

1. Consolidated Financial Results

	3/2006 Result				3/2005 Result				Change from previous year							
	1st Half		1st Half		Amount		Ratio		Full year		Full year		Amount		Ratio	
	Millions of yen		Millions of yen		Millions of yen		Millions of yen		Millions of yen		Millions of yen		Millions of yen		Millions of yen	
Net Sales	<b>44,693</b>	42,165	+2,528	+6.0%	<b>102,000</b>	92,492	+9,507	+10.3%	<b>102,000</b>	92,492	+9,507	+10.3%	<b>102,000</b>	92,492	+9,507	+10.3%
Operating Income	<b>3,737</b>	3,533	+203	+5.8%	<b>10,000</b>	9,372	+627	+6.7%	<b>10,000</b>	9,372	+627	+6.7%	<b>10,000</b>	9,372	+627	+6.7%
<i>Operating Income Ratio</i>	<i>8.4%</i>	<i>8.4%</i>	-		<i>9.8%</i>	<i>10.1%</i>	<i>-0.3P</i>		<i>9.8%</i>	<i>10.1%</i>	<i>-0.3P</i>		<i>9.8%</i>	<i>10.1%</i>	<i>-0.3P</i>	
Ordinary Income	<b>3,859</b>	3,319	+539	+16.3%	<b>9,400</b>	8,882	+517	+5.8%	<b>9,400</b>	8,882	+517	+5.8%	<b>9,400</b>	8,882	+517	+5.8%
<i>Ordinary Income Ratio</i>	<i>8.6%</i>	<i>7.9%</i>	<i>+0.8P</i>		<i>9.2%</i>	<i>9.6%</i>	<i>-0.4P</i>		<i>9.2%</i>	<i>9.6%</i>	<i>-0.4P</i>		<i>9.2%</i>	<i>9.6%</i>	<i>-0.4P</i>	
Net Income	<b>1,651</b>	815	+835	+102.4%	<b>5,000</b>	3,523	+1,476	+41.9%	<b>5,000</b>	3,523	+1,476	+41.9%	<b>5,000</b>	3,523	+1,476	+41.9%
<i>Net Income Ratio</i>	<i>3.7%</i>	<i>1.9%</i>	<i>+1.8P</i>		<i>4.9%</i>	<i>3.8%</i>	<i>+1.1P</i>		<i>4.9%</i>	<i>3.8%</i>	<i>+1.1P</i>		<i>4.9%</i>	<i>3.8%</i>	<i>+1.1P</i>	
US\$	<b>106.16</b>	108.50	-2.34		<b>108.00</b>	108.23	-0.23		<b>108.00</b>	108.23	-0.23		<b>108.00</b>	108.23	-0.23	
Euro	<b>136.25</b>	133.10	+3.15		<b>136.00</b>	134.44	+1.56		<b>136.00</b>	134.44	+1.56		<b>136.00</b>	134.44	+1.56	

2. Consolidated Segment Information

Net Sales	3/2006 Result				3/2005 Result				Change from previous year							
	1st Half		1st Half		Amount		Ratio		Full year		Full year		Amount		Ratio	
	Millions of yen		Millions of yen		Millions of yen		Millions of yen		Millions of yen		Millions of yen		Millions of yen		Millions of yen	
Engine	<b>12,594</b>	10,582	+2,012	+19.0%	<b>31,000</b>	27,021	+3,978	+14.7%	<b>31,000</b>	27,021	+3,978	+14.7%	<b>31,000</b>	27,021	+3,978	+14.7%
Analytical	<b>14,246</b>	13,085	+1,160	+8.9%	<b>31,800</b>	28,510	+3,289	+11.5%	<b>31,800</b>	28,510	+3,289	+11.5%	<b>31,800</b>	28,510	+3,289	+11.5%
Medical	<b>9,348</b>	8,769	+578	+6.6%	<b>21,000</b>	18,776	+2,223	+11.8%	<b>21,000</b>	18,776	+2,223	+11.8%	<b>21,000</b>	18,776	+2,223	+11.8%
Semiconductor	<b>8,505</b>	9,728	-1,223	-12.6%	<b>18,200</b>	18,182	+17	+0.1%	<b>18,200</b>	18,182	+17	+0.1%	<b>18,200</b>	18,182	+17	+0.1%
Total	<b>44,693</b>	42,165	+2,528	+6.0%	<b>102,000</b>	92,492	+9,507	+10.3%	<b>102,000</b>	92,492	+9,507	+10.3%	<b>102,000</b>	92,492	+9,507	+10.3%

Operating Income	3/2006 Result				3/2005 Result				Change from previous year							
	1st Half		1st Half		Amount		Ratio		Full year		Full year		Amount		Ratio	
	Millions of yen		Millions of yen		Millions of yen		Millions of yen		Millions of yen		Millions of yen		Millions of yen		Millions of yen	
Engine	<b>2,552</b>	1,700	+851	+50.1%	<b>5,500</b>	4,705	+794	+16.9%	<b>5,500</b>	4,705	+794	+16.9%	<b>5,500</b>	4,705	+794	+16.9%
Analytical	<b>-92</b>	-247	+154	-	<b>1,000</b>	861	+138	+16.0%	<b>1,000</b>	861	+138	+16.0%	<b>1,000</b>	861	+138	+16.0%
Medical	<b>209</b>	386	-176	-45.7%	<b>1,500</b>	1,145	+354	+30.9%	<b>1,500</b>	1,145	+354	+30.9%	<b>1,500</b>	1,145	+354	+30.9%
Semiconductor	<b>1,068</b>	1,694	-626	-37.0%	<b>2,000</b>	2,659	-659	-24.8%	<b>2,000</b>	2,659	-659	-24.8%	<b>2,000</b>	2,659	-659	-24.8%
Total	<b>3,737</b>	3,533	+203	+5.8%	<b>10,000</b>	9,372	+627	+6.7%	<b>10,000</b>	9,372	+627	+6.7%	<b>10,000</b>	9,372	+627	+6.7%

3. Trend of Consolidated Sales by Segment and Area \*

	3/2006 Result				3/2005 Result				Change from previous year							
	1st Half		1st Half		Amount		Ratio		Full year		Full year		Amount		Ratio	
	Millions of yen		Millions of yen		Millions of yen		Millions of yen		Millions of yen		Millions of yen		Millions of yen		Millions of yen	
Engine	<b>12,594</b>	10,582	+2,012	+19.0%	<b>31,000</b>	27,021	+3,978	+14.7%	<b>31,000</b>	27,021	+3,978	+14.7%	<b>31,000</b>	27,021	+3,978	+14.7%
Japan + Asia	<b>7,700</b>	6,569	+1,131	+17.2%	<b>15,482</b>	14,885	+596	+4.0%	<b>15,482</b>	14,885	+596	+4.0%	<b>15,482</b>	14,885	+596	+4.0%
America	<b>2,203</b>	1,345	+858	+63.8%	<b>6,209</b>	4,175	+2,033	+48.7%	<b>6,209</b>	4,175	+2,033	+48.7%	<b>6,209</b>	4,175	+2,033	+48.7%
Europe	<b>2,689</b>	2,667	+22	+0.8%	<b>9,308</b>	7,960	+1,347	+16.9%	<b>9,308</b>	7,960	+1,347	+16.9%	<b>9,308</b>	7,960	+1,347	+16.9%
Analytical	<b>14,246</b>	13,085	+1,160	+8.9%	<b>31,800</b>	28,510	+3,289	+11.5%	<b>31,800</b>	28,510	+3,289	+11.5%	<b>31,800</b>	28,510	+3,289	+11.5%
Japan + Asia	<b>7,902</b>	7,405	+496	+6.7%	<b>16,538</b>	15,347	+1,191	+7.8%	<b>16,538</b>	15,347	+1,191	+7.8%	<b>16,538</b>	15,347	+1,191	+7.8%
America	<b>1,283</b>	1,019	+263	+25.9%	<b>2,917</b>	2,295	+621	+27.1%	<b>2,917</b>	2,295	+621	+27.1%	<b>2,917</b>	2,295	+621	+27.1%
Europe	<b>5,060</b>	4,660	+400	+8.6%	<b>12,344</b>	10,867	+1,476	+13.6%	<b>12,344</b>	10,867	+1,476	+13.6%	<b>12,344</b>	10,867	+1,476	+13.6%
Medical	<b>9,348</b>	8,769	+578	+6.6%	<b>21,000</b>	18,776	+2,223	+11.8%	<b>21,000</b>	18,776	+2,223	+11.8%	<b>21,000</b>	18,776	+2,223	+11.8%
Japan + Asia	<b>1,829</b>	1,690	+138	+8.2%	<b>4,415</b>	3,393	+1,022	+30.1%	<b>4,415</b>	3,393	+1,022	+30.1%	<b>4,415</b>	3,393	+1,022	+30.1%
America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe	<b>7,518</b>	7,078	+439	+6.2%	<b>16,584</b>	15,383	+1,200	+7.8%	<b>16,584</b>	15,383	+1,200	+7.8%	<b>16,584</b>	15,383	+1,200	+7.8%
Semiconductor	<b>8,505</b>	9,728	-1,223	-12.6%	<b>18,200</b>	18,182	+17	+0.1%	<b>18,200</b>	18,182	+17	+0.1%	<b>18,200</b>	18,182	+17	+0.1%
Japan + Asia	<b>6,927</b>	7,225	-298	-4.1%	<b>14,965</b>	13,371	+1,594	+11.9%	<b>14,965</b>	13,371	+1,594	+11.9%	<b>14,965</b>	13,371	+1,594	+11.9%
America	<b>1,190</b>	1,912	-722	-37.8%	<b>2,347</b>	3,493	-1,146	-32.8%	<b>2,347</b>	3,493	-1,146	-32.8%	<b>2,347</b>	3,493	-1,146	-32.8%
Europe	<b>387</b>	589	-202	-34.3%	<b>887</b>	1,318	-430	-32.7%	<b>887</b>	1,318	-430	-32.7%	<b>887</b>	1,318	-430	-32.7%
Total	<b>44,693</b>	42,165	+2,528	+6.0%	<b>102,000</b>	92,492	+9,507	+10.3%	<b>102,000</b>	92,492	+9,507	+10.3%	<b>102,000</b>	92,492	+9,507	+10.3%

\* Area segmentation is based on the region where sales occurs.

