

# Shimadzu Integrated Report 2020

## Financial Section

Year Ending March 2020



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**Consolidated Balance Sheet**

March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2020	2019	2020
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Note 13) .....	¥ 66,683	¥ 70,842	\$ 611,771
Time deposits (Note 13) .....	4,185	2,799	38,394
Trade receivables:			
Notes and accounts (Note 13) .....	119,904	126,359	1,100,037
Allowance for doubtful receivables .....	(1,812)	(1,671)	(16,624)
Net trade receivables .....	118,092	124,688	1,083,413
Inventories (Note 5) .....	87,873	83,470	806,174
Prepaid expenses and other current assets .....	8,808	9,108	80,808
Total current assets .....	285,641	290,907	2,620,560
<b>PROPERTY, PLANT AND EQUIPMENT (Note 2.f):</b>			
Land .....	18,795	19,010	172,431
Buildings and structures .....	46,485	46,799	426,468
Machinery, equipment and vehicles .....	7,104	7,826	65,174
Lease assets .....	2,936	3,183	26,936
Construction in progress .....	6,313	2,338	57,917
Others (Note 2.n) .....	16,142	13,725	148,092
Total property, plant and equipment .....	97,775	92,881	897,018
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 4 and 13) .....	11,332	12,341	103,963
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 13) .....	2,037	3,208	18,688
Software .....	7,645	6,965	70,138
Asset for retirement benefits (Note 8) .....	12,147	10,481	111,440
Deferred tax assets (Note 11) .....	13,341	12,401	122,394
Other assets .....	7,699	8,006	70,634
Total investments and other assets .....	54,201	53,402	497,257
<b>TOTAL</b> .....	<b>¥437,617</b>	<b>¥437,190</b>	<b>\$4,014,835</b>

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2020	2019	2020
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Short-term borrowings (Notes 7 and 13) .....	¥ 1,858	¥ 1,964	\$ 17,046
Current portion of long-term debt (Note 7) .....	2,227	16,489	20,431
Trade notes and accounts payable (Note 13) .....	60,190	66,611	552,202
Other payables .....	13,945	15,487	127,936
Advances from customers .....	10,248	7,203	94,018
Income taxes payable .....	4,845	3,741	44,450
Provision for bonuses .....	9,430	9,096	86,514
Provision for loss on defense equipment .....	21	45	193
Accrued expenses and other current liabilities .....	12,710	12,642	116,606
Total current liabilities .....	<u>115,474</u>	<u>133,278</u>	<u>1,059,396</u>
<b>LONG-TERM LIABILITIES:</b>			
Long-term debt (Notes 7 and 13) .....	3,553	2,576	32,596
Liability for retirement benefits (Note 8) .....	14,433	11,939	132,413
Long-term deposit .....	80	80	734
Other long-term liabilities (Note 11) .....	1,302	1,376	11,945
Total long-term liabilities .....	<u>19,368</u>	<u>15,971</u>	<u>177,688</u>
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Notes 12 and 14)</b>			
<b>EQUITY (Notes 9 and 17):</b>			
Common stock, authorized, 800,000,000 shares; issued, 296,070,227 shares .....	26,649	26,649	244,486
Capital surplus .....	34,911	34,927	320,284
Retained earnings .....	245,255	222,802	2,250,046
Treasury stock – at cost, 1,503,724 shares in 2020 and 1,502,537 shares in 2019 .....	(1,419)	(1,416)	(13,018)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities .....	4,758	5,509	43,651
Foreign currency translation adjustments .....	(5,832)	(1,661)	(53,505)
Defined retirement benefit plans .....	(1,547)	1,084	(14,193)
Total .....	<u>302,775</u>	<u>287,894</u>	<u>2,777,751</u>
Noncontrolling interests .....		47	
Total equity .....	<u>302,775</u>	<u>287,941</u>	<u>2,777,751</u>
<b>TOTAL</b> .....	<u><b>¥437,617</b></u>	<u><b>¥437,190</b></u>	<u><b>\$4,014,835</b></u>

**Consolidated Statement of Income**

Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2020	2019	2020
<b>NET SALES</b> (Notes 12 and 18).....	<b>¥385,444</b>	¥391,214	<b>\$3,536,183</b>
<b>COST OF SALES</b> (Notes 8 and 12).....	<b>233,014</b>	234,044	<b>2,137,743</b>
Gross profit .....	<b>152,430</b>	157,170	<b>1,398,440</b>
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> (Notes 8, 10 and 12) ...	<b>110,584</b>	112,689	<b>1,014,532</b>
Operating income (Note 18).....	<b>41,846</b>	44,481	<b>383,908</b>
<b>OTHER INCOME (EXPENSES):</b>			
Interest and dividend income .....	1,373	523	12,596
Interest expense.....	(92)	(116)	(844)
Foreign exchange (loss) gain, net.....	(1,157)	63	(10,615)
Donation .....	(304)	(204)	(2,789)
Gain on sales of non-current assets.....	546	57	5,009
Loss on disposal of non-current assets .....	(136)	(424)	(1,248)
Gain on sales of investment securities .....	96	177	881
Loss on valuation of investment securities .....	(63)	(199)	(578)
Loss on sales of investment securities .....		(226)	
Impairment loss on buildings and structures, and land (Note 6) .....		(196)	
Other, net.....	1,005	716	9,221
Other income (expenses), net.....	<b>1,268</b>	171	<b>11,633</b>
<b>INCOME BEFORE INCOME TAXES</b> .....	<b>43,114</b>	44,652	<b>395,541</b>
<b>INCOME TAXES</b> (Note 11):			
Current.....	10,375	10,991	95,183
Deferred .....	976	1,075	8,954
Total income taxes.....	<b>11,351</b>	12,066	<b>104,137</b>
<b>NET INCOME</b> .....	<b>31,763</b>	32,586	<b>291,404</b>
<b>NET (LOSS) INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b>	<b>(4)</b>	62	<b>(37)</b>
<b>NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT</b> .....	<b>¥ 31,767</b>	¥ 32,524	<b>\$ 291,441</b>
		Yen	U.S. Dollars
<b>PER SHARE OF COMMON STOCK</b> (Notes 2.v and 16):			
Basic net income.....	<b>¥107.84</b>	¥110.41	<b>\$0.99</b>
Cash dividends applicable to the year.....	<b>30.00</b>	28.00	<b>0.28</b>

See notes to consolidated financial statements.

