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Operating Results and Financial Position (Fiscal Year 2005)

1. Operating Results

[Overview]

During the fiscal year under review, the Japanese economy trended along a recovery path supported by improved corporate profits and the ensuing 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 interest rate rises being offset primarily by labor market expansion and capital expenditure growth. European economies saw a mild recovery while Asia experienced continued growth in China and other economies.

Under such economic conditions, the Shimadzu Group pursued further globalization by strengthening its sales structure in Europe and India in addition to the U.S. and China, drove forward structural reform of business operations by strengthening and raising the efficiency of Group management, and focused efforts on expanding sales of new products in response to customer needs.

As a result, Group consolidated net sales for the year increased 3.9% from the previous fiscal year to ¥242,638 million. Overseas sales also rose 7.9% to ¥79,128 million.

Ordinary income grew 5.6% to ¥18,319 million while net income totaled ¥11,316 million, which represented a decline of 4.9% from a year earlier.

For the previous fiscal year, the Group paid a year-end dividend of ¥4.50 per share including an ordinary dividend of ¥2.50 per share and a commemorative dividend of ¥2.00 per share to mark the 130th anniversary of the company's establishment. For the fiscal year under review, the Group plans to pay a year-end ordinary dividend of ¥3.50 per share, which represents an increase of ¥1.00 per share from a year earlier. Including an interim dividend of ¥3.50 per share, the planned annual dividend remains unchanged from the previous year at ¥7.00 per share.

[Geographic Segment Information]

By geographic segment, Japan operations benefited from robust domestic demand reflecting a recovery in private sector capital expenditures. Exports of analytical and measuring instruments as well as medical systems were also strong. As a result, net sales in Japan increased 2.1% from a year earlier to ¥186,086

million and operating income grew 1.0% to ¥25,605 million.

In North and South America, net sales rose 16.5% to ¥14,496 million and operating income surged 175.8% to ¥739 million, helped by strong performance in analytical and measuring instruments and growing demand for medical systems .

In Europe, net sales increased 8.2% to ¥14,962 million and operating income grew 1.0% to ¥1,088 million on the back of higher demand for analytical and measuring instruments and solid performance in medical systems .

In Asia and Oceania, net sales increased 8.2% to ¥27,092 million and operating income grew 8.2% to ¥2,413 million, reflecting strong performance in analytical and measuring instruments which offset a decline in demand in China for medical systems and industrial machinery.

[Industry Segment Information]

I. Analytical and Measuring Instruments

In the domestic market, solid performance came primarily from chromatographs, mass spectrometers, optical emissions spectrometers, testing machines for measuring the strength of materials, and X-ray fluorescence spectrometers, reflecting growing private sector capital expenditures as well as continued strength in demand relating to WEEE and RoHS (European Union regulations on hazardous substances), while demand relating 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.

As a result, segment net sales for the fiscal year increased 5.2% to ¥138,452 million while operating income amounted to ¥21,891 million, representing a decline of 3.6%.

II. Medical Systems

In the domestic market, X-ray equipment products including mainstay products equipped with digital flat panel detectors (FPD) delivered strong performance while demand for positron emission tomography (PET) diagnosis equipment declined. Overseas performance was particularly robust in Asia and Europe. As a result, net sales for the segment grew 4.5% to ¥46,277 million, while operating income declined 6.9% to ¥2,140 million.

III. Aircraft Equipment and Industrial Machinery

In the aircraft equipment segment, the company strived to stimulate demand primarily for aircraft components, amid a difficult business environment resulting from defense budget constraints by the Japanese government. However, demand related to development of P-X and C-X aircraft for the Japan Defense Agency started to emerge and there were signs of a long-awaited recovery in demand for passenger aircraft. (P-X and C-X are the Japan Defense Agency's next-generation submarine detection and transport planes.)

In the industrial machinery segment, domestic operations saw growing demand for hydraulic equipment, such as compact gear pumps for industrial vehicles and construction machinery, and for

turbomolecular pumps (TMPs) for semiconductor manufacturing equipment. Overseas, demand for industrial machinery declined in Asia.

As a result, net sales for the segment increased 0.3% to ¥52,460 million and operating income rose 37.4% to ¥3,909 million.

IV. Other

Net sales for the segment grew 2.4% to ¥5,447 million while operating income declined 9.1% to ¥1,493 million.

