P010-E652

SHIMADZU
Excellence in Science

# SHIMADZU REPORT 2017

## Financial Section

Shimadzu Corporation and Consolidated Subsidiaries

# Consolidated Balance Sheet

March 31, 2017

| | Millions of Yen | | Thousands of U.S. Dollars (Note 3) |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| **ASSETS** | | | |
| **CURRENT ASSETS:** | | | |
| Cash and cash equivalents (Note 13) | ¥ 52,763 | ¥ 43,509 | $ 471,098 |
| Time deposits (Note 13) | 3,935 | 3,398 | 35,134 |
| Trade receivables: | | | |
| Notes and accounts (Note 13) | 112,878 | 105,430 | 1,007,839 |
| Allowance for doubtful receivables | (1,143) | (1,158) | (10,205) |
| Net trade receivables | 111,735 | 104,272 | 997,634 |
| Inventories (Note 5) | 76,701 | 73,671 | 684,830 |
| Deferred tax assets (Note 11) | 9,603 | 9,730 | 85,741 |
| Prepaid expenses and other current assets | 8,344 | 7,087 | 74,500 |
| Total current assets | 263,081 | 241,667 | 2,348,937 |
| **PROPERTY, PLANT AND EQUIPMENT** (Note 2.f): | | | |
| Land | 18,880 | 18,602 | 168,571 |
| Buildings and structures | 39,976 | 39,035 | 356,929 |
| Machinery, equipment and vehicles | 5,904 | 5,913 | 52,714 |
| Tools, furniture and fixtures | 10,853 | 9,700 | 96,902 |
| Lease assets | 2,510 | 2,180 | 5,607 |
| Construction in progress | 628 | 729 | 22,411 |
| Total property, plant and equipment | 78,751 | 76,159 | 703,134 |
| **INVESTMENTS AND OTHER ASSETS:** | | | |
| Investment securities (Notes 4 and 13) | 13,495 | 12,312 | 120,491 |
| Investments in and advances to unconsolidated subsidiaries and associated companies (Note 13) | 284 | 2,343 | 2,536 |
| Software | 6,822 | 6,397 | 60,911 |
| Asset for retirement benefits (Note 8) | 3,706 | | 33,089 |
| Deferred tax assets (Note 11) | 4,161 | 6,388 | 37,152 |
| Other assets | 5,054 | 4,533 | 45,125 |
| Total investments and other assets | 33,522 | 31,973 | 299,304 |
| TOTAL | ¥375,354 | ¥349,799 | $3,351,375 |

See notes to consolidated financial statements.

| | Millions of Yen | | Thousands of U.S. Dollars (Note 3) |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| **LIABILITIES AND EQUITY** | | | |
| **CURRENT LIABILITIES:** | | | |
| Short-term borrowings (Notes 7 and 13) | ¥ 2,473 | ¥ 2,519 | $ 22,080 |
| Current portion of long-term debt (Note 7) | 1,501 | 1,479 | 13,402 |
| Trade notes and accounts payable (Note 13) | 57,263 | 52,423 | 511,277 |
| Other payables | 11,364 | 11,524 | 101,464 |
| Advances from customers | 8,227 | 6,607 | 73,455 |
| Income taxes payable | 4,871 | 4,998 | 43,491 |
| Provision for loss on defense equipment | 484 | 374 | 4321 |
| Accrued expenses and other current liabilities (Note 11) | 17,965 | 17,664 | 160,403 |
| Total current liabilities | 104,148 | 97,588 | 929,893 |
| **LONG-TERM LIABILITIES:** | | | |
| Long-term debt (Notes 7 and 13) | 17,407 | 17,545 | 155,420 |
| Liability for retirement benefits (Note 8) | 10,708 | 13,683 | 95,607 |
| Long-term deposit | 121 | 142 | 1,080 |
| Other long-term liabilities (Note 11) | 1,342 | 869 | 11,982 |
| Total long-term liabilities | 29,578 | 32,239 | 264,089 |
| **COMMITMENTS AND CONTINGENT LIABILITIES** (Notes 12, 14 and 15) | | | |
| **EQUITY** (Notes 9 and 18): | | | |
| Common stock, authorized, 800,000,000 shares; issued, 296,070,227 shares | 26,649 | 26,649 | 237,938 |
| Capital surplus | 35,188 | 35,188 | 314,179 |
| Retained earnings | 174,391 | 153,758 | 1,557,063 |
| Treasury stock - at cost,1,245,641 shares in 2017 and 1,230,705 shares in 2016 | (886) | (861) | (7,911) |
| Accumulated other comprehensive income (loss): | | | |
| Unrealized gain on available-for-sale securities | 5,850 | 5,037 | 52,232 |
| Foreign currency translation adjustments | (1,429) | 1,294 | (12,759) |
| Defined retirement benefit plans | 1,568 | (1,371) | 14,000 |
| Total | 241,331 | 219,694 | 2,154,742 |
| Noncontrolling interests | 297 | 278 | 2,651 |
| Total equity | 241,628 | 219,972 | 2,157,393 |
| TOTAL | ¥375,354 | ¥349,799 | $3,351,375 |