#### 4. Consolidated Financial Results (Quarterly Comparison)

	3/2006			3/2005			
	1Q Result	2Q Result	2H Estimate	1Q Result	2Q Result	3Q Result	4Q Result
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Net Sales	22,418	22,275	57,306	21,674	20,490	24,279	26,047
Operating Income	2,702	1,035	6,262	2,092	1,441	3,125	2,713
<i>Operating Income Ratio</i>	12.1%	4.6%	10.9%	9.7%	7.0%	12.9%	10.4%
Ordinary Income	2,683	1,175	5,540	2,034	1,285	2,960	2,602
<i>Ordinary Income Ratio</i>	12.0%	5.3%	9.7%	9.4%	6.3%	12.2%	10.0%
Net Income	1,047	604	3,348	773	42	1,453	1,254
<i>Net Income Ratio</i>	4.7%	2.7%	5.8%	3.6%	0.2%	6.0%	4.8%

#### 5. Consolidated Segment Information (Quarterly Comparison)

Net Sales	3/2006			3/2005			
	1Q Result	2Q Result	2H Estimate	1Q Result	2Q Result	3Q Result	4Q Result
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Engine	6,318	6,275	18,405	6,031	4,550	7,964	8,475
Analytical	7,107	7,138	17,553	6,444	6,640	7,240	8,185
Medical	4,616	4,732	11,651	4,071	4,697	4,549	5,458
Semiconductor	4,375	4,129	9,694	5,126	4,601	4,525	3,928
Total	22,418	22,275	57,306	21,674	20,490	24,279	26,047

Operating Income	3/2006			3/2005			
	1Q Result	2Q Result	2H Estimate	1Q Result	2Q Result	3Q Result	4Q Result
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Engine	1,751	801	2,947	1,193	507	1,889	1,115
Analytical	59	-152	1,092	-53	-194	329	780
Medical	118	91	1,290	30	355	265	493
Semiconductor	772	295	931	922	772	641	324
Total	2,702	1,035	6,262	2,092	1,441	3,125	2,713

#### 6. Consolidated Orders, Backlog Information (Quarterly Comparison)

Orders	3/2006			3/2005			
	1Q Result	2Q Result	2H Estimate	1Q Result	2Q Result	3Q Result	4Q Result
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Engine	8,965	5,842	-	7,965	4,616	9,310	6,708
Analytical	7,936	8,138	-	7,291	7,218	8,154	6,882
Medical	4,888	5,114	-	4,311	5,046	4,600	4,958
Semiconductor	4,610	3,988	-	5,745	3,896	4,777	3,733
Total	26,400	23,084	-	25,313	20,778	26,843	22,282

Backlog	3/2006			3/2005			
	1Q Result	2Q Result	2H Estimate	1Q Result	2Q Result	3Q Result	4Q Result
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Engine	11,472	11,039	-	9,181	9,246	10,593	8,825
Analytical	7,466	8,467	-	6,448	7,026	7,940	6,638
Medical	1,603	1,985	-	1,431	1,779	1,831	1,330
Semiconductor	1,800	1,659	-	2,214	1,510	1,762	1,566
Total	22,343	23,152	-	19,275	19,562	22,126	18,361

#### Contact

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**Consolidated Financial Statements for the Six Months ended September 20, 2005**

Company Name **HORIBA, Ltd.** November 7, 2005  
 Listing Code 6856 Stock Exchange Listings: Tokyo, Osaka  
 (URL <http://www.horiba.co.jp>) Address of Head Office: Kyoto  
 Representative: Atsushi Horiba Chairman, President & CEO  
 Contact: Fumitoshi Sato Managing Director Telephone:(81)75-313-8121  
 Board of Directors meeting : November 7, 2005  
 U.S. accounting standards used : No

**1. Results for the Six Months ended September 20, 2005 (March 21, 2005 - September 20, 2005)**

(1) Sales and Income

	Net sales		Operating income		Ordinary income	
	¥ million	%	¥ million	%	¥ million	%
6 months ended 20/9/05	44,693	6.0	3,737	5.8	3,859	16.3
6 months ended 20/9/04	42,165	8.5	3,533	101.0	3,319	186.9
Year ended 20/3/05	92,492	8.7	9,372	36.8	8,882	58.7

	Net income		Net income per share	Net income per share (diluted)
	¥ million	%	¥	¥
6 months ended 20/9/05	1,651	102.4	42.01	39.31
6 months ended 20/9/04	815	711.5	24.53	20.60
Year ended 20/3/05	3,523	69.9	98.33	83.81

Notes:

- Equity in earnings of affiliates : Six months ended Sep. 20, 2005 : ¥ - million  
 Six months ended Sep. 20, 2004 : ¥ - million Year ended Mar. 20, 2005 : ¥ - million
- Average number of shares outstanding (consolidated): Six months ended Sep. 20, 2005 : 39,308,911 shares  
 Six months ended Sep. 20, 2004 : 33,262,008 shares Year ended Mar. 20, 2005 : 34,142,798 shares
- Changes in accounting principles : No
- Percentages represent changes for net sales, operating income, ordinary income and net income compared to the corresponding period in the previous year.

(2) Financial Position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	¥ million	¥ million	%	¥
As of 20/9/05	99,525	57,967	58.2	1,426.73
As of 20/9/04	92,768	46,457	50.1	1,345.43
As of 20/3/05	99,913	52,262	52.3	1,415.75

Note: Number of shares outstanding at end of period (consolidated) : Sep. 20, 2005: 40,629,597 shares  
 Sep. 20, 2004 : 34,529,632 shares Mar. 20, 2005: 36,797,578 shares

(3) Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	¥ million	¥ million	¥ million	¥ million
6 months ended 20/9/05	3,937	(1,592)	419	18,763
6 months ended 20/9/04	2,393	(2,099)	(195)	13,556
Year ended 20/3/05	7,215	(3,628)	(1,058)	16,108

(4) Scope of consolidation and application of the equity method

Consolidated subsidiaries : 37 companies Unconsolidated subsidiaries accounted for by the equity method : None  
 Affiliated companies accounted for by the equity method : None

(5) Changes in scope of consolidation and application of the equity method

Consolidation : (New) None (Eliminated) None Equity method : (New) None (Eliminated) None

**2. Projected Results for the Year ending March 20, 2006 (March 21, 2005 - March 20, 2006)**

	Net sales	Ordinary income	Net income
	¥ million	¥ million	¥ million
Year ending 20/3/06	102,000	9,400	5,000

Reference: Estimated net income per share (full year) ¥117.44

\* The projected results are computed based on information available to us at November 7, 2005, and HORIBA's actual results could materially differ from those contained in these forward-looking statements as a result of numerous factors outside of HORIBA's control. Please refer to page 10 of the attachments with regard to the above projected results.

## The HORIBA Group

The HORIBA Group consists of 37 consolidated subsidiaries, 1 unconsolidated subsidiary and 6 affiliates, producing and selling analyzers. The HORIBA Group consists of the following divisions : Engine Measurement Instruments & Systems, Analytical Instruments & Systems, Medical / Diagnostic Instruments & Systems and Semiconductor Instruments & Systems.

The following shows the main products and main companies for each segment.

