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## **Operating Results and Financial Position** **(for the Nine Months ended December 31, 2009)**

### **1. Operating Results**

#### **Consolidated Overview**

During the nine months to December 31, 2009, the Japanese economy continued to face stiff headwinds in the form of an adverse employment environment and delayed recovery in private capital spending, even as exports, production, and consumer spending picked up. Overseas, the Chinese economy is recovering, largely in response to government policies to expand domestic demand. The US and Europe remained under severe pressure from high unemployment, but their economies also have started to gradually recover, largely by virtue of stimulus polices.

In response to this new economic environment, the Shimadzu Group is implementing emergency measures to maintain sales levels and reduce total costs in the aim of maintaining profitability. Meanwhile, the Group is also pursuing sustained growth by strengthening its marketing capabilities to build Shimadzu into a premier global brand, while also carrying out functional and process reforms to solidify its earnings foundation.

As a result of these efforts, the Group earned consolidated operating income of ¥3,036 million, a 79.3% year-on-year decrease, on consolidated net sales of ¥158,512 million, a 19.8% year-on-year decrease, in the nine months ended December 31, 2009. Consolidated ordinary income was down 78.6% year on year to ¥2,825 million while consolidated net income declined 74.9% year on year to ¥1,732 million. The declines in sales and profits were largely attributable to a steep downturn in domestic and overseas demand and sharp yen appreciation.

The Group's sales tend to be disproportionately concentrated in the fiscal second and fourth quarters.

## **Industry Segment Information**

### **I. Analytical and Measuring Instruments**

Domestic sales were sluggish overall. Public-sector demand was strong, bolstered by supplementary budget appropriations, but private demand remained under pressure from recessionary forces. Although private demand showed signs of stabilizing, companies in the transport equipment, metals, and chemical sectors continued to clamp down on capital spending and R&D investment.

Sales of liquid chromatographs, a core product, declined overall but rebounded in certain sectors, including pharmaceuticals and foods. Total sales of mass spectrometers grew as a slump in private demand was offset by buoyant public-sector demand largely funded by supplementary budget appropriations. Gas chromatograph sales declined under the weight of continued capital spending cutbacks in the petroleum and chemicals sectors. Sales of materials testing machines, non-destructive testing machines, and surface and composition analysis apparatus likewise declined in the wake of continued retrenchment in capital spending in the automobile, electrical machinery, and metals sectors.

Overseas, overall sales in China decreased, but Chinese sales of liquid and gas chromatographs grew, driven by continued heavy public investment, mainly in the field of food safety. In the US, Europe, and Asia ex China, the economic slowdown continued to weigh heavily on demand. Sales in these regions declined amid an absence of recovery in market conditions.

The segment earned operating income of ¥7,788 million (down 45.3% year on year) on net sales of ¥86,327 million (down 19.6% year on year) in the nine months ended December 31, 2009.

### **II. Medical Systems**

In the domestic market, demand from public and university hospitals has been recovering. Sales to such hospitals of diagnostic x-ray systems equipped with direct-conversion FPD (flat panel detector) technology were strong. Private hospitals, however, remained beset by an adverse operating environment. On balance, overall domestic sales were down slightly.

Overseas, US sales sagged, largely as a result of reluctance to purchase equipment while health-care reform was pending. Chinese sales, by contrast, increased as hospitals continued to actively invest in equipment in response to health insurance reform and upgrading of the health-care system pursuant to the government's health-care reform policies. In Europe ex Russia, sales embarked on a recovery trend. Latin American sales

also grew, bolstered by solid demand.

The segment earned operating income of ¥568 million (down 57.6% year on year) on net sales of ¥34,594 million (down 6.0% year on year) in the nine months ended December 31, 2009.

### III. Aircraft Equipment and Industrial Machinery

The aircraft equipment business saw an increase in sales to Japan's Ministry of Defense for the F-15 fighter modernization program, but its overall domestic sales fell as a result of having completed deliveries of prototype products for the next-model fixed-wing maritime patrol aircraft (XP-1) and next-model large transport plane (C-X) in the previous fiscal year. Overseas aircraft equipment sales were down sharply due to a precipitous downshift in civilian aircraft demand.

