

February 7, 2017

Operating Results and Financial Position

《For The Nine Months ended December 31, 2016》

1. Operating Results

(1) Consolidated Overview

In the nine months ended December 31, 2016, the North American economy continued its recovery trend due to an improvement in the labor environment and firm consumer spending. The European economy demonstrated a moderate recovery despite Britain's decision to exit the European Union and other issues. China showed signs of economic improvement owing to various government investments. Southeast Asia also showed signs of an uptick in economic activity and India's economy continued its recovery. The Japanese economy continued to demonstrate a moderate recovery due to improvements in labor and wage environments backed by higher corporate earnings.

In this economic environment, the Shimadzu Group actively promoted growth-oriented measures in accordance with its medium-term management plan. These measures included launching global "Number One/Only One" products, expanding collaborative R&D with North American universities and other leading-edge research institutes, universities, and companies, strengthening our business base in emerging markets through the opening of a new plant in Malaysia and other measures, bolstering the aftermarket business, and launching new businesses.

As a result, for the first nine months of the fiscal year, the Shimadzu Group posted consolidated net sales of 236,314 million yen (a year-on-year decrease of 2.0 %), as the impact of yen appreciation outweighed higher sales in and outside Japan. Operating income totaled 21,945 million yen (a year-on-year decrease of 1.3%), while ordinary income totaled 22,578 million yen (a year-on-year increase of 1.4%), and profit attributable to owners of parent totaled 15,827 million yen (a year-on-year increase of 3.6%).

Shimadzu Group sales tend to be concentrated in the second and fourth quarters.

The results for reportable business segments were as follows.

I. Analytical & Measuring Instruments

In Japan, sales increased on higher demand for liquid chromatographs, mass spectrometers, surface analyzers, and non-destructive inspection equipment in the pharmaceutical, chemical, transportation equipment and other industries.

In North America, although sales of mass spectrometers slowed due to a temporary decline in healthcare industry demand, sales of liquid chromatographs and other equipment grew. In Europe, sales were on par with the previous year. Demand for mass spectrometers increased in Western Europe for food safety, environmental and clinical applications, while in Eastern Europe there was a reactionary decline in sales to universities and public-sector institutions. In China, sales of liquid chromatographs and mass spectrometers grew, as private-sector demand remained robust among pharmaceutical and contract analysis companies, and public-sector demand rose for food safety and other large-scale projects. In Southeast Asia, sales of liquid chromatographs increased, along with testing machines for a large-scale project with a transportation equipment client. In India, sales of liquid chromatographs and mass spectrometers to pharmaceutical companies increased. Overseas sales declined overall, however, due to yen appreciation. As a result, the Analytical & Measuring Instruments segment posted sales of 144,430 million yen (a year-on-year decrease of 2.5%) for the first nine months of the fiscal year.

II. Medical Systems

In Japan, sales of X-ray diagnosis systems increased, primarily for X-ray fluoroscopy systems and angiography systems.

In China, sales increased for high-end X-ray fluoroscopy systems capable of performing multiple types of diagnoses. In North America and Europe, sales of angiography systems

increased. Overseas sales declined overall due to yen appreciation. As a result, the Medical Systems segment posted sales of 43,489 million yen (a year-on-year decrease of 2.5%) for the first nine months of the fiscal year.

III. Aircraft Equipment

In Japan, sales of aircraft components to the Ministry of Defense were flat compared with the previous year. Overseas, sales declined due to the impact of yen appreciation and a decrease in sales of commercial aircraft components.

Overall, the Aircraft Equipment segment posted sales of 17,906 million yen (a year-on-year decrease of 7.1%) for the first nine months of the fiscal year.

IV. Industrial Machinery

Sales of turbo-molecular pumps grew in Japan, China, and South Korea, mainly on stronger demand from semiconductor manufacturing equipment as well as liquid crystal and organic electroluminescence display manufacturing companies. Sales of hydraulic equipment slumped as demand for industrial vehicles stalled and yen appreciation impacted results.

Overall, the Industrial Machinery segment posted sales of 26,164 million yen (a year-on-year increase of 5.5%) for the first nine months of the fiscal year.

V. Other

Sales in the Other businesses segment amounted to 4,323 million yen (a year-on-year decrease of 4.2%) for the first nine months of the fiscal year.

