HORIBA

Life-enhancing global solutions created in the technological heartland of Japan

Explore the future. **Annual report 2004**

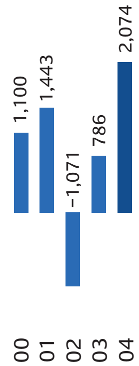
Contents

HORIBA was established in 1953 in Kyoto, an ancient Japanese capital that is steeped in over 1,200 years of history and that forms an integral part of the country's industry and culture. In accord with global requirements for excellence, we place a strong emphasis on "quality" rather than "quantity," a concept that is rooted in our corporate culture and our sense of ethical values. In the more than 50 years since our founding, we have always focused on technological innovation to bring into being only those products that can genuinely lay claim to being of the highest quality.
HORIBA has grown over the years into a true global enterprise in the "technological heartland" of Japan.

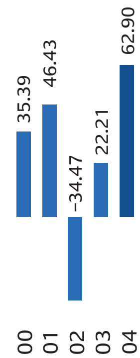
Today, HORIBA is a global leader in advanced analytical and measurement technology. Instruments and systems made by HORIBA set high quality and performance standards across a wide range of industrial sectors, including engine development, environmental monitoring and analysis, diagnosis of diseases, control of semiconductor manufacturing processes and basic R&D in various fields.

Financial Highlights

Net sales (Million ¥)



Net income (loss) (Million ¥)



Net income (loss) per share (¥)

	Millions of yen		Thousands of U.S. dollars (Note)
	2003	**2004**	**2004**
For the Year:			
Net sales	¥ 78,501	**¥ 85,073**	**$ 796,116**
Operating costs and expenses	73,027	**78,223**	**732,013**
Operating income	5,474	**6,850**	**64,103**
Income before income taxes	3,119	**4,780**	**44,731**
Income taxes	2,161	**2,574**	**24,088**
Net income	786	**2,074**	**19,409**
Capital expenditures	3,444	**3,501**	**32,762**
Depreciation and amortization	2,915	**3,037**	**28,420**
Research and development expenses	4,044	**5,129**	**47,997**
At Year-End:			
Total assets	¥ 100,542	**¥ 92,657**	**$ 867,088**
Property, plant and equipment, net	19,000	**18,841**	**176,315**
Shareholders' equity	40,144	**43,348**	**405,652**
	yen		U.S. dollars (Note)
Per Share Information:			
Net income	¥ 22.21	**¥ 62.90**	**$ 0.59**
Shareholders' equity	1,293.30	**1,350.31**	**12.63**
Cash dividends	14.50	**10.00**	**$ 0.09**

Note: The U.S. dollar amounts are provided solely for convenience at the rate of ¥106.86 to US$1, the rate prevailing on March 20, 2004.

The HORIBA Group posted historic highs in consolidated sales and profits for the year ended March 20, 2004. All operating segments realized year-on-year increases in sales and operating income. Some positive signs emerged in the business environment, including higher demand generated by environmental regulations and a recovery of the semiconductor market in the second half of the year. On the whole, however, competition intensified in the analytical and measuring equipment industry. Our excellent results represent our achievements in enhancing our business activities over the past few years, such as strengthening our product development and personnel training through global M&As and alliances.

Message from President

A detailed review of the results, trends and prospects in each of our four business segments can be found begining on page 8 of this report. In this section, I will review our business operations and discuss where the HORIBA Group is headed.

Our business as a manufacturer of analytical and measurement systems 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. Commonalities in fundamental technology and know-how, however, allow us to deliberately 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.

I believe that the effects of this management approach are reflected in our recent results and have led to accelerated growth in each business while maintaining management stability.

One of our greatest assets supporting our growth is human resources. ABX S.A. joined the HORIBA Group in 1996 in order to strengthen the Medical/Diagnostic Instruments & Systems division, and Jobin Yvon S.A., which joined in 1997, owns world-leading optical analytical technology. Through the participation of these two French companies in the HORIBA Group, we have accelerated our globalization. Moreover, we have been able to attract many capable workers from all over the world. Numerous specialists with global viewpoints have come into their own in each of our development, production, service and administrative divisions. Their collective power is a driving force behind our growth, while top management has been strengthened to control the overall system and make swift decisions.

Our greatest strength is the possession of analytical techniques, which have been valued the world over in a wide range of business fields. Through the measurement and analysis of all things important in daily life, HORIBA products facilitate well-informed decisions on many issues related to the environment, health and safety — problems with which modern society is becoming increasingly concerned. The extremely high reliability of the data analyzed by HORIBA Engine Measurement Instruments & Systems, for example, is a critical element in the determination by national environmental testing bodies of key exhaust emission standards that can become de facto global performance benchmarks. Our products make a direct contribution to programs intended to solve important environmental, health and safety issues.

President & CEO
Atsushi Horiba

Besides enhancing the competitiveness of our existing businesses, our unique analytical techniques act as a kind of gravitational magnet, drawing in talent and enabling us to create new networks. Like a real cosmic body, HORIBA gains mass while its gravity and surface area are expanding with increased acceleration. In the past few years, to broaden our lineup of technologies and products we have invested more heavily in M&As and alliances. I believe that these investments will undoubtedly bear fruit in future businesses.

Compared with other Japanese companies, we took active steps to globalize our business at a relatively early stage of our development. Including the parent company, the HORIBA Group now has 38 companies (30 based outside Japan) and 3,800 employees (approximately 2,000 outside Japan) around the world. This drive to grow as an international enterprise is rooted in our corporate culture, which emphasizes a spirit dedicated to openness and fairness and to a determination to meet the next challenge. A company cannot hope to grow its business if people fear punishment for failure. What is important is to learn from failure to ensure the same mistakes are never repeated. This requires a willingness to analyze the reasons for failure, coupled with the determination to set a new goal and take up the renewed challenge. All HORIBA Group companies are called on to adopt such an attitude constantly. In doing so, we have developed a level of morale within the group that commits us to take up challenges without fear of failure and cultivated a mutual support system for all HORIBA Group companies.

Our international development is also based on the thinking that globalization is really a process of localization. We respect the culture of our local subsidiaries around the world. At the same time, the HORIBA Group philosophy and culture has percolated through the company as we work to deepen mutual understanding of values, principles and strategic direction. After a long period of time, what in effect has happened is that our subsidiaries have unified into the corporate entity known as the HORIBA Group, a phenomenon that has emerged naturally.

We have now reached the stage where the time has come to focus the power of the entire HORIBA Group on generating higher levels of growth. The new management policy that underpins this next phase of our development expresses a sense of integration: “The HORIBA Group is One Company.” 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 (see diagram page 5). 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.

Increased synergy will also translate into a more rapid expansion of the overall HORIBA Group business as we work to share group-level information possessed by individual companies about various markets and technologies and other knowledge. This, in turn, will help to augment the power of the HORIBA brand, which is already associated strongly with analytical and measuring equipment markets. Our brand strategy is to leverage the reputation of the HORIBA name in the marketplace by using it to embrace all HORIBA Group companies and products. This will help to boost our brand awareness further in the analytical and measuring equipment markets. There are some concerns that such a brand strategy may lead to the loss of corporate culture and affect customers. However, we are confident that the benefits derived from leveraging technology and expertise developed by individual HORIBA Group companies in boosting the HORIBA brand’s reputation for high product quality will far outweigh any costs.

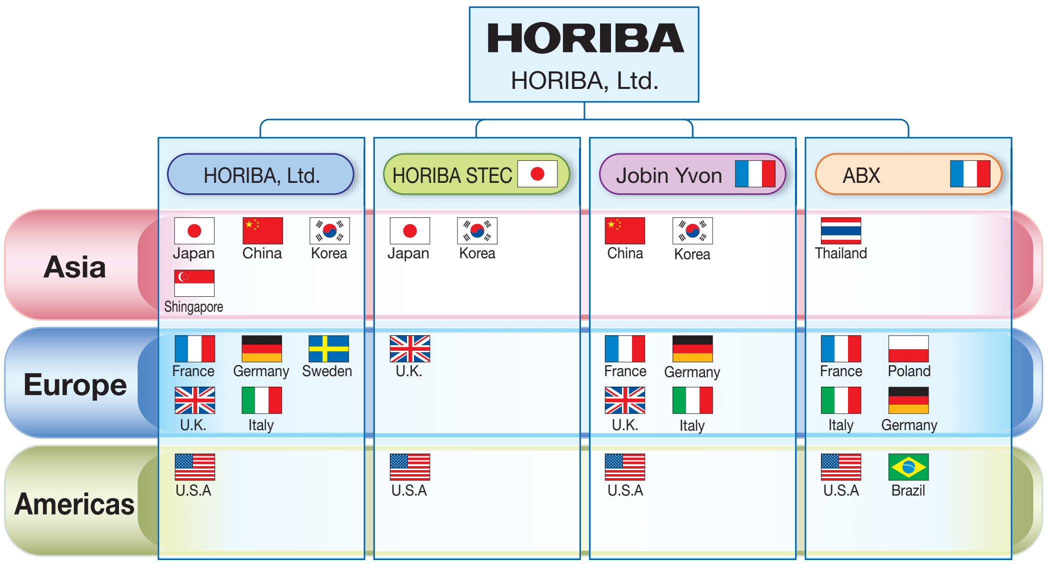
Our company produces sophisticated equipment for professional use in a wide variety of fields. Our products are designed to offer real gains in cost performance over the long term; in R&D, for example, higher quality can translate into increased efficiency, which helps to reduce total costs. We believe this is what customers in many markets are looking for and that we cannot achieve sustained success simply by trying to supply low-priced products.

Our mission is to provide high-quality “genuine articles” to those customers that honor us by placing their trust in the HORIBA name. It is therefore our duty to seek to create the sustainable corporate value that our customers demand. We need to build stronger relationships with customers who recognize our potential in the long run. And the brand positioning of HORIBA has to be the same in capital markets as it is in product markets: confidence in the ownership of HORIBA. To develop our brand in financial sectors and among customers, we need to build long-term trust with shareholders and investors.

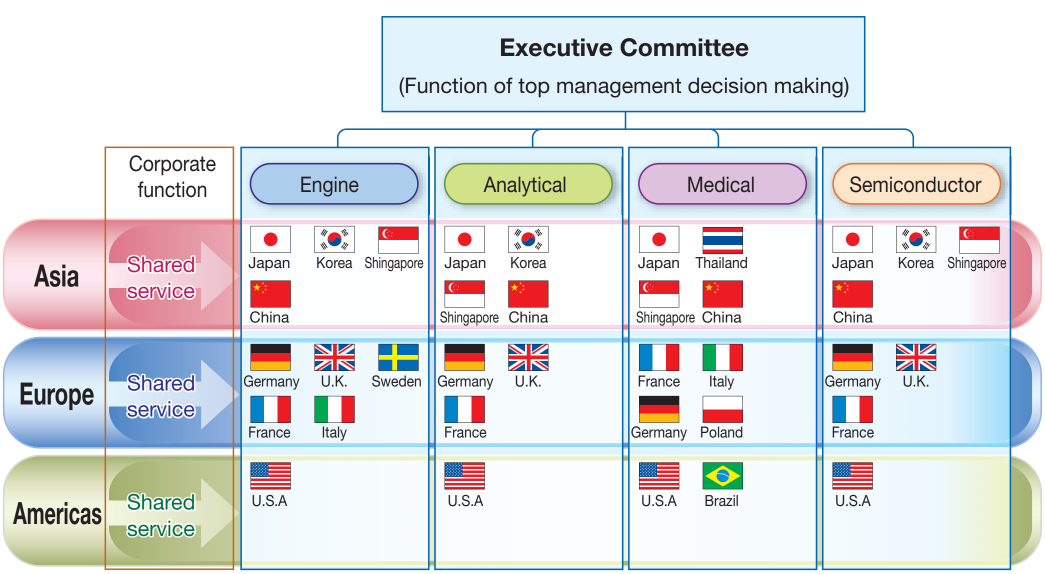
Covering the period to March 2006, our midterm management plan targets an operating income of 10% and a return on equity of 8% on consolidated net sales of ¥100 billion. As we focus all our efforts on achieving these goals, I ask shareholders and investors for their continued support and understanding. I hope this message has helped convey to you something of the original, rich corporate culture of HORIBA.

Atsushi Horiba
President & CEO

Current Organization

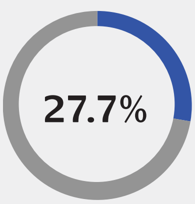


New Virtual Organization



HORIBA, a manufacturer of analytical and measurement instruments, operates in four business segments: engine measurement and testing; analytical instruments; medical and diagnostics; and semiconductor testing and inspection. Because of the differing characteristics and demands of each market, HORIBA not only diversifies its operational risk but also aims to achieve efficient and stable growth through the flexible management of its business resources.

Engine Measurement Instruments & Systems



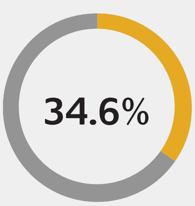
Market Characteristics & HORIBA Group Strengths

Automotive manufacturing industry R&D functions use HORIBA products widely to test the exhaust gas performance of vehicles. This is not only to check that models conform to regulatory limits, but also to improve fuel consumption and to develop better cars and engines that meet with higher consumer requirements. In this role, HORIBA products are almost indispensable to many of the world's automobile manufacturers.

HORIBA has developed its leadership of the exhaust gas analysis business over more than 30 years. This field requires advanced technical and analytical expertise, and HORIBA's dominance has made its systems the de facto standard for the world's various national environmental regulatory bodies. HORIBA has followed recent analysis and measurement needs in the automotive industry by establishing a presence in fuel cell testing.