In the industrial machinery business, sales of turbomolecular pumps declined but demand for other products, mainly semiconductor and LCD production equipment, has rebounded sharply since last October. Overseas sales of CVD (chemical vapor deposition) equipment for solar cell production decreased following their major growth in the previous fiscal year, but domestic sales of such equipment have been roughly flat year on year. Hydraulic equipment sales were down substantially in the fiscal first half as a result of inventory destocking and production cutbacks among construction machinery and industrial vehicle makers, the major sources of demand for such equipment. Recently, however, sales to some industrial vehicle makers have been recovering.

Overall, the segment earned operating income of ¥828 million (down 83.4% year on year) on net sales of ¥33,725 million (down 31.4% year on year) in the nine months ended December 31, 2009.

### IV. Other

The segment earned operating income of ¥1,142 million (down 9.6% year on year) on net sales of ¥3,864 million (down 11.8% year on year) in the nine months ended December 31, 2009.

## 2. Consolidated Financial Position

At December 31, 2009, consolidated assets totaled ¥277,122 million, a decrease of ¥4,032 million from March 31, 2009. The decrease was attributable to a ¥10,056 million reduction in trade notes and accounts receivable, partially offset by a ¥3,421 million increase in work-in-process inventories, ¥1,131 million increase in buildings and structures (net of accumulated depreciation), and ¥1,462 million increase in investment securities. Net assets

totaled ¥147,845 million at December 31, 2009.

### **3. Consolidated Outlook**

With domestic and overseas economic conditions still adverse, particularly in terms of capital spending and employment, the outlook for the Group's operating environment, including exchange rate trends and global economic performance, remains murky. However, signs of recovery have started to emerge, largely by virtue of worldwide economic stimulus policies.

Faced with such an operating environment, we are looking at the current fiscal year as an opportunity to adapt to this new economic environment. For the remainder of the fiscal year, we intend to shore up profitability by intensify our emergency cost-cutting strategies. We will also pursue sales growth on several fronts. First, the Group will focus on capturing demand from public investment and fiscal mobilization, including the Japanese government's supplementary budgets. Second, we will expand the scope of our operations in growing emerging markets through such means as launching new huge-market, so called volume zone, products in China. Third, the Group will deepen its involvement in service businesses. Fourth, the Group will expand its operations in growing fields such as safety and security, environmental mitigation, and clean energy.

Additionally, in accord with the slogan "Dedicated to continuous improvement for the future of our cutomers," we will further strengthen our marketing capabilities, expand into new fields (e.g., next-generation healthcare), and continue to implement functional and process reforms across R&D, production, sales, service, and logistics operations. Through such measures, the Group will steadily and persistently build a strong operational foundation to embark on a renewed growth path as soon as economic recovery is decisively underway.

### **4. Other Information**

(1) Changes in the consolidation status (scope of consolidation) of material subsidiaries during the period

Not applicable

(2) Use of simplified accounting procedures and/or accounting procedures specific to the preparation of quarterly consolidated financial statements

Not applicable

(3) Changes in accounting principles, procedures, and methods of presentation used in the preparation of quarterly consolidated financial statements

Not applicable

## 5. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

(In million yen)

	As of December 31, 2009	As of March 31, 2009
<b>Assets</b>		
Current assets		
Cash and time deposits	25,051	24,494
Trade notes and accounts receivable	69,194	79,250
Merchandise and products	32,215	33,744
Work in process	24,345	20,923
Raw materials and supplies	15,047	14,065
Deferred tax assets	6,596	6,555
Other	5,088	3,196
Allowance for doubtful receivables	(1,015)	(1,007)
Total current assets	176,524	181,224
Noncurrent assets		
Property, plant and equipment:		
Buildings and structures	67,601	65,114
Accumulated depreciation	(34,056)	(32,700)
Buildings and structures, net	33,545	32,413
Machinery, equipment and vehicles	19,984	19,482
Accumulated depreciation	(14,583)	(13,564)
Machinery, equipment and vehicles, net	5,400	5,917
Land	18,817	18,808
Leased assets	4,756	5,323
Accumulated depreciation	(2,992)	(3,132)
Leased assets, net	1,763	2,191
Construction in progress	2,180	1,321
Other	27,260	26,637
Accumulated depreciation	(20,739)	(19,681)
Other, net	6,520	6,955
Net property, plant and equipment	68,227	67,608
Intangible fixed assets	6,165	6,538
Investments and other assets:		
Investment securities	9,238	7,776
Long-term receivables	1,304	1,465
Deferred tax assets	10,948	11,598
Other	5,011	5,135
Allowance for doubtful receivables	(298)	(190)
Total investments and other assets	26,205	25,784
Total noncurrent assets	100,598	99,931
Total assets	277,122	281,155