**Consolidated Statement of Comprehensive Income**

Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2020	2019	2020
<b>NET INCOME</b> .....	<b>¥31,763</b>	<b>¥32,586</b>	<b>\$291,404</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS) (Note 15):</b>			
Unrealized gain on available-for-sale securities .....	(751)	(1,932)	(6,890)
Foreign currency translation adjustments .....	(4,100)	290	(37,615)
Defined retirement benefit plans.....	(2,631)	(2,703)	(24,138)
Total other comprehensive income.....	<u>(7,482)</u>	<u>(4,345)</u>	<u>(68,643)</u>
<b>COMPREHENSIVE INCOME</b> .....	<b>¥24,281</b>	<b>¥28,241</b>	<b>\$222,761</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>			
Owners of the parent .....	¥24,285	¥28,212	\$222,798
Noncontrolling interests.....	(4)	29	(37)

See notes to consolidated financial statements.

**Consolidated Statement of Changes in Equity**

Year Ended March 31, 2020

Millions of Yen

	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock
<b>BALANCE, APRIL 1, 2018</b> .....	294,569,286	¥26,649	¥35,188	¥198,038	¥(1,411)
Net income attributable to owners of the parent.....				32,524	
Cash dividends.....				(7,665)	
Change in the parent's ownership interest due to transaction with noncontrolling interest.....				(95)	
Purchase of treasury stock.....					(5)
Purchase of consolidated subsidiaries stock .....					
Purchase of investments in capital of consolidated subsidiaries.....			(261)		
Net change in the year.....	(1,596)				
<b>BALANCE, MARCH 31, 2019</b> .....	294,567,690	26,649	34,927	222,802	(1,416)
Net income attributable to owners of the parent.....				31,767	
Cash dividends.....				(8,845)	
Change in the parent's ownership interest due to transaction with noncontrolling interest.....				(469)	
Purchase of treasury stock.....					(3)
Purchase of consolidated subsidiaries stock .....			(1)		
Purchase of investments in capital of consolidated subsidiaries.....			(15)		
Net change in the year.....	(1,187)				
<b>BALANCE, MARCH 31, 2020</b> .....	<b>294,566,503</b>	<b>¥26,649</b>	<b>¥34,911</b>	<b>¥245,255</b>	<b>¥(1,419)</b>

Thousands of U.S. Dollars (Note 3)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock
<b>BALANCE, MARCH 31, 2019</b> .....	\$244,486	\$320,431	\$2,044,055	\$(12,991)
Net income attributable to owners of the parent.....			291,441	
Cash dividends.....			(81,147)	
Change in the parent's ownership interest due to transaction with noncontrolling interest.....			(4,303)	
Purchase of treasury stock.....				(27)
Purchase of consolidated subsidiaries stock .....		(9)		
Purchase of investments in capital of consolidated subsidiaries.....		(138)		
Net change in the year.....				
<b>BALANCE, MARCH 31, 2020</b> .....	<b>\$244,486</b>	<b>\$320,284</b>	<b>\$2,250,046</b>	<b>\$(13,018)</b>

See notes to consolidated financial statements.

Millions of Yen

	Accumulated Other Comprehensive Income (Loss)			Total	Noncontrolling Interests	Total Equity
	Unrealized Gain on Available-for- Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans			
<b>BALANCE, APRIL 1, 2018</b> .....	¥ 7,440	¥(1,998)	¥ 3,789	¥267,695	¥ 366	¥268,061
Net income attributable to owners of the parent.....				32,524		32,524
Cash dividends.....				(7,665)		(7,665)
Change in the parent's ownership interest due to transaction with noncontrolling interest .....				(95)		(95)
Purchase of treasury stock.....				(5)		(5)
Purchase of consolidated subsidiaries stock..						
Purchase of investments in capital of consolidated subsidiaries.....				(261)		(261)
Net change in the year.....	(1,931)	337	(2,705)	(4,299)	(319)	(4,618)
<b>BALANCE, MARCH 31, 2019</b> .....	5,509	(1,661)	1,084	287,894	47	287,941
Net income attributable to owners of the parent.....				31,767		31,767
Cash dividends.....				(8,845)		(8,845)
Change in the parent's ownership interest due to transaction with noncontrolling interest .....				(469)		(469)
Purchase of treasury stock.....				(3)		(3)
Purchase of consolidated subsidiaries stock..				(1)		(1)
Purchase of investments in capital of consolidated subsidiaries.....				(15)		(15)
Net change in the year.....	(751)	(4,171)	(2,631)	(7,553)	(47)	(7,600)
<b>BALANCE, MARCH 31, 2020</b> .....	¥ 4,758	¥(5,832)	¥(1,547)	¥302,775		¥302,775

Thousands of U.S. Dollars (Note 3)

	Accumulated Other Comprehensive Income (Loss)			Total	Noncontrolling Interests	Total Equity
	Unrealized Gain on Available-for- Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans			
<b>BALANCE, MARCH 31, 2019</b> .....	\$50,541	\$(15,239)	\$ 9,945	\$2,641,228	\$ 431	\$2,641,659
Net income attributable to owners of the parent.....				291,441		291,441
Cash dividends.....				(81,147)		(81,147)
Change in the parent's ownership interest due to transaction with noncontrolling interest .....				(4,303)		(4,303)
Purchase of treasury stock.....				(27)		(27)
Purchase of consolidated subsidiaries stock..				(9)		(9)
Purchase of investments in capital of consolidated subsidiaries.....				(138)		(138)
Net change in the year.....	(6,890)	(38,266)	(24,138)	(69,294)	(431)	(69,725)
<b>BALANCE, MARCH 31, 2020</b> .....	\$43,651	\$(53,505)	\$(14,193)	\$2,777,751		\$2,777,751

See notes to consolidated financial statements.