Exhaust gas analysis also is becoming a major issue in other types of engines, notably those used in ships, aircraft, construction equipment and generators. HORIBA plans to apply the expertise it has developed in the automotive field to these emerging business areas.

Analytical Instruments & Systems



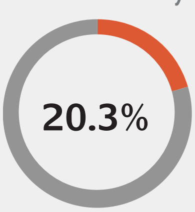
Market Characteristics & HORIBA Group Strengths

HORIBA manufactures over 500 different types of instruments in this segment, many of which supply niche markets. The technical excellence of the range makes many product lines leaders within their respective categories, although HORIBA faces fierce competition in several product markets, particularly in Japan.

In scientific instruments, HORIBA supplemented its traditional lineup with the 1997 acquisition of Jobin Yvon, a French manufacturer with world-renowned technology in such specialist fields as crystalline polymorphism for pharmaceutical applications and the structural molecular analysis of carbon nanotubes and other substances. This technical superiority is a valuable asset given the growth potential of the global market for nano-technology analysis.

Demand is also rising steadily for analytical equipment with environmental applications amid increased public interest in environmental, health and safety issues. HORIBA is particularly targeting emerging countries and regions with high projected economic growth, such as China, Southeast Asia, Russia, and South America.

Medical/Diagnostic Instruments & Systems



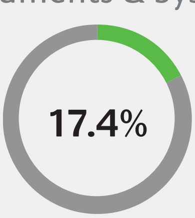
Market Characteristics & HORIBA Group Strengths

The global market for blood testing amounts to over ¥2 trillion in annual terms. Dividing it into the testing equipment and reagents segments, manufacturers can develop a business model in which the sale of consumable reagents provides a stable income source following the initial sale of hardware.

The acquisition of French manufacturer ABX in 1996 took HORIBA into the medical and diagnostic equipment market, in particular by expanding the company's share in small size hematology analyzers for hospitals and medical practitioners. Profitability has increased sharply in recent years as the installed base of testing equipment has generated strong growth in the sales of reagents. The fusion of the marketing prowess of ABX with the technical and production expertise of HORIBA has resulted in products that accurately serve market needs. HORIBA continues to focus on raising performance and quality.

HORIBA plans to expand operations in this segment by targeting the sizable market for the large size hematology analyzers used in major hospitals and medical institutions. Another area where HORIBA plans to expand its presence through new product introductions is that of clinical chemistry analyzers, particularly for key blood components ,such as cholesterol and blood sugar.

Semiconductor Instruments & Systems



Market Characteristics & HORIBA Group Strengths

The semiconductor instruments business is heavily dependent on trends in capital investment by semiconductor manufacturers. Otherwise known as the Silicon cycle, this causes results to vary substantially from year to year. Mass flow controllers, which control gas flows inside semiconductor production systems, account for 70% of the sales in this segment. HORIBA is working to strengthen its product lineup to supply developing and marketing total solutions for the control and analysis of all peripheral process chambers. With increased large-sized integration in wafer production, demands for lower costs and boosted yields through more cost-effective manufacturing methods are rising. The HORIBA Group (including Japanese subsidiary HORIBA STEC and French subsidiary Jobin Yvon) is launching new products to improve the efficiency of quality-control analysis and other production processes, such as quality checks. In doing so, HORIBA plans to become a leader in the market for semiconductor analytical instruments and systems.

Major products:	motor exhaust gas analyzers, chassis dynamometers, automatic driver systems, onboard emissions measurement systems, portable emissions analyzers, fuel cell testing units
Leading market shares:	motor exhaust gas analyzers (approx. 80% of world market)
Major customers:	automobile manufacturers, motorcycle manufacturers, automotive component manufacturers, multi-purpose government agencies, oil companies, automotive maintenance and repair centers
Product applications:	development of new car models and engines, finished vehicle testing, used vehicle inspections

Risk factors
Exchange rate movements can affect profitability because most of the products are manufactured in Japan. A strong yen tends to reduce sales and profits.

Major products:	scientific analysis instruments (pH meters, X-ray elemental analyzers, particle-size distribution analyzers, diffraction gratings, Raman spectrophotometers), environmental measuring instruments (air pollution analyzers, stack gas analyzers, water quality monitoring systems)
Leading market shares:	diffraction gratings (approx. 35% of world market)
Major customers:	manufacturers, national research institutions, universities, government agencies, electric power companies
Product applications:	R&D, product quality testing, measurement of wastewater and emissions, environmental pollution monitoring, pharmaceutical research, criminal forensics

Risk factors
Profitability has come under sustained pressure in Japan from price erosion due to intensified competition within a deflationary economic environment.

Major products:	equipment for blood sample analysis (hematology analyzers, equipment for measuring immunological responses, biochemical analyzers, blood sugar measurement systems)
Leading market shares:	hematology analyzers (approx. 8% of world market)
Major customers:	medical testing centers, small and medium-sized hospitals, medical practitioners
Product applications:	health and diagnostics testing, disease diagnosis

Risk factors
Profitability is susceptible to changes in national health insurance systems, which differ between countries.

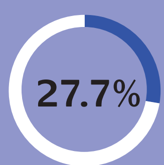
Major products	mass flow controllers, chemical concentration monitors, semiconductor impurity testing equipment, thin-film analyzers for semiconductor and LCD inspection
Leading market shares:	mass flow controllers (approx. 30% of world market)
Major customers:	manufacturers of semiconductor production equipment, chemical devices and cleaning equipment
Product applications:	control of gas flows and monitoring of cleaning fluid concentrations in semiconductor manufacturing processes, semiconductor and LCD quality control inspections

Risk factors
The semiconductor business remains highly cyclical, and profitability can vary substantially depending on the ups and downs of the Silicon Cycle.

Note: Market shares quoted are estimates by HORIBA

Sales and operating profit reached record highs because of the global trend toward lower legislative limits on exhaust emissions and active investment in the development of new-generation engines by automobile manufacturers around the world. The research and development of clean diesel engines in particular by the automobile industry in Japan and the EU has contributed to higher sales of completely integrated emission measurement systems.

Results for Year Ended March 2004



(Million ¥)

2004	23,582
2003	21,131
2002	20,349
2001	17,983

Segment sales rose 11.6% over the previous year to ¥23,582 million and operating income increased 10.7% to ¥3,486 million.

Business Outlook

Although the growth in investments for engine R&D in Japan may stay at its current scale, investments are expected to expand on a global scale because continuous and increasing demand for engine calibration and clean diesel engines. HORIBA also expects growth in demand from markets in Europe and Asia, most notably from China.

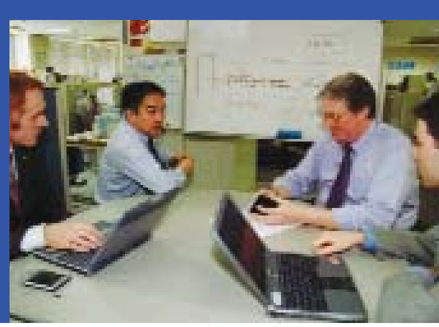
Interview to segment business task force

What factors have contributed to the positive performance in recent years?

The principal reason is that the automobile industry, our major customer, has been actively investing in engine development. Facing increasingly strict environmental regulations on fuel economy and exhaust emissions, car manufacturers are working to calibrate their engines to satisfy different regional regulatory requirements and consumer preferences. The new engines are capable of handling a variety of calibrations because of their electronic control and considerable number of control parameters. At the same time, automobile manufacturers are also enthusiastic about shortening the time required to develop new engines. These factors helped to boost demand for HORIBA engine measurement systems, which have become the global standard in engine development.

What effects did shifting to direct sales channels have?

We started direct sales in the Japanese market in April 2002 to strengthen our operations and to provide quick and direct services to the market. We visit and talk to customers directly, rather than use intermediary companies or agents. In overseas markets, we have already introduced such a system. Besides boosting efficiency by adopting a direct sales route, this move aims to realize closer customer relations so we can precisely assess user requirements and ensure these needs are reflected in our product development processes. The deeper ties we have achieved with customers due to this new approach have also generated other benefits, such as a strong presence in the market for fuel cell-related systems development.



Will there be any negative impact on HORIBA's business with the entry of fuel cell vehicles onto the market?

On the contrary, we expect fuel cells to present us with a major new business opportunity. The fact is that fuel cells are just another form of power in vehicles in contrast to combustion power. Developers still need a variety of gas analyzers and sample handling systems to help improve the quality and performance of fuel cells. While HORIBA has now developed and launched a number of different fuel cell analyzers, there is still the possibility of expansion in the fuel cell market for small commercial and household uses in the future. In addition, it is a great advantage for us to be able to directly conduct development activities for automobile fuel cells, an area in which technology has progressed considerably.

What is the status of HORIBA's business development in China?

The size of the Chinese automobile industry has already matched that of the Japanese. Our business in China has expanded rapidly in recent years, and over the medium term we expect it to reach a scale equivalent to our operations in North America. However, the Chinese market requires more information on exhaust gas-related issues. We are therefore promoting activities to provide such information and practical know-how in exhaust gas measurement to state organizations and local automobile manufacturers in China. Our aim is to establish the HORIBA brand in China to complement established awareness in Japan, the United States and Europe. We believe this will contribute to the development

Motor Exhaust Gas Analyzer

On-Board Emissions Measurement System

of the automobile industry and environmental protection in China.

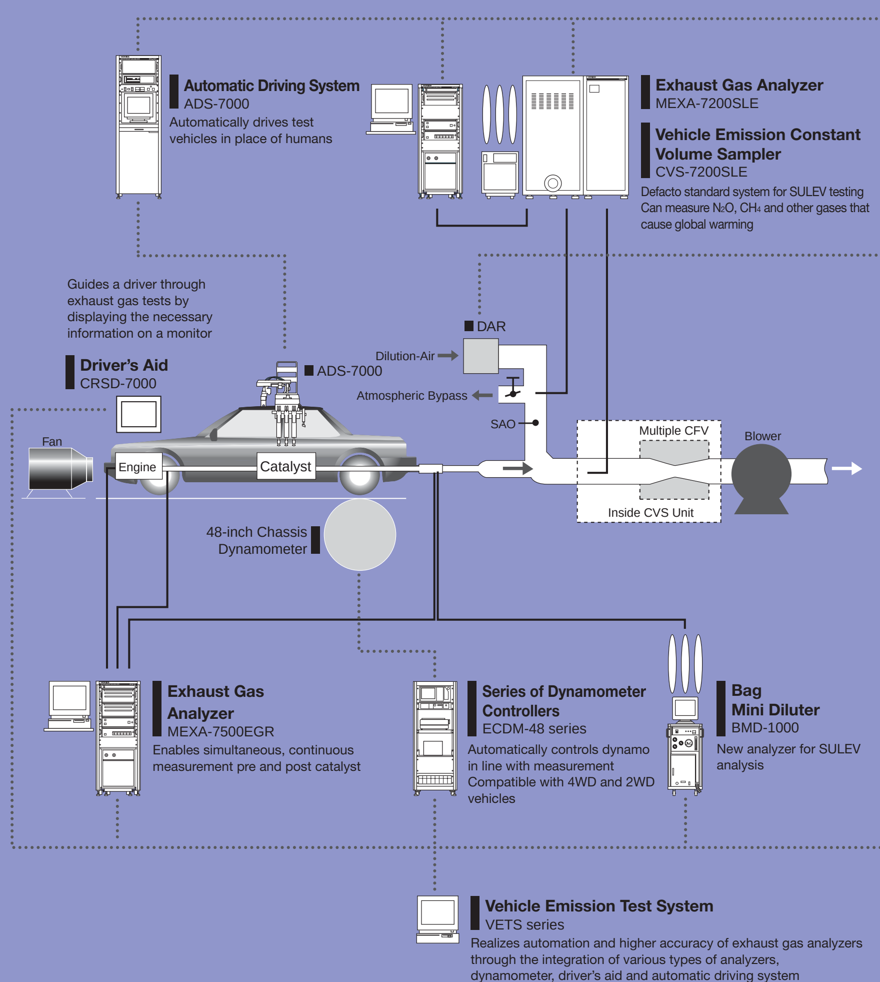
Are you considering business expansion through acquisitions and alliances?

As a result of our high level of technical expertise in the engine measurement field, we regularly receive offers from companies around the world for strategic alliances and technology exchange arrangements. These offers reflect our position as the global leader in exhaust gas measurement systems and provide us with the opportunity to obtain information regarding cutting-edge technologies. We believe that such alliances with external sources will reinforce our leading position in coming years.

How do you see the long-term prospects for the business?

Looking forward, global emission regulations are likely to become increasingly stringent. Competition to develop good engines with environmentally friendly performance will intensify. We believe that automobile manufacturers will continue to focus on diesel engine development in the future. Diesel engines will not only deliver high power with good fuel efficiency but they may also be ultra low emission engines; exhaust emissions from diesel engines will be cleaner than that from gasoline engines because of sophisticated treatment systems that incorporate control algorithms. Another industry trend is the increased outsourcing of engine R&D, including emission measurement and testing. Some large-scale projects will probably demand an entire facility rather than just one or two instruments. Therefore, the importance of our total engine measurement systems business will increase in the future. Our job is to refine and develop our technology and related expertise so that we can meet our customers' expectations. Our goal is to build on the base of exhaust gas analysis to develop total system solutions for vehicle "powertrains" to make our technology an invaluable element of our customers' R&D programs.

SULEV/ULEV Measurement Systems



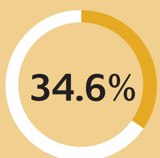
The above diagrams exhaust gas measurement systems for super ultra low emission vehicles (SULEV) and ultra low emission vehicles (ULEV).