(In million yen)

	As of December 31, 2009	As of March 31, 2009
<b>Liabilities</b>		
Current liabilities		
Trade notes and accounts payable	38,794	45,754
Short-term loans	14,549	12,520
Current portion of unsecured bonds	-	10,000
Lease obligations	849	1,039
Accounts payable, other	9,494	9,442
Income taxes payable	548	2,239
Allowance for employees' bonuses	1,924	5,186
Allowance for director's bonuses	152	309
Other	16,902	9,939
Total current liabilities	83,215	96,429
Long-term liabilities		
Unsecured bonds	10,000	10,000
Long-term debt	12,346	2,120
Lease obligations	1,036	1,328
Liability for employees' retirement benefits	16,101	16,827
Liability for directors' retirement benefits	270	264
Other	6,306	6,879
Total long-term liabilities	46,061	37,419
Total liabilities	129,276	133,849
<b>Net assets</b>		
Shareholders' capital		
Common stock	26,648	26,648
Additional paid-in capital	35,188	35,188
Retained earnings	93,013	93,641
Treasury stock	(638)	(623)
Total shareholders' capital	154,212	154,855
Valuation and translation adjustments		
Net unrealized gain on available-for-sale securities	2,505	1,586
Foreign currency translation adjustments	(9,080)	(9,530)
Total valuation and translation adjustments	(6,574)	(7,944)
Minority interests	207	395
Total net assets	147,845	147,306
Total liabilities and net assets	277,122	281,155

**(2) Consolidated Statements of Operations**

(In million yen)

	Nine months ended December 31, 2009	Nine months ended December 31, 2008
Net sales	158,512	197,729
Cost of sales	99,195	120,098
Gross profit	59,316	77,631
Selling, general and administrative expenses	56,279	62,986
Operating income	3,036	14,644
Other income:		
Interest income	74	168
Dividend income	109	178
Insurance payments received	118	183
Rent received	139	114
Other	715	447
Total other income	1,157	1,092
Other expenses:		
Interest expense	386	378
Foreign exchange loss, net	323	1,046
Other	658	1,088
Total other expenses	1,368	2,513
Ordinary income	2,825	13,223
Extraordinary income:		
Gain on sale of property, plant and equipment	17	20
Gain on contribution of securities to employees' retirement benefit trust	-	1,450
Gain on sale of investment securities	-	13
Total extraordinary income	17	1,484
Extraordinary losses:		
Loss on disposal of property, plant and equipment	103	110
Loss on sale of investment securities	40	-
Loss on write-down of investment securities	12	1,079
Loss on write-down of inventories	-	1,752
Total extraordinary losses	157	2,943
Income before income taxes and minority interests	2,685	11,764
Income taxes	1,302	2,576
Refund of income taxes for past fiscal years	(389)	-
Income taxes adjustments	32	2,284
Total income taxes and income taxes adjustments	945	4,860
Minority interests in net income	7	11
Net income	1,732	6,892