2. Financial Position

[Total Assets and Shareholders' Equity]

Total assets at the end of the fiscal year stood at ¥277,052 million, representing an increase of ¥14,205 million from the end of the previous fiscal year. This is primarily due to increases in cash and deposits by ¥1,984 million, notes and accounts receivable by ¥2,755 million, inventories by ¥3,616 million and investment securities by ¥4,987 million, respectively. Shareholders' equity increased ¥33,272 million to ¥129,659 million, owing primarily to a ¥9,822 million increase in common stock and additional paid-in capital of ¥9,793 million respectively as a result of conversion of convertible bonds. In addition, retained earnings grew by ¥8,846 million and the net unrealized gain on securities available-for-sale increased by ¥3,030 million.

[Cash Flow Position]

Net cash provided by operating activities at the end of the fiscal year decreased ¥5,197 million from the end of the previous fiscal year to ¥12,941 million, owing chiefly to an increase in income taxes paid of ¥7,301 million.

Net cash used in investing activities declined ¥5,553 million to ¥6,341 million, due primarily to purchases of property, plant and equipment and other assets in the amount of ¥6,811 million.

Net cash used in financing activities shrank ¥2,189 million to ¥5,330 million, due primarily to net repayment of loans in the amount of ¥2,115 million and ¥2,242 million in cash dividends paid.

As a result of these factors, cash and cash equivalents at the end of the fiscal year increased ¥2,066 million from the end of the previous fiscal year to ¥31,926 million.

[Trend of Cash Flow Indicators]

Fiscal year ended:	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006
Equity ratio (%)	32.4	33.0	33.4	36.7	46.8
Market value equity ratio (%)	35.0	33.1	53.4	64.9	79.0
Debt redemption (years)	9.3	3.6	5.2	3.6	3.3
Interest coverage ratio	4.8	15.9	10.4	16.9	18.5

Notes:

Equity ratio: Shareholder's equity/total assets

Market value equity ratio: Market capitalization/total assets

Debt redemption: Interest-bearing debt/cash flow from operating activities

Interest coverage ratio: Cash flow from operating activities/interest payment

1. All indices are calculated using consolidated figures.

2. Market capitalization is calculated by multiplying the closing price of the company's stock at the year-end by the number of shares issued and outstanding at the year-end (excluding treasury stock).

3. Cash flows from operating activities are computed using cash flows from operating activities listed in the consolidated cash flow statements. Interest-bearing debt consists of all interest-bearing liabilities included in liabilities listed in the balance sheet. Interest payments are based on the interest payments in the consolidated statements of cash flows.

3. Business Risks

Business risks and other risks that could materially affect investors' investment decisions include, but are not limited to, the following:

(1) Domestic and overseas market trends

As about 70% of the Group's consolidated net sales are generated from its domestic operations, the Japanese government's domestic policy as well as domestic economic and capital expenditure trends may significantly affect the Group's business performance. In addition, the Group's products and services are marketed globally, thus economic and capital expenditure trends as well as the political and economic environments in each region may significantly affect the Group's business performance and financial condition.

(2) Impact of foreign exchange movements

The Group's operations include global production and sales of its products, and overseas sales account for about 30% of the Group's overall consolidated net sales. As a result, the value of overseas business results after translation into Japanese yen is subject to foreign exchange movements at the time of the translation. Although the Group strives to minimize this impact by means of forward foreign exchange contracts and other countermeasures, it cannot completely eliminate the risk of foreign exchange movements, which may significantly affect the Group's business performance and financial condition.

4. Outlook for the Fiscal Year Ending March 31, 2007

For the fiscal year ending March 31, 2007, although the Japanese economy is expected to continue its recovery driven by the private sector, there are concerns regarding rising crude oil and raw material prices, which may negatively affect the global economy.

Under this business environment, the Group will steadfastly implement initiatives to achieve new growth (Global Growth) and build a firm foundation for Group earnings (Structural Reform of Business Operations), which are the two basic policies of the Group's three-year medium term management plan initiated in April 2005. Through implementation of the plan, the Group is pursuing further growth to become a truly global corporation.