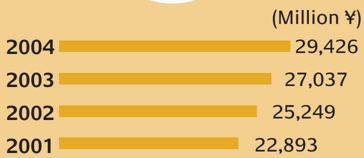
HORIBA is the only manufacturer in the world supplying total solutions combining exhaust gas measurement and supporting R&D functions in automobile industry to reduce burdens on the environment generated by automobiles.

Tighter water-quality regulations generated higher demand in Japan for wastewater monitoring equipment. In the Chinese market, sales showed higher growth, as major investments were made in scientific instrumentation.

In total, the segment posted higher operating income compared with the previous fiscal year despite fierce competition worldwide. This was largely the result of cost reductions effected through production rationalization measures and joint purchasing initiatives by HORIBA Group companies.

Results for Year Ended March 2004





Segment sales increased 8.8% from the previous year to ¥29,426 million, and operating income jumped 33.0% to ¥1,021 million.

Business Outlook

Demand due to Japanese water-quality regulations has peaked. However, new regulations like WEEE (Waste Electric and Electronic Equipment) and RoHS (Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment), pioneered by the European Union, have created increased demand for our X-Ray elemental analyzers. Also, the development of our micro-analysis equipment, in particular Raman spectrometers, will continue to increase worldwide because of high demand from the semiconductor and pharmaceutical industries.

Interview to segment business task force

What have been the mutual benefits since Jobin Yvon joined the HORIBA Group in 1997?

There is a great complementary effect between the Jobin Yvon product line and the HORIBA product line. Developing the business together allows us to feed existing sales channels with more products and to address more comprehensively the needs of our customers. Rather than being a "specialist supplier" of equipment in individual sectors, we have been able to evolve into a "solutions provider."

Has the marriage between HORIBA and Jobin Yvon gone well?

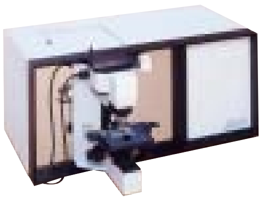
Change induces a natural human anxiety about future uncertainty, and this tends to result in resistance. As management, we have worked to overcome this feeling by clearly explaining the future mission and roles and by indicating solutions to overcome perceived difficulties. Thanks to this evolution of our operational model, there are many opportunities for the HORIBA Group companies and for individual employees to strengthen their expertise and to grow professionally. Over the past few years, HORIBA Group management has worked to overcome the barriers of national and corporate cultures to focus on, and learn from, shared business experiences and expertise. We have integrated the entire power of the HORIBA Group as a single management body, and we are working to win the top position in the market.

What factors are critical in surviving the competition to supply instruments for the scientific field?

Innovation is the key to survival in the scientific instruments business. The pace of evolution in the scientific instruments industry is faster than in many other industries. Therefore, manufacturers must supply a continuous stream of innovative products to the market by combining top-class market research and R&D. Since people are the key to an innovative culture, we strive to provide training and development opportunities to ensure that our employees are constantly learning and growing.

Do you have plans to use M&A to supplement organic growth?

Our global management priority for the HORIBA Group is to make it operate as a single, unified company. This "One Company" initiative reflects the fact that our success is directly linked to dynamic organic growth generated through innovative products and services. At the same time, we also need to look to external sources of growth. The HORIBA Group will continue to apply a dynamic spirit of enterprise to identify partner firms with compatible corporate philosophies and cultures with a view to pushing ahead with mergers, acquisitions and alliances.



Raman Spectroscopic Analyzer

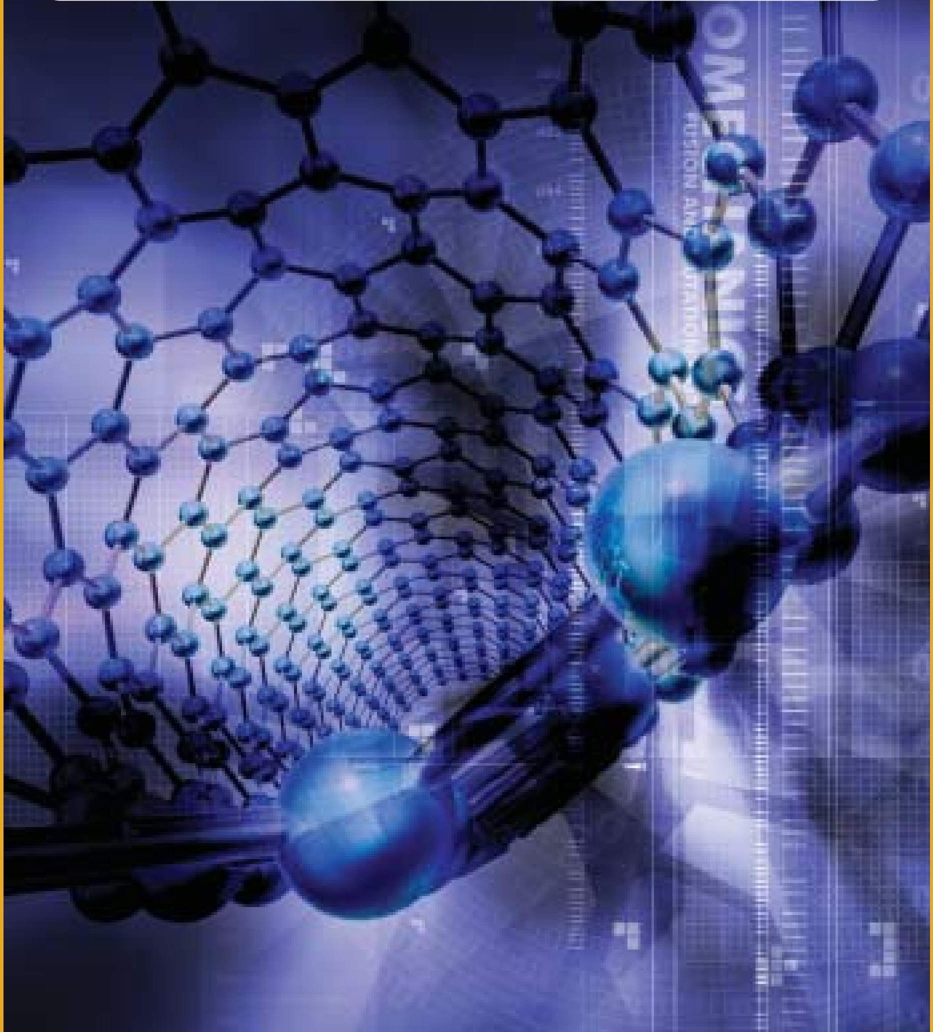
X-ray Fluorescence Testing Equipment

What is the strategy of the HORIBA Group for generating sales growth?
The bio-science market has recently expanded very quickly, with many companies trying to enter the field with relatively similar products. One of the attractions of the scientific instrument business for HORIBA is that serving many industrial sectors tends to produce an overall balance that makes us relatively immune to economic cycles. Our strategy is to target diverse global market niches with highly differentiated products, establishing HORIBA as a world leader in these segments.

Within the Analytical Instruments & Systems segment, environmental analyzers have become another major source of earnings. Our product lineup features equipment for analyzing air, water and soil quality, among other environmental parameters. Although this is a highly competitive area, we aim to increase our market share and raise profits by developing well-differentiated products while keeping costs down. Moreover, China offers a particular opportunity in this field owing to increasing environmental concerns in the country. We have received an order from the authorities of Chongqing, designated as a model environmental city, for all the plant emission analyzers to be installed in a thermal power plant. This project promises to help us further develop our business in China.

* This year's annual report focused on the topics of laboratory equipment business, though HORIBA Analytical Instruments & Systems segment actually consists of laboratory equipment business and environmental measurement.

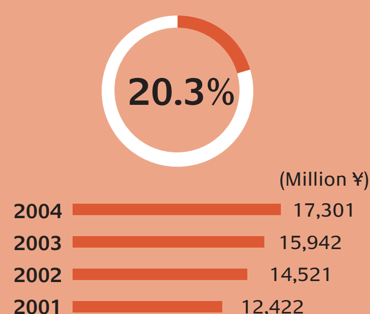
Nano-Technology Analysis



HORIBA's cutting-edge analysis instruments are essential for R&D in nano-technology fields, such as the conformation analysis of a carbon nano-tube (Image Illustration as mentioned above), and HORIBA will continue to try to develop the advanced analytical and measurement technology.

Sales and operating income increased during the year because of increased demand for diagnostic reagents, especially in Europe and Japan and good progress in the sale of mid- and small-sized hematology analyzers.

Results for Year Ended March 2004



Sales increased 8.5% year-on-year to ¥17,301 million, and operating income rose 8.4% to ¥1,508 million.

Business Outlook

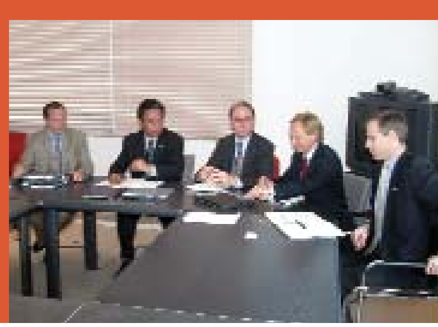
Segment profitability is expected to dip temporarily because of foreseeable expenses. These include a sizable investment in sales activities associated with the introduction of a new model of large-scale hematology analyzers and of a biochemical analyzer newly developed by the company, which will take place at the start of the 2004 business year (the year ending March 2005); and increased investment for the introduction of a new line of products covering the entire diagnostics market, including immunology, clinical chemistry, hematology and coagulation, with targeted delivery dates 3 to 5 years in the future. However, provided the sales of these new products meet targets, profitability is projected to resume an upward trend in the 2005 business year because of expanded sales activities and the increased sales of reagents.

Interview to segment business task force

What reasons can you give for the drastically improved results in recent years?
After ABX joined the HORIBA Group in 1996, there was an initial period of poor results that reflected investments to create our sales network and to acquire other companies' products and customers, with the ultimate objective of gaining market share. However, sales have increased and profitability has risen year after year as a result of a succession of unique and innovative product launches in our target markets, namely hospitals and clinical diagnostics centers.

The main reason for the improved performance is the substantial increase in sales of diagnostic reagents, which are a mainstay of profitability. This has occurred as we have increased the number of machines installed in medium to large sized hospitals and clinical diagnostics centers, where the majority of samples are processed, in addition to traditional locations where HORIBA/ABX has gained a market share, namely clinics, laboratories in small hospitals and small clinical diagnostics centers.

How would you characterize the relationship between HORIBA and ABX?
Hematology analyzers are our mainstay products in this business segment. They not only count red and white blood cells and platelets but also they can identify and measure the different types of white blood cells that play a vital role in keeping the immune system healthy. Moreover, they can identify and measure any increase or decrease in abnormal blood cells that appear in specific diseases. ABX has a depth of technical knowledge in the field of hematology analyzers that underpins its sophisticated marketing skills and product planning abilities and its analytical expertise in bringing new products to the market. For its part, HORIBA has over the years developed high-level quality-control expertise that has helped strengthen both production management and quality control at ABX. Also, HORIBA has augmented the HORIBA/ABX lineup of small-scale diagnostic devices; notably by designing and developing a hematology analyzer that incorporates parameters for diagnosing inflammation. This product is targeted at clinics and surgeries where, as a feature of the medical system in Japan, most primary patient care is carried out.



Leading-edge technologies from ABX, HORIBA and Jobin Yvon have been combined to create new biochemical analyzers that are more compact and highly accurate. By incorporating HORIBA's wide range of world-class analysis-element technologies, we can continue to develop and supply unique and innovative products even in the diagnostic analyzer market, which is a mature market in advanced countries. HORIBA and ABX have created a partnership that makes the most of their respective advantages, and we believe that we can expect even greater synergy as "One Company" in the future.

How can HORIBA compete with volume manufacturers?
It is true that HORIBA faces a number of larger competitors with greater financial resources who are developing their businesses on a large scale. But, in their pursuit of scale and efficiency, many

Automatic Hematology Analyzer

Automatic CRP Counter

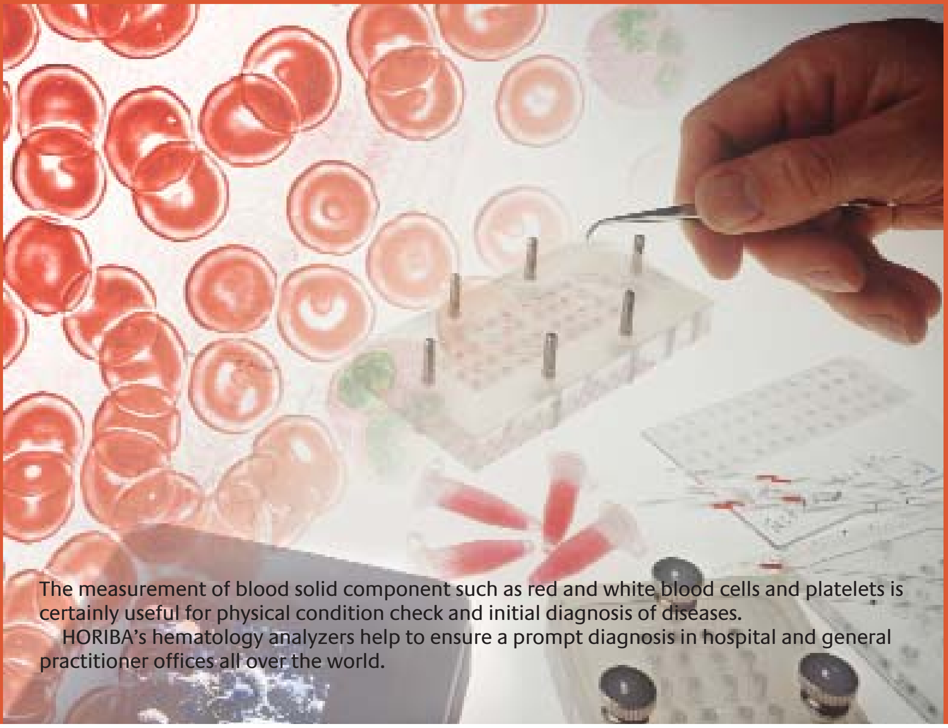
of these companies have focused on products that cater to the lowest common denominator, which means that some customers are left with their requirements unfulfilled. We compete by opening up markets for new products with added functions for servicing such requirements. For instance, products that aim to simplify pre-testing procedures and hybrid-function products that can perform tests in a variety of different fields using a single unit. In our core area, namely hematology analyzers, we have already been recognized as being amongst the top in the world in terms of accuracy and cell classification, especially for white blood cells. Classifying blood cells into a larger number of categories, including abnormal cells, will differentiate us from volume equipment manufacturers by enabling the diagnosis of specific diseases and the development of equipment that can verify the efficacy of a course of treatment.