### **(3) Consolidated Statements of Cash Flows**

	(In million yen)	
	Nine months ended December 31, 2009	Nine months ended December 31, 2008
I. Cash flows from operating activities:		
Income before income taxes and minority interests	2,685	11,764
Depreciation and amortization	6,181	6,317
Increase (decrease) in allowance for doubtful receivables	106	251
Increase (decrease) in allowance for employees' bonuses	(3,261)	(4,049)
Increase (decrease) in allowance for director's bonuses	(156)	(88)
Provision for (reversal of) accrued retirement benefits for employees	(757)	(647)
(Gain) loss on contribution of securities to employees' retirement benefit trust	-	(1,450)
Interest and dividends income	(184)	(346)
Interest expense	386	378
Foreign exchange (gain) loss, net	20	33
Net (gain) loss on sale and valuation of investment securities	53	1,067
Net (gain) loss on sale and disposal of property, plant and equipment	86	90
(Increase) decrease in trade receivables	10,455	5,045
(Increase) decrease in inventories	(2,429)	(15,188)
Increase (decrease) in trade payables	(7,330)	2,535
Other, net	(2,353)	2,615
Subtotal	<u>3,502</u>	<u>8,327</u>
Interest and dividends received	186	351
Interest paid	(375)	(468)
Income taxes paid	(3,594)	(3,292)
Net cash provided by (used in) operating activities	<u>(280)</u>	<u>4,917</u>
II. Cash flows from investing activities:		
Proceeds from sale of marketable securities	-	132
Purchase of property, plant and equipment	(4,819)	(6,744)
Proceeds from sale of property, plant and equipment	172	118
Purchase of investment securities	(2)	(153)
Proceeds from sale of investment securities	9	26
Investments in subsidiaries	(193)	-
Increase in long term receivables	(8)	(595)
Decrease in long term receivables	71	77
Other, net	(275)	(99)
Net cash provided by (used in) investing activities	<u>(5,045)</u>	<u>(7,237)</u>
III. Cash flows from financing activities:		
Borrowing of short-term loans	3,833	11,897
Repayment of short-term loans	(1,538)	(518)
Borrowing of long-term debt	10,789	407
Repayment of long-term debt	(924)	(1,351)
Issuance of commercial paper	11,000	4,000
Redemption of commercial paper	(4,000)	(4,000)
Redemption of unsecured bonds	(10,000)	(15,000)
Cash dividends paid	(2,361)	(2,806)
Dividends payments to minority shareholders	(11)	(4)
Repayment of guarantee deposits received	(333)	(333)
Payment of finance lease obligations	(857)	(1,006)
Other, net	(14)	(80)
Net cash provided by (used in) financing activities	<u>5,581</u>	<u>(8,794)</u>
IV. Foreign currency translation adjustments on cash and cash equivalents	26	(905)
V. Net increase (decrease) in cash and cash equivalents	<u>281</u>	<u>(12,019)</u>
VI. Cash and cash equivalents, beginning of period	23,673	35,077
VII. Increase in cash and cash equivalents due to inclusion of subsidiaries in consolidation	-	503
VIII. Cash and cash equivalents, end of period	<u>23,955</u>	<u>23,560</u>



#### (4) Notes on the Going-concern Assumption

Not applicable

#### (5) Segment Information

##### 1) Industry Segment Information

Nine months ended December 31, 2009 (April 1, 2009 – December 31, 2009)

(In million yen)

	Analytical & Measuring Instruments	Medical Systems	Aircraft Equipment & Industrial Machinery	Other	Total	Eliminations/corporate	Consolidated total
I. Net sales							
(1) Sales to customers	86,327	34,594	33,725	3,864	158,512	-	158,512
(2) Inter-segment sales	177	2	61	591	833	(833)	-
Total	86,504	34,596	33,786	4,456	159,345	(833)	158,512
Operating income	7,788	568	828	1,142	10,328	(7,292)	3,036

Nine months ended December 31, 2008 (April 1, 2008 – December 31, 2008)

(In million yen)

	Analytical & Measuring Instruments	Medical Systems	Aircraft Equipment & Industrial Machinery	Other	Total	Eliminations/corporate	Consolidated total
I. Net sales							
(1) Sales to customers	107,400	36,786	49,161	4,381	197,729	-	197,729
(2) Inter-segment sales	63	10	55	756	885	(885)	-
Total	107,463	36,797	49,216	5,137	198,614	(885)	197,729
Operating income	14,246	1,341	4,978	1,264	21,830	(7,186)	14,644

##### 2) Overseas sales

Nine months ended December 31, 2009 (April 1, 2009 – December 31, 2009)

(In million yen)

	The Americas	Europe	Asia and Oceania	Total
I. Overseas sales	15,245	11,838	37,906	64,990
II. Consolidated sales				158,512
III. Ratio of overseas sales to total consolidated sales	9.6%	7.5%	23.9%	41.0%

Nine months ended December 31, 2008 (April 1, 2008 – December 31, 2008)

(In million yen)

	The Americas	Europe	Asia and Oceania	Total
I. Overseas sales	20,951	16,492	49,193	86,636
II. Consolidated sales				197,729
III. Ratio of overseas sales to total consolidated sales	10.6%	8.3%	24.9%	43.8%

#### (6) Note on Significant Changes in the Amount of Shareholders' Capital

Not applicable