Shimadzu Corporation and Consolidated Subsidiaries

# Consolidated Statement of Income

Year Ended March 31, 2017

| | Millions of Yen | | Thousands of U.S. Dollars (Note 3) |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| **NET SALES** (Notes 12 and 19) | ¥342,480 | ¥342,237 | $3,057,857 |
| COST OF SALES (Notes 8 and 12) | 206,070 | 201,851 | 1,839,911 |
| Gross profit | 136,410 | 140,386 | 1,217,946 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 8, 10 and 12) | 99,320 | 104,684 | 886,785 |
| Operating income (Note 19) | 37,090 | 35,702 | 331,161 |
| **OTHER INCOME (EXPENSES):** | | | |
| Interest and dividend income | 436 | 397 | 3,893 |
| Interest expense | (138) | (184) | (1,232) |
| Foreign exchange loss, net | (72) | (1,046) | (643) |
| Gain on sales of non-current assets | 32 | 37 | 286 |
| Impairment loss (Note 6) | (781) | | (6,973) |
| Loss on valuation of investment securities | (1) | (273) | (9) |
| Provision for loss on defense equipment | | (374) | |
| Other, net | (453) | (238) | (4,045) |
| Other income (expenses), net | (977) | (1,681) | (8,723) |
| **INCOME BEFORE INCOME TAXES** | 36,113 | 34,021 | 322,438 |
| **INCOME TAXES** (Note 11): | | | |
| Current | 8,763 | 9,619 | 78,241 |
| Deferred | 820 | 436 | 7,322 |
| Total income taxes | 9,583 | 10,055 | 85,563 |
| **NET INCOME** | 26,530 | 23,966 | 236,875 |
| **NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS** | 57 | 66 | 509 |
| **NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT** | ¥ 26,473 | ¥ 23,900 | $ 236,366 |

| | Yen | | U.S. Dollars |
|---|---|---|---|
| **PER SHARE OF COMMON STOCK** (Notes 2.t and 17): | | | |
| Basic net income | ¥89.79 | ¥81.05 | $0.80 |
| Cash dividends applicable to the year | 20.00 | 18.00 | 0.18 |

See notes to consolidated financial statements.

Shimadzu Corporation and Consolidated Subsidiaries

# Consolidated Statement of Comprehensive Income

Year Ended March 31, 2017

| | Millions of Yen | | Thousands of U.S. Dollars (Note 3) |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| **NET INCOME** | ¥26,530 | ¥23,966 | $236,875 |
| OTHER COMPREHENSIVE INCOME (LOSS) (Note 16): | | | |
| Unrealized gain (loss) on available-for-sale securities | 813 | (164) | 7,259 |
| Foreign currency translation adjustments | (2,450) | (5,536) | (21,875) |
| Defined retirement benefit plans | 2,939 | (3,210) | 26,241 |
| Total other comprehensive income (loss) | 1,302 | (8,910) | 11,625 |
| **COMPREHENSIVE INCOME** | ¥27,832 | ¥15,056 | $248,500 |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | | |
| Owners of the parent | ¥27,787 | ¥15,003 | $248,098 |
| Noncontrolling interests | 45 | 53 | 402 |

See notes to consolidated financial statements.

Shimadzu Corporation and Consolidated Subsidiaries

# Consolidated Statement of Changes in Equity

Year Ended March 31, 2017

| | | Millions of Yen | | | |
|---|---|---|---|---|---|
| | Number of Shares of Common Stock Outstanding | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock |
| BALANCE, APRIL 1, 2015 | 294,875,576 | ¥26,649 | ¥35,188 | ¥134,872 | ¥(797) |
| Net income attributable to owners of the parent | | | | 23,900 | |
| Cash dividends | | | | (5,014) | |
| Purchase of treasury stock | | | | | (64) |
| Net change in the year | (36,054) | | | | |
| BALANCE, MARCH 31, 2016 | 294,839,522 | 26,649 | 35,188 | 153,758 | (861) |
| Net income attributable to owners of the parent | | | | 26,473 | |
| Cash dividends | | | | (5,601) | |
| Change of scope of consolidation | | | | (239) | |
| Purchase of treasury stock | | | | | (25) |
| Net change in the year | (14,936) | | | | |
| BALANCE, MARCH 31, 2017 | (294,824,586) | ¥26,649 | ¥35,188 | ¥174,391 | ¥(886) |

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | Accumulated Other Comprehensive Income (Loss) | | | | | |
| | Unrealized Gain on Available-for-Sale Securities | Foreign Currency Translation Adjustments | Defined Retirement Benefit Plans | Total | Noncontrolling Interests | Total Equity |
| BALANCE, APRIL 1, 2015 | ¥5,200 | ¥ 6,817 | ¥1,840 | ¥209,769 | ¥249 | ¥210,018 |
| Net income attributable to owners of the parent | | | | 23,900 | | 23,900 |
| Cash dividends | | | | (5,014) | | (5,014) |
| Purchase of treasury stock | | | | (64) | | (64) |
| Net change in the year | (163) | (5,523) | (3,211) | (8,897) | 29 | (8,868) |
| BALANCE, MARCH 31, 2016 | 5,037 | 1,294 | (1,371) | 219,694 | 278 | 219,972 |
| Net income attributable to owners of the parent | | | | 26,473 | | 26,473 |
| Cash dividends | | | | (5,601) | | (5,601) |
| Change of scope of consolidation | | | | (239) | | (239) |
| Purchase of treasury stock | | | | (25) | | (25) |
| Net change in the year | 813 | (2,723) | 2,939 | 1,029 | 19 | 1,048 |
| BALANCE, MARCH 31, 2017 | ¥5,850 | ¥(1,429) | ¥1,568 | ¥241,331 | ¥297 | ¥241,628 |

| | Thousands of U.S. Dollars (Note 3) | | | |
|---|---|---|---|---|
| | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock |
| BALANCE, MARCH 31, 2016 | $237,938 | $314,179 | $1,372,839 | $(7,688) |
| Net income attributable to owners of the parent | | | 236,366 | |
| Cash dividends | | | (50,009) | |
| Change of scope of consolidation | | | (2,133) | |
| Purchase of treasury stock | | | | (223) |
| Net change in the year | | | | |
| BALANCE, MARCH 31, 2017 | $237,938 | $314,179 | $1,557,063 | $(7,911) |