How will the business develop and what are the mid- to long-term business and targets?

The mid- to long-term vision of our division, the Medical/Diagnostic Instruments & Systems Division is to become "An Expert in Hematology", "A Specialist in IVD Solutions" and "A customer-needs driven company." With regard to major business developments, in the 2004 business year we plan to launch a new model of large-scale analyzer targeting the hematology market, which is our core area of operations. By introducing a number of different types of these machines within a five-year period, we plan to penetrate the markets for major hospitals and clinical diagnostics centers. At the same time, we will launch a range of small- and medium-sized products, at a quality level equivalent to the larger versions, designed for small- and medium-sized hospitals and clinical diagnostics centers and for the clinics that are currently our major customers. This move will consolidate our position as "An Expert in Hematology".

In the 2004 business year, we will also release new products in the field of biochemical analysis. We have developed these products to measure variables such as the amount of a drug remaining in the body after it has been administered to treat a medical condition or to measure organically-derived chemicals, such as cholesterol and glucose, contained in blood and urine samples for the purpose of kidney- and liver-function analysis. In addition, in a few years time we plan to introduce a device that will allow higher throughput of samples or that can analyze a high number of parameters beyond the field of clinical chemistry. These products are expected to help increase our proportion of sales in the large-scale markets of biochemical analysis and immunological analysis, where there is considerable consumption of highly profitable reagents.

In terms of specific targets, in the 2008 business year (the year ending March 2009) we aim to double our level of sales over 2003, to over ¥35 billion, by raising the proportion of our sales of biochemical analysis products from approximately 15% to 25%. We also aim to secure an operating profit margin of 15% by raising the proportion of sales accounted for by diagnostic reagents from the current level of 45% to 60%.

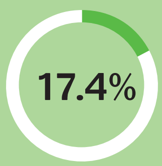


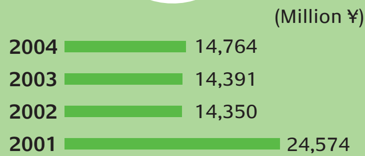
The measurement of blood solid component such as red and white blood cells and platelets is certainly useful for physical condition check and initial diagnosis of diseases.

HORIBA's hematology analyzers help to ensure a prompt diagnosis in hospital and general practitioner offices all over the world.

The semiconductor market recovered rapidly in late 2003. Growth in demand for mass flow controllers, our main product, and for the chemical concentration monitors used in semiconductor manufacturing cleaning processes caused to operating income to increase compared with the previous year.

Results for Year Ended March 2004





Segment sales increased 2.6% relative to the previous year to ¥14,764 million, while operating income increased 404.8% to ¥835 million.

Business Outlook

Trends in the semiconductor market have a significant impact on our sales. So the key to our business growth is how long this market upturn continues.

Interview to segment business task force

How do you see the latest business trends?
The semiconductor market started to recover in late 2003, and this led to higher sales of our measurement and control devices. We expect the market to remain at a high level at least throughout 2004. One of the important tasks for our business segment is to shorten delivery lead times.

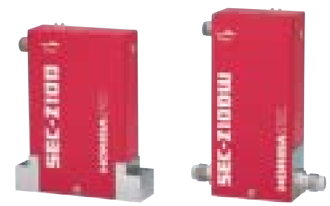
What are the main issues in the semiconductor business?
The major issue in this business, as many firms will acknowledge, is the effect of the Silicon Cycle. It is important to keep profit and loss in balance. That is to say, we should seek high profitability in active markets and avoid making a loss in slow markets. We are trying to keep our product strategy one step ahead of what our customers want while transferring our personnel and resources by responding to the business conditions as flexibly as possible.

What is your product strategy?
Leveraging the expertise and customer channels we developed with mass flow controllers, our main product line, our aim is to strengthen the HORIBA Group presence in measurement and control equipment for the peripheral areas of semiconductor production, particularly thin-film processes (see diagram page 15). As part of this strategy, we formed important alliances with two U.S. companies in 2003. HORIBA receives offers for tie-ups from many venture firms because of its numerous links with global manufacturers of semiconductor production equipment and devices. We will adopt an active stance toward such tie-ups in the future.

What synergies are there between HORIBA Group companies in this segment?
This segment is one in which companies specialize in highly specific technical areas, so the key to success for HORIBA in the Semiconductor Instruments & Systems segment is to launch products that match customer needs in a timely manner and based on existing expertise. Currently, our R&D teams in Japan and France are working on the development of ultra-thin film analyzers, which measure film thickness at the nano level. Control of such processes will have a substantial effect on semiconductor production yields.

How will you realize cost reductions?
As we shift our range of mass flow controllers from analog types to multifunctional digital models, we will use the opportunity to reduce the number of models significantly. This change will also enable mass-production economies of scale. We will further cut costs by reinforcing production at our Shanghai factory and by promoting global sourcing and joint purchasing systems among HORIBA Group companies.

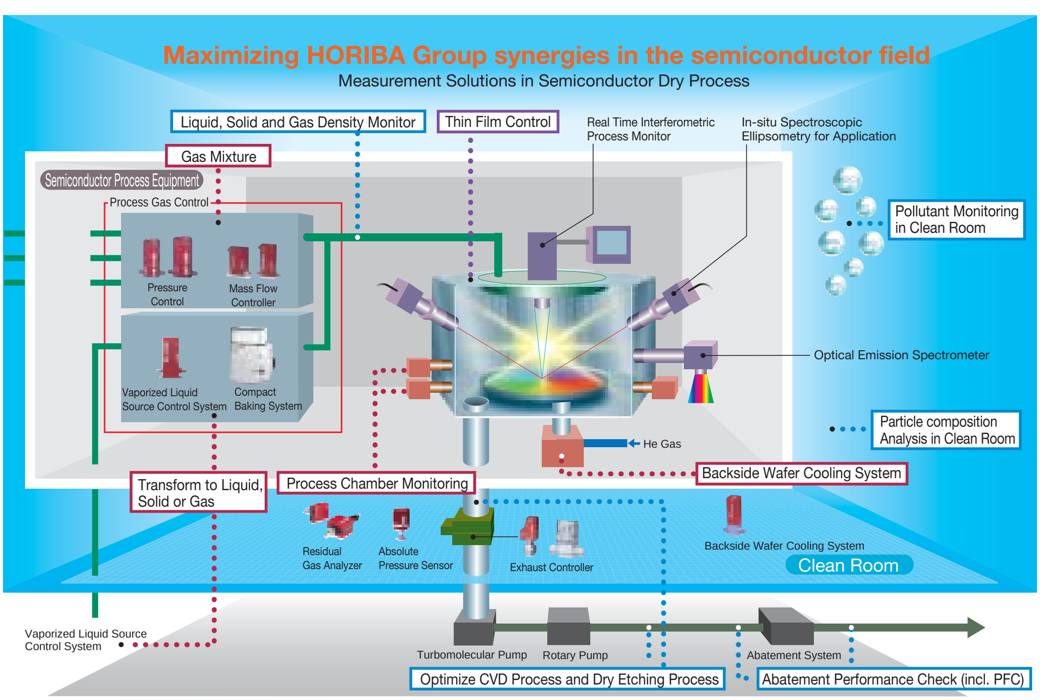
Ultra Thin Film Analyzer



Mass Flow Controllers

What are the necessary conditions for surviving in this business?
Survival requires speed, technical prowess and cost competitiveness. Of these, the most important thing is speed, but this has a number of aspects. Not only must you ensure short delivery lead times, you also need to develop "operational speed," which is one of the criteria we specify for HORIBA to become an "ultra-quick supplier." This principle applies to all aspects of operations. Our current operational speed does not sufficiently compare with other advanced device manufacturers. The challenge is to eliminate barriers between different HORIBA Group companies to sharing information and strategies so that we can cut the time needed in management and decision making.

How do you see long-term prospects?
The semiconductor industry has met with large business fluctuations in the past, with manufacturers suffering great losses as the market suddenly slowed. Although the semiconductor industry is currently active, the market is showing signs of slowing down. At the same time, the technical performance level demanded by customers is becoming higher and higher. Since HORIBA possesses highly advanced measurement and control technologies, we expect the opportunities in this business to increase for us. In addition, our mission is to apply the cutting-edge technologies and know-how acquired in the semiconductor business to other fields.



This diagram shows HORIBA's control and analytical instruments of semiconductor process chamber into the form of a diagram. Semiconductor manufacturers require the higher quality control level in Semiconductor manufacturing process because of increasing development of microfabrication and growth in size of wafer. HORIBA is corresponding to these requirements by technological breakthroughs from the entire HORIBA Group.

For countless eons, life on earth has evolved based on a natural cycle of energy and resources. Today, however, the natural environment is under attack as a result of excessive consumption, which is over and beyond the earth's innate replenishing capabilities. Upon thorough examination, the cause of environmental problems becomes clear – unnecessary expenditure of energy and natural resources. To save the environment, we must therefore avoid wasting energy and make better use of resources.

HORIBA's analyzers are used widely in such R&D fields as energy and new materials. Based on the data provided by our analyzers, we develop energy- and resource-saving products to help solve various environmental problems.

HORIBA also develops analysis and measurement devices to counter global environmental problems directly. We remain a leading company in this domain by illustrating the condition of the earth with concrete data. In essence, we garner a deep understanding of the global environment through precise measurements, rather than fall prey to ambiguity and sentimentality.

From a corporate point of view, developing superior analysis and measurement devices is the best way we can contribute to saving the environment.

Financial Section

The Japanese economy during fiscal 2004 (year ended March 20, 2004) was adversely affected by a slowdown in the revitalization of consumer spending and fears over an appreciating yen. These elements countered expectations for economic recovery that were buoyed by rising capital investment and exports. The future outlook remains uncertain.

Despite intensifying competition, especially in the domestic market, the measurement and analytical instruments industry benefited from stricter environmental regulations related to diesel emission and water quality in Japan. Together with this, an upturn in the semiconductor market in the second half, the launch of products matching customer needs and numerous cost-cutting measures resulted in record sales and profits.

Sales

Consolidated net sales in fiscal 2004 increased by ¥6,572 million, or 8.4%, relative to the previous year, to ¥85,073 million, which was a new record high.

Business Segment Breakdown

Engine Measurement Instruments & Systems

Stricter exhaust gas regulations implemented on a global scale coupled with increased capital investment in new car development by automakers led to a positive setting for the sale of large-scale vehicle emissions analyzer systems by HORIBA in Japan and the consolidated subsidiary HORIBA Europe GmbH, which is based in Germany. Total segment sales rose 11.6% to ¥23,582 million. By geographic region*[1], sales increased 6.4% in Japan, 14.0% in America and 20.4% in Europe, but fell 7.9% in Asia.

Analytical Instruments & Systems

Sales in this segment increased 8.8% to ¥29,426 million due to rising demand for monitoring devices for discharged water in Japan pursuant to the Japanese fifth water quality regulation. By geographic segment*[1], sales increased 17.9% in Japan, 2.1% in Europe and 9.5% in Asia, but fell 8.9% in America.

Medical/Diagnostic Instruments & Systems

French subsidiary ABX S.A. enjoyed strong sales of test reagents owing to higher sales of blood cell counters. Total segment sales were up 8.5% to ¥17,301 million, partly due to the positive effects of the weak yen against the euro. By geographic segment*[1], sales increased 14.0% in Japan and 7.5% in Europe.

Semiconductor Instruments & Systems

The semiconductor market recovered rapidly in the second half, driving higher sales of the leading product at the domestic subsidiary STEC Inc., namely mass flow controllers for semiconductor fabrication equipment. Total segment sales increased 2.6% to ¥14,764 million. By geographic segment*[1], sales increased 8.9% in Japan, 29.7% in Europe and 57.7% in Asia, but fell 31.2% in America.

*1: Geographic segmentation is based on the region where sales occur.

Average foreign exchange rates applied in accounting procedures reflected a decrease in the yen-dollar exchange rate from ¥125.18 to ¥116.00 and an increase in the yen-euro exchange rate from ¥118.13 to ¥131.15. If exchange rates had remained at fiscal 2003 levels, consolidated net sales in fiscal 2004 would have totaled ¥82,552 million. The net currency translation gain due to yen depreciation amounted to ¥2,521 million.