	Main products	Main companies
Engine Measurement Instruments & Systems	Motor Exhaust Gas Analyzers, Automatic Engine Measurement Control Systems, Portable Emissions Analyzers, On-Board Emissions Measurement Systems, High Sensitivity Continuous PM Measurement Systems, Fuel Cell Evaluation Systems	HORIBA, Ltd., HORIBA INSTRUMENTS INCORPORATED (USA), HORIBA EUROPE GmbH (GERMANY), HORIBA INSTRUMENTS LIMITED (U.K.), HORIBA EUROPE AUTOMATION DIVISION GmbH (GERMANY), HORIBA KOREA Ltd. (KOREA), HORIBA INSTRUMENTS Pte. Ltd. (SINGAPORE) 11 other companies (Total 18 companies)
Analytical Instruments & Systems	pH Meters, Water Quality Monitor for Total Nitrogen/ Phosphorus, Stack Gas Analysis Systems, Particle size Distribution Analyzers, X-Ray Analytical Microscopes, Monochromator/Grating, ICP Optical Emission Spectrometer, Raman Spectrophotometer	HORIBA, Ltd., HORIBA JOBIN YVON S.A.S. (FRANCE), HORIBA JOBIN YVON Inc. (USA), HORIBA JOBIN YVON GmbH (GERMANY), HORIBA INSTRUMENTS INCORPORATED (USA), HORIBA EUROPE GmbH (GERMANY), HORIBA INSTRUMENTS LIMITED (U.K.), HORIBA Advanced Techno Co., Ltd. 20 other companies (Total 28 companies)
Medical/ Diagnostic Instruments & Systems	Hematology Analyzers, Hematology Analyzers Plus CRP, Blood Glucose Analyzers, Clinical Chemistry Systems	HORIBA, Ltd., HORIBA ABX S.A.S. (FRANCE), HORIBA ABX DIAGNOSTICS POLSKA. Sp. Zo.o. (POLAND), HORIBA ABX Inc. (USA), HORIBA ABX HEMATOLOGIA Ltda. (BRAZIL) 9 other companies (Total 14 companies)
Semiconductor Instruments & Systems	Mass Flow Controllers, Chemical Concentration Monitor, Ultra-Thin Film Analyzer, Film Thickness Analyzers for FPDs, Reticle/Mask Particle Detection Systems	HORIBA, Ltd., HORIBA STEC Co., Ltd. HORIBA JOBIN YVON S.A.S. (FRANCE), HORIBA INSTRUMENTS INCORPORATED (USA), HORIBA EUROPE GmbH (GERMANY), HORIBA INSTRUMENTS LIMITED (U.K.), HORIBA INSTRUMENTS Pte. Ltd. (SINGAPORE), HORIBA STEC KOREA Ltd. (KOREA) 17 other companies (Total 25 companies)
Employee welfare	Employee welfare	HORIBA COMMUNITY CORPORATION (Total 1 company)



# Business Policies

## **1. Fundamental Business Policies of HORIBA**

As a manufacturer of analytical equipment, the HORIBA Group aims to be a leading medium-sized enterprise. Our basic philosophy is to contribute to society by promoting the development of science and technology and bringing greater convenience to society through our business activities, which focus on analytical technologies, and which span a variety of industrial fields in the global market. The HORIBA Group has also long placed great importance on its affiliated businesses, and is aggressively promoting the strengthening and amalgamation of its alignments that utilize the human and technological resources of the 45 HORIBA Group companies throughout the world.

## **2. Fundamental Profit Sharing Policies of HORIBA**

The HORIBA Group is working to strengthen its profit structure through efforts such as increasing productivity, while striving to make dividend payments at a dividend payment ratio of 30% for the parent company. In some cases, special gains and losses may be excluded when computing the dividend payment ratio. Regarding the retained capital in reserve, HORIBA intends to appropriate this reserve as operating capital for business expansion and as basic capital for facility, research and development investments and for strengthening the financial position of the corporation.

## **3. Concepts and Policies on Reduction of Investment Unit**

At the board of directors' meeting held on October 21, 2005, HORIBA resolved to revise the number of shares in a minimum trading unit, reducing it from 1,000 to 100 shares as of the 4<sup>th</sup> of January in 2006. It was aimed to make share transactions easier for sufficient liquidity in its shares and to promote investment participation from a wider range of investors.

## **4. Management Index Targets of HORIBA**

For its mid- and long-term plan goals, the HORIBA Group aims to achieve consolidated sales of ¥100 billion and a consolidated operating earning rate of 10% or higher in the year ending March 20, 2006. In order to maximize shareholder value, HORIBA also takes the shareholder return on equity (ROE) as a management index and aims to achieve a ROE of 8.0% or higher as a mid-term goal. In order to realize our target numbers, HORIBA is striving to expand its business achievements by strengthening the alliances between the group businesses, and to improve its consolidated balance sheets through asset reduction, etc., with the goal of increasing the efficiency of corporate asset utilization.

## **5. Mid- and Long-Term Business Strategies of HORIBA**

The HORIBA Group's business consists of four operating segments: Engine Measurement Instruments & Systems, Analytical Instruments & Systems, Medical/Diagnostic Instruments & Systems, and Semiconductor Instruments & Systems. Each of these segments targets an essentially separate market. Commonalties in fundamental technology and know-how, however, allow us to shift people and resources and to tap combinations among these segments for greater segment strength individually and overall. Our flexible strategic approach enables us to offset weak performance in any one segment with good results in another, to mitigate poor performance in struggling areas, and to operate efficiently. We can achieve balanced growth by overcoming each segment's weaknesses with complementary strengths among our operating segments.

We also declared a new management policy, "The HORIBA Group is One Company" to focus the power of the entire HORIBA Group on generating higher levels of growth. In the past, separate HORIBA Group companies compiled their own strategic planning and operational performance projections. To accelerate the growth of the integrated group, we plan to ignore national boundaries and divisions between HORIBA Group companies. Instead, we will divide the HORIBA Group into four virtual segments. Effective strategic management at the segment level will improve the profitability of the whole group; promote a more global approach to operations and management; and, in doing so, raise the overall value of the company.

HORIBA, Ltd. has been pursuing a group brand strategy as a link of "One Company Management." In 2004, we changed almost all of the company names of the HORIBA Group companies with the title of "HORIBA" prefixed to their company names. By combining HORIBA's corporate culture and reliability with their specialist technologies,

we aim to create a synergy effect.

## **6. Challenges of HORIBA**

We think it is an essential issue to improve investment efficiency and productivity for sustained growth and value of the company. To achieve this, we must improve the backbone information system that is the basis of business management for all of the HORIBA Group companies. In September 2004, HORIBA, Ltd. set up an ERP Department, which changed to the Enterprise Resource Planning Office on March 21, 2005, which has been investigating the system. In addition, we also promote common accounting rules among the HORIBA Group to improve the management information and to speed up information reporting.

## **7. Policies on Establishment of Management Control System of HORIBA**

The parent company has been working to respond to the whirlwind of changes taking place in the business environment with which HORIBA, Ltd. and the HORIBA Group has been faced since June 1998. In regard to the management decision-making for the whole group by the Board of Directors, HORIBA is working to speed up the decision-making process and enhance the supervisory functions of the Board of Directors, and is introducing a system of "Corporate Officers," by which authority is delegated to the officers by representative directors, giving the corporate officers full responsibility for work execution. HORIBA has also established the "HORIBA Corporate Philosophy," which is designed to ensure the managements and employees of all of the HORIBA Group companies follow its unified management concept, sense of values and standards of action, and promote this philosophy as a guideline for the corporate business.

## **8. Fundamental Concepts on Corporate Governance and Corporate Governance Policy Implementation**

### Fundamental Concepts on Corporate Governance

With the goals of pursuing transparent business management and maximizing corporate value, HORIBA, Ltd. is working to strengthen the auditing system and compliance management and to build up good relations with stockholders, investors and all stakeholders.

### Corporate Governance Policy Implementation

#### 1) Auditing System

HORIBA employs a corporate auditor system. At the general meeting of shareholders held in June 2005, HORIBA appointed one additional corporate auditor in order to strengthen its auditing system. Of the four corporate auditors, two are appointed externally. For its auditing system, HORIBA calls upon external human resources to serve as external auditors, but HORIBA also relies on internal officers to perform audits, as these officers have worked for a long period of time in HORIBA management, have a thorough understanding of the management system, and are able to make very detailed checks of the system. At HORIBA, we believe that our auditing system is functioning fully and adequately, and that enhancing the functions of our current auditing system is of more importance than establishing new committees for the Company with a Committees System. As such, HORIBA plans to continue with its current auditing system.

#### 2) External Officers

With the goal of examining our business policies and strategies from numerous standpoints, HORIBA has appointed one outside board member (Shijuro Ogata) and two external auditors (Kanji Ishizumi, Representative Partner of Law Office of Chiyoda Kokusai and Keisuke Ishida, Chairman of the Board, CEO, Shashin Kagaku Co., Ltd.). Those experienced outside officers' participating on the board of directors ensures that HORIBA increases the quality of management decision-making, promotes the transparency of management operations and enhances the effectiveness of auditing functions. Although no full-time assistant staff is deployed for outside directors, the outside directors may always require and gain appropriate assistance from any departments in the Company.