See notes to consolidated financial statements.

| | Thousands of U.S. Dollars (Note 3) | | | | | |
|---|---|---|---|---|---|---|
| | Accumulated Other Comprehensive Income (Loss) | | | | | |
| | Unrealized Gain on Available-for-Sale Securities | Foreign Currency Translation Adjustments | Defined Retirement Benefit Plans | Total | Noncontrolling Interests | Total Equity |
| BALANCE, MARCH 31, 2016 | $44,973 | $ 11,554 | $(12,241) | $1,961,554 | $2,482 | $1,964,036 |
| Net income attributable to owners of the parent | | | | 236,366 | | 236,366 |
| Cash dividends | | | | (50,009) | | (50,009) |
| Change of scope of consolidation | | | | (2,133) | | (2,133) |
| Purchase of treasury stock | | | | (223) | | (223) |
| Net change in the year | 7,259 | (24,313) | 26,241 | 9,187 | 169 | 9,356 |
| BALANCE, MARCH 31, 2017 | $52,232 | $(12,759) | $ 14,000 | $2,154,742 | $2,651 | $2,157,393 |

See notes to consolidated financial statements.

Shimadzu Corporation and Consolidated Subsidiaries

# Consolidated Statement of Cash Flows

Year Ended March 31, 2017

| | Millions of Yen | | Thousands of U.S. Dollars (Note 3) |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| OPERATING ACTIVITIES: | | | |
| Income before income taxes | ¥36,113 | ¥34,021 | $322,438 |
| Adjustments for: | | | |
| Income taxes paid | (9,183) | (9,497) | (81,991) |
| Depreciation and amortization | 9,547 | 9,425 | 85,241 |
| Impairment loss (Note 6) | 781 | | 6,973 |
| Foreign exchange (gain) loss, net | (3) | 30 | (27) |
| Loss on sale and retirement of property, plant and equipment | 144 | 172 | 1,286 |
| Changes in assets and liabilities: | | | |
| Increase in trade receivables | (7,912) | (4,242) | (70,643) |
| Increase in allowance for doubtful receivables | 145 | 22 | 1,295 |
| Increase in inventories | (3,816) | (1,362) | (34,071) |
| Increase in trade payables | 5,183 | 2,306 | 46,277 |
| Increase in accrued bonuses | 103 | 848 | 920 |
| Increase (decrease) in liability for retirement benefits | 1,190 | (1,717) | 10,625 |
| Other, net | (2,684) | 2,342 | (23,965) |
| Total adjustments | (6,505) | (1,673) | (58,080) |
| Net cash provided by operating activities | 29,608 | 32,348 | 264,358 |
| INVESTING ACTIVITIES: | | | |
| Proceeds from sale of property, plant and equipment | 212 | 414 | 1,893 |
| Purchases of property, plant and equipment | (11,014) | (11,334) | (98,339) |
| Purchase of investments in capital of subsidiaries | (886) | | (7,911) |
| Purchases of investment securities | (6) | (1,576) | (54) |
| Payments of long-term loans receivable | (41) | (46) | (366) |
| Collections of long-term loan receivables | 37 | 83 | 330 |
| Other, net | (606) | (643) | (5,410) |
| Net cash used in investing activities | (12,304) | (13,102) | (109,857) |
| FINANCING ACTIVITIES: | | | |
| Net decrease in short-term borrowings | (55) | (5,722) | (491) |
| Borrowings of long-term debt | 51 | 880 | 455 |
| Repayments of long-term debt | (1,633) | (1,728) | (14,580) |
| Cash dividends paid | (5,611) | (5,034) | (50,098) |
| Other, net | (46) | (85) | (411) |
| Net cash used in financing activities | (7,294) | (11,689) | (65,125) |
| FORWARD | ¥10,010 | ¥ 7,557 | $ 89,376 |



Shimadzu Corporation and Consolidated Subsidiaries

# Consolidated Statement of Cash Flows

Year Ended March 31, 2017

| | Millions of Yen | | Thousands of U.S. Dollars (Note 3) |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| FORWARD | ¥10,010 | ¥ 7,557 | $89,376 |
| FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS | (1,222) | (2,471) | (10,911) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 8,788 | 5,086 | 78,465 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 43,509 | 38,423 | 388,473 |
| INCREASE IN CASH AND CASH EQUIVALENTS FROM NEWLY-CONSOLIDATED SUBSIDIARY | 466 | | 4,160 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | ¥52,763 | ¥43,509 | $471,098 |

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Year Ended March 31, 2017

## 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.

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 2016 consolidated financial statements to conform to the classifications used in 2017.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. *Consolidation* - The consolidated financial statements as of March 31, 2017, include the accounts of the Company and its 24 (24 in 2016) domestic subsidiaries and 50 (49 in 2016) 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 1 (2 in 2016) unconsolidated subsidiary and 4 (4 in 2016) 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 settlement of accounts on March 31 and use these amounts in consolidated accounts.

During the year ended March 31, 2017, Shimadzu Manufacturing Asia Sdn. Bhd. was newly included in the scope of consolidation due to the increase in its 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—"FASB ASC") 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; and (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.

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: (1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings; (2) held-to-maturity debt securities, for which there is a positive intent and ability to hold to maturity, are reported at amortized cost; and (3) available-for-sale securities, which are not classified as either of the aforementioned 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 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, 2017 and 2016 was ¥85,640 million ($764,643 thousand) and ¥83,375 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 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 the 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 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.

Moreover, a subsidiary participates in a multi-employer plan for which the Company cannot reasonably calculate the amount of plan assets corresponding to the contributions made by the Company. As such, the amount is accounted for using the same method as a defined contribution plan.

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, 2017 and 2016.