**Consolidated Statement of Cash Flows**

Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2020	2019	2020
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes .....	¥ 43,114	¥ 44,652	\$ 395,541
Adjustments for:			
Income taxes paid .....	(9,310)	(14,806)	(85,413)
Depreciation and amortization .....	13,257	11,506	121,624
Impairment loss (Note 6) .....		196	
Foreign exchange loss (gain), net .....	7	(10)	64
(Gain) loss on sales and valuation of investment securities .....	(33)	247	(303)
(Gain) loss on sale and retirement of property, plant and equipment .....	(411)	367	(3,771)
Changes in assets and liabilities:			
Decrease (increase) in trade receivables .....	4,382	(6,471)	40,202
Increase in allowance for doubtful receivables .....	183	226	1,679
Increase in inventories .....	(5,482)	(2,589)	(50,294)
Decrease in trade payables .....	(5,808)	(600)	(53,284)
Increase in accrued bonuses .....	351	349	3,220
Decrease in liability for retirement benefits .....	(1,589)	(1,411)	(14,578)
Other, net .....	848	(2,202)	7,781
Total adjustments .....	(3,605)	(15,198)	(33,073)
Net cash provided by operating activities .....	39,509	29,454	362,468
<b>INVESTING ACTIVITIES:</b>			
Proceeds from sale of property, plant and equipment .....	1,183	1,024	10,853
Purchases of property, plant and equipment .....	(15,868)	(20,785)	(145,578)
Purchase of investments in capital of subsidiaries .....	(54)	(1,986)	(495)
Purchases of investment securities .....	(149)	(987)	(1,367)
Proceeds from sales of investment securities .....	311	749	2,853
Payments of long-term loans receivable .....	(53)	(59)	(486)
Collections of long-term loans receivable .....	67	47	615
Other, net .....	(1,499)	(901)	(13,753)
Net cash used in investing activities .....	(16,062)	(22,898)	(147,358)
<b>FINANCING ACTIVITIES:</b>			
Net decrease in short-term borrowings .....	(102)	(482)	(936)
Proceeds from long-term borrowings .....	18		165
Repayments of long-term debt .....	(2,185)	(2,009)	(20,046)
Redemption of bonds .....	(15,000)		(137,615)
Purchase of consolidated subsidiaries stock from noncontrolling interest without change in scope of consolidation .....	(3)		(28)
Purchase of investment of subsidiaries from noncontrolling interest without change in scope of consolidation .....	(49)	(621)	(450)
Cash dividends paid .....	(8,840)	(7,683)	(81,101)
Purchase of treasury stock .....	(3)	(5)	(28)
Other, net .....	(21)	(19)	(190)
Net cash used in financing activities .....	(26,185)	(10,819)	(240,229)
FORWARD .....	¥ (2,738)	¥ (4,263)	

(Continued)



	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2020	2019	2020
FORWARD .....	¥ (2,738)	¥ (4,263)	
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS.....	(1,941)	(236)	(17,808)
NET DECREASE IN CASH AND CASH EQUIVALENTS .....	(4,679)	(4,499)	(42,927)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR.....	70,842	75,090	649,927
INCREASE IN CASH AND CASH EQUIVALENTS FROM NEWLY CONSOLIDATED SUBSIDIARY .....	520	251	4,771
CASH AND CASH EQUIVALENTS, END OF YEAR.....	¥66,683	¥70,842	\$611,771

See notes to consolidated financial statements.

(Concluded)

# Notes to Consolidated Financial Statements

Year Ended March 31, 2020

## 1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2019 consolidated financial statements to conform to the classifications used in 2020.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**a. Consolidation** - The consolidated financial statements as of March 31, 2020, include the accounts of the Company and its 23 (23 in 2019) domestic subsidiaries and 53 (52 in 2019) foreign 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 5 (7 in 2019) unconsolidated subsidiaries and 3 (4 in 2019) associated companies are stated at cost. The effect on the consolidated financial statements of not applying the equity method is immaterial.

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

Shimadzu (Hong Kong) Limited and 10 other subsidiaries have a closing date falling on December 31; however, these companies carry out provisional settlements of accounts on March 31 and use these amounts in consolidated accounts.

During the year ended March 31, 2020, Shimadzu Scientific Korea Corporation and InfraserVakuumservice GmbH were newly included in the scope of consolidation due to their increased significance to the Group financial statements.

**b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements** - Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used

for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material:

(a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

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

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

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

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

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

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

Accumulated depreciation at March 31, 2020 and 2019, was ¥98,601 million (\$904,596 thousand) and ¥93,192 million, respectively.

**g. Long-Lived Assets** - The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The

impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

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

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

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

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

The domestic subsidiaries also have a retirement plan for directors and Audit & Supervisory Board members. The Group provides a liability for the amount that would be required if all directors and Audit & Supervisory Board members retired at the end of each financial period. The accrued provisions are not funded and any amounts payable upon retirement are included in other long-term liabilities as of March 31, 2020 and 2019.

- k. Asset Retirement Obligations* - An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required

for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

- l. Research and Development Costs* - Research and development costs are charged to income as incurred.
- m. Allowance for Doubtful Receivables* - The allowance for doubtful receivables is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

- n. Leases* - Finance lease transactions are capitalized to recognize lease assets and lease obligations in the balance sheet.

Beginning in this fiscal year, some consolidated subsidiaries outside Japan are subject to IFRS 16 lease requirements. In terms of implementing the accounting standard, the Group are using the method of recognizing cumulative effects from applying the accounting standard on the first date the standard applies, which has been approved in interim measures.

As a result of applying the accounting standard, the "Others" value reported under "Property, plant and equipment" in the consolidated balance sheet reported at the beginning of this fiscal year was increased by ¥2,262 million (\$20,752 thousand), the "Current portion of long-term debt" value under "Current liabilities" was increased by ¥839 million (\$7,697 thousand), and the "Long-term debt" value under "Long-term liabilities" was increased by ¥1,422 million (\$13,046 thousand). Assets were measured by adjusting the amount measured for lease obligations by the prepaid and unpaid lease amounts, which had no effect on the retained earnings value reported at the beginning of the period. As a result, the change had minimal effect on operating income, and income before income taxes for this fiscal year.

- o. Transactions Related to the Board Incentive Plan Trust* - Based on the resolution at the general meeting of shareholders held on June 28, 2017, the Company introduced the "Board Incentive Plan Trust" (the "Plan") as a performance-based stock remuneration plan for directors and titled corporate officers of the Company (excluding corporate officers who are non-residents of Japan). Accounting treatments related to the trust are in accordance with "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts"

(PITF No. 30, March 26, 2015).

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

The shares of the Company remaining in the trust are recorded as treasury stock under equity based on the book value (excluding incidental costs) in the trust. As of March 31, 2020 and 2019, the Company's treasury stock consisted of 253,200 shares with a total book value of ¥519 million (\$4,761 thousand).