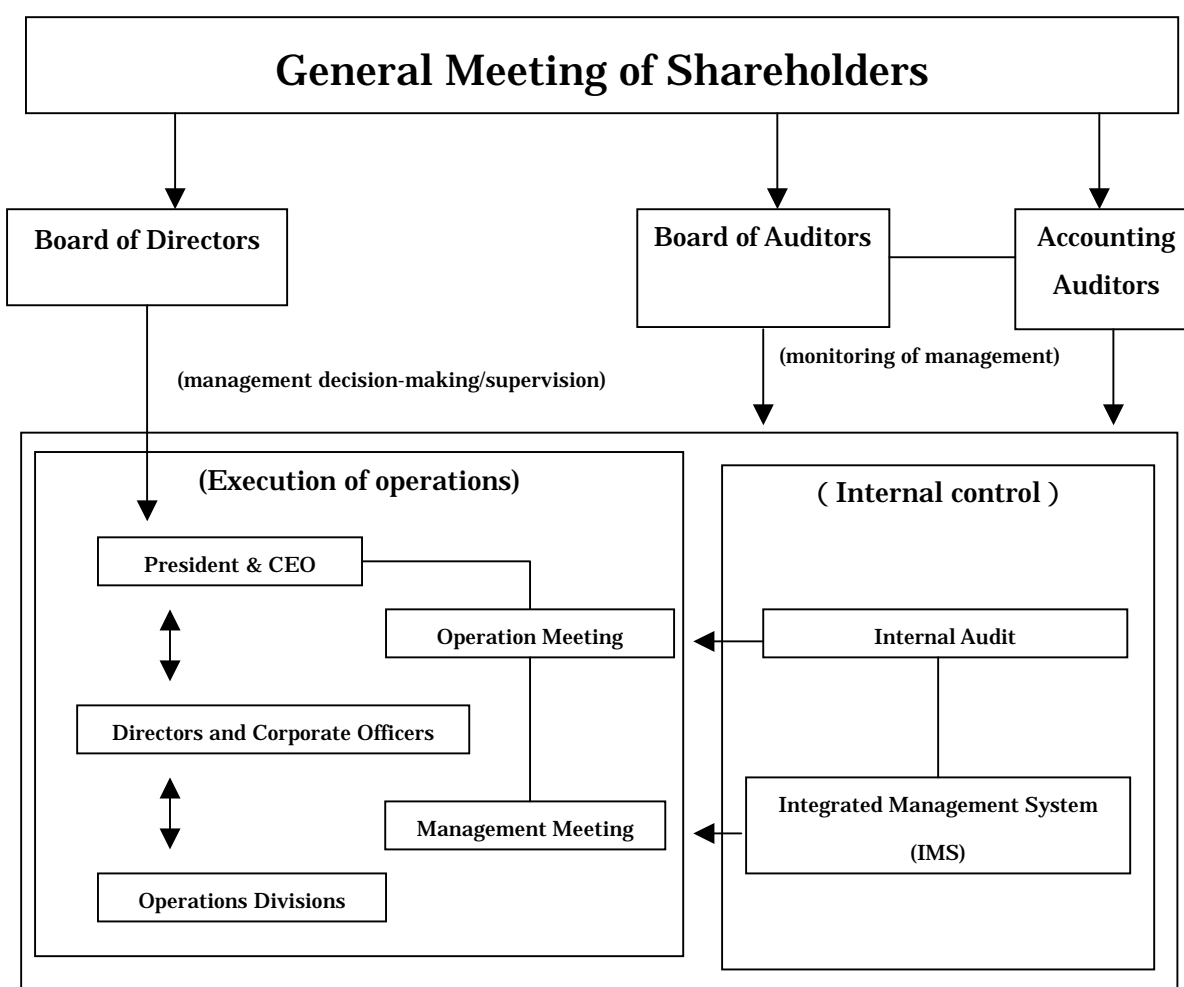
#### 3) Operation Execution and Monitoring Mechanism

HORIBA introduced a corporate officer system (an executive officer system) in June 1998 in order to speed up the management decision-making by the board of directors and to increase efficiency of monitoring functions by separating the management and the execution of operations. In this system, the board of directors is to make the decisions of management policy and strategy and to oversee the execution of operations, and is basically

meeting once a month. The board of directors commissions the corporate officers to execute the operations, and the corporate officers give specific commands and orders to the managers of the departments, and oversee their business. This works for the enhancement of the corporate governance system. HORIBA also enhances the corporate governance throughout the whole HORIBA Group under the management policy of “one company.” We ignore national boundaries and organizational divisions among the HORIBA Group companies, and instead, divide the HORIBA Group into business segment units and common administrative units such as production, purchasing, customer service and personnel, and promote the efficiency of operations clarifying the responsibility of each unit. HORIBA has an executive committee (a presidential advisory committee on world-wide group business of HORIBA) which speeds up correct decision-making and monitors operations.

#### 4) Internal Control Mechanism

Besides the legal audit, HORIBA has created a system of internal audits from various directions as follows: the audit required by Integrated Management System (IMS) that integrates an ISO9001-compliant quality management system, an ISO14001-compliant environment management system, and an OHSAS18001-compliant occupational health and safety management system, and the other internal audits concerning routine work, export administration, public-subsidy operations and administration of subsidiaries.



#### 5) Risk Management System

HORIBA, Ltd. is preparing to create a risk management system in order to cope with the following managerial tasks: to maintain stability of operations, to preserve management resources and to increase the value of the company by controlling any risks in corporate activities.

In March 2005, the CSR (Corporate Social Responsibility) Promotion Committee of HORIBA Group was set up together with members of the major domestic group companies. It has determined policies and measures for CSR, and promoted risk management and compliance (observation of laws). In addition, the Compliance Committee has been established under the CSR Promotion Committee. It acts to promote understanding of compliance, to discuss any matters related to compliance, and also to inquire, report and recommend on whistle-blowing.

We also enhance compliance management and prevent potential illegal acts by enacting “compliance



management rules,” and “an ethical code.” In order to detect illegal acts early and correct them, a system for whistle-blowing, such as consultation with the external lawyers and an e-mail system for whistle-blowing, has been established to increase the awareness of employees concerning compliance management.

In addition, HORIBA is promoting an internal system to comply with the law about protection of personal information, which became effective as of April 2005, to prevent and limit potential risks and to strengthen the management system in a crisis.

#### 6) Accounting Auditors

HORIBA, Ltd. has engaged KPMG AZSA & Co. as independent accounting auditors. In the course of their periodic auditing, they also check specific accounting matters on a timely basis. The accounting auditors for the six months ended September 20, 2005 are as follows;

Engagement partner:       Noriaki Goda  
  Yuji Yamakawa

Auditing staff:

Certified public accountants: 3

Junior accountants:         5

#### Summary of Personal, Capital and Transaction Relationships and Other Vested Interests between HORIBA, Ltd. and Outside Directors and Auditors

HORIBA, Ltd. has appointed one outside director and two outside auditors. All of them are part-time officers. Of the three, Keisuke Ishida is Chairman of the Board, CEO, Shashin Kagaku Co., Ltd. and Shashin Kagaku Co., Ltd. has transactions with HORIBA, Ltd. There is no capital nor transaction relationships nor other vested interests between HORIBA, Ltd. and the others.

#### Implementation of the Enhancement of Corporate Governance during the Most Recent Year

At the general meeting of shareholders held in June 2005, we clarified the management responsibility of the directors, revised terms of office, shortening by one year, and appointed one additional auditor to enhance our auditing system. In March 2005, the CSR (Corporate Social Responsibility) Promotion Committee of the HORIBA Group was set up together with members of the major domestic group companies. It has determined policies and measures for CSR, and promoted risk management and compliance (observation of laws). In addition, HORIBA is promoting an internal system to comply with the law about protection of personal information, which became effective as of April 2005, to prevent and limit potential risks and to strengthen the management system in a crisis.

#### **9. Matters Concerning the Parent Company**

HORIBA has no parent company.

## Operating Results and Financial Condition

### 1. Operating Results

Consolidated net sales for the six months ended September 20, 2005 increased 6.0% to ¥44,693 million compared with the previous corresponding period. As for income, operating income increased 5.8% to ¥3,737 million, ordinary income increased 16.3% to ¥3,859 million and net income increased 102.4% to ¥1,651 million relative to the previous corresponding period.

#### **(Engine Measurement Instruments & Systems)**

As a result of new investments of automobile manufacturers in the Asia markets and brisk demand in the North America markets, due to the legislation limits on exhaust emissions in 2007, total segment sales increased 19.0% over the previous corresponding period to ¥12,594 million. Operating income increased 50.1% to ¥2,552 million due to the sales growth and the effectiveness in mass production.

#### **(Analytical Instruments & Systems)**

In response to the high demand for X-ray elemental analyzers for hazardous substances in the domestic market, exhaust gas measurement (stack gas) related to the environment and measurement equipment used for nanotechnology research for the global market, sales of this segment favorably increased 8.9% to ¥14,246 million. As for income, overseas sales of a European subsidiary were impacted negatively by a strong euro toward the dollar. However, sales growth reduced the operating loss to ¥92 million, a ¥154 million decrease compared to the previous corresponding period.

#### **(Medical/Diagnostic Instruments & Systems)**

With increased sales of new models of large-scale hematology analyzers and middle-sized clinical chemistry analyzers, mainly in the European market, sales for this segment were up 6.6% to ¥9,348 million compared with the previous corresponding period. On the other hand, operating income was down 45.7% to ¥209 million since operating income of a European subsidiary was in a decline due to the negative impact of a strong euro toward the dollar and an increase of sales expenses for promotion of new products.

#### **(Semiconductor Instruments & Systems)**

Though sales of equipment used to inspect thin films and semiconductors continued to increase, sales of mass flow controllers, mainstay products, were negatively affected by the lack of high demand as was the case in the previous corresponding period. Segment sales declined 12.6% to ¥8,505 million and operating income also decreased 37.0% to ¥1,068 million relative to the previous corresponding period.

### 2. Financial Condition

#### 1) Cash Flows

##### **Cash Flows Resulting from Operating Activities**

Net cash provided by operating activities amounted to ¥3,937 million. This was attributed primarily to the fact that income before income taxes increased to ¥3,479 million and trade notes and accounts receivable decreased by ¥3,976 million, even though trade notes and accounts payable decreased by ¥1,915 million and corporate taxes of ¥1,484 million were paid.