(2) Consolidated Outlook

Looking forward, despite the need to monitor U.S. economic policies, the impact of Britain's exit from the European Union, and other issues, economic recovery in emerging markets and firm economic growth in the United States are expected to underpin a moderate recovery trend for the global economy as a whole.

In this environment, the Shimadzu Group is making progress on its three-year medium-term management plan launched in April 2014 based on our long-term vision "Toward Becoming a True Global Business." The basic policy behind the plan is to "Become an Innovative Company Contributing to Growth of Global Customers." On the basis of this policy, in FY2016, the last year of our current management plan, we are striving to implement growth strategies to increase Shimadzu's corporate value, reform the profit structure, and strengthen our global organization and structure to achieve the performance targets of the final year. With an eye towards further growth, we are also formulating a new medium-term management plan to begin from fiscal 2017 which can ensure the Shimadzu Group's sustainable growth and raise corporate value over the medium and long term.

Regarding the earnings forecast for the full year ending March 31, 2017, there is no change to the forecast announced May 11, 2016.

2. 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 Policy, Changes in Accounting Estimates, and Retrospective Restatements

Not applicable

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(In million yen)

	As of December 31, 2016	As of March 31, 2016
Assets		
Current assets:		
Cash and time deposits	¥49,037	¥46,907
Trade notes and accounts receivable	97,259	105,430
Merchandise and products	44,571	40,497
Work in process	20,855	15,457
Raw materials and supplies	19,141	17,715
Deferred tax assets	7,439	9,729
Other	9,503	7,086
Allowance for doubtful receivables	(1,268)	(1,157)
Total current assets	¥246,539	¥241,666
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures, net	¥40,260	¥39,035
Machinery, equipment and vehicles, net	5,921	5,912
Land	19,062	18,602
Leased assets, net	2,269	2,179
Construction in progress	767	728
Other, net	10,494	9,699
Total property, plant and equipment	¥78,776	¥76,158
Intangible fixed assets	¥8,513	¥7,558
Investments and other assets:		
Investment securities	13,513	14,654
Long-term receivables	190	175
Deferred tax assets	5,371	6,388
Other	3,714	3,565
Allowance for doubtful receivables	(328)	(368)
Total investments and other assets	¥22,460	¥24,415
Total noncurrent assets	¥109,750	¥108,131
Total assets	¥356,290	¥349,798

(In million yen)

	As of December 31, 2016	As of March 31, 2016
Liabilities		
Current liabilities		
Trade notes and accounts payable	¥54,216	¥52,422
Short-term loans	3,666	3,056
Lease obligations	971	940
Accounts payable	11,850	11,523
Income taxes payable	1,274	4,997
Allowance for employees' bonuses	3,452	8,093
Allowance for director's bonuses	206	284
Provision for loss on defense equipment	374	374
Other	20,091	15,893
Total current liabilities	¥96,103	¥97,587
Long-term liabilities		
Unsecured bonds	¥15,000	¥15,000
Long-term debt	716	1,094
Lease obligations	1,523	1,451
Liability for directors' retirement benefits	176	182
Liability for retirement benefits	11,284	13,682
Other	1,123	828
Total long-term liabilities	¥29,824	¥32,239
Total liabilities	¥125,928	¥129,827
Net assets		
Shareholders' capital		
Common stock	¥26,648	¥26,648
Additional paid-in capital	35,188	35,188
Retained earnings	163,684	153,758
Treasury stock	(883)	(861)
Total shareholders' capital	¥224,638	¥214,734
Accumulated other comprehensive income		
Net unrealized gain on available-for-sale securities	¥5,668	¥5,036
Foreign currency translation adjustments	644	1,293
Cumulative adjustments to retirement benefits	(893)	(1,370)
Total accumulated other comprehensive income	¥5,419	¥4,959
Non-controlling interests	¥303	¥277
Total net assets	¥230,361	¥219,971
Total liabilities and net assets	¥356,290	¥349,798