Outlook for the Fiscal Year Ending March 31, 2007

(1) Consolidated Earnings Forecast (April 1, 2006 – March 31, 2007)

(Millions of yen)

	Forecast for the first six months		Forecast for the full year	
		Year-on-year change		Year-on-year change
Net sales	118,000	2.8%	250,000	3.0%
Operating income	10,000	10.8%	23,000	9.1%
Ordinary income	8,300	1.7%	20,000	9.2%
Net income	4,800	-5.8%	11,500	1.6%

(2) Non-consolidated Earnings Forecast (April 1, 2006 – March 31, 2007)

(Millions of yen)

	Forecast for the first six months		Forecast for the full year	
		Year-on-year change		Year-on-year change
Net sales	78,500	0.2%	163,000	0.4%
Operating income	5,100	1.7%	12,000	4.0%
Ordinary income	4,500	-20.7%	10,800	1.0%
Net income	3,000	-28.7%	6,500	-12.7%

* The earnings forecasts given above are estimated based on information available at the time of the release of this report. Actual results may differ from these forecasts due to various factors including, but not limited to, economic conditions of the Group's major markets (Japan, North America, Europe and Asia, etc.), changes in demand for the Group's products and services, and foreign exchange movements.

Consolidated Balance Sheets

(In million yen)

	As of March 31, 2006 (A)		As of March 31, 2005 (B)		(A) - (B)
	Amount (A)	%	Amount (B)	%	
(Assets)					
Current assets:					
Cash and time deposits	32,606		30,622		1,984
Trade notes and accounts receivable	79,408		76,653		2,755
Marketable securities	92		104		-11
Inventories	60,080		56,464		3,616
Deferred tax assets	7,178		6,968		209
Other	2,925		3,165		-239
Allowance for doubtful receivables	-1,246		-1,433		187
Total current assets	181,046	65.3	172,544	65.6	8,501
Noncurrent assets:					
Property, plant and equipment:					
Buildings and structures	28,124		28,886		-761
Machinery, equipment and vehicles	4,895		4,660		235
Land	19,010		18,968		42
Construction in progress	1,160		103		1,056
Other	6,401		5,551		850
Net property, plant and equipment	59,592	21.5	58,169	22.2	1,422
Intangible fixed assets	2,224	0.8	1,569	0.6	655
Investments and other assets:					
Investment securities	15,156		10,169		4,987
Long-term receivables	1,996		2,123		-126
Deferred tax assets	13,494		14,355		-861
Other	4,890		5,285		-395
Allowance for doubtful receivables	-1,348		-1,370		21
Total investments and other assets	34,188	12.4	30,563	11.6	3,625
Total noncurrent assets	96,005	34.7	90,302	34.4	5,703
Total	277,052	100.0	262,846	100.0	14,205

(Amounts are rounded down to the nearest million yen)

(In million yen)

	As of March 31, 2006		As of March 31, 2005		(A) - (B)
	Amount (A)	%	Amount (B)	%	
(Liabilities)					
Current liabilities:					
Trade notes and accounts payable	49,830		46,878		2,952
Short-term loans	15,592		12,746		2,846
Current portion of unsecured convertible bonds	-		19,998		-19,998
Accounts payable, other	8,418		8,665		-246
Income taxes payable	3,950		6,913		-2,962
Allowance for employees' bonuses	5,526		5,240		286
Other	7,977		6,481		1,495
Total current liabilities	91,296	32.9	106,923	40.7	-15,626
Long-term liabilities:					
Unsecured bonds	25,000		25,000		-
Long-term debt	2,039		6,677		-4,638
Liability for employees' retirement benefits	20,686		19,216		1,470
Liability for directors' retirement benefits	547		568		-21
Other	7,315		7,767		-451
Total long-term liabilities	55,589	20.1	59,230	22.5	-3,641
Total liabilities	146,885	53.0	166,153	63.2	-19,267
(Minority interests)					
Minority interests	507	0.2	306	0.1	201
(Shareholders' equity)					
Common stock	26,648	9.6	16,825	6.4	9,822
Additional paid-in capital	35,188	12.7	25,394	9.7	9,793
Retained earnings	65,322	23.6	56,475	21.5	8,846
Net unrealized gain on available-for-sale securities	5,750	2.1	2,720	1.0	3,030
Foreign currency translation adjustments	-2,946	-1.1	-4,819	-1.8	1,872
Treasury stock	-304	-0.1	-209	-0.1	-94
Total shareholders' equity	129,659	46.8	96,386	36.7	33,272
Total	277,052	100.0	262,846	100.0	14,205

(Amounts are rounded down to the nearest million yen)

Consolidated Statements of Operations

(In million yen)