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

**p. Bonuses to Directors and Titled Corporate Officers**

- Bonuses to directors and titled corporate officers are accrued at the year-end to which such bonuses are attributable. The estimated amount of the aforementioned bonuses to directors and titled corporate officers was recorded as provision for bonuses to directors and titled corporate officers in "Accrued expenses and other current liabilities" under "Current liabilities."

**q. Income Taxes** - The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

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

**r. Appropriations of Retained Earnings** - Appropriations of retained earnings are reflected in the consolidated financial statements for the following year upon shareholders' approval.

**s. Foreign Currency Transactions** - All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income in the period in which they occur.

**t. Foreign Currency Financial Statements** - The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date, except for equity, which is translated at the historical exchange rate. Differences arising from such translation are shown as "Foreign currency

translation adjustments" in accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate.

**u. Derivatives** - The Group uses derivative financial instruments to manage their exposures to fluctuations in foreign currency exchange rates. Foreign exchange forward contracts are utilized by the Group to reduce foreign currency exchange rate risk. The Group does not enter into derivatives for trading or speculative purposes.

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

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

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

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

**w. New Accounting Pronouncements**

(The Company and its domestic subsidiaries)

**Accounting standard for revenue recognition** - On March 31, 2020, ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 19, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments."

(1) Overview

The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") have jointly developed and issued a new comprehensive revenue standard, "Revenue from Contracts with Customers" (IFRS 15 issued by IASB and Topic 606 issued by FASB), in May 2014.

As a basic policy, the ASBJ has developed comprehensive accounting standards for revenue recognition following the implementation of the requirement for entities to apply IFRS 15 for annual periods beginning on or after January 1, 2018, and Topic 606 for annual periods beginning after December 15, 2017.

ASBJ has established a new accounting standard for revenue recognition based on the basic principles of IFRS 15, focusing on ensuring financial statement comparability. Also, the accounting convention for revenue recognition can take priority over the new accounting standard developed by ASBJ, as reasonable to ensure financial statement comparability.

(2) Date of adoption

The Company will adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2021.

(3) Impact of the adoption of the implementation guidance

The Company is in the process of measuring the effects of applying the accounting standard and implementation guidance in future applicable periods.

**Accounting standard for fair value measurement** - On July 4, 2019, ASBJ issued ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement," ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories," ASBJ Statement No. 10, "Accounting Standard for Financial Instruments," ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement" and on March 31, 2020, ASBJ Guidance No. 19, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments."

(1) Overview

The IASB and the FASB have established almost same detailed guidance on fair value measurement. The IASB has established IFRS 13 "Fair Value Measurement," and the FASB has established Topic 820, "Fair Value Measurement."

As a basic policy, the ASBJ has developed comprehensive accounting standards for fair value measurement. From the viewpoint of improving comparability of financial statements between domestic and overseas companies by adopting a unified calculation method, all the provisions of IFRS 13 are subjected to be adopted. Also, the accounting convention for fair value measurement can take priority over the new accounting standard developed by ASBJ, as reasonable to ensure financial statement comparability.

(2) Date of adoption

The Company will adopt the accounting standards and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of the adoption of the implementation guidance

The Company is in the process of measuring the effects of applying the accounting standards and implementation guidance in future applicable periods.

**Accounting standard for disclosure of accounting estimates** - On March 31, 2020, ASBJ issued ASBJ Statement No. 31, "Accounting Standard for Disclosure of Accounting Estimates."

(1) Overview

The IASB have established International Accounting Standards (IAS) No. 1, "Presentation of Financial Statements" ("IAS No. 1") in 2003. It requires to disclose "Sources of estimation uncertainty" in paragraph 125.

As a basic policy, the ASBJ has developed comprehensive accounting standards for Disclosure of Accounting Estimates which provides basic principles (purpose of disclosure). Each specific contents of disclosure should be determined by management considering the purpose of disclosure. ASBJ refers to the provisions of IAS No. 1, paragraph 125 in developing this standard.

(2) Date of adoption

The Company will adopt the accounting standard from the beginning of the fiscal year ending March 31, 2021.

**Accounting standard for accounting policy disclosures, accounting changes and error corrections** - On March 31, 2020, ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections."

(1) Overview

The ASBJ issued ASBJ Statement No. 24 (revised 2020), "Accounting Standard for Accounting Changes and Error Corrections" in response to a proposal to enhance note

information on accounting principles and procedures adopted in cases where the provisions of relevant accounting standards are not clear.

(2) Date of adoption

The Company will adopt the accounting standard from the beginning of the fiscal year ending March 31, 2021.

(Overseas subsidiaries)

**"Leases" (Generally accepted accounting principles in the US.)** - Topic 842

(1) Overview

The new accounting standard requires that lessees principally account for all leases on the balance sheet under a single model.

(2) Date of adoption

The Company will adopt the accounting standard from the beginning of the fiscal year ending March 31, 2021.

(3) Impact of the adoption of the implementation guidance

The Company is in the process of measuring the effects of applying Topic 842 in future applicable periods.

x. **Additional Information**

(1) Assumptions for accounting estimates regarding the impact of coronavirus pandemic

The coronavirus pandemic has increased the level of uncertainty in the Group's business environment. A global drop in demand for transport equipment and construction machinery has impacted chemical, steel, and other suppliers. Meanwhile, other fields are predicted to remain strong, such as pharmaceuticals, foods, semiconductor manufacturing equipment, and investment in public infrastructure. The Company makes accounting estimates such as the recoverability of deferred tax assets on the assumption that these circumstances will continue for one year.

(2) The treatment of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system

For the transition to the group tax sharing system, which has been established by the "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 8 of 2020), and the items under the stand-alone taxation system that has been reviewed in conjunction with the transition to the group tax sharing system, the provisions of paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28 of February 16, 2018) are not applied, as permitted by paragraph 3 of the "Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No. 39 of March 31, 2020). As a result, the amounts of deferred tax assets and deferred tax liabilities are based on the provisions of the tax laws before the amendment.