##### **Cash Flows Resulting from Investing Activities**

Net cash used in investing activities totaled ¥1,592 million. This was resulted from the acquisition of tangible assets in the amount of ¥1,457 million.

## Cash Flows Resulting from Financing Activities

Net cash provided by financing activities amounted to ¥419 million. This was due primarily to dividend payments of ¥478 million, a net increase of ¥404 million in short-term debt and an increase of ¥681 million in long-term debt.

As a result, cash and cash equivalents increased by ¥2,655 million and cash and cash equivalents at the end of the period amounted to ¥18,763 million.

## 2) Trends in Cash Flow Indexes

	6 months ended September 20, 2005	6 months ended September 20, 2004	Year ended March 20, 2005
Shareholders' Equity Ratio(%)	58.2	50.1	52.3
Shareholders' Equity Ratio on a Market Value Basis(%)	114.3	53.7	71.8
Number of Years for Debt Redemption(Years)	1.8	3.8	2.2
Interest Coverage Ratio	29.9	12.9	19.4

(Note) Shareholders' Equity\_Ratio = Shareholders' Equity/Total Assets

Shareholders' Equity Ratio on a Market Value Basis = Total Market Value of Shares/Total Assets

Number of Years for Debt Redemption = Interest-Bearing Debt/Operating Cash Flow

(For the six months ended September 20, 2005 and 2004: Number of Years for Debt Redemption = Interest-Bearing Debt/Operating Cash Flow/2)

Interest Coverage Ratio = Operating Cash Flow/Interest Payments

\* All indexes are calculated according to consolidated financial values.

\* The total market value of shares is calculated using the closing share price at the end of the term multiplied by the total number of shares issued at the end of the term after deduction for treasury stock.

\* The value used for the operating cash flow is the "cash flow resulting from operating activities" shown in the consolidated statements of cash flows. Interest-bearing debt includes all debt in the consolidated balance sheet for which interest is paid. The value used for the interest paid is the amount of payments for interest shown in the consolidated statement of cash flows.

### 3. Outlook for the Year Ending March 20, 2006

In the current fiscal year, the business environment surrounding us will remain severe and the market will still be uncertain. Despite such concerns, HORIBA will promote the “one company” management and the well-balanced management of operating and regional segments, our fundamental policy, and will devote every effort to achieve ¥100 billion in net sales, an operating income ratio of 10%, and ROE of 8% for the final year of our mid-to long-term plan. Outlook for consolidated results for the current fiscal year is as follows.

#### Net Sales ¥102 billion (10.3% increase from the previous year)

Though the semiconductor markets will be uncertain, order backlog at the end of this period totaled ¥23,152 million, up ¥3,590 million compared with the previous corresponding period end, and stable orders and sales, mainly in engine measurement instruments & systems, are expected to continue in the 2<sup>nd</sup> half of the current year. Also, net sales related to development test systems acquired from Carl Shenck AG, which was purchased on September 30, 2005, is predicted to amount to ¥2 billion. Thus, overall sales are expected to increase ¥2 billion to ¥102 billion in addition to the original goal of ¥100 billion.

#### Operating Income of ¥10 billion (6.7% increase)

HORIBA expects to achieve the target operating income as a result of the growth in net sales. Operating income related to development test systems acquired from Carl Shenck AG is forecast to be break-even.

#### Ordinary Income of ¥9.4 billion (5.8% increase)

With an improvement in non-operating income and expenses, ordinary income is predicted to increase ¥0.4 billion to ¥9.4 billion compared with the forecast released previously.

#### Net Income of ¥5 billion (41.9% increase)

Net income is expected to increase ¥0.4 billion to ¥5 billion compared with the forecast released previously. There will be a significant decrease in special losses compared with the previous year and minority interest will decrease due to the conversion of HORIBA STEC Co., Ltd. into a wholly owned subsidiary.

(NOTE) The outlook is calculated based on information available to us at November 7, 2005. Uncertainties could cause our actual results to be different from these projections. Of uncertainties, some of the main factors are listed as follows.

Business risks (changes in economic conditions in our market and demand for our products/fluctuations in market prices affected by competitors/environmental restrictions /delay in launching new products, etc.)
Risks on world-wide activities (fluctuation of exchange rates/changes in laws, rules and taxation/terrorist acts, wars and other social confusions/other economy, social and political risks)
Compensation for product liability
Changes in results and financial condition caused by M&A and tie-ups
Changes in a market values of marketable and investment securities and other assets
Reversal of deferred tax assets due to changes in accounting standards and policies
Repairs of facilities damaged by natural disasters and delay in a delivery of products

## Consolidated Balance Sheets

Accounts	As of September 20, 2005		As of September 20, 2004		As of March 20, 2005	
	Amount	%	Amount	%	Amount	%
<b>Assets</b>	¥ million		¥ million		¥ million	
<b>Current Assets:</b>	72,138	72.5	65,044	70.1	72,505	72.6
Cash and bank deposits	18,517		13,010		15,447	
Trade notes and accounts receivable	26,120		25,944		30,595	
Marketable securities	250		546		680	
Inventories	23,231		21,912		22,012	
Deferred tax assets	2,286		2,227		2,012	
Other current assets	2,242		1,907		2,270	
Allowance for doubtful receivables	(510)		(504)		(511)	
<b>Fixed Assets:</b>	27,386	27.5	27,723	29.9	27,407	27.4
<b>Property, Plant and Equipment:</b>	18,573	18.6	19,145	20.7	18,481	18.5
Buildings and structures	6,921		7,021		7,184	
Machinery, equipment, and vehicles	2,971		2,456		2,866	
Land	6,568		7,718		6,564	
Construction in progress	290		153		81	
Other property, plant and equipment	1,821		1,795		1,784	
<b>Intangibles:</b>	2,654	2.7	2,175	2.3	2,688	2.7
Goodwill	70		56		78	
Consolidation difference	1,145		1,087		1,315	
Other intangibles	1,439		1,032		1,294	
<b>Investments and Other Non-Current Assets:</b>	6,158	6.2	6,402	6.9	6,237	6.2
Investment securities	4,469		4,201		4,296	
Deferred tax assets	439		876		704	
Other investments and other assets	1,366		1,444		1,356	
Allowance for doubtful accounts	(118)		(120)		(119)	
<b>Deferred Charges:</b>	-	-	0	0.0	-	-
Organization cost	-		0		-	
<b>Total Assets</b>	<b>99,525</b>	<b>100.0</b>	<b>92,768</b>	<b>100.0</b>	<b>99,913</b>	<b>100.0</b>

## Consolidated Balance Sheets

Accounts	As of September 20, 2005		As of September 20, 2004		As of March 20, 2005	
	Amount	%	Amount	%	Amount	%
Liabilities	¥ million		¥ million		¥ million	
Current Liabilities:	31,759	31.9	27,908	30.1	34,799	34.9
Trade notes and accounts payable	9,190		8,757		11,290	
Short-term loans payable	5,631		5,562		5,468	
Current portion of long-term debt	355		417		267	
Accounts payable - other	5,953		5,409		5,476	
Accrued income taxes	1,477		1,605		1,463	
Accrued bonuses to employees	2,244		2,163		2,355	
Reserve for product warranty	736		783		820	
Deferred tax liabilities	5		15		-	
Current maturities of convertible bonds	1,528		-		3,863	
Other current liabilities	4,637		3,191		3,794	
Non-Current Liabilities:	9,659	9.7	15,973	17.2	10,305	10.3
Corporate bonds	5,000		5,000		5,000	
Convertible bonds	-		6,187		-	
Long-term debt	1,805		1,251		1,442	
Employees' retirement benefits	1,327		952		1,347	
Directors' and corporate auditors' retirement benefits	580		1,140		1,144	
Deferred tax liabilities	341		21		22	
Other non-current liabilities	605		1,420		1,348	
Total Liabilities	41,419	41.6	43,882	47.3	45,105	45.2
Minority Interests in Consolidated Subsidiaries	138	0.2	2,428	2.6	2,544	2.5
Shareholders' Equity						
Common stock	10,809	10.9	8,477	9.1	9,640	9.6
Capital surplus	17,526	17.6	12,774	13.8	13,932	13.9
Retained earnings	28,419	28.5	24,822	26.8	27,422	27.5
Net unrealized holding gains on securities	1,366	1.3	1,141	1.2	1,401	1.5
Foreign currency translation adjustments	(23)	(0.0)	(517)	(0.6)	20	0.0
Treasury stock	(130)	(0.1)	(241)	(0.2)	(154)	(0.2)
Shareholders' Equity	57,967	58.2	46,457	50.1	52,262	52.3
Total Liabilities, Minority Interests, and Shareholders' Equity	99,525	100.0	92,768	100.0	99,913	100.0