Cost of Sales, SG&A Expenses and Operating Income

Cost of sales for the period stood at ¥50,418 million. The cost of sales ratio fell to 59.3% (compared to 60.7% in fiscal 2003), representing a marked improvement. This was primarily attributable to economies of scale resulting from the increased sales and to comprehensive cost-cutting measures which included integrated group-wide purchasing from suppliers. Although the year-on-year increase in cost of sales was ¥2,743 million, foreign exchange movements accounted for ¥1,251 million of this. Excluding this impact, cost of sales increased by ¥1,492 million.

Selling, general and administrative (SG&A) expenses rose 9.7% to ¥27,805 million. The ratio of SG&A expenses to net sales was 32.6% (compared to 32.3% in fiscal 2003). Within the year-on-year increase in SG&A expenses of ¥2,453 million, a total of ¥1,215 million was attributable to foreign exchange movements. Excluding this impact, the rise in SG&A expenses was ¥1,238 million.

Consolidated operating income surged by 25.1%, or ¥1,376 million, to ¥6,850 million.

Business Segment Breakdown

Engine Measurement Instruments & Systems

Strong sales of large-scale vehicle emissions analyzer systems led to cost reductions through economies of scale , contributing to a year-on-year gain in segment operating income of 10.7%, to ¥3,486 million.

Analytical Instruments & Systems

The benefits of economies of scale from a substantial increase in sales of monitoring devices for discharged water in Japan and profits gained from cost reductions due to the introduction of group-wide purchasing drove a year-on-year segment sales increase of 33.0%, to ¥1,021 million.

Medical/Diagnostic Instruments & Systems

Higher sales of test reagents for blood cell counters at French subsidiary ABX, which boasts a high gross margin, contributed to a year-on-year gain in segment operating income of 8.4% to ¥1,508 million.

Semiconductor Instruments & Systems

The positive effects of economies of scale due to a rebound in sales as the semiconductor market recovered, coupled with cost reductions generated through group-wide purchasing, caused segment operating income to soar 404.8% year-on-year, to ¥835 million.

Net Income

Despite a sizeable foreign exchange loss resulting from the sharp devaluation of the Brazilian real in fiscal 2003, the adoption of relevant countermeasures contributed to a foreign exchange gain of ¥643 million in fiscal 2004. Improved financial management, particularly at French subsidiary ABX, as well as the redemption of ¥9,000 million worth of corporate bonds, led to an improvement of ¥236 million in interest expense. A loss of ¥442 million was recorded in line with a change in retirement benefits plan to defined contribution pension plan at certain domestic subsidiaries.

Aided by the large increase in operating income, income before income taxes recorded a year-on-year gain of ¥1,661 million (+53.2%) to ¥4,780 million. Net income for the year was ¥2,074 million, up ¥1,288 million (+164.0%) relative to fiscal 2003.

Financial Position

Assets

Total assets as of the fiscal 2004 year-end amounted to ¥92,657 million, down ¥7,885 million relative to the previous year. Cash and cash equivalents decreased by ¥8,458 million to ¥13,603 million due primarily to the redemption of corporate bonds. Inventories rose ¥1,066 million to ¥19,402 million. Total current assets dropped ¥8,093 million to ¥65,727 million. Net property, plant and equipment declined ¥159 million to ¥18,841 million. The total value of investments and other securities fell ¥425 million to ¥5,909 million.

Liabilities

Total liabilities as of the fiscal year-end amounted to ¥46,969 million, a decrease of ¥10,869 million relative to fiscal 2003. Total interest-bearing debt declined ¥11,759 million to ¥21,459 million, mainly due to the repayment of bank borrowings using the cash flow generated at French subsidiary ABX and the redemption of ¥9,000 million worth of corporate bonds.

Cash Flow

Operating activities

Net cash provided by operating activities amounted to ¥5,790 million. This was attributable primarily to the fact that income before income taxes was ¥4,780 million and trade notes and accounts receivable decreased by ¥689 million.

Investing activities

Net cash used in investing activities totaled ¥2,766 million. This reflected cash outflows resulting from: the acquisition of fixed assets accompanying tie-ups between STEC and both Ferran Scientific Inc. and FuGasity Corporation of the United States; and, the purchase of property, plant and equipment in the amount of ¥2,622 million, including the acquisition of the Aso factory, lease assets by ABX Inc. and demo products by HORIBA.

Financing activities

Net cash used in financing activities amounted to ¥11,597 million. This was due mainly to an outlay of ¥9,000 million for the redemption of corporate bonds and the repayment of bank borrowings using the cash flow generated at French subsidiary ABX.

As a result, cash and cash equivalents fell by ¥8,458 million compared to the beginning of the year, for a total of ¥13,603 million.

Consolidated Balance Sheets

HORIBA, Ltd. and Consolidated Subsidiaries
At March 20, 2003 and 2004

ASSETS	Millions of yen 2003	Millions of yen 2004	Thousands of U.S. dollars (Note 1) 2004
Current Assets:			
Cash and cash equivalents	¥22,061	¥13,603	$127,297
Trade notes and accounts receivable	29,594	29,143	272,721
Allowance for doubtful receivables	(463)	(521)	(4,876)
Inventories (Note 4)	18,336	19,402	181,565
Deferred tax assets (Note 12)	2,000	2,178	20,382
Other current assets	2,292	1,922	17,987
Total current assets	73,820	65,727	615,076
Property, Plant and Equipment (Note 5):			
Land	7,510	7,476	69,961
Buildings and structures	14,762	15,369	143,824
Machinery, equipment, and vehicles	7,080	7,731	72,347
Construction in progress	827	158	1,479
Other property, plant and equipment	8,152	8,604	80,516
Total	38,331	39,338	368,127
Accumulated depreciation	(19,331)	(20,497)	(191,812)
Net property, plant and equipment	19,000	18,841	176,315
Investments and Other Non-current Assets:			
Investment securities (Note 3)	3,721	3,863	36,150
Investments in non-consolidated subsidiaries and affiliates	189	94	880
Deferred tax assets (Note 12)	968	651	6,092
Allowance for doubtful accounts	(121)	(140)	(1,310)
Other investments and other assets	1,577	1,441	13,485
Total	6,334	5,909	55,297
Intangibles:			
Goodwill	351	84	786
Consolidation difference	301	1,207	11,295
Other intangibles	736	889	8,319
Total	1,388	2,180	20,400
Total Assets	¥100,542	¥92,657	$867,088

See notes to the consolidated financial statements.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of yen 2003	2004	Thousands of U.S. dollars (Note 1) 2004
Current Liabilities:			
Short-term loans payable (Note 5)	¥6,715	¥6,352	$59,442
Current portion of long-term debt (Note 5)	9,684	641	5,999
Trade notes and accounts payable:			
Affiliated companies	51	58	543
Other	9,147	8,700	81,415
Accrued income taxes	2,079	2,053	19,212
Accrued bonuses to employees	2,013	2,095	19,605
Reserve for product warranty	936	886	8,291
Other current liabilities	7,336	8,586	80,348
Total current liabilities	37,961	29,371	274,855
Long-term Debt (Note 5)	16,819	14,466	135,373
Employees' Retirement Benefits (Note 7)	2,235	1,109	10,378
Deferred Tax Liabilities (Note 12)	22	21	197
Other Non-current Liabilities	801	2,002	18,735
Total liabilities	57,838	46,969	439,538
Contingent Liabilities (Note 10)			
Minority Interests in Consolidated Subsidiaries	2,560	2,340	21,898
Shareholders' Equity (Note 8):			
Common stock	6,578	7,160	67,004
Authorized – 100,000,000 shares			
Issued and outstanding – 30,964,333 shares (excluding treasury stock) in 2003			
Issued and outstanding – 32,026,494 shares (excluding treasury stock) in 2004			
Capital surplus	10,875	11,457	107,215
Retained earnings	22,937	24,341	227,784
Net unrealized holding gains on securities	406	1,100	10,293
Foreign currency translation adjustments	(402)	(433)	(4,052)
Treasury stock(287,659 shares in 2003 and 308,272 shares in 2004)	(250)	(277)	(2,592)
Total shareholders' equity	40,144	43,348	405,652
Total Liabilities, Minority Interests, and Shareholders' Equity	¥100,542	¥92,657	$867,088

See notes to the consolidated financial statements.

Consolidated Statements of Income

HORIBA, Ltd. and Consolidated Subsidiaries
For the years ended March 20, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2004	2004
Net Sales (Note 13)	¥78,501	¥85,073	$796,116
Operating Costs and Expenses:			
Cost of sales	47,675	50,418	471,814
Selling, general and administrative	25,352	27,805	260,199
Total operating costs and expenses	73,027	78,223	732,013
Operating Income (Note 13)	5,474	6,850	64,103
Other Income (Expenses):			
Interest and dividend income	122	85	795
Interest expense	(685)	(449)	(4,202)
Foreign exchange gains (losses), net	(879)	(236)	(2,208)
Amortization of goodwill	(292)	(301)	(2,817)
Gain on sale of property, plant and equipment	-	121	1,132
Loss on disposal of property, plant and equipment	(91)	(57)	(533)
Loss on sale of property, plant and equipment	(203)	(26)	(243)
Retirement benefits to directors	(133)	–	-
Loss on disposal of inventories	(24)	–	-
Loss on valuation of investment securities	(320)	(136)	(1,273)
Gain on change in subsidiary's retirement benefits plan (Note 2)	132	-	–
Loss on change of retirement benefit plan (Note 2)	–	(442)	(4,136)
Loss on write-down of inventories	(44)	(345)	(3,229)
Loss on valuation of property, plant and equiptment	–	(134)	(1,254)
Other, net	62	(150)	(1,405)
Total other expenses, net	(2,355)	(2,070)	(19,372)
Income before Income Taxes	3,119	4,780	44,731
Income Taxes (Note 12):			
Current	2,393	2,937	27,485
Deferred	(232)	(363)	(3,397)
Total income taxes	2,161	2,574	24,088
Minority Interest in Earnings of Consolidated Subsidiaries	172	132	1,234
Net Income	¥786	¥2,074	$19,409

	Yen		U.S. dollars (Note 1)
	2003	2004	2004
Per Share Information:			
Net income – basic	¥22.21	¥62.90	$0.59
Net income – diluted	18.31	50.10	0.47
Cash dividends	14.50	10.00	0.09

See notes to the consolidated financial statements.

Consolidated Statements of Shareholders' Equity

HORIBA, Ltd. and Consolidated Subsidiaries
For the years ended March 20, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2004	2004
Common stock			
Balance at beginning of period	¥6,578	¥6,578	$61,558
Conversion of convertible bonds	-	582	5,446
Balance at end of period	¥6,578	¥7,160	$67,004
Capital surplus			
Balance at beginning of period	¥10,875	¥10,875	$101,769
Conversion of convertible bonds	–	582	5,446
Balance at end of period	¥10,875	¥11,457	$107,215
Retained earnings			
Balance at beginning of period	¥22,480	¥22,937	$214,645
Net income	786	2,074	19,409
Cash dividends	(263)	(450)	(4,211)
Bonus to directors and statutory auditors	(66)	(98)	(917)
Decrease by merger of a consolidated subsidiary	–	(122)	(1,142)
Balance at end of period	¥22,937	¥24,341	$227,784
Net unrealized holding gains on securities			
Balance at beginning of period	¥608	¥406	$3,799
Increase (decrease) of net unrealized holding gains on securities	(202)	694	6,494
Balance at end of period	¥406	¥1,100	$10,293
Foreign currency translation adjustments			
Balance at beginning of period	(¥236)	(¥402)	($3,762)
Foreign currency translation adjustments	(166)	(31)	(290)
Balance at end of period	(¥402)	(¥433)	($4,052)
Treasury stock			
Balance at beginning of period	(¥242)	(¥250)	($2,340)
Purchase of treasury stock	(8)	(27)	(252)
Balance at end of period	(¥250)	(¥277)	($2,592)
Total shareholders' equity	¥40,144	¥43,348	$405,652

See notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

HORIBA, Ltd. and Consolidated Subsidiaries
For the years ended March 20, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2004	2004
Cash Flows from Operating Activities:			
Income before income taxes	¥3,119	¥4,780	$44,731
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	2,915	3,037	28,420
Loss on valuation of investment securities	320	136	1,273
Loss on disposal of inventories	24	–	–
Loss on disposal of property, plant and equipment	91	57	533
Gain on change in subsidiary's retirement benefits plan	(132)	–	–
Gain on sale of property, plant and equipment	–	(121)	(1,132)
Loss on valuation of property, plant and equipment	–	134	1,254
Increase (decrease) in allowance for doubtful receivables	54	11	103
Decrease in employees' retirement benefits	(36)	(1,138)	(10,649)
Interest and dividend income	(122)	(85)	(795)
Interest expense	685	449	4,202
Foreign exchange losses (gains)	5	(12)	(112)
Loss on sale of property, plant and equipment	203	26	243
Retirement benefits to directors	133	–	–
Decrease in trade notes and accounts receivable	397	689	6,448
Decrease (increase) in inventories	813	(881)	(8,244)
Increase (decrease) in trade notes and accounts payable	1,216	(358)	(3,350)
Bonuses to directors and statutory auditors	(66)	(98)	(917)
Other, net	863	2,615	24,470
Subtotal	10,482	9,241	86,478
Interest and dividends received	124	85	795
Interest paid	(685)	(519)	(4,857)
Payment of retirement benefits to directors	(81)	(30)	(281)
Income taxes paid	(879)	(2,987)	(27,952)
Net cash provided by operating activities	8,961	5,790	54,183
Cash Flows from Investing Activities:			
Decrease (increase) in time deposits with maturities longer than three months	241	2	19
Payments for purchase of investment securities	(337)	(412)	(3,856)
Proceeds from sale of investment securities	1,933	451	4,220
Payments for purchase of investments in a consolidated subsidiary	(453)	(169)	(1,582)
Payments for purchase of investments in newly consolidated subsidiaries	–	(273)	(2,555)
Payments for purchase of property, plant and equipment	(2,639)	(2,622)	(24,537)
Proceeds from sale of property, plant and equipment	365	261	2,442
Increase in intangibles	(305)	(419)	(3,920)
Other, net	(142)	415	3,885
Net cash used in investing activities	(1,337)	(2,766)	(25,884)
Cash Flows from Financing Activities:			
Payment for redemption of corporate bonds	–	(9,000)	(84,222)
Net decrease in short-term borrowings	(1,389)	(589)	(5,512)
Increase in long-term debt	446	248	2,321
Repayment of long-term debt	(1,006)	(1,618)	(15,141)
Cash dividends paid	(264)	(450)	(4,211)
Other, net	(142)	(188)	(1,760)
Net cash used in financing activities	(2,355)	(11,597)	(108,525)
Cash and Cash Equivalents Foreign Currency Translation Adjustments	167	115	1,075
Net Increase (Decrease) in Cash and Cash Equivalents	5,436	(8,458)	(79,151)
Cash and Cash Equivalents at Beginning of Year	16,625	22,061	206,448
Cash and Cash Equivalents at End of Year	¥22,061	¥13,603	$127,297

See notes to the consolidated financial statements.