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 ¥109 to \$1, the approximate rate of exchange at March 31, 2020. 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. INVESTMENT SECURITIES

Investment securities as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Non-current:			
Marketable equity securities ...	¥10,735	¥11,825	\$ 98,486
Non-marketable equity securities.....	597	516	5,477
Total .....	¥11,332	¥12,341	\$103,963

The cost and aggregate fair values of investment securities at March 31, 2020 and 2019, were as follows:

	Millions of Yen			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
<b>March 31, 2020</b>				
Securities classified as:				
Available-for-sale equity securities.....	¥3,951	¥6,793	¥(9)	¥10,735

#### March 31, 2019

	Millions of Yen			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Securities classified as:				
Available-for-sale equity securities.....	¥3,967	¥7,858		¥11,825

#### March 31, 2020

	Thousands of U.S. Dollars			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Securities classified as:				
Available-for-sale equity securities.....	\$36,248	\$62,321	\$(83)	\$98,486

The proceeds, realized gains and realized losses of the available-for-sale securities which were sold during the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
<b>March 31, 2020</b>			
Available-for-sale:			
Equity securities .....	¥311	¥96	

#### March 31, 2019

	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities .....	¥748	¥177	¥226

#### March 31, 2019

	Thousands of U.S. Dollars		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities .....	\$2,853	\$881	

#### March 31, 2020

Available-for-sale:			
Equity securities .....	\$2,853	\$881	

#### 5. INVENTORIES

Inventories at March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Merchandise and finished goods	¥46,928	¥42,825	\$430,532
Work in process.....	20,643	20,348	189,385
Raw materials and supplies .....	20,302	20,297	186,257
Total .....	¥87,873	¥83,470	\$806,174

#### 6. LONG-LIVED ASSETS

No impairment loss was recognized for the year ended March 31, 2020.

The Group recognized impairment loss for the year ended March 31, 2019, as follows:

#### March 31, 2019

Location	Usage	Description	Millions of Yen
Tokyo	Office	Buildings and structures, and land	¥196

Long-lived assets are generally grouped by business segment for management accounting. The Group has recognized impairment loss on business assets due to decisions to sell relevant assets. The carrying amounts of those assets were written down to their recoverable amounts. The recoverable amount of those assets was measured at its net selling price. The net selling price is estimated by expected sale price.

#### 7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings primarily consisted of bank overdrafts and financing agreements with banks, which are renewable on an annual basis and bear interest at annual rates ranging from 0.36% to 4.6% and from 0.36% to 3.37%, at March 31, 2020 and 2019, respectively.

Long-term debt at March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
0.30% unsecured bonds, due June 2019.....		¥15,000	
Borrowings, principally from banks, due serially to 2024 with interest rates ranging from 0.00% to 2.20% at March 31, 2020 (from 0.35% to 1.40%, due serially to 2021 at March 31, 2019)	¥ 261	576	\$ 2,394
Obligations under finance leases ..	5,519	3,489	50,633
Total .....	5,780	19,065	53,027
Less current portion.....	(2,227)	(16,489)	(20,431)
Long-term debt, less current portion.....	¥ 3,553	¥ 2,576	\$ 32,596

Annual maturities of long-term debt outstanding at March 31, 2020 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2021 .....	¥2,227	\$20,431
2022.....	1,547	14,193
2023.....	1,000	9,174
2024.....	562	5,156
2025.....	155	1,422
2026 and thereafter.....	289	2,651
Total .....	¥5,780	\$53,027

#### 8. RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have severance payment plans for employees. In addition, consolidated domestic subsidiaries have severance payment plans for directors and Audit & Supervisory Board members. Under most circumstances, employees terminating their

employment are entitled to retirement benefits determined based on the basic rate of pay at the time of termination, years of service, and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated domestic subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age or certain other conditions.

The liability for retirement benefits at March 31, 2020 and 2019, for directors and Audit & Supervisory Board members is ¥144 million (\$1,323 thousand) and ¥138 million and includes in "Other long-term liabilities" under "Long-term liabilities," respectively. The retirement benefits for directors and Audit & Supervisory Board members are paid subject to the approval of the shareholders of each subsidiary.

(1) The changes in defined benefit obligation for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year.....	¥55,230	¥53,545	\$506,697
Current service cost.....	2,271	2,223	20,835
Interest cost .....	655	675	6,009
Actuarial (gains) losses.....	(455)	653	(4,174)
Benefits paid .....	(2,336)	(1,951)	(21,431)
Past service cost .....		267	
Others.....	(623)	(182)	(5,716)
Balance at end of year .....	¥54,742	¥55,230	\$502,220

(2) The changes in plan assets for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year.....	¥56,915	¥54,675	\$522,156
Expected return on plan assets.....	1,013	911	9,294
Actuarial (losses) gains.....	(4,442)	(2,091)	(40,752)
Contributions from the employer .....	4,484	4,787	41,138
Benefits paid .....	(1,675)	(1,240)	(15,367)
Others.....	(413)	(127)	(3,790)
Balance at end of year .....	¥55,882	¥56,915	\$512,679

(3) The changes in net defined benefit liability for the plans to which the simplified method was applied for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year.....	¥3,143	¥2,852	\$28,835
Net periodic benefit costs.....	847	687	7,771
Benefits paid .....	(452)	(248)	(4,147)
Contributions from the employer.....	(148)	(148)	(1,358)
Others.....	37		339
Balance at end of year .....	¥3,427	¥3,143	\$31,440

(4) A reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Funded defined benefit obligation ..	¥59,189	¥59,540	\$543,018
Plan assets.....	(58,635)	(59,710)	(537,935)
	554	(170)	5,083
Unfunded defined benefit obligation.....	1,732	1,628	15,890
Net liability arising from defined benefit obligation.....	¥ 2,286	¥ 1,458	\$ 20,973
Liability for retirement benefits ..	¥14,433	¥11,939	\$132,413
Asset for retirement benefits .....	12,147	10,481	111,440
Net liability arising from defined benefit obligation.....	¥ 2,286	¥ 1,458	\$ 20,973

(5) The components of net periodic benefit costs for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Service cost .....	¥ 2,271	¥2,223	\$20,835
Interest cost.....	655	675	6,009
Expected return on plan assets ..	(1,013)	(911)	(9,294)
Recognized actuarial loss (gains) .....	100	(472)	917
Amortization of prior service cost ..	(243)	(244)	(2,229)
Others .....	847	687	7,771
Net periodic benefit costs .....	¥ 2,617	¥1,958	\$24,009

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2020 and 2019:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Prior service cost.....	¥ (251)	¥ (518)	\$ (2,303)
Actuarial (losses) gains.....	(3,767)	(3,182)	(34,559)
Total .....	¥(4,018)	¥(3,700)	\$(36,862)

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2020 and 2019:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrecognized prior service cost ..	¥ 376	¥ 627	\$ 3,450
Unrecognized actuarial gains .....	(2,564)	1,203	(23,523)
Total .....	¥(2,188)	¥1,830	\$(20,073)

(8) Plan assets

a. *Components of plan assets*

Plan assets as of March 31, 2020 and 2019, consisted of the following:

	2020	2019
Equity investments.....	51%	54%
Debt investments.....	27	25
General account asset.....	17	15
Others .....	5	6
Total .....	100%	100%

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

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

- (9) Assumptions used for the years ended March 31, 2020 and 2019, were set forth as follows:

	2020	2019
Discount rate .....	1.0%	1.0%
Expected rate of return on plan assets.....	1.5%	1.5%

The expected compensation increase rate for the years ended March 31, 2020 and 2019, is based on the age-specific compensation increase index as of March 31, 2015.