	Year ended March 31, 2006		Year ended March 31, 2005		Change	
	Amount (A)	%	Amount (B)	%	Amount (A) – (B)	Ratio (%)
Net sales	242,638	100.0	233,558	100.0	9,079	3.9
Cost of sales	151,062	62.3	142,791	61.1	8,271	5.8
Gross profit	91,576	37.7	90,767	38.9	808	0.9
Selling, general and administrative expenses	70,500	29.0	70,180	30.1	319	0.5
Operating income	21,076	8.7	20,587	8.8	488	2.4
Other income:						
Interest income	147		111		35	
Dividend income	95		84		11	
Foreign exchange gain, net	270		-		270	
Other	947		872		75	
Total other income	1,461	0.6	1,068	0.5	393	36.8
Other expenses						
Interest expense	699		1,017		-317	
Loss on disposals of inventories	1,572		1,226		346	
Foreign exchange loss, net	-		54		-54	
Other	1,944		2,011		-66	
Total other expenses	4,217	1.7	4,310	1.9	-92	-2.2
Ordinary income	18,319	7.6	17,344	7.4	975	5.6
Extraordinary income:						
Gain on sale of property, plant and equipment	351		86		265	
Gain on sale of investment securities	5		9		-3	
Total extraordinary income	356	0.1	95	0.0	261	273.8
Extraordinary losses:						
Loss on adoption of FRS17 by British subsidiaries	497		-		497	
Loss on disposal of property, plant and equipment	232		373		-141	
Loss on write-down of investment securities	189		75		113	
Loss on sale of investment securities	4		-		4	
Loss on impairment of long-lived assets	-		466		-466	
Loss on change in basis of calculation of retirement benefit obligation	-		365		-365	
Total extraordinary losses	924	0.4	1,281	0.5	-357	-27.9
Income before income taxes and minority interests	17,752	7.3	16,158	6.9	1,593	9.9
Income taxes						
Current	7,839		8,276		-436	
Deferred	-1,448		-4,053		2,605	
Minority interests in net income	45	0.0	34	0.0	11	32.4
Net income	11,316	4.7	11,902	5.1	-586	-4.9

(Amounts are rounded down to the nearest million yen)

Consolidated Statements of Cash Flows

(In million yen)

	Year ended March 31, 2006 (A)	Year ended March 31, 2005 (B)	(A) - (B)
	Amount	Amount	Amount
I Cash flows from operating activities:			
Income before income taxes and minority interests	17,752	16,158	1,593
Depreciation and amortization	4,866	4,678	188
Loss on impairment of long-lived assets	-	466	-466
Increase/decrease in allowance for doubtful receivables	-240	-51	-189
Increase/decrease in allowance for employees' bonuses	286	1,232	-945
Provision for/reversal of accrued retirement benefits for employees	1,470	1,217	252
Interest and dividends income	-242	-195	-46
Interest expense	699	1,017	-317
Bond issue expense	-	59	-59
Foreign exchange gain/loss, net	-22	-12	-10
Net gain/loss on sale of and valuation of investment securities	189	66	122
Net gain/loss on sale and disposal of property, plant and equipment	-119	287	-406
Increase/decrease in trade receivables	-1,697	1,584	-3,281
Increase/decrease in inventories	-2,180	-4,629	2,449
Increase/decrease in trade payables	1,776	140	1,635
Other, net	1,815	643	1,171
Subtotal	24,352	22,664	1,688
Interest and dividends received	237	197	40
Interest paid	-699	-1,073	374
Income taxes paid	-10,950	-3,649	-7,301
Net cash provided by operating activities	12,941	18,139	-5,197
II Cash flows from investing activities:			
Proceeds from sale of marketable securities	110	130	-20
Purchase of property, plant and equipment	-6,811	-12,789	5,977
Proceeds from sale of property, plant and equipment	626	831	-205
Purchase of investment securities	-495	-361	-133
Proceeds from sale of investment securities	32	30	1
Increase in long-term receivables	-22	-34	12
Decrease in long-term receivables	167	156	10
Other, net	51	140	-89
Net cash used in investing activities	-6,341	-11,895	5,553
III Cash flows from financing activities:			
Borrowing of short-term loans	687	4,581	-3,894
Repayments of short-term loans	-3,143	-6,247	3,104
Borrowing of long-term debt	1,240	624	615
Repayment of long-term debt	-899	-1,811	912
Issuance of commercial paper	23,000	-	23,000
Redemption of commercial paper	-23,000	-	-23,000
Issuance of unsecured bonds	-	9,940	-9,940
Redemption of unsecured bonds	-381	-20,000	19,619
Deposit of cash for redemption of unsecured bonds	-16,335	-	-16,335