1. Basis of presenting financial statements

HORIBA, Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Financial Reporting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers, using the prevailing exchange rate at March 20, 2004, which was ¥106.86 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Certain prior year amounts have been reclassified to conform to the 2003 presentation.

2. Summary of significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and 37 (38 in 2003) of its subsidiaries (referred to subsequently as "the Group"). In the year ended March 20, 2004, two consolidated subsidiaries were purchased, two consolidated subsidiaries were liquidated, and one consolidated subsidiary was merged into the Company.

The accompanying consolidated financial statements include the accounts of the Company and significant companies, over which the Company has control through majority voting rights or certain other conditions evidencing control by the Company. Significant inter-company transactions and accounts have been eliminated in consolidation. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries. Acquisition costs in excess of the net assets of acquired subsidiaries and affiliates which cannot be specifically assigned to individual accounts are amortized on the straight-line basis over five years. Some of the foreign consolidated subsidiaries amortize acquisition costs in excess of the net assets of acquired subsidiaries and affiliates, which cannot be specifically assigned to individual accounts, on the straight-line basis over ten to twenty years, in accordance with the generally accepted accounting principles of the country of their incorporation.

Except for four domestic consolidated subsidiaries, the year-end of all subsidiaries is December 31. With respect to significant transactions, which occurred after those consolidated subsidiaries' year-ends, necessary adjustments have been made in the consolidated financial statements.

One of the Company's subsidiaries is not included in the consolidated accounts as the effect on total assets, sales, income and retained earnings are immaterial

The Company has 6 affiliated companies (6 in 2003). Investments in affiliates (generally 20%-50% ownership), over which the Company has the ability to exercise significant influence over operating and financial policies, and one non-consolidated subsidiary are accounted for on the cost basis, not by the equity method, as the effects on income and retained earnings are immaterial.

(b) Cash and cash equivalents

Cash and cash equivalents include cash on hand, readily available bank deposits, and short-term highly liquid investments readily convertible into cash with insignificant risk of changes in value, with original maturities of three months or less from date of purchase.

(c) Securities

Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and losses on securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost. Available-for-sale securities with no available fair market value are stated at mainly moving-average cost.

(d) Inventories

Inventories are stated at cost. Cost is principally determined by the weighted-average method for finished products and work in process and by the moving-average method for raw materials.

(e) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. Depreciation is computed on the following methods over the estimated useful lives of the assets:

Buildings acquired after April 1,1998
- Straight-line method

Other:

The Company and domestic subsidiaries
- Declining balance method

Overseas subsidiaries
- Straight-line method

Estimated useful lives of the assets are principally as follows:

Buildings and structures 3 to 60 years

Machinery, equipment, and vehicles 2 to 17 years

(f) Software costs

Amortization of computer software, which is used by the Group and included in "Other intangibles" in the consolidated balance sheets, is computed on the straight-line method over the estimated useful life of five years.

(g) Allowance for doubtful receivables

The 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. The foreign subsidiaries provide for doubtful accounts based on estimates of management.

(h) Reserve for product warranty

Reserve for product warranty is provided for accrued warranty expenses for products of the Company and certain subsidiaries. The provision is determined based on actual product warranties incurred in the past.

(i) Accrued bonuses to employees

Accrued bonuses are provided for the expected payment of employee bonuses for the current fiscal year to those employees serving at the end of the fiscal year.

(j) Retirement benefits and pension plans

The Company and certain of its domestic consolidated subsidiaries have a contributory funded retirement plan, a non-contributory funded retirement plan and a lump-sum severance payment plan.

The Company and domestic subsidiaries provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets. Actuarial gains or losses are recognized in expense using the straight-line method over 5 years which is 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 10 years which is within the average of the estimated remaining service lives commencing with the period they arise. In 1 consolidated subsidiary, they are expressed in the period they arise.

Severance and retirement benefits for employees of certain subsidiaries are provided through unfunded lump-sum benefit plans. Under the terms of the unfunded lump-sum benefit plans, eligible employees are entitled under most circumstances, upon mandatory retirement or earlier voluntary severance, to lump-sum payments based on compensation at the time of severance and years of service. The liability for employees' retirement benefits is sufficient to cover the amount which would be required if all eligible employees voluntarily severed their employment as of the balance sheet date.

One subsidiary revised its severance and retirement benefit plan in 2003. Its projected benefit obligation decreased by ¥132 million due to this change, and it recorded a gain on change in its employees' retirement plan in the same amount.

The Company and 2 consolidated subsidiaries changed to defined contribution plans and a new defined-benefit corporate pension plan from a non-contributory funded retirement plan in March 2004, and adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits", issued by the Business Accounting Deliberation Council. The effects of this change was a special loss of ¥442 million ($4,136 thousand).

(k) Foreign currency translation

Short-term and long-term receivables and payables in foreign currencies are translated into Japanese yen based on exchange rates at the balance sheet date.

Balance sheet accounts of consolidated foreign subsidiaries are translated into Japanese yen at the balance sheet date except for shareholders' equity accounts, which are translated at the historical rates. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average annual exchange rates. Differences arising from the application of the process stated above are separately presented in the consolidated financial statements in "Minority Interests" and as "Foreign Currency Translation Adjustments", a separate component of shareholders' equity.

(l) Finance leases

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.

(m) Deferred assets

Bond issue expenses are deferred and amortized over three years on a straight-line basis as permitted by the Commercial Code of Japan. Costs of pre-operating and start-up activities are deferred and amortized over five years on a straight-line basis as permitted by the Commercial Code of Japan.

(n) Research and development expenses

Research and development expenses are charged to income when incurred. Research and development expenses charged to income for the years ended March 20, 2003 and 2004 were ¥4,044 million and ¥5,129 million ($47,997 thousand), respectively.

(o) Derivatives and hedge accounting

The Group uses foreign currency exchange contracts to manage risk related to its importing and exporting activities. The use of foreign currency exchange contracts is limited to the amounts of the Group's foreign currency denominated receivables and payables. Contracts are entered into and controlled by the accounting department, which reports results to the responsible corporate officer. In cases where a foreign exchange forward contract meets certain hedging criteria, the hedged item is stated at the forward exchange rate. The Company entered into an interest rate swap contract in relation to the Euroyen bonds with floating interest rate due in 2003. As the interest rate swap contract was used as a hedge and met certain hedging criteria, the amounts that were paid or received on the interest rate swap contract are added to or deducted from the interest on the bonds liability for which the swap contract was executed.

(p) Income taxes

The Group recognizes tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The provision for current income tax is computed based on the pretax income included in the consolidated statements 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 of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(q) Per share information

Effective March 21, 2002, the Company adopted early the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No.4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).

The computations of net income (loss) per share are based on the weighted average number of shares of common stock outstanding during each period. The weighted average numbers of common shares used in the computation for 2003 and 2004 were 30,971 thousand and 31,343 thousand, respectively. Diluted net income per share of common stock assumes full conversion of dilutive convertible bonds at the beginning of the year or the later date of issuance with an applicable adjustment for related interest expense, net of tax and dilutive stock option plans. The weighted average numbers of shares used in the computation for 2003 and 2004 were 40,257 thousand and 40,292 thousand, respectively.

Cash dividends per share shown in the consolidated statements of income represent actual amounts applicable to earnings of the respective fiscal year, including dividends to be paid after the end of the period.

3. Securities

The following table summarizes acquisition costs and book values (fair values) of available-for-sale securities with available fair values at March 20, 2004:

	Millions of yen			Thousands of U.S. dollars		
	2004			2004		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:						
Equity securities	¥1,028	¥2,923	¥1,895	$9,620	$27,354	$17,734
Corporate bonds	497	501	4	4,651	4,688	37
	1,525	3,424	1,899	14,271	32,042	17,771
Securities with book values not exceeding acquisition costs:						
Equity securities	31	14	(17)	290	131	(159)
Government bonds	4	4	–	37	37	–
Other	125	124	1	1,170	1,161	9
	160	142	(18)	1,497	1,329	(168)
Total	¥1,685	¥3,566	¥1,881	$15,768	$33,371	$17,603

The following table summarizes available-for-sale securities sold for the year ended March 20, 2004:

	Millions of yen	Thousands of U.S. dollars
	2004	2004
Total sales of available-for-sale securities	¥451	$4,220
Related gains	–	–
Related losses	(35)	(328)

The following table summarizes book values of securities with no available fair values as of March 20, 2004:

	Millions of yen	Thousands of U.S. dollars
Available-for-sale securities:	2004	2004
Non-listed equity securities (excluding over-the-counter securities)	¥297	$2,779

Available-for-sale securities with maturities at March 20, 2004 mature as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004		2004	
	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 1 year but within 5 years	Over 5 years but within 10 years
Bonds				
Government bonds	¥4	¥–	$37	$–
Corporate bonds	–	501	–	4,688
Total	¥4	¥501	$37	$4,688

The following table summarizes acquisition costs and book values (fair values) of available-for-sale securities with available fair values at March 20, 2003:

	Millions of yen		
	2003		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	¥244	¥1,125	¥881
	244	1,125	881
Securities with book values not exceeding acquisition costs:			
Equity securities	508	415	(93)
Bonds:			
Government bonds	4	4	–
Corporate bonds	496	488	(8)
Other	638	522	(116)
	1,646	1,429	(217)
Total	¥1,890	¥2,554	¥664

The following table summarizes available-for-sale securities sold for the year ended March 20, 2003:

	Millions of yen
	2003
Total sales of available-for-sale securities	¥1,933
Related gains	14
Related losses	35

The following table summarizes book values of securities with no available fair values as of March 20, 2003:

	Millions of yen
Available-for-sale securities:	2003
Non-listed equity securities (excluding over-the-counter securities)	¥242
Warrants for non-listed equity securities (excluding over-the-counter securities)	925
Total	¥1,167

Available-for-sale securities with maturities and held-to-maturity debt securities at March 20, 2003 mature as follows:

	Millions of yen	
	2003	
	Over 1 year but within 5 years	Over 5 years but within 10 years
Bonds		
Corporate bonds	¥4	-
Other	-	488
Total	¥4	¥488

4. Inventories

Inventories at March 20, 2003 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Finished products	¥9,399	¥9,414	$88,097
Work in process	4,306	5,383	50,374
Raw materials and supplies	4,631	4,605	43,094
Total	¥18,336	¥19,402	$181,565

5. Short-term loans and long-term debt

Short-term loans are generally represented by 90 and 365 day bank notes, with annual interest rates, ranging from 0.47% to 5.00% and 0.48% to 4.63% at March 20, 2003 and 2004, respectively.

Long-term debt at March 20, 2003 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
Secured:	2003	2004	2004
Loans from banks due serially through 2010, at rates from 2.84% per annum to 5.00% per annum	¥286	¥48	$449
Unsecured:			
LIBOR 6 months + 0.5% Euroyen bonds due 2003	4,000	-	-
1.47% bonds due 2003	5,000	-	-
1.16% bonds due 2008	5,000	5,000	46,790
0.85% convertible bonds due 2006	9,983	8,819	82,529
Loans from banks due serially from 2006 to 2010, at rates from 2.97% to 6.79% per annum	2,234	1,240	11,604
Total	26,503	15,107	141,372
Current portion	(9,684)	(641)	(5,999)
Long-term debt, less current portion	¥16,819	¥14,466	$135,373

The conversion price per share and issuable number of shares for the above-mentioned convertible bonds at March 20, 2004, subject to adjustments as provided in the indenture under which the bonds were issued, were as follows:

	Conversion price per share	Issuable number of shares
0.85% convertible bonds due 2006	¥1,075.00	8,203,720

The aggregate annual maturities of long-term debt outstanding at March 20, 2004 were as follows:

Year ending March 20	Millions of yen	Thousands of U.S. dollars
2005	¥641	$5,999
2006	9,089	85,055
2007	61	571
2008	85	795
2009	5,089	47,623
Thereafter	142	1,329
Total	¥15,107	$141,372

At March 20, 2004, buildings and structures amounting to ¥108 million ($1,011 thousand), at net book value, and land amounting to ¥8 million ($75 thousand) are pledged as collateral for long-term debt of ¥49 million ($459 thousand) and short-term loans of ¥2 million ($18 thousand).