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.

In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as-if-capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized by recognizing lease assets and lease obligations in the balance sheet.

The Company and the consolidated domestic subsidiaries applied the revised accounting standard effective April 1, 2008.

All other leases are accounted for as operating leases.

o. *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.

The Company applied ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," effective April 1, 2016. There was no impact from the adoption of this guidance for the year ended March 31, 2017.

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

q. *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.

r. *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.

s. *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.

t. *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.

u. *Accounting Changes and Error Corrections* - Under ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments are required as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

## 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 ¥112 to $1, the approximate rate of exchange at March 31, 2017. 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, 2017 and 2016, consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Non-current: | | | |
| Marketable equity securities | ¥13,110 | ¥11,927 | $117,054 |
| Non-marketable equity securities | 365 | 365 | 3,258 |
| Debt securities | 20 | 20 | 179 |
| Total | ¥13,495 | ¥12,312 | $120,491 |

The cost and aggregate fair values of investment securities at March 31, 2017 and 2016, were as follows:

| | Millions of Yen | | | |
|---|---|---|---|---|
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| **March 31, 2017** | | | | |
| Securities classified as: | | | | |
| Available-for-sale equity securities | ¥4,751 | ¥8,443 | ¥84 | ¥13,110 |
| **March 31, 2016** | | | | |
| Securities classified as: | | | | |
| Available-for-sale equity securities | ¥4,746 | ¥7,366 | ¥185 | ¥11,927 |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| **March 31, 2017** | | | | |
| Securities classified as: | | | | |
| Available-for-sale equity securities | $42,420 | $75,384 | $750 | $117,054 |

## 5. INVENTORIES

Inventories at March 31, 2017 and 2016, consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Merchandise and finished goods | ¥40,588 | ¥40,498 | $362,392 |
| Work in process | 16,899 | 15,457 | 150,884 |
| Raw materials and supplies | 19,214 | 17,716 | 171,554 |
| Total | ¥76,701 | ¥73,671 | $684,830 |

## 6. LONG-LIVED ASSETS

The Group recognized impairment losses as follows:

**March 31, 2017**

| Location | Usage | Description | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|---|---|
| Brazil, São Paulo State | Business assets | Goodwill and other assets | ¥451 | $4,026 |
| Shizuoka Prefecture | Idle assets | Land | 201 | 1,795 |
| Ishikawa Prefecture | Idle assets | Land | 129 | 1,152 |

Long-lived assets are generally grouped by business segments for management accounting. The Group has recognized impairment losses on business assets due to the fact that originally expected revenue and profitability in the business plan studied when the Group acquired the business is no longer expected, and on idle assets due to a significant decline in their market value, by recording these impairment losses as other expenses.

The full amount of the unamortized balance of goodwill and other assets is impaired and recognized as an impairment loss.

The net realizable value for idle assets is based on their net selling price. The selling price is estimated by using their disposal 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 0.33% to 4.30% and from 0.38% to 0.56% at March 31, 2017 and 2016, respectively.

Long-term debt at March 31, 2017 and 2016, consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| 0.30% unsecured bonds, due June 2019 | ¥15,000 | ¥15,000 | $133,929 |
| Borrowings, principally from banks, due serially to 2021 with interest rates ranging from 0.49% to 3.60% (from 0.51% to 3.60%, due serially to 2021 at March 31, 2016) | 1,141 | 1,632 | 10,188 |
| Obligations under finance leases | 2,767 | 2,392 | 24,705 |
| Total | 18,908 | 19,024 | 168,822 |
| Less current portion | (1,501) | (1,479) | (13,402) |
| Long-term debt, less current portion | ¥17,407 | ¥17,545 | $155,420 |

Annual maturities of long-term debt outstanding at March 31, 2017 were as follows:

| Year Ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| 2018 | ¥ 1,501 | $ 13,402 |
| 2019 | 1,267 | 11,313 |
| 2020 | 15,608 | 139,357 |
| 2021 | 342 | 3,054 |
| 2022 | 134 | 1,196 |
| 2023 and thereafter | 56 | 500 |
| Total | ¥18,908 | $168,822 |

## 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, 2017 and 2016, for directors and Audit & Supervisory Board members is ¥185 million ($ 1,651 thousand) and ¥183 million, 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, 2017 and 2016, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Balance at beginning of year | ¥51,640 | ¥52,619 | $461,071 |
| Current service cost | 2,101 | 2,002 | 18,759 |
| Interest cost | 630 | 662 | 5,625 |
| Actuarial losses (gains) | 1,419 | (276) | 12,670 |
| Benefits paid | (2,438) | (2,690) | (21,768) |
| Others | (866) | (677) | (7,732) |
| Balance at end of year | ¥52,486 | ¥51,640 | $468,625 |

(2) The changes in plan assets for the years ended March 31, 2017 and 2016, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Balance at beginning of year | ¥40,395 | ¥44,402 | $360,670 |
| Expected return on plan assets | 930 | 791 | 8,304 |
| Actuarial gains (losses) | 4,732 | (5,706) | 42,250 |
| Contributions from the employer | 4,347 | 3,204 | 38,813 |
| Benefits paid | (1,691) | (1,897) | (15,098) |
| Others | (536) | (399) | (4,787) |
| Balance at end of year | ¥48,177 | ¥40,395 | $430,152 |

(3) The changes in net defined benefit liability for the plans to which the simplified method was applied for the years ended March 31, 2017 and 2016, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Balance at beginning of year | ¥2,439 | ¥2,346 | $21,777 |
| Net periodic benefit costs | 625 | 495 | 5,580 |
| Benefits paid | (167) | (205) | (1,491) |
| Contributions from the employer | (203) | (198) | (1,812) |
| Balance at end of year | ¥2,694 | ¥2,439 | $24,054 |