Withdrawal of cash for redemption of unsecured bonds	16,335	-	16,335
Cash dividends paid	-2,229	-1,331	-898
Dividends payments to minority shareholders	-12	-22	10
Receipt of construction cooperation fund	-	6,823	-6,823
Redemption of construction cooperation fund	-428	-	-428
Other, net	-163	-76	-86
Net cash used in financing activities	-5,330	-7,520	2,189
IV Foreign currency translation adjustments on cash and cash equivalents	890	-42	933
V Net Increase/decrease in cash and cash equivalents	2,159	-1,319	3,478
VI Cash and cash equivalents, beginning of year	29,859	31,179	-1,319
VII Decrease due to exclusion of subsidiaries from consolidation	-92	-	-92
VIII Cash and cash equivalents, end of year	31,926	29,859	2,066

(Amounts are rounded down to the nearest million yen)

Segment Information

Industry Segment Information

Year Ended March 31, 2006 (April 1, 2005 – March 31, 2006)

(In million yen)

	Analytical and Measuring Instruments	Medical Systems	Aircraft Equipment and Industrial Machinery	Other	Total	Eliminations/Corporate	Consolidated
I. Net sales and operating income							
Net sales							
(1) Sales to customers	138,452	46,277	52,460	5,447	242,638	-	242,638
(2) Intersegment sales	214	5	83	1,043	1,347	-1,347	-
Total	138,667	46,282	52,543	6,491	243,985	-1,347	242,638
Operating expenses	116,776	44,142	48,634	4,997	214,551	7,010	221,562
Operating income	21,891	2,140	3,909	1,493	29,433	-8,357	21,076
II. Assets, depreciation, loss on impairment of long-lived assets and capital expenditure							
Assets	121,994	37,325	60,336	12,569	232,225	44,826	277,052
Depreciation	2,088	608	1,182	400	4,280	585	4,866
Capital expenditures	3,109	918	1,540	11	5,579	1,480	7,059

(Amounts are rounded down to the nearest million yen)

Year Ended March 31, 2005 (April 1, 2004 – March 31, 2005)

(In million yen)

	Analytical and Measuring Instruments	Medical Systems	Aircraft Equipment and Industrial Machinery	Other	Total	Eliminations/Corporate	Consolidated
I. Net sales and operating income							
Net sales							
(1) Sales to customers	131,642	44,290	52,305	5,319	233,558	-	233,558
(2) Intersegment sales	233	2	170	952	1,359	-1,359	-
Total	131,876	44,293	52,476	6,272	234,918	-1,359	233,558
Operating expenses	109,170	41,993	49,631	4,629	205,425	7,546	212,971
Operating income	22,705	2,299	2,845	1,642	29,493	-8,906	20,587
II. Assets, depreciation, loss on impairment of long-lived assets and capital expenditure							
Assets	115,667	35,317	57,872	12,928	221,785	41,060	262,846
Depreciation	2,262	616	1,029	419	4,328	350	4,678
Loss on impairment of long-lived assets	-	-	-	-	-	466	466
Capital expenditures	2,573	621	2,725	42	5,962	387	6,350

(Amounts are rounded down to the nearest million yen)

Notes:

1. Classification of business segment and names of major products under each segment.

The Group's operations are classified into four principal segments: Analytical and Measuring Instruments, Medical Systems, Aircraft Equipment and Industrial Machinery, and Other, based on the purpose of use of each product in the market.

2. "Elimination/Corporate" includes unallocated operating expenses of ¥8,418 million and ¥8,907 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.
3. "Elimination/Corporate" include corporate assets of ¥47,169 million and ¥41,580 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.

Overseas Sales

Year Ended March 31, 2006 (April 1, 2005 – March 31, 2006)

(In million yen)

	North and South America	Europe	Asia and Oceania	Total
I. Overseas sales	20,171	15,343	43,614	79,128
II. Consolidated sales				242,638
III. Ratio of overseas to total consolidated sales	8.3%	6.3%	18.0%	32.6%

(Amounts are rounded down to the nearest million yen)

Year Ended March 31, 2005 (April 1, 2004 – March 31, 2005)

(In million yen)

	North and South America	Europe	Asia and Oceania	Total
I. Overseas sales	17,981	13,588	41,751	73,321
II. Consolidated sales				233,558
III. Ratio of overseas to total consolidated sales	7.7%	5.8%	17.9%	31.4%

(Amounts are rounded down to the nearest million yen)

Notes:

1. Classification method of geographic segment: by geographic proximity.
2. Major countries or regions in each segment:
 - (1) North and South America. ...U.S.
 - (2) Europe.....U.K. and Germany
 - (3) Asia and Oceania.....China, Southeast Asian nations and Australia