The Company and its 5 subsidiaries entered into the agreeements for bank overdrafts or loan commitments with 13 banks as of March 20, 2004 as follows:

	Millions of yen	Thousands of U.S. dollars
The maximum aggregate principal	¥7,069	$66,152
Amount utilized	241	2,255
Balance available	¥6,828	$63,897

6. Significant non-cash transactions

In the fiscal year ended March 20, 2004, due to the conversion of convertible bonds, "Common Stock" and "Capital Surplus" each increased ¥582 million ($5,446 thousand), and "Long-term debt (convertible bonds)" decreased ¥1,164 million ($10,893 thousand).

7. Employees' severance and pension benefits

The liabilities for employees' retirement benefits at March 20, 2003 and 2004 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Projected benefit obligation	(¥7,470)	(¥3,101)	($29,019)
Pension assets	3,405	721	6,747
Unfunded projected benefit obligation	(4,065)	(2,380)	(22,272)
Unrecognized actuarial differences	1,830	137	1,282
Unrecognized differences on change of employees' retirement plan	–	1,134	10,612
Employees' retirement benefits	(¥2,235)	(¥1,109)	($10,378)

Employees' retirement benefit expense for the years ended March 20, 2003 and 2004 comprise the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Service cost	¥651	¥1,072	$10,032
Interest cost on projected benefit obligation	170	124	1,160
Expected return on plan assets	(101)	(56)	(524)
Amortization of actuarial differences	105	356	3,331
Amortization of prior service costs	–	10	94
Loss on change of retirement benefit plan	–	442	4,136
Retirement benefit expenses	¥825	¥1,948	$18,229

The detail of the loss on change of retirement benefit plan are as below:

	Millions of yen	Thousands of U.S. dollars
	2004	2004
Decrease in projected benefit obligation by change into the defined contribution plan	(¥5,557)	($52,003)
The amount of pension assets transferred to the defined contribution plans	4,911	45,957
The amount of amortization of unrecognized actuarial differences due to change into the defined contribution plans	730	6,831
The amount of amortization of unrecognized prior service costs on change of employees' retirement plan (domestic consolidated subsidiaries)	358	3,351
	¥442	$4,136

The pension assets to be transferred over 4 years to the defined contribution plan system are ¥4,911 million ($45,957 thousand). The amount that hasn't been transferred to the defined contribution plans is: ¥1,922 million ($17,986 thousand). This amount is included in other current liabilities and other non-current liabilities in the consolidated balance sheet at March 31, 2004.

Assumptions used were as follows:

	2003	2004
Discount rate	2.00%	2.00%
Expected rate of return on plan assets	3.00%	2.00%
Allocation method of the retirement benefits expected to be paid at retirement dates	Straight-line method based on years of service	
Amortization period for actuarial gains / losses	5 Years	5 Years
Amortization period for unrecognized prior service cost on change of employees' retirement plan	10 years (the Company), Time of occurance (subsidiary companies)	

8. Shareholders' equity

The Japanese Commercial Code (the "Code") requires at least 50% of the issue price of new shares, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital which is included in capital surplus.
The Code also requires the Company to appropriate from retained earnings a legal reserve in an amount equal to at least 10% of all cash payments made as an appropriation of retained earnings until the total amount of additional paid-in capital and legal reserve equals 25% of the stated capital. This reserve is included in retained earnings.
The Company may transfer portions of additional paid-in capital and legal reserve to stated capital by the Board of Directors' resolution. The Company may also transfer portions of unappropriated retained earnings, available for dividends, to stated capital by shareholders' resolution.
The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Code.
Year-end dividends are approved by the shareholders at a meeting held after the end of the fiscal year. In addition, a semi-annual interim dividends may be paid upon resolution of the Board of Directors pursuant to the provisions of the Code.
Cash dividends charged to retained earnings during the fiscal year were year-end cash dividends for the preceding fiscal year and interim cash dividends for the current fiscal year.

In the shareholders' meeting on June 16, 2001, the shareholders approved common stock option plans for directors and key employees. Details of these option plans as of March 20, 2004 are as follows:

Persons granted	Number of shares	Option price per share	Exercise period	The conditions for the exercise
7 directors	58,000 shares	¥955 (Note)	March 1, 2002 to February 28, 2005	・To exercise these options, the person granted the option is not required to be an employee or a director at the time of exercise. ・These options are not transferable or inheritable. ・Other conditions follow contracts between the Company and directors and employees according to resolution by shareholders and the Board of Directors.
22 employees	61,000 shares	¥955 (Note)		

Note: The option price wil be adjusted if there are situations such as stock splits or the Company newly issues common stock at a lower price than market price.

In the shareholders' meeting on June 15, 2002, the shareholders approved common stock option plans for directors, statutory auditors and employees of the Group. Details of these option plans as of March 20, 2004 are as follows:

Persons granted	Number of shares	Option price per share	Exercise period	The conditions for the exercise
6 directors, 32employees and 2 directors of subsidiary companies	200,000 shares	¥961 (Note)	July 1, 2004 to June 30, 2007	・To exercise these options, the person granted the option is principally required to be a director, a statutory auditor, a corporate officer or an employee of the Group. ・These options are not inheritable. ・Other conditions follow contracts between the Company and the person granted the option according to resolution by shareholders and the Board of Directors.

Note: The option price will be adjusted if there are situations such as stock splits or the Company newly issues common stock at a lower price than market price.

In the shareholders' meeting on June 14, 2003, the shareholders approved common stock option plans for directors, statutory auditors, corporate officers and employees of the Group. Details of these option plans as of follows:

Persons granted	Number of shares	Option price per share	Exercise period	The conditions for the exercise
5 directors, 9 corporate officers 36 employees and 4 directors of subsidiary companies	200,000 shares	¥1,572 (Note)	July 1, 2005 to June 30, 2008	・To exercise these options, the person granted the option is principally required to be a director, a statutory auditor, a corporate officer or an employee of the Group. ・These options are not inheritable. ・Other conditions follow contracts between the Company and the person granted the option according to resolution by shareholders and the Board of Directors.

Note: The option price will be adjusted if there are situations such as stock splits or the Company newly issues common stock at a lower price than market price.

9. Leases

At March 20, 2003 and 2004, assets leased under non-capitalized finance leases were as follows

Acquisition cost, accumulated depreciation and balance of assets leased.

	Millions of yen		Thosands of U.S. dollars
	2003	2004	2004
Machinery, equipment, and vehicles	¥452	¥319	$2,985
Other property, plant and equipment	1,220	691	6,467
Other intangibles	89	90	842
Less accumulated depreciation and amortization	(1,037)	(665)	(6,223)
Total	¥724	¥435	$4,071

The above depreciation and amortization is calculated on the straight-line method over lease terms.
If the above leases were capitalizead, interest of ¥70 million and ¥35 million ($328 thousand), and depreciation and amortization of ¥326 million and ¥276 million ($2,583 thousand) would have been recorded for the years ended March 20, 2003 and 2004, respectively. Lease payments under non-capitalized finance leases were ¥404 million and ¥318 million ($2,976 thousand) for the years ended March 20, 2003 and 2004, respectively. Obligations under finance leases at March 20, 2003 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
Payments remaining:	2003	2004	2004
Payments due within 1 year	¥311	¥197	$1,844
Payments due after 1 year	382	282	2,639
Total	¥693	¥479	$4,483

Payments payable under operating leases at March 20, 2003 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
Payments payable:	2003	2004	2004
Payments payable within 1 year	¥140	¥142	$1,329
Payments payable after 1 year	1,010	1,143	10,696
Total	¥1,150	¥1,285	$12,025

10. Contingent liabilities

The Company and certain consolidated subsidiaries are contingently liable as guarantors of loans to affiliated companies and employees in the amounts of ¥168 million and ¥387 million ($3,622 thousand) at March 20, 2003 and 2004, respectively. At March 20, 2003 and 2004, the Group had no discounted notes receivable.

11. Derivative transactions

Currency related

	Millions of yen				Millions of yen			
	2003				2004			
	Amount	Over 1 year	Market value	Gain (loss)	Amount	Over 1 year	Market value	Gain (loss)
Forwards								
Selling								
US Dollar	¥1,660	–	¥1,661	¥1	¥1,160	–	¥1,160	¥0
Euro	719	165	670	(49)	868	144	818	(50)
Pound	168	–	167	(1)	21	–	20	(1)
Buying								
Euro	1	–	3	2	–	–	–	–
Options								
Selling								
Call								
Euro	167	–	(3)	(1)	–	–	–	–
Option cost	[–2]				–			
Pound	86	–	–	1	–	–	–	–
Option cost	[–1]				–			
Buying								
Put								
Euro	167	–	–	(2)	–	–	–	–
Option cost	[2]				–			
Pound	86	–	1	–	–	–	–	–
Option cost	[1]				–			
Total	¥3,054	¥165	¥2,499	(¥49)	¥2,049	¥144	¥1,998	(¥51)

Note: The above table does not include derivative transactions for which hedge accounting has been applied.

	Thousands of U.S. dollars			
	2004			
	Amount	Over 1 year	Market value	Gain (loss)
Forwards				
Selling				
US Dollar	$10,855	–	$10,855	$0
Euro	8,123	1,348	7,655	(468)
Pound	197	–	187	(9)
Total	$19,175	$1,348	$18,697	($477)

12. Income taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate a statutory income tax rate in Japan of approximately 41.9% for the years ended March 20, 2003 and 2004.

The following table summarizes the significant differences between the statutory tax rate and the Group's effective tax rates for financial statement purposes for the years ended March 20, 2003 and 2004

	2003	2004
Statutory tax rate	41.90%	41.90%
Expenses like entertainment expenses not qualifying for deduction permanently	3.08	1.89
Non-taxable dividend income	−0.39	−1.65
Per capita inhabitant tax	1.15	0.80
Valuation allowance for deferred tax assets	15.81	9.35
Amortization of consolidation adjustment account	1.42	1.17
Consolidated elimination of dividend income from consolidated subsidiaries	6.35	2.73
Differences in tax rate between foreign subsidiaries and the Company	−1.97	−1.37
Other	1.95	−0.98
Effective tax rate	69.30%	53.84%

Significant components of the Group's deferred tax assets and liabilities at March 20, 2003 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Deferred tax assets			
Accrued enterprise tax	¥151	¥191	$1,787
Loss on write-down of inventory	168	185	1,731
Allowance for doubtful receivables	35	47	440
Accrued bonuses	392	598	5,596
Amount of loss carryforward	2,470	2,338	21,879
Unrealized gains	660	601	5,624
Employees' retirement benefits	735	303	2,835
Accounts payable on pension plan	–	797	7,458
Depreciation	307	348	3,257
Loss on valuation of investment securities	41	228	2,134
Other	656	892	8,348
Total deferred tax assets	5,615	6,528	61,089
Valuation allowance	(2,146)	(2,571)	(24,059)
Net deferred tax assets	3,469	3,957	37,030
Deferred tax liabilities			
Allowance for doubtful receivables	(12)	(1)	(9)
Reserve for deferred gains on property, plant and equipment	(59)	(54)	(505)
Net unrealized holding gains on securities	(298)	(789)	(7,383)
Other	(154)	(305)	(2,856)
Total deferred tax liabilities	(523)	(1,149)	(10,753)
Net deferred tax assets	¥2,946	¥2,808	$26,277

13. Segment Information

The Group operates on a worldwide basis within the following four industry segments with their main products, as follows:

1) Engine Measurement Instruments & Systems
   Motor Exhaust Gas Analyzers, Vehicle Emissions Test Systems, Engine Research and Test Systems, Chassis Dynamometers, Robot Drivers, Automotive Emission Analyzers, Fuel Cell System Gas Analyzer Systems, Vessel Engine Exhaust Gas Analyzers, Tachometers and Super-Low-Mass PM Analyzers.
2) Analytical Instruments & Systems
   PH-Meters, Ion Meters, Process Water Analyzers, Particle Size Distribution Analyzers, Metal • Ceramics Analyzers, ICP Luminescence Analyzers, Fourier Transform Infrared Spectrometers, Energy Dispersive X-ray Analyzers, X-ray Fluorescence Analyzers, Optical Crystals, Infrared Detectors, Radiation Thermo Meters, Food Analyzers, Water Pollution Analyzers, Air Pollution Analyzers, Stack Gas Analyzers, Soil Pollutant Analyzer and Radio Frequency Glow Discharge Optical Emission Spectrometer.
3) Medical Diagnostic Instruments & Systems
   Clinical Diagnostics Analyzers, Hematology Analyzers, Blood Cell Counters, Clinical Chemistry Analyzers, Immunoassay Analyzers, Blood Glucose Analyzers and Urometers.
4) Semiconductor Instruments & Systems
   Mass Flow Controllers, Liquid Injection Systems, Chemical Concentration Meters, Spectroscopic Ellipsometers, Plasma Process Monitors, Flat Panel Display Module Defect Inspection Systems, Particle counters and Reticle/Mask Particle Detection Systems.