## Consolidated Statements of Income

Accounts	Six Months ended September 20, 2005		Six Months ended September 20, 2004		Year ended March 20, 2005	
	Amount	%	Amount	%	Amount	%
	¥ million		¥ million		¥ million	
Net Sales	44,693	100.0	42,165	100.0	92,492	100.0
Cost of Sales	25,382	56.8	24,217	57.4	53,855	58.2
<b>Gross Income</b>	<b>19,311</b>	<b>43.2</b>	<b>17,947</b>	<b>42.6</b>	<b>38,637</b>	<b>41.8</b>
Selling, General and Administrative Expenses	15,573	34.8	14,413	34.2	29,264	31.7
<b>Operating Income</b>	<b>3,737</b>	<b>8.4</b>	<b>3,533</b>	<b>8.4</b>	<b>9,372</b>	<b>10.1</b>
Other Income	446	1.0	498	1.2	722	0.8
Interest and dividend income	68	0.2	43	0.1	103	0.1
Foreign exchange gains	105	0.2	124	0.3	-	-
Other	272	0.6	330	0.8	618	0.7
Other Expenses	324	0.8	712	1.7	1,213	1.3
Interest expense	142	0.4	185	0.5	372	0.4
Foreign exchange losses	-	-	-	-	40	0.0
Amortization of goodwill	-	-	51	0.1	85	0.1
Other	182	0.4	476	1.1	714	0.8
<b>Ordinary Income</b>	<b>3,859</b>	<b>8.6</b>	<b>3,319</b>	<b>7.9</b>	<b>8,882</b>	<b>9.6</b>
Special Gains	494	1.1	17	0.0	39	0.0
Gain on sale of property, plant and equipment	4	0.0	17	0.0	38	0.0
Gain on sale of investment securities	394	0.9	-	-	0	0.0
Casualty insurance premium income	95	0.2	-	-	-	-
Special Losses	874	1.9	1,214	2.9	2,815	3.0
Loss on disposal of property, plant and equipment	27	0.0	20	0.0	45	0.0
Loss on sale of property, plant and equipment	14	0.0	5	0.0	1,123	1.2
Loss on impairment of fixed assets	-	-	-	-	53	0.1
Loss on change of retirement benefit plan	-	-	79	0.2	79	0.1
Loss on change in accounting method for retirement benefits	-	-	-	-	143	0.2
Loss on sale of investment securities	-	-	-	-	0	0.0
Retirement benefits to directors	749	1.7	-	-	-	-
Loss on valuation of investment securities	4	0.0	0	0.0	35	0.0
Provision of retirement benefits for directors and corporate auditors for prior years	-	-	1,109	2.7	1,150	1.2
Other	77	0.2	-	-	183	0.2
<b>Income Before Income Taxes</b>	<b>3,479</b>	<b>7.8</b>	<b>2,122</b>	<b>5.0</b>	<b>6,105</b>	<b>6.6</b>
Income taxes (Current)	1,436	3.2	1,417	3.4	2,353	2.6
Income taxes (Deferred)	337	0.8	(300)	(0.7)	(62)	(0.1)
Minority interest in earnings of consolidated subsidiaries	53	0.1	188	0.4	290	0.3
<b>Net Income</b>	<b>1,651</b>	<b>3.7</b>	<b>815</b>	<b>1.9</b>	<b>3,523</b>	<b>3.8</b>

## Consolidated Statements of Surplus

Accounts	Six Months ended September 20, 2005	Six Months ended September 20, 2004	Year ended March 20, 2005
	¥ million	¥ million	¥ million
<b>(Capital surplus)</b>			
Balance of capital surplus at beginning of period	13,932	11,456	11,456
Increase of capital surplus	3,593	1,317	2,475
Conversion of convertible bonds	1,166	1,314	2,475
Increase through a stock-for-stock exchange	2,418	-	-
<u>Increase on disposal of treasury stock</u>	9	2	-
Balance of capital surplus at end of period	17,526	12,774	13,932
<b>(Retained earnings)</b>			
Balance of retained earnings at beginning of period	27,422	24,341	24,341
Increase of retained earnings	1,651	815	3,523
<u>Net income</u>	1,651	815	3,523
Decrease of retained earnings	654	334	442
Cash dividends	478	224	327
Bonus to directors and statutory auditors	176	102	102
Decrease on disposal of treasury stock	-	-	4
<u>Effect of excluding a subsidiary from consolidation</u>	-	7	7
Balance of retained earnings at end of period	28,419	24,822	27,422



## Consolidated Statements of Cash Flows

Accounts	Six Months ended September 20, 2005	Six Months ended September 20, 2004	Year ended March 20, 2005
	¥ million	¥ million	¥ million
<b>Cash Flows from Operating Activities:</b>			
Income before income taxes	3,479	2,122	6,105
Depreciation	1,275	1,274	2,692
Loss on impairment of fixed assets	-	-	53
Amortization of consolidation difference	159	125	251
Loss on disposal of property, plant and equipment	27	20	45
Loss on valuation of investment securities	4	0	35
Increase (decrease) in allowance for doubtful receivables	22	(25)	(23)
Increase in directors' and corporate auditors' retirement benefits	37	1,140	1,144
Increase (decrease) in employees' retirement benefits	(4)	(137)	230
Interest and dividend income	(68)	(43)	(103)
Interest expense	142	185	372
Foreign exchange losses (gains)	5	(4)	23
Gain on sale of property, plant and equipment	(4)	(17)	(38)
Loss on sale of property, plant and equipment	14	5	1,123
Gain on sale of investment securities	(394)	-	(0)
Loss on sale of investment securities	-	-	0
Retirement benefits to directors	770	-	-
Decrease (increase) in trade notes and accounts receivable	3,976	2,731	(894)
Increase in inventories	(1,460)	(2,625)	(2,281)
Increase (decrease) in trade notes and accounts payable	(1,915)	115	2,162
Bonuses to directors and statutory auditors	(176)	(102)	(102)
Bonuses to directors and statutory auditors charged to minority interests	-	(6)	(6)
Other, net	933	(328)	(299)
<b>Subtotal</b>	<b>6,826</b>	<b>4,428</b>	<b>10,488</b>
Interest and dividends received	68	37	100
Interest paid	(131)	(188)	(385)
Payment of retirement benefits to directors	(1,341)	(26)	(26)
Income taxes paid	(1,484)	(1,858)	(2,960)
<b>Net cash provided by operating activities</b>	<b>3,937</b>	<b>2,393</b>	<b>7,215</b>
<b>Cash Flows from Investing Activities:</b>			
Increase in time deposits	(0)	-	(17)
Decrease in time deposits	14	-	0
Payments for purchase of investment securities	(316)	(249)	(394)
Proceeds from sales or redemption of investment securities	502	7	559
Payments for purchase of property, plant and equipment	(1,457)	(1,527)	(2,979)
Proceeds from sale of property, plant and equipment	51	125	230
Payments for purchase of intangibles	(337)	(308)	(730)
Proceeds from sale of intangibles	-	-	0
Payments for purchase of investments in a consolidated subsidiary	-	(19)	(19)
Payments for purchase of investments in newly consolidated subsidiaries	-	-	(119)
Payments for sales of investments in a consolidated subsidiary	-	(45)	(45)
Increase in loans receivable	(6)	-	(0)
Decrease in loans receivable	6	1	2
Other, net	(50)	(83)	(115)
<b>Net cash used in investing activities</b>	<b>(1,592)</b>	<b>(2,099)</b>	<b>(3,628)</b>
<b>Cash Flows from Financing Activities:</b>			
Net increase (decrease) in short-term borrowings	404	(568)	(1,034)
Increase in long-term debt	681	1,046	1,049
Repayment of long-term debt	(150)	(385)	(720)
Payments for purchase of treasury stock	(61)	(36)	(88)
Proceeds from sales of treasury stock	94	75	206
Cash dividends paid	(478)	(223)	(328)
Cash dividends paid to minority interests	(31)	(72)	(72)
Other, net	(39)	(31)	(70)
<b>Net cash provided by (used in) financing activities</b>	<b>419</b>	<b>(195)</b>	<b>(1,058)</b>
<b>Cash and Cash Equivalents Foreign Currency Translation Adjustments</b>	<b>(108)</b>	<b>(16)</b>	<b>104</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>2,655</b>	<b>81</b>	<b>2,633</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>16,108</b>	<b>13,603</b>	<b>13,603</b>
<b>Cash and Cash Equivalents of a Subsidiary Excluded from Consolidation</b>	<b>-</b>	<b>(127)</b>	<b>(127)</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>18,763</b>	<b>13,556</b>	<b>16,108</b>

## Important Items That Form the Basis for Preparation of Interim Consolidated Financial Statements

### 1. Scope of consolidation

#### 1) Consolidated subsidiary companies: 37 companies

##### Overseas subsidiary companies (31 companies)

HORIBA International Corporation (U.S.A.); HORIBA Instruments Incorporated (U.S.A.); HORIBA/STEC Incorporated (U.S.A.); HORIBA Europe GmbH (Germany); HORIBA GmbH (Austria); HORIBA France Holding S.a.r.l. (France); HORIBA France S.a.r.l. (France); HORIBA Europe Automation Division GmbH (Germany); HORIBA Instruments Limited (U.K.); HORIBA ABX International S.A.S. (France); HORIBA ABX S.A.S. (France); HORIBA ABX Inc. (U.S.A.); HORIBA ABX Hematologia Ltda. (Brazil); HORIBA ABX Diagnostics Polska Sp. zo. o. (Poland); HORIBA Jobin Yvon International S.A.S. (France); HORIBA Jobin Yvon S.A.S. (France); HORIBA Jobin Yvon Inc. (U.S.A.); Jobin Yvon International Inc. (U.S.A.); AD LAB Inc. (U.S.A.); HORIBA Jobin Yvon GmbH (Germany); HORIBA Jobin Yvon Ltd. (U.K.); HORIBA Jobin Yvon S.r.l. (Italy); HORIBA Instruments Pte. Ltd. (Singapore); HORIBA Korea Ltd. (Korea); HORIBA STEC Korea Ltd. (Korea); HORIBA Instruments (Shanghai) Co., Ltd. (China); BioPep S.A. (France); HORIBA Jobin Yvon IBH Ltd. (U.K.); HORIBA Trading (Shanghai) Co., Ltd. (China); HORIBA ABX Ltd. (Thailand); HORIBA ABX Diagnostics Ltd. (Thailand)

##### Domestic subsidiary companies (6 companies)

HORIBA STEC Co., Ltd.; HORIBA ITEC Co., Ltd.; HORIBA Advanced Techno Co., Ltd.; HORIBA TECHNO SERVICE Co., Ltd.; HORIBA Biotechnology Co., Ltd.; ASEC Inc.