(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, 2017 and 2016, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Funded defined benefit obligation | ¥56,466 | ¥55,218 | $504,161 |
| Plan assets | (50,804) | (42,882) | (453,607) |
| | 5,662 | 12,336 | 50,554 |
| Unfunded defined benefit obligation | 1,340 | 1,347 | 11,964 |
| Net liability arising from defined benefit obligation | ¥ 7,002 | ¥13,683 | $ 62,518 |
| Liability for retirement benefits | ¥10,708 | ¥13,683 | $ 95,607 |
| Asset for retirement benefits | 3,706 | | 33,089 |
| Net liability arising from defined benefit obligation | ¥ 7,002 | ¥13,683 | $ 62,518 |

(5) The components of net periodic benefit costs for the years ended March 31, 2017 and 2016, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Service cost | ¥2,101 | ¥2,002 | $18,759 |
| Interest cost | 630 | 662 | 5,625 |
| Expected return on plan assets | (930) | (791) | (8,304) |
| Amortization of prior service cost | (243) | (307) | (2,170) |
| Recognized actuarial losses | 739 | 650 | 6,599 |
| Others | 625 | 495 | 5,580 |
| Net periodic benefit costs | ¥2,922 | ¥2,711 | $26,089 |

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2017 and 2016:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Prior service cost | ¥ (243) | ¥(307) | $ (2,170) |
| Actuarial gains (losses) | 4,304 | (4,502) | 38,429 |
| Total | ¥4,061 | ¥(4,809) | $36,259 |

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2017 and 2016:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Unrecognized prior service cost | ¥1,129 | ¥ 1,373 | $10,080 |
| Unrecognized actuarial gains (losses) | 1,307 | (2,997) | 11,670 |
| Total | ¥2,436 | ¥(1,624) | $21,750 |

(8) Plan assets

a. *Components of plan assets*

Plan assets as of March 31, 2017 and 2016, consisted of the following:

| | 2017 | 2016 |
|---|---|---|
| Debt investments | 20% | 18% |
| Equity investments | 67 | 66 |
| General account asset | 12 | 14 |
| Others | 1 | 2 |
| 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, 2017 and 2016, were set forth as follows:

| | 2017 | 2016 |
|---|---|---|
| Discount rate | 1.0% | 1.0% |
| Expected rate of return on plan assets | 2.5% | 2.1% |

The expected compensation increase rate for the years ended March 31, 2017 and 2016 is based on the age-specific compensation increase index as of March 31, 2015.

## 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 ¥9,297 million ($83,009 thousand) and ¥9,437 million for the years ended March 31, 2017 and 2016, 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 normal effective statutory tax rates of approximately 31% and 33% for the years ended March 31, 2017 and 2016, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2017 and 2016 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Current: | | | |
| Deferred tax assets: | | | |
| Accrued bonuses | ¥2,471 | ¥2,450 | $22,063 |
| Unrealized profit eliminated from inventories | 2,794 | 3,130 | 24,946 |
| Loss on devaluation of inventories | 1,189 | 1,080 | 10,616 |
| Enterprise taxes | 336 | 436 | 3,000 |
| Allowance for doubtful receivables | 242 | 261 | 2,161 |
| Other | 2,679 | 2,467 | 23,920 |
| Total | 9,711 | 9,824 | 86,706 |
| Less valuation allowance | (12) | (19) | (108) |
| Total deferred tax assets | ¥9,699 | ¥9,805 | $86,598 |
| Deferred tax liability | ¥ 96 | ¥ 78 | $ 857 |
| Net deferred tax assets | ¥9,603 | ¥9,730 | $85,741 |
| Net deferred tax liabilities (included in other current liabilities) | ¥ 2 | ¥ 3 | $ 18 |

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Noncurrent: | | | |
| Deferred tax assets: | | | |
| Liability for retirement benefits | ¥ 8,209 | ¥10,091 | $ 73,295 |
| Depreciation | 2,245 | 2,356 | 20,045 |
| Tax loss carryforwards | 50 | 123 | 446 |
| Loss on impairment of long-lived assets | 301 | 200 | 2,688 |
| Other | 812 | 792 | 7,249 |
| Total | 11,617 | 13,562 | 103,723 |
| Less valuation allowance | (767) | (806) | (6,848) |
| Total deferred tax assets | ¥10,850 | ¥12,756 | $ 96,875 |
| Deferred tax liabilities: | | | |
| Gain on securities contributed to employee retirement benefit trust | ¥ 4,014 | ¥4,016 | $35,839 |
| Unrealized gain on available-for-sale securities | 2,508 | 2,144 | 22,393 |
| Other | 494 | 483 | 4,411 |
| Total deferred tax liabilities | ¥ 7,016 | ¥ 6,643 | $ 62,643 |
| Net deferred tax assets | ¥ 4,161 | ¥ 6,388 | $ 37,152 |
| Net deferred tax liabilities (included in other long-term liabilities) | ¥ 327 | ¥ 275 | $ 2,920 |

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, 2017, with the corresponding figures for the year ended March 31, 2016, is as follows:

| | 2017 | 2016 |
|---|---|---|
| Normal effective statutory tax rate | 30.8% | 33.0% |
| Effect of income tax rate on deferred tax assets reduction | | 1.7 |
| Expenses not permanently deductible for income tax purposes | 0.6 | 1.0 |
| Per capita inhabitant tax | 0.3 | 0.3 |
| Valuation allowance | 0.1 | 0.1 |
| Difference in subsidiaries' tax rates | (2.0) | (2.8) |
| Tax credit for research and development costs | (3.9) | (4.1) |
| Other, net | 0.6 | 0.4 |
| Actual effective tax rate | 26.5% | 29.6% |

## 12. LEASES

### LESSEE

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

Total rental expenses for the years ended March 31, 2017 and 2016, were ¥6,489 million ($57,938 thousand) and ¥6,675 million, respectively.