Information about operations in the above industry segments for the years ended March 20, 2003 and 2004 and foreign operations and sales to foreign customers of the Group for the years ended March 20, 2003 and 2004, is as follows:

(a) Operations in different industries

	Millions of yen					
	2003					
	Engine Measurement	Analytical	Medical Diagnostic	Semiconductor	Unallocated	Consolidated
Sales to customers	¥21,131	¥27,037	¥15,942	¥14,391	–	¥78,501
Operating expenses	17,981	26,269	14,551	14,226	–	73,027
Operating income	¥3,150	¥768	¥1,391	¥165	–	¥5,474
Assets	¥21,363	¥23,818	¥13,749	¥14,404	¥27,208	¥100,542
Depreciation and amortization	539	648	1,241	487	–	2,915
Capital expenditures	681	818	1,162	783	–	3,444

	Millions of yen					
	2004					
	Engine Measurement	Analytical	Medical Diagnostic	Semiconductor	Unallocated	Consolidated
Sales to customers	¥23,582	¥29,426	¥17,301	¥14,764	–	¥85,073
Operating expenses	20,096	28,405	15,793	13,929	–	78,223
Operating income	¥3,486	¥1,021	¥1,508	¥835	–	¥6,850
Assets	¥20,294	¥25,311	¥14,078	¥14,097	¥18,877	¥92,657
Depreciation and amortization	587	706	1,344	400	–	3,037
Capital expenditures	738	991	933	839	–	3,501

	Thousands of U.S. dollars					
	2004					
	Engine Measurement	Analytical	Medical Diagnostic	Semiconductor	Unallocated	Consolidated
Sales to customers	$220,681	$275,370	$161,903	$138,162	–	$796,116
Operating expenses	188,059	265,815	147,792	130,348	–	732,014
Operating income	$32,622	$9,555	$14,111	$7,814	–	$64,102
Assets	$189,912	$236,861	$131,742	$131,921	$176,652	$867,088
Depreciation and amortization	5,493	6,607	12,577	3,743	–	28,420
Capital expenditures	6,906	9,274	8,731	7,851	–	32,762

Note: Unallocated assets of ¥27,208 million and ¥18,877 million ($176,652 thousand) for the years ended March 20, 2003 and 2004, respectively, mainly include cash and cash equivalents and marketable and investment securities.

(b) Foreign operations

	Millions of yen 2003					
	Japan	America	Europe	Asia	Elimination and/or unallocated	Consolidated
Sales to outside customers	¥37,076	¥9,643	¥30,896	¥886	–	¥78,501
Interarea	7,553	561	1,911	416	(10,441)	–
Total sales	¥44,629	¥10,204	¥32,807	¥1,302	(¥10,441)	¥78,501
Operating expenses	¥41,520	¥10,006	¥30,599	¥1,248	(¥10,346)	¥73,027
Operating income	¥3,109	¥198	¥2,208	¥54	(¥95)	¥5,474
Assets	¥42,638	¥5,887	¥24,067	¥742	¥27,208	¥100,542

	Millions of yen 2004					
	Japan	America	Europe	Asia	Elimination and/or unallocated	Consolidated
Sales to outside customers	¥41,419	¥8,875	¥33,654	¥1,125	–	¥85,073
Interarea	8,313	266	1,823	503	(10,905)	–
Total sales	¥49,732	¥9,141	¥35,477	¥1,628	(¥10,905)	¥85,073
Operating expenses	¥45,478	¥9,072	¥33,485	¥1,539	(¥11,351)	¥78,223
Operating income	¥4,254	¥69	¥1,992	¥89	¥446	¥6,850
Assets	¥44,746	¥5,874	¥22,190	¥970	¥18,877	¥92,657

	Thousands of U.S. dollars 2004					
	Japan	America	Europe	Asia	Elimination and/or unallocated	Consolidated
Sales to outside customers	$387,600	$83,053	$314,935	$10,528	–	$796,116
Interarea	77,793	2,489	17,060	4,707	(102,049)	–
Total sales	$465,393	$85,542	$331,995	$15,235	($102,049)	$796,116
Operating expenses	$425,585	$84,896	$313,354	$14,402	($106,223)	$732,014
Operating income	$39,808	$646	$18,641	$833	$4,174	$64,102
Assets	$418,735	$54,969	$207,655	$9,077	$176,652	$867,088

Note 1: Unallocated assets of ¥27,208 million, and ¥18,877 million ($176,652 thousand) for the years ended March 20, 2003 and 2004, respectively, mainly include cash and cash equivalents and marketable and investment securities.

Note 2: America.................. North America and South America
Europe.................. Europe, Russia and Africa
Asia.................. Asia excluding Japan, and Oceania

(c) Sales to foreign customers

	Millions of yen 2003			
	America	Europe	Asia	Total
Sales to outside customers	¥9,622	¥28,327	¥6,915	¥44,864

	Millions of yen 2004			
	America	Europe	Asia	Total
Sales to outside customers	¥12,106	¥27,362	¥8,395	¥47,863

	Thousands of U.S. dollars 2004			
	America	Europe	Asia	Total
Sales to outside customers	$113,288	$256,055	$78,561	$447,904

Note: America.................. North America and South America
Europe.................. Europe, Russia and Africa
Asia.................. Asia excluding Japan, and Oceania

14. Subsequent events

At the June 12, 2004 annual meeting, the Company's shareholders approved:

(1) The payment of cash dividends of ¥7 ($ 0.07) per share aggregating ¥224 million ($ 2,096 thousand) to shareholders of record at March 20, 2004.

(2) The payment of bonuses to directors and statutory auditors totaling ¥63 million ($ 590 thousand).

(3) Common stock option plan
The plan provides for granting options to directors, statutory auditors, corporate officers and employees to purchase up to 300,000 shares of the Company's common stock. The exercise period is from July 1, 2006 to June 30, 2009.

Five-Year Summary

HORIBA, Ltd. and Consolidated Subsidiaries
Years ended March 20, 2000 to 2004

	Millions of yen					Thousands of U.S. dollars (Note 1)
	2000	2001	2002	2003	2004	2004
For the Year:						
Net sales	¥71,030	¥77,873	¥74,468	¥78,501	**¥85,073**	**$796,116**
Operating costs and expenses	67,213	73,123	71,921	73,027	**78,223**	**732,013**
Operating income	3,817	4,750	2,547	5,474	**6,850**	**64,103**
Income before income taxes	2,869	5,049	464	3,119	**4,780**	**44,731**
Income taxes	1,414	3,033	1,508	2,161	**2,574**	**24,088**
Net income	1,100	1,443	(1,071)	786	**2,074**	**19,409**
Capital expenditures	3,090	3,032	3,137	3,444	**3,501**	**32,762**
Depreciation and amortization	3,448	3,276	3,381	2,915	**3,037**	**28,420**
Research and development expenses	4,030	4,938	4,336	4,044	**5,129**	**47,997**
At Year-End:						
Total assets	¥89,004	¥101,006	¥98,766	¥100,542	**¥92,657**	**$867,088**
Property, plant and equipment, net	17,722	18,541	19,279	19,000	**18,841**	**176,315**
Shareholders' equity	37,214	39,796	40,063	40,144	**43,348**	**405,652**

	Yen (Notes 2, 3 and 4)					U.S. dollars (Note 1)
Per Share Information:						
Net income	¥35.39	¥46.43	(¥34.47)	¥22.21	**¥62.90**	**$0.59**
Shareholders' equity	1,197.12	1,280.51	1,293.42	1,293.30	**1,350.31**	**$12.63**
Cash dividends	6.00	8.50	8.50	14.50	**10.00**	**$0.09**

Financial Ratios:					
Return on assets (%)	1.21	1.50	(1.07)	0.79	**2.15**
Return on equity (%)	2.84	3.65	(2.68)	1.96	**4.97**
Inventory turnover (days)	90	84	95	87	**81**
Price-earning ratio (times)	23.05	17.77	(26.00)	34.44	**21.94**
Shareholders' equity ratio (%)	43.04	39.40	40.56	39.93	**46.78**
Interest coverage ratio (times)	5.65	5.92	3.02	8.17	**15.45**
Dividend payout ratio (%)	32.27	31.45	30.90	40.78	**30.26**

Notes: 1. The U.S. dollar amounts are provided solely for convenience at the rate of ¥106.86 to US$1, the rate prevailing on March 20, 2004.
2. Effective for the year ended March 20, 2001, the Company adopted the revised accounting standard for foreign currency translation. The amounts in 2000 have been restated in compliance with this revised accounting standard.
3. Effective for the year ended March 20, 2002, The company adopted the revised accounting standards for financial instruments and employees' retirement benefits. The amounts in prior years have not been restated.
4. Effective for the year ended March 20, 2003, the Company adopted early the revised accounting standard for per share information. The amounts in prior years have not been restated.

Definitions:
Net income per share (¥) = 100 x [net income − projected bonuses to directors and statutory auditors] / [average number of shares issued and outstanding in the fiscal period, corrected for treasury stock]
Shareholders' equity per share (¥) = [shareholders' equity − projected bonuses to directors and statutory auditors] / [number of shares issued and outstanding, corrected for treasury stock]
Return on assets (ROA, %) = 100 x net income / average total assets in prior fiscal period
Return on equity (ROE, %) = 100 x net income / average shareholders' equity in prior fiscal period
Inventory turnover (days) = average inventory in fiscal period / daily sales
Price-earnings ratio (PER, times) = share price at end of fiscal period / net income per share
Shareholders' equity ratio (%) = 100 x shareholders' equity / total assets
Interest coverage (times) = [operating income + interest and dividend income] / interest expense and note discount note fees
Dividend payout ratio (%) = 100 x dividends paid / net income (nonconsolidated)

Independent Auditors' Report

To the Shareholders and Board of Directors of
HORIBA, Ltd.:

We have audited the accompanying consolidated balance sheets of HORIBA, Ltd. and subsidiaries as of March 20, 2003 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of HORIBA, Ltd. and subsidiaries as of March 20, 2003 and 2004, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated financial statements.

The consolidated financial statements as of and for the year ended March 20, 2004 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Kyoto, Japan
June 14, 2004

Board of Directors

Masao Horiba, Ph.D.
Chairman

Atsushi Horiba
President and CEO

Kozo Ishida, Dr. Eng.
Executive Vice President;
Manager, R&D Center

Kimiyoshi Yamaoka
Managing Director

Masami Maeda
Director
Executive Vice President, HORIBA STEC Co., Ltd.

Shijuro Ogata
Director

Hiroshi Tajima
Auditor

Kozo Yamamoto, LL.D.
Auditor;
President of Law Office of Heian, Attorney at Law

Kanji Ishizumi
Auditor;
President of Law Office of Chiyoda Kokusai, Attorney at Law

Corporate Data

Head Office
2, Miyanohigashicho, Kisshoin,
Minamiku, Kyoto 601-8510, Japan

Founded
October 17,1945

Incorporated
January 26, 1953

Paid-in Capital
¥7,160 million

Number of Employees
3,808 (consolidated)

Fiscal Closing Date
March 20, annually

Stock Listings
Tokyo Stock Exchange (1st Section)
Osaka Securities Exchange (1st Section)

Major Consolidated Subsidiaries

HORIBA STEC Co., Ltd.
11-5, Kamitoba Hokotatemachi, Minamiku,
Kyoto 601-8116, Japan
Phone: 81-75-693-2300 Fax: 81-75-693-2350

HORIBA ITEC Co., Ltd.
1-7-8 Higashikanda, Chiyodaku, Tokyo 101-0031, Japan
Phone: 81-3-3866-0984 Fax: 81-3-3866-0908

HORIBA Advanced Techno Co., Ltd.
18, Maekawaracho, Kisshoin, Minamiku,
Kyoto 601-8304, Japan
Phone: 81-75-321-7184 Fax: 81-75-321-7291

HORIBA Biotechnology Co., Ltd.
48, Kurumamichi-cho, Kisshoin, Minamiku,
Kyoto 601-8315, Japan
Phone: 81-75-692-1786 Fax: 81-75-692-1790

HORIBA TECHNO SERVICE CO., LTD.
2 Miyanohigashicho, Kisshoin, Minamiku,
Kyoto 601-8305, Japan
Phone: 81-75-313-8125 Fax: 81-75-321-5647

HORIBA INSTRUMENTS INCORPORATED
17671 Armstrong Avenue, Irvine CA 92614, U.S.A.
Phone: 1-949-250-4811 Fax: 1-949-250-0924

HORIBA EUROPE GmbH
Hans-Mess-Str. 6, D-61440 Oberursel/Ts., Germany
Phone: 49-6172-1396-0 Fax: 49-6172-137385

HORIBA INSTRUMENTS LIMITED
Kyoto Close Summerhouse Road, Moulton Park,
Northampton NN3 6FL, England
Phone : 44-1604-542500 Fax: 44-1604-542699

HORIBA KOREA LTD.
Pucheon Facility
202-501 Pucheon Techno Park, 192 Yakdae-Dong,
Wonmi-ku, Pucheon, Kyunggido, Korea
Phone: 82-32-621-0100 Fax: 82-32-621-0105

HORIBA INSTRUMENTS (SINGAPORE) PTE. LTD.
10 Ubi Crescent #05-11/12 UBI, TECHPARK,
Singapore 408564
Phone: 65-745-8300 Fax: 65-745-8155

HORIBA INSTRUMENTS (SHANGHAI) CO., LTD.
Room 1103, United Plaza,
1468 Nanjing Rd. West, Shanghai, 200040, CHINA
Phone: 86-21-3222-1818 Fax: 86-21-6289-5553

ABX S.A.
Parc Euromedécine rue du Caducée, 34184 Montpellier
Cedex 4, France
Phone: 33-4-67-14-15-16 Fax: 33-4-67-14-15-17

JOBIN YVON S.A.S
16-18 rue du Canal, 91165 Longjumeau Cedex, France
Phone: 33-1-64-54-13-00 Fax: 33-1-69-09-93-19

HORIBA

Explore the future

HORIBA, Ltd.

2, Miyanohigashi-cho, Kisshoin, Minami-ku,Kyoto 601-8510, Japan
Phone: (81) 75-313-8121 Fax: (81) 75-312-7389
http://www.horiba.co.jp

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