#### 2) Unconsolidated subsidiary companies: 1 company

HORIBA Community Corporation (Japan)

This unconsolidated subsidiary, either small in scale, or having immaterial effects on total assets, net sales, net income and retained earnings (proportionate amount of ownership), is not included in the interim consolidated financial statements.

### 2. Application of the equity method

#### 1) Unconsolidated companies for which the equity method has not been applied: 1 company

HORIBA Community Corporation (Japan)

#### 2) Affiliated companies for which the equity method has not been applied: 6 companies

Chiyoda Assy Inc.; Mec Co., Ltd.; SSERC Co., Ltd.; LABCRAFT S.a.r.l. (France); KORE Technology Inc. (U.K.); YUNO Ltd. (U.K.)

Since the companies for which the equity method has not been applied have insignificant effects upon consolidated net income and retained earnings, and also are immaterial as a whole, they are excluded from the application of the equity method.

### 3. Interim period ends of the consolidated subsidiary companies

The interim period end is June 30 for HORIBA ITEC Co., Ltd., HORIBA TECHNO SERVICE Co., Ltd., ASEC Inc. and overseas subsidiaries. It is September 20 for HORIBA Advanced Techno Co., Ltd., and September 30 for HORIBA STEC Co., Ltd. and HORIBA Biotechnology Co., Ltd.

The accounts of these subsidiaries at the respective interim period ends are used in preparing the interim consolidated financial statements. With respect to significant transactions which occurred after those subsidiaries' interim period ends, necessary adjustments have been made in the interim consolidated financial statements.

### 4. Accounting policies

#### 1) Valuation of marketable securities

#### Available-for-sale securities

- With available fair market values: Fair market value based on market prices, etc. at the balance sheet date  
(Unrealized gains and losses are reported as a separate component of shareholders' equity. Cost of sales is calculated using the moving-average method. )
- Without available fair market values: Primarily at cost using the moving-average method

#### 2) Derivatives

Market value method

#### 3) Valuation of inventories

- a. Finished goods/goods in process: Estimated primarily at cost using the weighted-average method
- b. Materials: Valued primarily at cost using the moving-average method

#### 4) Depreciation methods of depreciable assets

##### a. Property, plant and equipment

The parent company and its domestic companies use the declining balance method. (However, buildings [excluding the accompanying facilities] acquired on or after April 1, 1998 are depreciated using the straight-line method.) Overseas subsidiaries use the straight-line method.

Estimated useful lives of the assets are mainly as follows:

Buildings and structures: 3-60 years

Machinery, equipment and vehicles: 2-17 years

##### b. Intangible assets

The straight-line method is used.

With respect to internal use software, it is computed on the straight-line method over the estimated useful life of 5 years.

#### 5) Allowance and accruals

##### a. Allowance for doubtful receivables

- The parent company and its domestic subsidiaries

In order to provide for losses from uncollectible trade notes, accounts receivable and loans, the parent company and its domestic subsidiaries provide for doubtful accounts principally at an amount computed based on the actual ratio of bad debts in the past plus the estimated uncollectible amounts based on analysis of certain individual receivables.

- Overseas subsidiaries

In order to protect against losses from uncollectible accounts receivable and so on, the overseas subsidiaries provide for doubtful accounts based on estimates of management.

##### b. Accrued bonuses to employees

Accrued bonuses to employees are provided for the expected payment of employee bonuses to those employees serving at the end of the interim period, based on the applicable period.

##### c. Reserve for product warranty

Reserve for product warranty is provided for warranty expenses for products of the parent company and certain subsidiaries.

##### d. Employees' retirement benefits

The Company and certain consolidated subsidiaries provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of plan assets. Actuarial gains or losses are recognized in expense using the straight-line method over fixed years (5 years) within the average of the estimated remaining service lives commencing with the following period. In the Company, prior service costs are recognized in expense using the straight-line method over fixed years (10 years) within the average of the estimated remaining

service lives commencing in the period they arise. In certain consolidated subsidiaries, they are expensed in the period they arise.

e. Retirement benefits for directors and corporate auditors

To cover payment of retirement benefits for directors and corporate auditors, the Company and certain domestic subsidiaries provide for the amount to be required at the end of the interim consolidated fiscal year based upon internal rules.

6) Foreign currency translation

Assets and liabilities in foreign currencies are converted to Japanese yen using the market rate at the balance sheet date, and differences in the translation are recorded in the interim consolidated statements of income. In addition, the assets and liabilities of overseas subsidiaries are converted to Japanese yen on the basis of the exchange rate at the balance sheet date, while income and expenses are converted to Japanese yen based on the average exchange rate during the period. Differences in translation are included in the interim consolidated financial statements under minority interest and foreign currency translation adjustments in shareholders' equity.

7) Lease transactions

Finance leases that do not transfer ownership or that do not have bargain purchase option provisions are accounted for in the same manner as operating leases in accordance with Japanese GAAP.

8) Hedge accounting

a. Hedge accounting method

Foreign exchange contracts that fulfill certain requirements are accounted for as hedges.

b. Hedge instruments and hedged items

Hedge instruments

Foreign exchange contracts

Hedged items

Foreign currency trade receivables and payables

c. Hedge policy

With respect to such things as foreign currency trade receivables, the parent company enters into foreign exchange contracts within the limits of the balance for foreign currency trade receivables and payables. The execution and management of these transactions are carried out by the accounting department, and the results of the transactions are reported to the member of the board of directors that is responsible for accounting.

d. Methods for evaluating hedge effectiveness

Hedge effectiveness is evaluated by verifying the currency type, term, and identity of the hedged item and the hedging instrument.

9) Accounting for consumption tax

The net of tax method is used.

10) Tax effect accounting

Calculation of deferred income taxes and income tax payables for the interim consolidated period included estimated amounts of addition and reversal of reserve for deferral of capital on property which will be made within appropriation of retained earnings for the current consolidated year-end.

5. Cash and cash equivalents

Cash and cash equivalents in the consolidated cash flow statements include cash on hand, readily available bank deposits, and short-term highly liquid investments that are readily convertible into cash and present insignificant risk of change in value, with maturity periods of three months or less from the date of acquisition.

Notes:

(Consolidated Balance Sheet at September 20, 2005)

1. Accumulated depreciation for tangible assets		¥22,549 million
2. Pledged assets	Buildings	¥156 million
3. Secured liabilities	Current portion of long-term debt	¥2 million
	Long-term debt	¥90 million
4. Contingent liabilities for guarantees		¥373 million
5. Number of treasury stock		102,164 shares

(Consolidated Statement of Income for the six months ended September 20, 2005)

1. Research and development expenses	¥2,677 million
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(Consolidated Statement of Cash Flow for the six months ended September 20, 2005)

Reconciliation between cash and banks in consolidated balance sheets and cash and cash equivalents at end of period in consolidated statement of cash flows:

	As of September 20, 2005	As of September 20, 2004	As of March 20, 2005
	¥ million	¥ million	¥ million
Cash and banks	18,517	13,010	15,447
Time deposits with maturities exceeding 3 months	(4)	(1)	(19)
Short-term investments whose expiration or redemption date is within 3 months	250	546	680
Cash and cash equivalents at end of period	<u>18,763</u>	<u>13,556</u>	<u>16,108</u>

## Business Segment Information

### 1. Business Segment Information

Results for the Six Months ended September 20, 2005 (March 21, 2005 - September 20, 2005)

	Engine Measurement Instruments & Systems	Analytical Instruments & Systems	Medical/Diagnostic Instruments & Systems	Semiconductor Instruments & Systems	Total	Unallocated	Consolidated
	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million
<b>Net Sales</b>							
(1) Sales to outside customers	12,594	14,246	9,348	8,505	44,693	-	44,693
(2) Intersegment sales and transfer	-	-	-	-	-	-	-
Operating expenses	10,041	14,339	9,138	7,436	40,956	-	40,956
<b>Operating Income (Loss)</b>	2,552	92	209	1,068	3,737	-	3,737

Results for the Six Months ended September 20, 2004 (March 21, 2004 - September 20, 2004)