Future minimum payments under noncancelable operating leases as of March 31, 2017 and 2016, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Due within one year | ¥ 843 | ¥ 739 | $ 7,527 |
| Due after one year | 1,472 | 1,119 | 13,143 |
| Total | ¥2,315 | ¥1,858 | $20,670 |

### LESSOR

Future lease income under noncancelable operating leases as of March 31, 2017 and 2016, was as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Due within one year | ¥101 | ¥ 98 | $ 902 |
| Due after one year | 303 | 404 | 2,705 |
| Total | ¥404 | ¥502 | $3,607 |

## 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 Groups 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.

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 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 entered into by the Group have been made in accordance with internal policies under the supervision of the director in charge of the finance department.

The contract or notional amounts of derivatives which are shown in the table at Note 14 do not represent the amounts exchanged by the parties and do not measure the Company's exposure to credit or market risk. Please see Note 14 for more details 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

| | Millions of Yen | | |
|---|---|---|---|
| March 31, 2017 | Carrying Amount | Fair Value | Unrealized Gains (Losses) |
| Cash and cash equivalents | ¥ 52,763 | ¥ 52,763 | |
| Time deposits | 3,935 | 3,935 | |
| Trade receivables | 112,878 | 112,825 | ¥(53) |
| Investment securities | 13,110 | 13,110 | |
| Total | ¥182,686 | ¥182,633 | ¥(53) |
| Short-term borrowings | ¥ 2,473 | ¥ 2,473 | |
| Trade notes and accounts payable | 57,263 | 57,263 | |
| Long-term debt: Bonds payable | 15,000 | 15,071 | ¥(71) |
| Total | ¥ 74,736 | ¥ 74,807 | ¥(71) |
| Derivatives | ¥ 51 | ¥ 51 | |

| | Millions of Yen | | |
|---|---|---|---|
| March 31, 2016 | Carrying Amount | Fair Value | Unrealized Gains (Losses) |
| Cash and cash equivalents | ¥ 43,509 | ¥ 43,509 | |
| Time deposits | 3,398 | 3,398 | |
| Trade receivables | 105,430 | 105,181 | ¥(249) |
| Investment securities | 11,927 | 11,927 | |
| Total | ¥164,264 | ¥164,015 | ¥(249) |
| Short-term borrowings | ¥ 2,519 | ¥ 2,519 | |
| Trade notes and accounts payable | 52,423 | 52,423 | |
| Long-term debt: Bonds payable | 15,000 | 15,108 | ¥(108) |
| Total | ¥ 69,942 | ¥ 70,050 | ¥(108) |
| Derivatives | ¥ 117 | ¥ 117 | |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| March 31, 2017 | Carrying Amount | Fair Value | Unrealized Gains (Losses) |
| Cash and cash equivalents | $ 471,098 | $ 471,098 | |
| Time deposits | 35,134 | 35,134 | |
| Trade receivables | 1,007,839 | 1,007,366 | $(473) |
| Investment securities | 117,054 | 117,054 | |
| Total | $1,631,125 | $1,630,652 | $(473) |
| Short-term borrowings | $ 22,080 | $ 22,080 | |
| Trade notes and accounts payable | 511,277 | 511,277 | |
| Long-term debt: Bonds payable | 133,929 | 134,563 | $(634) |
| Total | $ 667,286 | $ 667,920 | $(634) |
| Derivatives | $ 455 | $ 455 | |

*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 the equity instruments. Fair value information for the 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 |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Investments in equity instruments that do not have a quoted market price in an active market | ¥365 | ¥ 365 | $3,258 |
| Stocks of subsidiaries and associated companies | 284 | 2,343 | 2,536 |
| Bonds that do not have a quoted market price in an active market | 20 | 20 | 179 |
| Total | ¥669 | ¥2,728 | $5,973 |

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

| | Millions of Yen | |
|---|---|---|
| March 31, 2017 | Due in 1 Year or Less | Due after 1 Year |
| Cash and cash equivalents | ¥ 52,763 | |
| Time deposits | 3,935 | |
| Trade receivables | 112,677 | ¥201 |
| Investment securities: Bonds that do not have a quoted market price in an active market | | 20 |
| Total | ¥169,375 | ¥221 |

| | Thousands of U.S. Dollars | |
|---|---|---|
| March 31, 2017 | Due in 1 Year or Less | Due after 1 Year |
| Cash and cash equivalents | $ 471,098 | |
| Time deposits | 35,134 | |
| Trade receivables | 1,006,045 | $1,794 |
| Investment securities: Bonds that do not have a quoted market price in an active market | | 179 |
| Total | $1,512,277 | $1,973 |

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 entered into by the Group have been made in accordance with internal policies under the supervision of the director in charge of the finance department.

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

The Company has the following derivative contracts outstanding as of March 31, 2017 and 2016:

| | 2017 | | |
|---|---|---|---|
| | In Thousands | Millions of Yen | |
| | Contract or Notional Amount | Fair Value | Unrealized Gains (Losses) |
| Forward exchange contracts: | | | |
| Selling USD | USD 78,000 | ¥42 | ¥42 |
| Selling Euro | EUR 15,000 | 10 | 10 |
| Buying USD | USD 1,072 | (1) | (1) |
| Buying Yen | JPY | | |

| | 2016 | | |
|---|---|---|---|
| | In Thousands | Millions of Yen | |
| | Contract or Notional Amount | Fair Value | Unrealized Gains (Losses) |
| Forward exchange contracts: | | | |
| Selling USD | USD 58,078 | ¥129 | ¥129 |
| Selling Euro | EUR 17,000 | (12) | (12) |
| Buying USD | USD 581 | | |
| Buying Yen | JPY 4,914 | | |

| | 2017 | | |
|---|---|---|---|
| | In Thousands | Thousands of U.S. Dollars | |
| | Contract or Notional Amount | Fair Value | Unrealized Gains (Losses) |
| Forward exchange contracts: | | | |
| Selling USD | USD 78,000 | $375 | $375 |
| Selling Euro | EUR 15,000 | 89 | 89 |
| Buying USD | USD 1,072 | (9) | (9) |

## 15. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2017, for trade notes discounted with banks amounted to ¥400 million ($3,571 thousand).