(2) Consolidated Statements of Operations & of Comprehensive Income

Consolidated Statements of Operations

	(In million yen)	
	Nine Months ended December 31, 2016	Nine Months ended December 31, 2015
Net sales	¥236,314	¥241,255
Cost of sales	141,646	140,720
Gross profit	¥94,667	¥100,535
Selling, general and administrative expenses	72,722	78,290
Operating income	¥21,945	¥22,245
Other income:		
Interest income	¥177	¥154
Dividend income	209	195
Insurance payments received	85	86
Foreign exchange income	440	—
Subsidy received	405	426
Other	416	506
Total other income	¥1,733	¥1,368
Other expenses:		
Interest expenses	¥83	¥127
Foreign exchange loss	—	304
Other	1,017	920
Total other expenses	¥1,100	¥1,351
Ordinary income	¥22,578	¥22,261
Extraordinary income:		
Gain on sale of property, plant and equipment	¥15	¥34
Total extraordinary income	¥15	¥34
Extraordinary losses:		
Impairment loss	¥201	—
Loss on disposal of property, plant and equipment	92	¥156
Loss on write-down of investment securities	—	88
Total extraordinary losses	¥293	¥244
Income before income taxes	¥22,300	¥22,052
Income taxes	3,483	5,157
Income taxes adjustments	2,944	1,561
Total income taxes and income taxes adjustments	¥6,427	¥6,719
Profit	¥15,872	¥15,332
Profit attributable to non-controlling interests	45	62
Profit attributable to owners of parent	¥15,827	¥15,270

Consolidated Statements of Comprehensive Income

	(In million yen)	
	Nine Months ended December 31, 2016	Nine Months ended December 31, 2015
Profit	¥15,872	¥15,332
Other Comprehensive income		
Unrealized gain/loss on available-for-sale securities	¥632	¥561
Foreign currency translation adjustments	(370)	(1,071)
Retirement benefit adjustments	477	230
Total other comprehensive income	¥738	¥(279)
Comprehensive income	¥16,611	¥15,053
< Break down >		
Comprehensive income attribute to owners of parent	¥16,571	¥15,000
Comprehensive income attribute to non-controlling interests	¥39	¥52

(3) Note on the going-concern assumption

Not applicable.

(4) Segment Information

1) Income by Business Segment

From April 1st to December 31th of Fiscal year ended March 31, 2017

(In million yen)

	Reportable segment					Other	Total	Adjustments	Amounts reported on the quarterly statements of income
	Analytical & Measuring Instruments	Medical Systems	Aircraft Equipment	Industrial Machinery	Total				
Net Sales									
(1) Sales to customers	¥ 144,430	¥ 43,489	¥ 17,906	¥ 26,164	¥ 231,991	¥ 4,323	¥ 236,314	—	¥ 236,314
(2) Inter-segment sales	50	7	63	57	179	1,104	1,284	¥ (1,284)	—
Total Sales	¥ 144,481	¥ 43,497	¥ 17,970	¥ 26,222	¥ 232,171	¥ 5,427	¥ 237,598	¥ (1,284)	¥ 236,314
Operating income (loss)	¥ 20,743	¥ (114)	¥ 247	¥ 1,839	¥ 22,715	¥ 501	¥ 23,217	¥ (1,272)	¥ 21,945

From April 1st to December 31th of Fiscal year ended March 31, 2016

(In million yen)

	Reportable segment					Other	Total	Adjustments	Amounts reported on the quarterly statements of income
	Analytical & Measuring Instruments	Medical Systems	Aircraft Equipment	Industrial Machinery	Total				
Net Sales									
(1) Sales to customers	¥ 148,078	¥ 44,599	¥ 19,275	¥ 24,791	¥ 236,744	¥ 4,510	¥ 241,255	—	¥ 241,255
(2) Inter-segment sales	56	6	60	55	179	956	1,135	¥ (1,135)	—
Total Sales	¥ 148,134	¥ 44,606	¥ 19,335	¥ 24,847	¥ 236,924	¥ 5,467	¥ 242,391	¥ (1,135)	¥ 241,255
Operating income (loss)	¥ 21,549	¥ (225)	¥ (163)	¥ 1,448	¥ 22,608	¥ 850	¥ 23,459	¥ (1,214)	¥ 22,245

2) Income by Geographic Segment

From April 1st to December 31th of Fiscal year ended March 31, 2017

(In million yen)

Japan	The Americas	Europe	China	Other Asian countries	Other	Total
¥ 114,705	31,250	17,760	41,170	24,408	7,018	¥ 236,314

From April 1st to December 31th of Fiscal year ended March 31, 2016

(In million yen)

Japan	The Americas	Europe	China	Other Asian countries	Other	Total
¥ 109,896	35,828	20,316	42,044	24,389	8,780	¥ 241,255

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

Americas	United States of America
Europe	Great Britain, Germany
China	China
Other Asian countries	India, Southeast Asia, Republic of Korea, Taiwan
Other	Australia, Middle East, Africa