Nakagyo-ku, Kyoto 604-8511, Japan
Employees	8,512
Parent company	3,085
Domestic subsidiaries	2,993
Overseas subsidiaries	2,434
Consolidated Subsidiaries	60
Domestic	30
Overseas	30

SHIMADZU CORPORATION

Kyoto, Japan