## 16. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2017 and 2016, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Unrealized gain (loss) on available-for-sale securities: | | | |
| Gains arising during the year | ¥1,178 | ¥(409) | $10,518 |
| Amount before income tax effect | 1,178 | (409) | 10,518 |
| Income tax effect | (365) | 245 | (3,259) |
| Total | ¥813 | ¥(164) | $7,259 |
| Foreign currency translation adjustments: | | | |
| Adjustments arising during the year | ¥(2,450) | ¥(5,536) | $(21,875) |
| Total | ¥(2,450) | ¥(5,536) | $(21,875) |
| Defined retirement benefit plans: | | | |
| Adjustments arising during the year | ¥3,565 | ¥(5,153) | $31,830 |
| Reclassification adjustments to profit or loss | 496 | 344 | 4,429 |
| Amount before income tax effect | 4,061 | (4,809) | 36,259 |
| Income tax effect | (1,122) | 1,599 | (10,018) |
| Total | ¥2,939 | ¥(3,210) | $26,241 |
| Total other comprehensive income (loss) | ¥1,302 | ¥(8,910) | $11,625 |

## 17. NET INCOME PER SHARE

Basic net income per share ("EPS") for the years ended March 31, 2017 and 2016, was as follows:

| | Millions of Yen | Thousands of Shares | Yen | U.S. Dollar |
|---|---|---|---|---|
| | Net Income | Weighted-Average Shares | EPS | |
| **Year Ended March 31, 2017:** | | | | |
| Basic EPS | | | | |
| Net income available to common shareholders | ¥26,473 | 294,832 | ¥89.79 | $0.80 |
| **Year Ended March 31, 2016:** | | | | |
| Basic EPS | | | | |
| Net income available to common shareholders | ¥23,900 | 294,858 | ¥81.05 | |

Diluted EPS for the years ended March 31, 2017 and 2016, is not disclosed because no potentially securities are outstanding.

## 18. SUBSEQUENT EVENTS

*Appropriation of Retained Earnings*

The following appropriation of retained earnings at March 31, 2017, was approved at the Company's shareholders' meeting held on June 29, 2017:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Year-end cash dividends, ¥10.00 ($0.09 ) per share | ¥2,948 | $26,321 |

## 19. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," 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 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 2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Reportable Segment | | | | | | | | |
| | Analytical and Measuring Instruments | Medical Systems and Equipment | Aircraft Equipment | Industrial Machinery | Total | Other | Total | Reconciliations | Consolidated |
| Sales: | | | | | | | | | |
| Sales to external customers | ¥209,238 | ¥64,376 | ¥26,729 | ¥36,158 | ¥336,501 | ¥5,979 | ¥342,480 | | ¥342,480 |
| Intersegment sales or transfers | 84 | 11 | 85 | 83 | 263 | 1,498 | 1,761 | ¥(1,761) | |
| Total | ¥209,322 | ¥64,387 | ¥26,814 | ¥36,241 | ¥336,764 | ¥7,477 | ¥344,241 | ¥(1,761) | ¥342,480 |
| Segment profit (loss) | ¥ 33,052 | ¥ 1,922 | ¥ 776 | ¥ 2,671 | ¥ 38,421 | ¥ 883 | ¥39,304 | ¥(2,214) | ¥ 37,090 |
| Segment assets | 187,562 | 58,292 | 50,577 | 35,539 | 331,970 | 8,408 | 340,378 | 34,976 | 375,354 |
| Other: | | | | | | | | | |
| Depreciation | 5,402 | 1,721 | 899 | 1,286 | 9,308 | 239 | 9,547 | | 9,547 |
| Increase in property, plant and equipment and intangible assets | 7,032 | 2,115 | 1,111 | 2,320 | 12,578 | 299 | 12,877 | | 12,877 |

| | Millions of Yen 2016 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Reportable Segment | | | | | | | | |
| | Analytical and Measuring Instruments | Medical Systems and Equipment | Aircraft Equipment | Industrial Machinery | Total | Other | Total | Reconciliations | Consolidated |
| Sales: | | | | | | | | | |
| Sales to external customers | ¥208,402 | ¥64,598 | ¥28,849 | ¥33,517 | ¥335,366 | ¥6,871 | ¥342,237 | | ¥342,237 |
| Intersegment sales or transfers | 78 | 15 | 81 | 72 | 246 | 1,326 | 1,572 | ¥(1,572) | |
| Total | ¥208,480 | ¥64,613 | ¥28,930 | ¥33,589 | ¥335,612 | ¥8,197 | ¥343,809 | ¥(1,572) | ¥342,237 |
| Segment profit (loss) | ¥ 32,960 | ¥ 1,045 | ¥ 347 | ¥ 2,207 | ¥ 36,559 | ¥1,266 | ¥37,825 | ¥(2,123) | ¥35,702 |
| Segment assets | 176,106 | 58,408 | 46,754 | 31,617 | 312,885 | 7,574 | 320,459 | 29,340 | 349,799 |
| Other: | | | | | | | | | |
| Depreciation | 5,317 | 1,715 | 968 | 1,199 | 9,199 | 226 | 9,425 | | 9,425 |
| Increase in property, plant and equipment and intangible assets | 6,872 | 1,844 | 1,440 | 1,714 | 11,870 | 229 | 12,099 | | 12,099 |