- (10) Defined contribution pension plans

The Company and certain domestic and overseas subsidiaries paid costs for defined contribution pension plans of ¥725 million (\$6,651 thousand) and ¥698 million, respectively, for the years ended March 31, 2020 and 2019.

## 9. EQUITY

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

- a. Dividends

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

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

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

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

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

surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

- c. Treasury Stock and Treasury Stock Acquisition Rights

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

## 10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥10,633 million (\$97,550 thousand) and ¥10,139 million for the years ended March 31, 2020 and 2019, respectively.

## 11. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.5% for the years ended March 31, 2020 and 2019, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Deferred tax assets:			
Liability for retirement benefits .....	¥ 6,931	¥ 6,459	\$ 63,587
Accrued bonuses.....	2,723	2,724	24,982
Unrealized profit eliminated from inventories.....	2,684	2,778	24,624
Depreciation.....	2,458	2,372	22,550
Loss on devaluation of inventories .....	1,281	1,167	11,752
Enterprise taxes .....	382	394	3,505
Allowance for doubtful receivables .....	350	343	3,211
Loss on impairment of long-lived assets.....	239	239	2,193
Tax loss carryforwards .....	179	73	1,642
Other .....	3,502	3,557	32,128
Total	20,729	20,106	190,174
Less valuation allowance.....	(821)	(769)	(7,532)
Total deferred tax assets	¥19,908	¥19,337	\$182,642
Deferred tax liabilities:			
Gain on securities contributed to employee retirement benefit trust.....	¥ 3,951	¥ 3,951	\$ 36,248
Unrealized gain on available-for-sale securities .....	2,026	2,349	18,587
Other .....	726	639	6,660
Total deferred tax liabilities	¥ 6,703	¥ 6,939	\$ 61,495
Net deferred tax assets.....	¥13,341	¥12,401	\$122,394
Net deferred tax liabilities (included in other long-term liabilities) .....	¥ 136	¥ 3	\$ 1,247



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

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2020, with the corresponding figures for the year ended March 31, 2019, is as follows:

	2020	2019
Normal effective statutory tax rate.....	30.5%	30.5%
Expenses not permanently deductible for income tax purposes .....	0.8	0.9
Per capita inhabitant tax .....	0.3	0.2
Valuation allowance.....	0.1	(0.0)
Difference in subsidiaries' tax rates .....	(1.3)	(2.5)
Tax credit for research and development costs .....	(3.9)	(3.5)
Other, net.....	(0.2)	1.4
Actual effective tax rate.....	<u>26.3%</u>	<u>27.0%</u>

## 12. LEASES

### LESSEE

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

Total rental expenses for the years ended March 31, 2020 and 2019, were ¥7,209 million (\$66,138 thousand) and ¥7,495 million, respectively. Future minimum payments under noncancelable operating leases as of March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Due within one year .....	¥ 706	¥ 754	\$ 6,477
Due after one year.....	981	1,003	9,000
Total .....	<u>¥1,687</u>	<u>¥1,757</u>	<u>\$15,477</u>

(Note) Lease transactions recorded on consolidated balance sheet under IFRS 16 are not included in above information.

### LESSOR

Future lease income under noncancelable operating leases as of March 31, 2020 and 2019 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Due within one year .....	¥104	¥ 89	\$ 954
Due after one year.....	86	113	789
Total .....	<u>¥190</u>	<u>¥202</u>	<u>\$1,743</u>

## 13. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### (1) Group Policy for Financial Instruments

The Group uses financial instruments such as loans from banks, bonds, and commercial paper. Cash surpluses, if any, are invested in low-risk financial assets such as deposits.

Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) Nature and Extent of Risks Arising from Financial Instruments and Risk Management for Financial Instruments  
Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Such customer credit risk is managed by administering the term and balance according

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

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

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

Please see Note 14 about derivatives.

### (3) Fair Values of Financial Instruments

Carrying amount, fair value, and unrealized gains (losses) of financial instruments are as follows. Financial instruments whose fair value cannot be reliably determined are not included in the following table.

#### (a) Fair value of financial instruments

March 31, 2020	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gains (Losses)
Cash and cash equivalents..	¥ 66,683	¥ 66,683	
Time deposits .....	4,185	4,185	
Trade receivables .....	119,904	119,787	¥(117)
Investment securities.....	10,735	10,735	
Total .....	<u>¥201,507</u>	<u>¥201,390</u>	<u>¥(117)</u>
Trade notes and accounts payable .....	¥ 60,190	¥ 60,190	
Short-term borrowings .....	1,858	1,858	
Total .....	<u>¥ 62,048</u>	<u>¥ 62,048</u>	
Derivatives .....	¥ 55	¥ 55	

March 31, 2019	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gains (Losses)
Cash and cash equivalents..	¥ 70,842	¥ 70,842	
Time deposits .....	2,799	2,799	
Trade receivables .....	126,359	126,267	¥(92)
Investment securities.....	11,825	11,825	
Total .....	<u>¥211,825</u>	<u>¥211,733</u>	<u>¥(92)</u>
Trade notes and accounts payable .....	¥ 66,611	¥ 66,611	
Short-term borrowings .....	1,964	1,964	
Long-term debt: Bonds payable.....	15,000	15,006	(6)
Total .....	<u>¥ 83,575</u>	<u>¥ 83,581</u>	<u>¥ (6)</u>
Derivatives .....	¥ 18	¥ 18	

March 31, 2020	Thousands of U.S. Dollars		Unrealized Gains (Losses)
	Carrying Amount	Fair Value	
Cash and cash equivalents	\$ 611,771	\$ 611,771	
Time deposits	38,394	38,394	
Trade receivables	1,100,037	1,098,964	\$(1,073)
Investment securities	98,486	98,486	
Total	\$1,848,688	\$1,847,615	\$(1,073)
Trade notes and accounts payable	\$ 552,202	\$ 552,202	
Short-term borrowings	17,046	17,046	
Total	\$ 569,248	\$ 569,248	
Derivatives	\$ 505	\$ 505	

#### Cash and Cash Equivalents and Time Deposits

The carrying values of cash and cash equivalents and time deposits approximate fair value because of their short maturities.