	Engine Measurement Instruments & Systems	Analytical Instruments & Systems	Medical/Diagnostic Instruments & Systems	Semiconductor Instruments & Systems	Total	Unallocated	Consolidated
	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million
<b>Net Sales</b>							
(1) Sales to outside customers	10,582	13,085	8,769	9,728	42,165	-	42,165
(2) Intersegment sales and transfer	-	-	-	-	-	-	-
Operating expenses	8,881	13,332	8,383	8,033	38,631	-	38,631
<b>Operating Income (Loss)</b>	1,700	247	386	1,694	3,533	-	3,533

Results for the Year ended March 20, 2005 (March 21, 2004 - March 20, 2005)

	Engine Measurement Instruments & Systems	Analytical Instruments & Systems	Medical/Diagnostic Instruments & Systems	Semiconductor Instruments & Systems	Total	Unallocated	Consolidated
	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million
<b>Net Sales</b>							
(1) Sales to outside customers	27,021	28,510	18,776	18,182	92,492	-	92,492
(2) Intersegment sales and transfer	-	-	-	-	-	-	-
Operating expenses	22,316	27,648	17,631	15,523	83,119	-	83,119
<b>Operating Income</b>	4,705	861	1,145	2,659	9,372	-	9,372

Main products of each business segment

Business Segment	Main Products
Engine Measurement Instruments & Systems	Motor Exhaust Gas Analyzers, Automatic Engine Measurement Control Systems, Portable Emissions Analyzers, On-Board Emissions Measurement Systems, High Sensitivity Continuous PM Measurement Systems, Fuel Cell Evaluation Systems
Analytical Instruments & Systems	pH Meters, Water Quality Monitor for Total Nitrogen/Phosphorus, Stack Gas Analysis Systems, Particle size Distribution Analyzers, X-Ray Analytical Microscopes, Monochromator/Grating, ICP Optical Emission Spectrometer, Raman Spectrophotometer
Medical/Diagnostic Instruments & Systems	Hematology Analyzers, Hematology Analyzers Plus CRP, Blood Glucose Analyzers, Clinical Chemistry Systems
Semiconductor Instruments & Systems	Mass Flow Controllers, Chemical Concentration Monitor, Ultra-Thin Film Analyzer, Film Thickness Analyzers for FPDs, Reticle/Mask Particle Detection Systems

## Geographical Segment Information

### 2. Geographical Segment Information

Results for the Six Months ended September 20, 2005 (March 21, 2005 - September 20, 2005)

	Japan	America	Europe	Asia	Total	Elimination and/or unallocated	Consolidated
	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million
<b>Net Sales</b>							
(1) Sales to outside customers	23,526	4,677	15,656	833	44,693	-	44,693
(2) Intersegment sales and transfers	5,229	216	1,034	426	6,906	(6,906)	-
Total	28,755	4,893	16,690	1,260	51,600	(6,906)	44,693
Operating expenses	24,933	4,837	17,008	1,071	47,851	(6,895)	40,956
<b>Operating Income (Loss)</b>	3,822	56	(318)	188	3,748	(11)	3,737

Results for the Six Months ended September 20, 2004 (March 21, 2004 - September 20, 2004)

	Japan	America	Europe	Asia	Total	Elimination and/or unallocated	Consolidated
	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million
<b>Net Sales</b>							
(1) Sales to outside customers	22,001	4,277	14,995	890	42,165	-	42,165
(2) Intersegment sales and transfers	5,601	104	849	331	6,886	(6,886)	-
Total	27,603	4,381	15,844	1,221	49,051	(6,886)	42,165
Operating expenses	23,664	4,498	16,337	1,056	45,557	(6,926)	38,631
<b>Operating Income (Loss)</b>	3,938	(116)	(493)	165	3,494	39	3,533

Results for the Year ended March 20, 2005 (March 21, 2004 - March 20, 2005)

	Japan	America	Europe	Asia	Total	Elimination and/or unallocated	Consolidated
	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million
<b>Net Sales</b>							
(1) Sales to outside customers	45,288	9,965	35,529	1,709	92,492	-	92,492
(2) Intersegment sales and transfers	9,888	261	2,102	626	12,879	(12,879)	-
Total	55,177	10,226	37,631	2,336	105,371	(12,879)	92,492
Operating expenses	47,812	10,099	36,199	2,089	96,200	(13,081)	83,119
<b>Operating Income</b>	7,364	127	1,432	246	9,170	201	9,372

### 3. Overseas Sales

Results for the Six Months ended September 20, 2005 (March 21, 2005 - September 20, 2005)

¥ million

	America	Europe	Asia	Total
Overseas sales	8,501	10,921	5,295	24,718
Consolidated sales	-	-	-	44,693
Overseas sales to consolidated sales (%)	19.0	24.4	11.9	55.3

Results for the Six Months ended September 20, 2004 (March 21, 2004 - September 20, 2004)

¥ million

	America	Europe	Asia	Total
Overseas sales	7,878	10,285	4,796	22,960
Consolidated sales	-	-	-	42,165
Overseas sales to consolidated sales (%)	18.7	24.4	11.4	54.5

Results for the Year ended March 20, 2005 (March 21, 2004 - March 20, 2005)

¥ million

	America	Europe	Asia	Total
Overseas sales	17,705	24,925	10,971	53,602
Consolidated sales	-	-	-	92,492
Overseas sales to consolidated sales (%)	19.1	27.0	11.9	58.0

Note: Overseas sales comprise sales of HORIBA, Ltd and it's subsidiaries in countries or regions other than Japan.

### Orders, Backlog

Segment	Six Months ended September 20, 2005		Six Months ended September 20, 2004		Year ended March 20, 2005		
	Amount	%	Amount	%	Amount	%	
Orders	¥ million		¥ million		¥ million		
	Engine Measurement Instruments & Systems	14,807	29.9	12,581	27.3	28,601	30.0
	Analytical Instruments & Systems	16,075	32.5	14,509	31.5	29,546	31.0
	Medical/Diagnostic Instruments & Systems	10,003	20.2	9,358	20.3	18,916	19.9
	Semiconductor Instruments & Systems	8,598	17.4	9,642	20.9	18,152	19.1
Total	49,484	100.0	46,091	100.0	95,217	100.0	
Backlog	Engine Measurement Instruments & Systems	11,039	47.7	9,246	47.3	8,825	48.1
	Analytical Instruments & Systems	8,467	36.6	7,026	35.9	6,638	36.2
	Medical/Diagnostic Instruments & Systems	1,985	8.6	1,779	9.1	1,330	7.2
	Semiconductor Instruments & Systems	1,659	7.1	1,510	7.7	1,566	8.5
	Total	23,152	100.0	19,562	100.0	18,361	100.0



## Securities

As of September 20, 2005

1. Available-for-sale securities with available fair values at September 20, 2005

¥ million

	Acquisition cost	Book (fair) value	Difference
Equity securities	1,646	3,944	2,297
Bonds:			
Government bonds	-	-	-
Corporate bonds	-	-	-
Other	-	-	-
Other	152	171	19
<b>Total</b>	<b>1,798</b>	<b>4,115</b>	<b>2,317</b>

2. Securities with no available fair values

¥ million

	Book value
Available-for-sale securities	
Non-listed foreign investment trust	218
Non-listed equity securities	243
Limited partnership for investment	47

As of September 20, 2004

1. Available-for-sale securities with available fair values at September 20, 2004

¥ million

	Acquisition cost	Book (fair) value	Difference
Equity securities	1,315	3,221	1,906
Bonds:			
Government bonds	4	4	-
Corporate bonds	496	502	5
Other	-	-	-
Other	9	8	(0)
<b>Total</b>	<b>1,825</b>	<b>3,737</b>	<b>1,911</b>

2. Securities with no available fair values

¥ million

	Book value
Available-for-sale securities	
Non-listed foreign investment trust	546
Non-listed equity securities (excluding over-the-counter securities)	368

As of March 20, 2005

1. Available-for-sale securities with available fair values at March 20, 2005

¥ million

	Acquisition cost	Book (fair) value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	1,427	3,792	2,365
Bonds:			
Government bonds	-	-	-
Corporate bonds	-	-	-
Other	-	-	-
Other	-	-	-
Subtotal	1,427	3,792	2,365
Securities with book values not exceeding acquisition costs:			
Equity securities	19	12	(7)
Bonds:			
Government bonds	-	-	-
Corporate bonds	-	-	-
Other	-	-	-
Other	121	96	(25)
Subtotal	141	108	(32)
Total	1,568	3,901	2,332

2. Securities with no available fair values

¥ million

	Book value
Available-for-sale securities	
Non-listed foreign investment trust	671
Non-listed equity securities	262
Limited partnership for investment	46

3. Available-for-sale securities with maturities at March 20, 2005

¥ million

	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Bonds:				
Government bonds	-	3	0	-
Corporate bonds	-	-	-	-
Other	-	-	-	-
Total	-	3	0	-

Lease Transactions

Omitted due to disclosure on EDINET.

Derivative Transactions

Omitted due to disclosure on EDINET.

(Significant Subsequent Event)

Acquisition of Development Test Systems from Carl Schenck AG

To expand business activities in the powertrain (\*) research and development field such as engine testing, as a "total system supplier," HORIBA, Ltd. acquired the shares of six subsidiaries of Carl Schenck AG which will be included in consolidation as subsidiaries/sub-subsidiaries of HORIBA, Ltd. on September 30, 2005.

(\*)Powertrain

General name of engine, inlet and outlet system, transmission, and electric control units