| | Thousands of U.S. Dollars 2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Reportable Segment | | | | | | | | |
| | Analytical and Measuring Instruments | Medical Systems and Equipment | Aircraft Equipment | Industrial Machinery | Total | Other | Total | Reconciliations | Consolidated |
| Sales: | | | | | | | | | |
| Sales to external customers | $1,868,196 | $574,786 | $238,652 | $322,839 | $3,004,473 | $53,384 | $3,057,857 | | $3,057,857 |
| Intersegment sales or transfers | 750 | 98 | 759 | 741 | 2,348 | 13,375 | 15,723 | $(15,723) | |
| Total | $1,868,946 | $574,884 | $239,411 | $323,580 | $3,006,821 | $66,759 | $3,073,580 | $(15,723) | $3,057,857 |
| Segment profit (loss) | $ 295,107 | $ 17,161 | $ 6,929 | $ 23,848 | $ 343,045 | $ 7,884 | $ 350,929 | $(19,777) | $ 331,161 |
| Segment assets | 1,674,661 | 520,464 | 451,580 | 317,313 | 2,964,018 | 75,071 | 3,039,089 | | 3,351,375 |
| Other: | | | | | | | | | |
| Depreciation | 48,232 | 15,366 | 8,027 | 11,482 | 83,107 | 2,134 | 85,241 | | 85,241 |
| Increase in property, plant and equipment and intangible assets | 62,786 | 18,884 | 9,920 | 20,714 | 112,304 | 2,669 | 114,973 | | 114,973 |

Note:

Reconciliations” of segment profit include eliminations of intersegment transactions of ¥2,214 million ($ 19,768 thousand) and ¥2,123 million as of March 31, 2017 and 2016, respectively. “Reconciliations” of segment assets include eliminations of intersegment receivables of ¥3,174 million ($28,339 thousand) and ¥2,895 million and unallocated corporate assets of ¥38,150 million ($340,625 thousand) and ¥32,235 million as of March 31, 2017 and 2016, 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 the operating income of the consolidated statement of income.

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

*a. Sales*

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Japan | North and South America | Europe | China | Other Asia | Other | Total |
| 2017 | ¥175,906 | ¥42,508 | ¥24,895 | ¥56,149 | ¥32,951 | ¥10,071 | ¥342,480 |

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Japan | North and South America | Europe | China | Other Asia | Other | Total |
| 2016 | ¥167,940 | ¥46,004 | ¥27,322 | ¥56,136 | ¥32,328 | ¥12,507 | ¥342,237 |

| | Thousands of U.S. Dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | Japan | North and South America | Europe | China | Other Asia | Other | Total |
| 2017 | $1,570,589 | $379,536 | $222,277 | $501,330 | $294,205 | $89,920 | $3,057,857 |

*b. Property, plant and equipment*

| Millions of Yen | | | | | | Thousands of U.S. Dollars | | |
|---|---|---|---|---|---|---|---|---|
| 2017 | | | 2016 | | | 2017 | | |
| Japan | Foreign Countries | Total | Japan | Foreign Countries | Total | Japan | Foreign Countries | Total |
| ¥66,945 | ¥11,807 | ¥78,752 | ¥66,302 | ¥9,857 | ¥76,159 | $597,723 | $105,420 | $703,343 |

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

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Analytical and Measuring Instruments | Medical Systems and Equipment | Aircraft Equipment | Industrial Machinery | Other | Elimination/ Corporate | Total |
| Amortization of goodwill | | ¥24 | | ¥ 13 | | | ¥ 37 |
| Goodwill at March 31, 2017 | | ¥34 | | ¥230 | | | ¥264 |

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Analytical and Measuring Instruments | Medical Systems and Equipment | Aircraft Equipment | Industrial Machinery | Other | Elimination/ Corporate | Total |
| Amortization of goodwill | | | | ¥ 14 | | | ¥ 14 |
| Goodwill at March 31, 2016 | | ¥60 | | ¥240 | | | ¥300 |

| | Thousands of U.S. Dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | Analytical and Measuring Instruments | Medical Systems and Equipment | Aircraft Equipment | Industrial Machinery | Other | Elimination/ Corporate | Total |
| Amortization of goodwill | | $214 | | $ 116 | | | $ 330 |
| Goodwill at March 31, 2017 | | $304 | | $2,053 | | | $2,357 |

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

| | Millions of Yen 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Analytical and Measuring Instruments | Medical Systems and Equipment | Aircraft Equipment | Industrial Machinery | Other | Elimination/ Corporate | Total |
| Impairment losses on assets | ¥604 | ¥83 | ¥58 | ¥36 | | | ¥781 |

| | Thousands of U.S. Dollars 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Analytical and Measuring Instruments | Medical Systems and Equipment | Aircraft Equipment | Industrial Machinery | Other | Elimination/ Corporate | Total |
| Impairment losses on assets | $5,393 | $741 | $518 | $321 | | | $6,973 |

* * * * * *

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of Shimadzu Corporation:

We have audited the accompanying consolidated balance sheet of Shimadzu Corporation and its consolidated subsidiaries as of March 31, 2017, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these 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.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shimadzu Corporation and its consolidated subsidiaries as of March 31, 2017, and the consolidated results of their operations and their 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.

June 30, 2017

Deloitte Touche Tohmatsu LLC

Member of
**Deloitte Touche Tohmatsu Limited**

# Shimadzu Corporation

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