#### Trade Receivables

The fair values of trade receivables are measured at the amount to be received at maturity discounted at the Group-assumed corporate discount rate.

#### Investment Securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for equity instruments. Fair value information for investment securities by classification is included in Note 4.

#### Trade Notes and Accounts Payable, Short-Term Borrowings

The carrying values of trade notes and accounts payable, short-term borrowings, and commercial paper approximate fair value because of their short maturities.

#### Long-Term Debt: Bonds Payable

The fair values of bonds payable are measured at the market price.

#### Derivatives

Fair value information for derivatives is included in Note 14.

- (b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Investments in equity instruments that do not have a quoted market price in an active market	¥ 528	¥ 467	\$ 4,844
Stocks of subsidiaries and associated companies	677	1,222	6,211
Investment in investment partnerships	68	46	624
Total	¥1,273	¥1,735	\$11,679

It is extremely difficult to calculate their fair values because there are no market prices. Therefore, these items are not included in "(a) Investment securities."

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

March 31, 2020	Millions of Yen	
	Due in 1 Year or Less	Due after 1 Year
Cash and cash equivalents	¥ 66,683	
Time deposits	4,185	
Trade receivables	119,668	¥236
Total	¥190,536	¥236
March 31, 2020	Thousands of U.S. Dollars	
	Due in 1 Year or Less	Due after 1 Year
Cash and cash equivalents	\$ 611,771	
Time deposits	38,394	
Trade receivables	1,097,872	\$2,165
Total	\$1,748,037	\$2,165

Please see Note 7 for annual maturities of long-term debt.

#### 14. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge exchange rate risk associated with certain assets and liabilities denominated in foreign currencies. All derivative transactions are entered into to hedge foreign currency exposures incorporated within the Group's business. Accordingly, market risk in these derivatives is generally offset by opposite movements in the value of hedged assets or liabilities, except for credit-related market risk.

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

Derivative transactions are operated by the finance and accounting department with internal policies under the supervision of the Chief Financial Officer.

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 has the following derivative contracts outstanding as of March 31, 2020 and 2019:

	2020		
	In Thousands	Millions of Yen	
	Contract or Notional Amount	Fair Value	Unrealized Gains (Losses)
Forward exchange contracts:			
Selling USD	USD 89,500	¥43	¥43
Selling Euro	EUR 16,500	12	12
Buying USD			
	2019		
	In Thousands	Millions of Yen	
	Contract or Notional Amount	Fair Value	Unrealized Gains (Losses)
Forward exchange contracts:			
Selling USD	USD 82,000	¥ 0	¥ 0
Selling Euro	EUR 16,500	17	17
Buying USD	USD 993	0	0
	2020		
	In Thousands	Thousands of U.S. Dollars	
	Contract or Notional Amount	Fair Value	Unrealized Gains (Losses)
Forward exchange contracts:			
Selling USD	USD 89,500	\$394	\$394
Selling Euro	EUR 16,500	110	110
Buying USD			

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

## 15. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of
	2020	2019	U.S. Dollars
			2020
Unrealized gain on available-for-sale securities:			
(Losses) gains arising during the year .....	¥(1,097)	¥(2,841)	\$(10,064)
Reclassification adjustments to profit or loss .....	22	51	202
Amount before income tax effect.....	(1,075)	(2,790)	(9,862)
Income tax effect .....	324	858	2,972
Total .....	¥ (751)	¥(1,932)	\$ (6,890)
Foreign currency translation adjustments:			
Adjustments arising during the year .....	¥(4,100)	¥ 290	\$(37,615)
Total .....	¥(4,100)	¥ 290	\$(37,615)
Defined retirement benefit plans:			
Adjustments arising during the year .....	¥(3,866)	¥(2,952)	\$(35,468)
Reclassification adjustments to profit or loss .....	(152)	(748)	(1,394)
Amount before income tax effect.....	(4,018)	(3,700)	(36,862)
Income tax effect .....	1,387	997	12,724
Total .....	¥(2,631)	¥(2,703)	\$(24,138)
Total other comprehensive (loss) income .....	¥(7,482)	¥(4,345)	\$(68,643)

## 16. NET INCOME PER SHARE

Basic net income per share ("EPS") for the years ended March 31, 2020 and 2019, was as follows:

	Millions of	Thousands	Yen	U.S. Dollars
	Yen	of Shares		
	Net	Weighted-		
	Income	Average		EPS
		Shares		
<b>Year Ended March 31, 2020:</b>				
Basic EPS				
Net income available to common shareholders .....	¥31,767	294,567	¥107.84	\$0.99
<b>Year Ended March 31, 2019:</b>				
Basic EPS				
Net income available to common shareholders .....	¥32,524	294,569	¥110.41	

## Year Ended March 31, 2019:

Basic EPS

Net income available to common shareholders .....

Diluted EPS for the years ended March 31, 2020 and 2019, is not disclosed because no potentially dilutive securities are outstanding.

## 17. SUBSEQUENT EVENTS

### Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2020, was approved at the Company's shareholders' meeting held on June 25, 2020:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥15 (\$0.14) per share .....	¥4,422	\$40,569

## 18. SEGMENT INFORMATION

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

### (1) Description of Reportable Segments

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

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

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

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

	Millions of Yen								
	2020								
	Reportable Segment					Other	Total	Reconciliations	Consolidated
Analytical and Measuring Instruments	Medical Systems and Equipment	Aircraft Equipment	Industrial Machinery	Total					
Sales:									
Sales to external customers	¥236,219	¥70,179	¥30,040	¥43,032	¥379,470	¥5,974	¥385,444		¥385,444
Intersegment sales or transfers	42	32	118	80	272	1,824	2,096	¥(2,096)	
Total	¥236,261	¥70,211	¥30,158	¥43,112	¥379,742	¥7,798	¥387,540	¥(2,096)	¥385,444
Segment profit	¥ 35,753	¥ 3,190	¥ 792	¥ 3,659	¥ 43,394	¥1,199	¥ 44,593	¥(2,747)	¥ 41,846
Segment assets	214,585	61,436	51,435	45,683	373,139	7,485	380,624	56,993	437,617
Other:									
Depreciation	7,798	2,476	1,085	1,603	12,962	295	13,257		13,257
Increase in property, plant and equipment and intangible assets	10,340	2,998	1,779	2,260	17,377	299	17,676		17,676
	Millions of Yen								
	2019								
	Reportable Segment					Other	Total	Reconciliations	Consolidated
	Analytical and Measuring Instruments	Medical Systems and Equipment	Aircraft Equipment	Industrial Machinery	Total				
Sales:									
Sales to external customers	¥241,395	¥69,084	¥27,343	¥45,419	¥383,241	¥7,973	¥391,214		¥391,214
Intersegment sales or transfers	19	24	114	92	249	1,815	2,064	¥(2,064)	
Total	¥241,414	¥69,108	¥27,457	¥45,511	¥383,490	¥9,788	¥393,278	¥(2,064)	¥391,214
Segment profit	¥ 38,776	¥ 2,327	¥ 119	¥ 4,466	¥ 45,688	¥1,377	¥ 47,065	¥(2,584)	¥ 44,481
Segment assets	212,370	59,420	51,202	48,030	371,022	9,710	380,732	56,458	437,190
Other:									
Depreciation	6,645	2,102	991	1,482	11,220	286	11,506		11,506
Increase in property, plant and equipment and intangible assets	10,979	4,481	2,590	3,391	21,441	270	21,711		21,711
	Thousands of U.S. Dollars								
	2020								
	Reportable Segment					Other	Total	Reconciliations	Consolidated
	Analytical and Measuring Instruments	Medical Systems and Equipment	Aircraft Equipment	Industrial Machinery	Total				
Sales:									
Sales to external customers	\$2,167,147	\$643,844	\$275,596	\$394,789	\$3,481,376	\$54,807	\$3,536,183		\$3,536,183
Intersegment sales or transfers	385	294	1,083	734	2,496	16,733	19,229	\$(19,229)	
Total	\$2,167,532	\$644,138	\$276,679	\$395,523	\$3,483,872	\$71,540	\$3,555,412	\$(19,229)	\$3,536,183
Segment profit	\$ 328,009	\$ 29,266	\$ 7,266	\$ 33,569	\$ 398,110	\$11,000	\$ 409,110	\$(25,202)	\$ 383,908
Segment assets	1,968,670	563,633	471,881	419,110	3,423,294	68,669	3,491,963	522,872	4,014,835
Other:									
Depreciation	71,541	22,716	9,954	14,706	118,917	2,707	121,624		121,624
Increase in property, plant and equipment and intangible assets	94,862	27,505	16,321	20,734	159,422	2,743	162,165		162,165

Note: "Reconciliations" of segment profit include eliminations of intersegment transactions of ¥2,747 million (\$25,202 thousand) and ¥2,584 million as of March 31, 2020 and 2019, respectively. "Reconciliations" of segment assets include eliminations of intersegment receivables of ¥1,781 million (\$16,339 thousand) and ¥2,674 million, and unallocated corporate assets of ¥58,774 million (\$539,211

thousand) and ¥59,132 million as of March 31, 2020 and 2019, respectively, consisting principally of working funds and investing funds held by the Company and assets attributed to the Company's administration headquarters.

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

#### (4) The Geographical Segments of the Group

##### a. Sales

	Millions of Yen						Total
	Japan	United States of America	Europe	China	Other Asia	Other	
2020.....	¥196,699	¥43,172	¥31,340	¥61,454	¥36,281	¥16,498	¥385,444
	Millions of Yen						
	Japan	United States of America	Europe	China	Other Asia	Other	Total
2019.....	¥193,906	¥42,588	¥31,292	¥71,859	¥35,274	¥16,295	¥391,214
	Thousands of U.S. Dollars						
	Japan	United States of America	Europe	China	Other Asia	Other	Total
2020.....	\$1,804,578	\$396,073	\$287,523	\$563,798	\$332,853	\$151,358	\$3,536,183

##### b. Property, plant and equipment

	Millions of Yen			Thousands of U.S. Dollars					
	2020		2019	2020					
	Japan	Foreign Countries	Total	Japan	Foreign Countries	Total			
	¥81,898	¥15,877	¥97,775	¥79,095	¥13,786	¥92,881	\$751,358	\$145,660	\$897,018

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

	Millions of Yen						Total
	Analytical and Measuring Instruments	Medical Systems and Equipment	Aircraft Equipment	Industrial Machinery	Other	Elimination/Corporate	
Amortization of goodwill.....	¥ 110			¥ 46			¥ 156
Goodwill at March 31, 2020 .....	1,338			438			1,776
	Millions of Yen						
	Analytical and Measuring Instruments	Medical Systems and Equipment	Aircraft Equipment	Industrial Machinery	Other	Elimination/Corporate	Total
Amortization of goodwill.....	¥ 117			¥ 14			¥ 131
Goodwill at March 31, 2019 .....	1,507			199			1,706
	Thousands of U.S. Dollars						
	Analytical and Measuring Instruments	Medical Systems and Equipment	Aircraft Equipment	Industrial Machinery	Other	Elimination/Corporate	Total
Amortization of goodwill.....	\$ 1,009			\$ 422			\$ 1,431
Goodwill at March 31, 2020 .....	12,275			4,018			16,293

#### (6) Impairment Loss on Assets of the Group

No impairment loss was recognized for the year ended March 31, 2020.

	Millions of Yen						Total
	2019						
	Analytical and Measuring Instruments	Medical Systems and Equipment	Aircraft Equipment	Industrial Machinery	Other	Elimination/Corporate	
Impairment loss on assets.....	¥196						¥196

\* \* \* \* \*

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Shimadzu Corporation:

### Opinion

We have audited the consolidated financial statements of Shimadzu Corporation and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### Convenience Translation

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

### Basis for Opinion

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

*Deloitte Touche Tohmatsu LLC*

June 25, 2020

# Shimadzu Corporation

<https://www.shimadzu.com>